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June 3, 1999 99-AT-204-1806

TO: Ledford L. Austin, Director, Office of Public Housing, 4FPH

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

SUBJECT: Citizen Complaints
Housing Authority of the City of Winston-Salem
Winston-Salem, North Carolina

In response to citizens' complaints, we reviewed activities of the Housing Authority of the City of Winston-Salem, North Carolina (Authority) as they relate to the Authority's administration of HUD assisted programs. The purpose of our review was to determine whether the Authority maintained proper control over the Department of Housing and Urban Development's (HUD) funded activities, conducted such activities in an efficient and economical manner, and complied with applicable laws and regulations.

SCOPE

We interviewed HUD North Carolina Office of Public Housing staff and Authority staff, and reviewed their related files and documents. We also interviewed the complainants and two members of the Authority's Board of Commissioners.

Our review generally covered the period January 1995 through December 1998. The review was extended to other periods when appropriate. We conducted our review December 1998 through March 1999.

BACKGROUND

We received complaints from two citizens in September 1998. The HUD North Carolina Office also provided us with a copy of a letter from an anonymous complainant in February 1999. The complaints generally concerned questionable and unsupported disbursements made by the Authority.

The Authority administered a Public Housing Program of 2,133 units, a Section 8 Housing Program of 2,901 authorized units and 6 Turnkey III Program units. The Authority also managed a Drug Elimination Program, a Comprehensive Grant Program, and a HOPE VI Program. In fiscal year 1997, the Authority's expenditures for all programs totaled about $20.2 million.

SUMMARY

The Authority did not timely and effectively complete a major project to install air conditioning and heating equipment in 1,624 of the Authority's apartments. The Authority purchased 1,524 HVAC units (for both air conditioning and heating) and 198 air conditioners from 1995 through 1997, but by February 1999 the Authority had installed the HVAC and air conditioners in only 446 apartments. The delays and changes in the project implementation will result in unnecessary cost to the Authority of about $3 million.

The Authority did not comply with procurement requirements to ensure free and open competition for three of seven procurements we tested. The three procurements included contracts for lawn mowing services of about $180,000 per year, consulting contracts of $10,000, and a small purchase of $1,529. By not following the procurement requirements, the Authority did not have proper assurance that the costs of the services and products were reasonable.

The Authority did not have proper support of the eligibility of a $10,000 payment to a local private school. The Authority also did not follow its procedures to prevent the appearance of a conflict of interest. The payment was approved by the previous Executive Director.

For a 23-month period, the Authority paid travel costs and miscellaneous credit card charges of $20,152 which were not properly supported and $984 which appeared unreasonable. The Authority had procedures to control such costs, but Authority staff did not follow the procedures.

We are recommending procedures to assist the Authority in completing the installation of the air conditioning and heating units to prevent further losses. We are recommending improvements in the Authority's procurement procedures and procedures for paying travel and miscellaneous expenses. We are also recommending that the HUD North Carolina Office determine the eligibility of unnecessary and unsupported costs of $25,674.

Details of the findings and recommendations are in Attachment A.

We provided the Authority a draft of the findings and discussed them with the Authority's Executive Director on May 3, 1999. The Executive Director stated he reserved comment until the final report was issued.

Within 60 days, please give us, for each recommendation in the report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of this review.

We provided a copy of this memorandum to the Authority.

If you have any questions, please contact me at (404) 331-3369, or Bruce Milligan, Senior Auditor, at (336) 547-4056.

Attachments:

A - Findings and Recommendations
B - Schedule of Unnecessary/Unreasonable and Unsupported Costs
C - Distribution

FINDINGS AND RECOMMENDATIONS

Finding 1 - The Authority Did Not Timely and Effectively Complete A Renovation Project

The Authority did not timely and effectively complete a major project to install air conditioning and heating equipment in 1,624 of the Authority's apartments. The Authority purchased 1,524 HVAC units (for both air conditioning and heating) and 198 air conditioners from 1995 through 1997, but by February 1999 the Authority had installed the HVAC units and air conditioners in only 446 apartments. The delays and changes in the project implementation will result in unnecessary cost to the Authority of about $3 million. The problems were caused by poor management decisions by Authority staff.

Criteria

The Annual Contributions Contract, Part Two, Section 201, dated November 1969, requires the Authority to operate its projects in an efficient and economical manner. The Code of Federal Regulations, 24 CFR 85.20(b)(3), dated March 11, 1988, requires that effective control and accountability be maintained for all property and assets.

Project Not Timely and Effectively Completed

The Authority did not timely and effectively complete a major improvement project.

In 1994 HUD approved the Authority's request to use $3 million of Turnkey III Program income to install either HVAC units or air conditioners in 1,624 of the Authority's 2,133 Public Housing apartments. The Authority estimated it could complete the project for the $3 million using additional staff to be hired for the project. In 1995, the Authority contracted to purchase all of the HVAC units and air conditioners for $1.8 million. The Authority received the equipment from April 1995 through March 1997. By March 1996, the Authority had only installed HVAC units in 114 apartments. The Authority suspended the project at that time because it concluded its decision to use Authority staff to complete the installation work was not effective.

The Authority performed no further work on the project until 1998 when the Authority hired a contractor to complete the project. The contractor started work in March 1998 and by February 1999 had completed the installation work for 332 additional apartments.

The Authority completed an initial inventory of the remaining HVAC units and air conditioners in February 1999. The inventory could not be reconciled to the equipment purchased as shown on the sales invoices.

Additional Costs

The problems with the project resulted in additional costs of about $3 million. The Authority estimated in 1995 that it could complete the project for about $3 million installing the units with its own staff. Based on data for industry standard installation costs obtained by the Authority, the Authority could have completed the project for about $4 million in 1995 if it had contracted the installation work. Based on the costs incurred to date and the Authority's contract price to complete the installation work, the project will cost about $7 million when all of the work is complete. The additional cost of $3 million included:

1) Additional installation costs of about $2.6 million.

2) Lost interest estimated at $328,000 for the cost of the HVAC units and air conditioners which were stored instead of being installed.

3) The cost of $35,000 for the purchase of 98 more air conditioners than were needed and included in the original purchase contract.

4) Storage costs from March 1997 through February 1999 totaling $21,000.

In addition, the first HVAC units were installed in 114 apartments that are in a project which is now scheduled to be demolished in the Authority's HOPE VI Program. Further, the storage of the equipment increased the risk of loss from theft, deterioration, and obsolescence and may have contributed to the Authority's inability to reconcile the equipment inventory to the purchase records.

Management Errors

The project was not properly completed because of poor management by Authority staff. Initially, Authority staff greatly underestimated the cost of the project. The staff then wrongly decided to purchase all of the equipment at one time and install the equipment with their own employees. When the project fell behind schedule, the staff did not switch to a more effective method of installing the equipment or seek additional needed funding. The staff also did not keep accurate inventory records and ensure the equipment was properly stored and safeguarded.

At the completion of our review, the Authority staff estimated the contractor would complete the project by February 2000.

Recommendations

To prevent any further losses, we recommend you require the Authority to:

1A. Submit a plan detailing the source of funds and method to be used in completing the project and submit periodic reports on its progress.

1B. Take timely and effective action to correct any further delays in completing the project.

1C. Complete a thorough inventory of the equipment to ensure that all equipment purchased is properly accounted for and that the necessary equipment is available to complete the project.

Finding 2 - Improvements Needed in Procurement Procedures

The Authority did not comply with procurement requirements to ensure free and open competition for three of seven procurements we tested. The three procurements included contracts for lawn mowing services of about $180,000 per year, consulting contracts of $10,000, and a small purchase of $1,529. By not following the procurement requirements, the Authority did not have proper assurance that the costs of the services and products were reasonable.

Criteria

The Code of Federal Regulations, 24 CFR, Part 85.36, dated March 11, 1988, requires an authority to (1) conduct all procurement transactions in a manner to provide full and open competition, and (2) maintain records sufficient to detail the significant history of a procurement. The records should include: selection of contract type, contractor selection or rejection, and the basis for the contract price. For contracts in excess of $20,000, the Authority's procurement policy, amended August 28, 1990, required formal advertising in at least one newspaper of general circulation in Winston-Salem. For items under $5,000, the Authority was required to ensure that the price obtained was the most advantageous to the PHA.

Lawn Maintenance Contracts Not Advertised

The Authority did not follow procurement requirements for lawn maintenance contracts. The Authority awarded 10 lawn maintenance contracts to 6 contractors for 1998 and 10 contracts to 7 contractors for 1999. The Authority did not advertise or otherwise seek competition for the 1998 contracts which totaled $186,216. The Authority did not advertise or otherwise seek competition for 8 of the 1999 contracts totaling $150,031. The Authority had documentation of bids for the other two 1999 contracts totaling $21,511 but did not have documentation that the invitation for bids was advertised.

Authority staff stated that they thought that as long as there was no change in the cost or specifications of the contracts, they could continue the previous year's contracts without competition. However, for seven of the eight contracts which were continued without competition from 1998 to 1999, there were changes made to the price and specifications. In addition, the Authority did not have documentation that the contract work was advertised for bids when the contracts were first awarded for 1997. Authority staff stated that the mowing work was advertised in 1996 for the 1997 contracts, but the Authority did not have a copy of a newspaper advertisement. The Authority had a bid tabulation for the 1997 contracts as documentation that bids were received for only 5 of 10 contracts.

Consultant Contracts Improperly Awarded

The Authority awarded two $5,000 contracts to an individual without following requirements for competition. The first contract was for a management study to be performed November 14, 1997, through February 14, 1998. The second contract was for an internal audit to be conducted February 15 through April 30, 1998. The Authority did not obtain bids or quotes for either contract. The contractor submitted only one report, which was undated, for both contracts. The report indicated that the work performed by the contractor was one overall review which should have been covered by one contract. By splitting the work into two contracts, the Authority avoided its requirement to obtain bids or quotes from more than one contractor.

The two contracts also did not properly describe the work to be performed by the contractor. As a result, the Authority did not have sufficient control over the contractor's services.

In February 1999 the Authority revised its procurement policy concerning the splitting of contracts for small purchases of less than $25,000. The new policy provides that contract requirements shall not be artificially divided so as to constitute a small purchase.

Quotes Not Documented for Small Purchase

In our review of charges to the Authority credit card (see Finding 4), there was a charge of $1,529 for the purchase of electronic equipment. The Authority did not have documentation of steps taken to determine if the price was competitive. A purchase order was not completed and approved until after the purchase was made.

By not following the procurement requirements, the Authority did not have proper assurance that the cost of the services and products was reasonable.

For the lawn mowing contracts, the Authority staff's comments indicated they did not fully understand the procedures needed to ensure open competition and to properly document the procurement process. For the other two procurements, the staff ignored requirements for competition.

Recommendations

We recommend you require the Authority to:

2A. Obtain training for Authority staff responsible for procurement.

2B. Implement procurement review procedures to ensure Authority staff follow established requirements.

Finding 3 - Payment to School Was Not Properly Supported

The Authority did not have proper support of the eligibility of a $10,000 payment to a local private school. The Authority also did not follow its procedures to prevent the appearance of a conflict of interest. The payment was approved by the previous Executive Director.

Criteria

Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments, Attachment A, Paragraph C.1.a, as amended August 29, 1997, provides that for costs to be allowable under a grant program, the costs must be necessary and reasonable for proper and efficient administration of the grant program. The Authority's procurement policy, amended August 28, 1990, states that it is the Executive Director's responsibility to ascertain that the procurement documents clearly specify the desired products and services to be acquired. In addition, the Authority's Employee Handbook, Paragraph 1.2-Conflict of Interest, provides that no commissioner or employee shall have any direct or indirect interest in any contract for materials or services to be furnished or used in connection with any housing program. The Handbook further states that an Authority employee shall notify the Board of Commissioners of any conflict of interest.

Unsupported Payment to School

The Authority did not properly document the purpose for a $10,000 payment to a local private school. The school provided alternative education to students who had been suspended from the local public school system. A solicitation document from the school included a list of 60 students who allegedly lived in the Authority's public housing communities. However, Authority staff determined that only 12 of the 60 students lived in properties owned or managed by the Authority. The Authority charged the payment to its Public Housing Drug Elimination Program. The Authority did not document the services to be provided by the school and the resulting benefit to the Drug Elimination Program.

The payment to the school was not in accordance with the Authority's Drug Elimination Program budget. The Authority recorded the payment as part of the funds included in the budget for a local Boy Scout organization.

The payment also gave the appearance of a conflict of interest. The former Executive Director was a member of the school's board of directors.

Because the purpose of the payment was not documented, the eligibility of the $10,000 was not properly supported. The problems occurred because the former Executive Director did not follow requirements.

Recommendations

We recommend you:

3A. Require the Authority to provide documentation of how the $10,000 payment to the school benefited the Authority's Drug Elimination Program.

3B. Determine whether the payment was eligible. If the payment is determined ineligible, require the Authority to seek repayment and record the cost as ineligible.

Finding 4 - Procedures to Control Travel and Miscellaneous Costs Were Not Followed

For a 23-month period, the Authority paid travel costs and miscellaneous credit card charges of $20,152 which were not properly supported and $984 which appeared unreasonable. The Authority had procedures to control such costs, but Authority staff did not follow the procedures.

Criteria

The Code of Federal Regulations, 24 CFR, Part 85.20, dated March 11, 1988, requires the Authority to maintain an effective financial management system. Office of Management and Budget Circular A-87, Cost Principles for State and Local Governments, Attachment A, Section C.1a, as amended August 29, 1997, provides that costs must be necessary and reasonable for proper and efficient administration of the program. The Authority had written procedures for reimbursement of travel costs and other expenses paid with Authority credit cards.

Unsupported Expenses

From January 1, 1997, through November 30, 1998, the Authority paid expenses of $20,152 which were not properly supported. Most of the costs were for travel of Authority staff and board members. The travelers were paid for expenses for which they did not submit bills or invoices documenting the nature of the expenses. The remaining costs were for miscellaneous expenses charged to the Authority's credit cards and for which the Authority card holder did not provide bills or invoices.

Authority administrative staff did not follow established procedures for the expenses. For travel costs, the staff was supposed to obtain supporting documentation from the traveler within 10 days of the completion of each trip. Supervisory staff were supposed to verify compliance with the procedures. Similar procedures were to be followed for other credit card charges. The Authority staff did not follow these procedures for the unsupported costs of $20,152.

After we asked for supporting documentation for the unsupported costs, the Authority obtained documentation for $5,462 of the $20,152.

Unnecessary Costs

The Authority also reimbursed a previous executive director $984 for costs which appeared unnecessary. The executive director rented an automobile for two trips, one to Greenville, South Carolina, and a second to Myrtle Beach, South Carolina. Theses costs appeared unnecessary because the executive director was assigned an Authority automobile.

The Authority generally had procedures requiring proper support for costs paid from travel advances or charged to a credit card, but staff did not effectively follow the procedures.

The Authority needed to require more effective performance by Authority staff to ensure travel costs and other credit card charges were properly supported and eligible.

Recommendations

We recommend you require the Authority to:

4A. Provide training to administrative staff to ensure they understand the Authority's procedures for documenting costs paid from travel advances or charged to a credit card.

4B. Establish procedures for staff to record as accounts receivable any unsupported travel advances or credit card charges as accounts receivable.

4C. Establish procedures for staff to report problems of unsupported or questionable costs incurred by Authority officials and not timely resolved to the Authority Board of Commissioners.

4D. Establish procedures to take administrative disciplinary action for staff who do not follow required Authority procedures to ensure costs are eligible and properly supported.

4E. Obtain documentation of the remaining unsupported costs of $14,690 and seek recovery of any amounts not properly supported.

4F. Review the circumstances involved in the automobile rental charges of $984 and seek recovery of the cost if appropriate.

Attachment B

SCHEDULE OF UNNECESSARY/UNREASONABLE AND UNSUPPORTED COSTS

Recommendation	Unnecessary/Unreasonable[1]	Unsupported[2]
1A	$2,984,000	
3A		$10,000
4E		14,690
4F	984	
Total	$2,984,984	$24,690

1 Unnecessary costs are those not generally recognized as ordinary, relevant, and/or necessary within established practices. Unreasonable costs exceed the cost that would be incurred by the ordinary prudent person in the conduct of a competitive business.

2 Unsupported costs are those whose eligibility cannot be clearly determined during the audit since such costs were not supported by adequate documentation.

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