



U.S. Department of Housing and Urban Development
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March 19, 1999

99-FW-206-1801

MEMORANDUM FOR: Diana Armstrong
Director, Office of Public Housing, 6JPH

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

SUBJECT: Hotline Complaint - HM00-20195
Victoria Housing Authority
Victoria, Texas

In response to a confidential complaint, we conducted a limited review at the Housing Authority of Victoria, Texas (Authority). Specifically, we reviewed the Authority's procurement of consultant and architectural services and controls for safeguarding the proceeds from scrapping of assets.

The Authority violated HUD regulations and its own requirements in procuring construction management and architectural services for its Comprehensive Grant Program. The Authority also did not properly account for and safeguard proceeds from sale of scrap metal and improperly used such funds for employee entertainment expenses.

Within 60 days, please give us, for each recommendation made in this memorandum 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 considered unnecessary. Also, please furnish us copies of any correspondence or directives issued related to the review.

If you have any questions regarding the following findings and recommendations, please contact Darrel M. Vaught, Assistant District Inspector General for Audit.

Attachment

Attachment 1

Finding 1 - Authority Violates HUD Procurement Requirements

The Authority violated HUD regulations and its policy procuring architectural and consulting services funded with its Comprehensive Grants. The violations occurred because the Authority's Executive Director wanted to use two particular firms for these services. The procurement requirements are contained in: (a) Title 24 Code of Federal Regulations, Part 85.36; (b) HUD Handbook 7460.8 Rev-1, *Procurement Handbook for Public Housing Agencies and Indian Housing Authorities*; and (c) the Authority Board's adopted procurement policy. Because the Authority did not ensure free and open competition in the procurement process as well as not preparing price and cost analyses, the Authority and HUD has no assurance that \$365,510 it contracted for construction management and architectural services is reasonable. Section C.1.a., Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, requires costs to be allowable, necessary, and reasonable for proper and efficient administration of federal awards. Paragraph 2-1, HUD Handbook 7468.1 REV-1, states that regardless of the method used, housing authorities should plan their contracts in advance and attempt to obtain full and open competition to ensure that quality goods and services are obtained at a reasonable price.

The Authority had the following Comprehensive Grants:

<u>Grant Year</u>	<u>Grant Amount</u>
1993	\$ 611,131
1994	673,579
1995	641,000
1996	522,445
1997	509,027
Total	<u>\$2,957,182</u>

From these grants, the Authority awarded \$365,510 in contract work to Horvath, Inc. and HRB, Inc., which are related companies,¹ as follows:

Construction Management - Horvath, Inc.						
Grant Year	1993	1994	1995	1996	1997	Total
Contract Date	5/27/94	9/28/94	12/29/95	1/31/97	12/22/97	
Amount	\$32,240	\$40,570	\$37,470	\$30,500	\$30,500	\$171,280

Physical Needs Assessment - Horvath, Inc.						
Grant Year	1993	1994	1995	1996	1997	Total
Contract Date	None	None	None	None	None	

¹ Authority records show these two corporations have the same officers.

Amount	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$17,500
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Architectural Services - HRB, Inc.

Grant Year	1993	1994	1995	1996	1997	Total
Contract Date	6/15/94	9/23/94	12/29/95	1/31/97	12/22/97	
Amount	\$37,430	\$41,330	\$37,470	\$30,500	\$30,000	\$176,730
Total Paid	\$73,170	\$85,400	\$78,440	\$64,500	\$64,000	\$365,510

In procuring the services:

- The Authority properly used the competitive proposal method of procurement in awarding the 1993 Comprehensive Grant construction management contract to Horvath, Inc., but it did not prepare a cost analysis to evaluate the reasonableness of the proposed price or negotiate profit as a separate component of the contract.² For the subsequent contracts, the Authority did not use competition (sole source) and again did not prepare a cost analysis or negotiate profit as a separate component.
- The Authority awarded the initial and subsequent architectural services contracts to HRB, Inc. without competition (sole source). As with the Horvath contracts, the Authority did not prepare a cost analysis or negotiate profit as a separate component.
- In addition to the construction management contract, the Authority paid Horvath, Inc. another \$3,500 from each Comprehensive Grant for physical needs assessments, which totaled \$17,500. The Authority did not use competition in the procurement and did not execute a written contract setting forth the scope of work or description of the services to be performed.
- The Authority did not maintain records sufficient to detail the significant history of the procurement process for these contracts.³

² See 24 CFR § 85.36(c)(1), (d)(3), (f)(1), and (f)(2); Chapters 2, 3, and 4, HUD Handbook 7460.8 REV-1, and Paragraphs 9, 12, and 13, Authority Procurement Policy.

³ See 24 CFR § 85.36(b)(9); Paragraph 3-12, HUD Handbook 7460.8 REV-1; and Paragraph 27, Authority Procurement Policy.

- The Authority also did not include required clauses in the Horvath Inc., contracts providing for the Authority, HUD, and/or the Comptroller General of the United States to have access to pertinent records of the contractor and retention of records.⁴

Further, the Authority did not ensure the contractors performed the services in accordance with the terms of their contracts. The first two architectural contracts with HRB showed that HRB Inc., had responsibility to conduct weekly site inspections, and the three subsequent contracts required HRB Inc., to conduct bimonthly inspections. Authority records show that the inspections by HRB did not meet the contract frequency requirements. Further, the site inspection records show that HRB started performing inspections of the 1997 grant funded force account construction work 7 months before the December 22, 1997 date of their contract with the Authority for these services.

It appears that these violations occurred because the Authority's President (Executive Director) preferred to use the services of HRB Inc., and Horvath Inc., without regard to his responsibility to the Authority and HUD to properly carry out procurement activities in accordance with prescribed regulations and policy. The Authority's President stated that even if HUD requires him to solicit competitive proposals, he will still award the contracts to these two firms because he felt they did good work.

Recommendations:

We recommend that you:

- 1A. Place the Authority on a pre-award review of all professional services and architectural service contracts until the Authority can demonstrate it is willing and capable of following HUD requirements;
- 1B. Require the Authority provide cost analyses for all contracts awarded to Horvath, Inc. and HRB, Inc. that supports the reasonableness of the prices paid to them;
- 1C. To repay the Comprehensive Grant Program for any amounts in excess of such reasonable price;
- 1D. Require the Authority maintain a contract administration system which ensures that contractors perform in accordance with the terms of their contracts; and

⁴ See 24 CFR § 85.36(i)(10) and (i)(11) and Paragraph 6-4, HUD Handbook 7460.8 REV-1. Although the Authority Procurement Policy states the Authority "may" require access (Paragraph 26) and the Authority will retain records for 3 years (Paragraph 27), HUD requires a provision for access and a provision for the contractor to retain records for the 3 years be included in the contract terms.

1E. Advise the Board and President that any future willful violation or circumvention of HUD procurement requirements can result in administrative sanctions to the extent permitted by HUD regulations at 24 CFR § 24.

Finding 2 - Authority Does Not Properly Account For and Use Salvage Proceeds

The Authority did not have adequate controls to safeguard the proceeds from the sale of salvage materials and improperly used such proceeds to pay for employee social activities. As a result, the Authority could not account for \$454 of \$3,363 in sales proceeds. Further, the Authority violated HUD requirements by using \$840 of these proceeds to pay for employee social activities.

The Authority’s disposition policy provides for: (a) general sale if the expected salvage value is less than \$100; (b) obtaining and tabulating informal bids if the value is \$100 to \$1,000; and (c) formal advertising for bids if the value is more than \$1,000. However, the Authority did not have a system to readily identify salvage material and equipment it was disposing of, including its expected value. Further, the Authority did not have an adequate system to account for sales proceeds and ensure such funds were deposited to the Authority’s bank account.

Based on available records, the Authority had the following salvage transactions:

Description	1995	1996	1997	1998	Total ⁵
Material sold to recycling center (various times)	\$ 463.12	\$ 133.02	\$1,014.00		\$1,610.14
Refrigerators (4)			80.00		80.00
1982 trucks (2)			365.00	101.00	466.00
Other (not described)		63.35	1,043.82	100.00	1,207.17
Total Sales Identified	\$ 463.12	\$ 196.37	\$2,502.82	\$201.00	\$3,363.31
<u>Less Cash Received:</u>					
Deposited to Bank.....					1,923.17
Used for Social Events.....					839.79
On Hand.....					146.52
.....					
Missing Sales Proceeds.....					\$ 453.83

The Authority did not have records to show that informal bids were obtained for sales between \$100 and \$1,000. Generally the Authority took salvage materials to a recycling center, which paid the Authority employee in cash. The Authority had up to four people involved in the process without adequate controls to hold these employees accountable for the cash received. The \$454 in missing sales proceeds relate to 1995 and 1996 sales to the recycling center. Authority staff said a former employee had custody of the funds and the recycling receipts were found after the employee left. The current staff person that receives the proceeds generally does not deposit the funds in the Authority’s bank account. Consequently, the Authority does not have safeguards to

⁵ No single sale exceeded \$1,000.

ensure accountability and safekeeping of these funds. At the time of our review, the custodian had \$147 of cash on hand. Generally, instead of depositing the funds, they are held and used to pay for social events for employees, e.g., Christmas parties. OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Government* states that entertainment costs are not allowable for federal grant programs. Therefore, the use of proceeds from the sale of Low Rent Program assets for such purposes is not permitted.

Recommendation:

- 2A. We recommend that you instruct the Authority cease using sales proceeds from salvage materials for unallowable activities, and exercise adequate controls over its sales proceeds to ensure accountability and safekeeping.

Attachment 2

DISTRIBUTION

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