



**Harris County Housing Authority
Houston, TX**

**Section 8 Housing Choice Voucher,
Disaster Housing Assistance, Neighborhood
Stabilization, and HOME Programs**



Issue Date: June 19, 2013

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//signed//

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SUBJECT: The Management and Board of Commissioners of the Harris County Housing Authority Mismanaged the Authority

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Harris County Housing Authority.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 817-978-9309.



June 19, 2013

The Management and Board of Commissioners of the Harris County Housing Authority Mismanaged the Authority

Highlights

Audit Report 2013-FW-1006

What We Audited and Why

We audited the Harris County Housing Authority, Houston, TX, at the request of the U.S. Department of Housing and Urban Development's (HUD) Fort Worth Office Director of Public and Indian Housing. The request followed a series of news articles alleging mismanagement and extravagant spending at the Authority, the removal or replacement of various former managers and board of commissioners members, and concerns expressed by the new managers.

Our objective was to determine whether the Authority's procurement, expenses, and financial records complied with HUD's requirements.

What We Recommend

Our recommendations to HUD include determining whether the Authority is in significant default of its annual contributions contract, taking appropriate administrative actions against the Authority's former executive director and former board of commissioners members who were responsible for the mismanagement, and requiring the Authority repay \$4.5 million in ineligible costs, and support or repay more than \$23 million.

What We Found

The Authority's management and board of commissioners failed to establish a control environment designed to provide reasonable assurance that it complied with Federal requirements. They failed to enact policies and procedures to ensure the integrity of financial operations and compliance with procurement requirements. Instead, they neglected their management and oversight responsibilities; wasted Authority funds, at times for personal gain; circumvented existing internal controls; and manipulated accounting records. These conditions occurred because the Authority's management and board failed to exercise their fiduciary responsibilities and did not act in the best interest of the Authority. As a result, the Authority incurred questioned costs of more than \$27 million. Further, due to their actions and inactions, the former executive director and the Authority's board put the Authority in a precarious financial position and it did not have sufficient funds to repay a \$3.8 million debt due to HUD.

In addition, there was a scope limitation on the audit because the Authority did not maintain accounting records that supported its sources and uses of funds or justified accounting entries in its books and records.

TABLE OF CONTENTS

Background and Objective	3
Results of Audit	
Finding 1: The Authority's Management and Board Failed To Establish a Proper Internal Control Environment	5
Finding 2: The Authority's Management Failed To Enact Adequate Financial Controls	13
Finding 3: The Authority Failed To Comply With Procurement Requirements	19
Scope and Methodology	28
Internal Controls	30
Appendixes	
A. Schedule of Questioned Costs	32
B. Auditee Comments and OIG's Evaluation	33
C. Schedule of Questionable Miscellaneous Expenditures	60
D. Schedules of Federal and Non-Federal Funds Received	63
E. Fund Balances as of March 31, 2012	64
F. Bonus Notification Letter	65

BACKGROUND AND OBJECTIVE

The Harris County Housing Authority was established under Texas law through an order and adoption of a resolution by the Harris County Commissioners Court on March 20, 1975. In March 1994, the Commissioners Court merged the Authority with Harris County's Community Development Department. In 2003, the County Commissioners Court reestablished the Authority as an independent entity and appointed five commissioners to govern it. Although the Authority was fiscally independent of the County, the County and Authority worked under an interlocal agreement, which provided staffing and office space provisions to the Authority until February 2010. The five-member board of commissioners is the Authority's policy-making body. It selects and employs the executive director, who is responsible for the Authority's day-to-day operations. The Authority had the same board chairman from June 2007 until February 2012 and the same executive director from August 12, 2002, to March 21, 2012. Our audit scope period of April 1, 2009, through March 31, 2012, occurred predominately during the time when those persons were responsible for managing and overseeing the Authority's operations.

Harris County created the Authority to provide low-income housing for the residents of Harris County, TX. It does not own any public housing units and receives most of its funding from the U.S. Department of Housing And Urban Development (HUD) through the Section 8 Housing Choice Voucher program. For calendar year 2011 and the first quarter of 2012, the Authority was awarded about 3,900 vouchers per month.¹ The Authority also administered multiple Disaster Housing Assistance Programs (DHAP)² funded through the Federal Emergency Management Agency (FEMA) and overseen by HUD. HUD performed very little monitoring of the Authority because HUD considered it to be a high performer.³

The Authority also owned eight mixed-finance affordable housing developments that were developed using a mixture of Federal funds, low-income housing tax credits,⁴ and non-Federal funds. Some of these developments had both low-income and market-rate rental units. The Authority's Affordable Housing division operated and managed these developments.

¹ Although the Authority operates on a fiscal year basis, HUD operates the voucher system on a calendar year basis. The Authority's fiscal year is from April 1 through March 31.

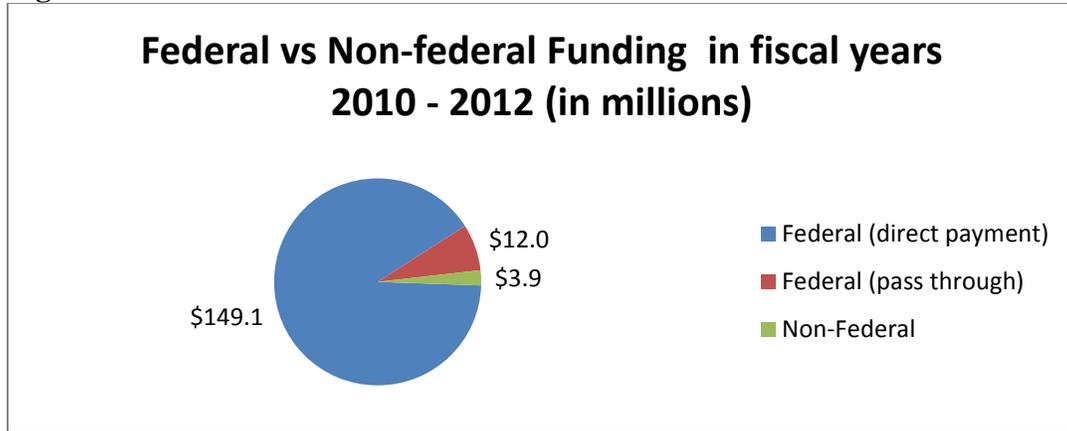
² The most common DHAPs in Harris County are those that arose from Hurricane Katrina assistance (DHAP-Katrina) and Hurricane Ike assistance (DHAP-Ike).

³ Public housing agencies that administer the Housing Choice Voucher program self-assess their performance using the Section Eight Management Assessment Program. The program scores the agency based on 14 key areas or indicators. HUD assigns each agency an annual rating for each indicator and an overall performance rating of high, standard, or troubled. HUD provides the highest level of oversight to agencies that it considers troubled and the lowest level to agencies it considers to be high performers.

⁴ The Low-Income Housing Tax Credit program was enacted by Congress in 1986 to provide the private market with an incentive to invest in affordable rental housing. Federal housing tax credits are awarded to developers of qualified projects. Developers then sell these credits to investors to raise capital (or equity) for their projects, which reduces the debt that the developer would otherwise incur. Because the debt is lower, a tax credit property can in turn offer lower, more affordable rents. Provided the property maintains compliance with the program requirements, investors receive a dollar-for-dollar credit against their Federal tax liability each year over a period of 10 years. The amount of the annual credit is based on the amount invested in the affordable housing.

The Authority received Federal and non-Federal funding. As shown in figure 1, its Federal funding greatly exceeded its non-Federal funding for its fiscal years 2010 through 2012.

Figure 1



Appendix D provides additional details of the funding.

From April 1, 2009, through March 31, 2012, HUD provided the Authority about \$161.1 million in Federal funding, including \$149.1 million for the Housing Choice Voucher program and various disaster programs, and \$12 million in Federal grant funds passed through Harris County, TX, to build housing developments. The Authority received \$3.9 million in non-Federal funds from other sources for the same 3 fiscal years. The non-Federal funds included revenue the Authority received from its affordable housing developments. Thus, more than 97 percent of the funding that the Authority received was from Federal sources.

In late 2011, the Houston Chronicle began publishing a series of articles criticizing the Authority and its management for various issues, including excessive salaries for its executives, excessive spending, nepotism, and possible procurement violations. The Authority underwent a change in senior management during this time. The Authority's board terminated the then executive director's contract in March 2012, and other senior and experienced employees either resigned or were asked to leave.

In March 2012, the Board elected a new chairman and hired a new executive director. The new chairman and director contacted various U.S. Senate and Judiciary officials concerning the Authority's financial condition and inappropriate expenditures. The board and management fully cooperated with the OIG audit and provided leads regarding many of the conditions cited in this audit report.

Our objective was to determine whether the Authority's procurement, expenses, and financial records complied with HUD's requirements.

RESULTS OF AUDIT

Finding 1: The Authority's Management and Board Failed To Establish a Proper Internal Control Environment

The Authority's management and board of commissioners failed to establish a control environment designed to provide reasonable assurance that it complied with Federal requirements. They failed to enact policies and procedures to ensure the integrity of financial operations (finding 2) and compliance with procurement requirements (finding 3). Instead, they neglected their management and oversight responsibilities; wasted Authority funds, at times for personal gain; circumvented existing internal controls; and manipulated accounting records. These conditions occurred because the Authority's management and board failed to exercise their fiduciary responsibilities and did not act in the best interest of the Authority. As a result, the Authority incurred questioned costs of more than \$27 million. Further, due to their actions and inactions, the former executive director and the Authority's board put the Authority in a precarious financial position and it did not have sufficient funds to repay a \$3.8 million debt due to HUD.

Management and the Board Failed To Establish a Proper Control Environment

Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance. Management is responsible for establishing a control environment that sets the tone of an organization. This "tone at the top" affects the integrity and ethics of the organization as a whole. Effective internal control is essential to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives and to reduce the risk of fraud, waste, and abuse.

However, management and the board neglected their management and oversight responsibilities when they failed to establish a control environment to instill integrity and ethics in achieving the Authority's mission. Further, the Authority's board did not hold management accountable for these standards, and the commissioners failed to hold themselves to a high standard of integrity and fiduciary responsibility. Specifically, the Authority's fiscal controls and accounting procedures were inadequate to ensure that it maintained complete and accurate records of its pooled fund transactions (finding 2). Further, management and the board failed to enact policies and procedures to ensure compliance with procurement requirements, and two former board members violated conflict-of-interest requirements when firms that employed them received contracts with the Authority (finding 3).

Authority Management Wasted Funds for Various Items, Including Excessive Salaries and Bonuses

Appendix A, subsection C of 2 CFR (Code of Federal Regulations) Part 225, “Cost Principals for State, Local, and Indian Tribal Governments,”⁵ provides grantees such as the Authority with guidance regarding allowable costs. To be allowable, costs must be necessary and reasonable. A cost is reasonable if in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. Further, it must be determined whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government. Appendix B of the CFR prohibits the use of Federal funds for goods or services for personal use, entertainment expenses, donations and contributions, and foreign travel.

Contrary to these requirements, the Authority expended funds for many items that were not reasonable or necessary and did not support the Authority’s mission. These inappropriate items included expenditures for excessive salaries and bonuses, various statues and monuments, apartments for consultants, various donations and contributions, various entertainment expenses, dental expenses for the former executive director and his daughter, and other such items.

Following are a few examples of unreasonable and unnecessary expenditures and expenditures that did not support the Authority’s mission. These expenditures demonstrate the former executive director’s and the board’s waste and abuse of funds and their disregard for internal controls. A more comprehensive list of \$2.4 million in such unsupported expenditures is in appendix C of this report.

The Authority Paid Excessive Salaries and Bonuses

The Authority paid almost \$1.8 million in additional salaries, including payroll taxes, for its managers and staff during fiscal years 2010 to 2012 that did not appear to be reasonable and necessary. The Authority’s general ledger and personnel records referred to the payments as equalization pay, performance pay, and bonuses. The performance and bonus pay sometimes exceeded the employee’s annual base salary during fiscal year 2010. Further, the payments for some executive employees, especially for fiscal year 2010, exceeded the maximum salaries recommended in two compensation studies commissioned by the board. For example, the maximum recommended salary for the chief

⁵ Previously known as Office of Management and Budget (OMB) Circular A-87.

administrative officer in the two salary studies was \$188,450; however, the Authority paid him \$305,041 in fiscal year 2010.

Further, the board minutes routinely noted that the board was going into executive session to discuss salary issues, but the minutes did not report the board's passing a resolution to approve the salary increases. Also, the Authority paid the additional salaries through its accounting system without the County's knowledge. The Authority and the County had an agreement whereby the County performed time-keeping and payroll functions for the Authority. Authority employees received County benefits, and the agreement required the Authority to follow the County's personnel rules and regulations.

In another example of the Authority's abuse of funds, the Authority paid the former executive director a \$60,000 bonus on December 10, 2008. In a letter, dated December 15, 2008, 5 days after the bonus, the former board chairman notified the executive director that he had been approved for the bonus. The letter was written on what appeared to be stationery of the law firm that the chairman was working for at that time. The board authorized a second \$60,000 bonus to the former executive director on November 19, 2009, but when the Authority paid him, it increased the bonus to \$64,970 to offset payroll taxes. It appeared that someone changed the date on the December 15, 2008, letter to December 15, 2009, and may have used it as approval for both the first and second bonus payments. A copy of the letter announcing the bonus payments is in appendix F.

The Authority Paid More Than \$190,000 for Statues and Monuments

The Authority paid \$192,739 for statues and monuments to be placed at two of its affordable housing developments, Sierra Meadows and Cypresswood Estates. It paid \$101,450 for a 10-foot bronze sculpture of an angel holding a fallen soldier. The Authority also purchased several veteran-themed monuments; inscribed granite memorials, including one to a former board chairman and one to a City of Houston civil rights leader; and a collage of presidential photos and signatures.

Bronze statue depicting a fallen soldier – cost \$101,450



Granite monument with a memorial to a former board chairman – cost \$13,920



Collage of presidential photos and signatures – cost \$5,195



The Authority Paid More Than \$54,000 for Apartments for Consultants

From 2009 through 2010, the Authority rented two apartments, with rents ranging between \$2,200 and \$3,300 monthly, in Houston's exclusive Museum District at a total cost of \$54,006 for the period. According to Authority documents, the Authority rented the apartments for use by housing development consultants; however, it did not have a record of who resided in the apartments. The Authority did not own any developments other than affordable housing developments; thus, these payments did not appear to be necessary or support the Authority's mission. The Authority did not provide evidence that the board approved these payments. Three separate rental agreements were executed for one of the apartments. Although the agreements were signed with the name of the former executive director, the signatures did not appear to match.

The Authority Paid \$10,000 to a Former Secretary of HUD

The Authority paid a former HUD Secretary \$10,000 in July 2010 to be the keynote speaker at its annual awards luncheon and tour its Magnolia Estates housing development. It also paid \$5,500 to Garrison Wynn of Wynn Solutions to speak at its employee appreciation awards ceremony in July 2010.

The Authority Contributed to Various Charities and Other Causes

The Authority contributed \$118,000 to various charities and other causes. The contributions included \$50,000 to the Helping A Hero organization; \$25,000 to the Space Center Rotary Foundation; \$16,500 to the National Japanese American Memorial Foundation, including \$6,500 for a book signed by 39 World War II veterans, commemorating a battalion of Texas soldiers; \$11,500 to the NAACP Houston Branch; and at least \$13,000 for gift cards for residents of the Authority's affordable housing developments.

The Authority Paid Personal Expenses for the Former Executive Director and a Former Board Chairman

The former executive director reimbursed himself \$4,969 for his and his daughter's dental expenses. Although the former chief administrative officer approved the invoices for payment, the former executive director approved the check request. By approving the document that prompted the payment to himself, the executive director demonstrated his disregard for internal controls.

In addition, the Authority spent more than \$44,000 to purchase a new truck for the use of a former board chairman. The former board chairman returned the vehicle to the Authority before leaving the board. However, this example illustrates his lack of concern for his oversight responsibilities for the Authority's expenditures.

The Authority Made Questionable Expenditures for Golf Fees

The Authority paid \$1,200 to enter two foursomes into the 2011 U.S. Green Building Council-Texas Gulf Coast Chapter golf tournament. The teams consisted of the former executive director and at least three other Authority

employees. The Authority also spent \$240 for four Authority staff members to enter a 2010 Texas Housing Association golf outing.

The Authority Made Other Questionable Expenditures

The Authority made other questionable expenditures, including \$18,000 for letters handwritten by Abraham Lincoln to be placed at a now-defunct veterans housing development; \$8,780 for five helicopter flights over its affordable housing developments; \$24,000 to Wynn Solutions as a downpayment for a book writing project that according to the contract, was to be about disaster housing;⁶ more than \$66,000 for shirts for employees at an average cost of \$52 per shirt, including 1,281 polo shirts, denim shirts, and dress shirts with various Authority logos; and \$8,000 for entertainment, including \$4,326 for a 2009 Christmas party, which included payment for six bowling lanes and a buffet dinner for 50 people. It also spent \$4,000 for a band at an event in 2010 at Houston's Westin Galleria hotel. Appendix C is a detailed list of the questioned expenditures.

The Authority Misclassified Expenses

The Authority did not classify some of the above expenses correctly in its accounting records. For example, it classified \$144,760 in expenses for food for staff meetings, the helicopter flights, Christmas gift cards, shirts, and other similar questionable expenses as office supplies. It classified another \$98,481 for a security camera, brochures, banquet sponsorship, and golf carts as consultant and professional fees, while it classified expenses for a golf tournament as staff training.

Authority Management Incurred Inappropriate Development Expenses

In another example of the Authority's mismanagement and waste of funds, the Authority incurred about \$17.8 million in unreimbursable development expenses. This amount included the purchase of 91.9 acres of property on Lake Houston for \$6.5 million in 2009 for a new master planned community that was to provide housing and services to veterans and was to be known as Patriots on the Lake. According to local news articles, the plan was contingent upon the U.S. Department of Veterans Affairs relocating offices and other facilities to the Lake Houston site. The Department did not move to the site. Thus, the project was halted. As of the fiscal year ending March 31, 2011, the Authority had paid more than \$1.5 million in construction costs for the defunct project, in addition to \$6.5

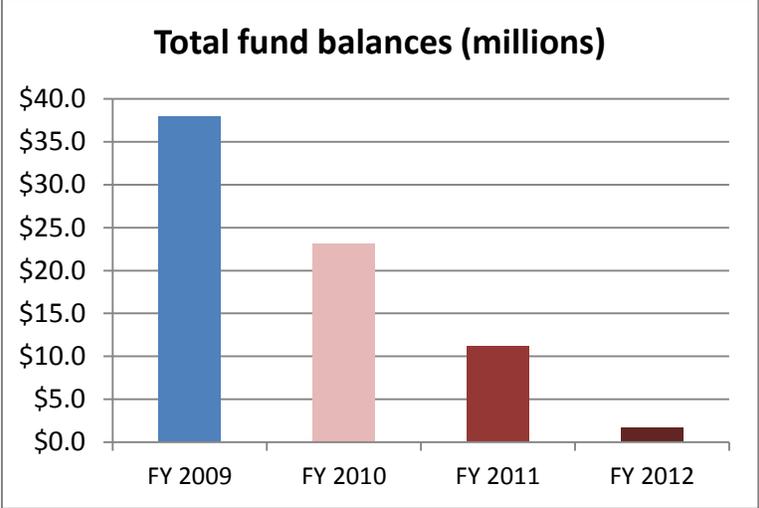
⁶ Staff members that we interviewed stated that they did not know about the book project.

million paid to purchase the property. Finding 2 further discusses the unreimbursable development expenses

The Authority’s Management and Board Put the Authority at Financial Risk

As a result of their actions and inactions, the former executive director and the Authority’s board put the Authority at financial risk. Not only did the Authority pay more than \$27 million for questioned expenses during the audit period, it also did not have \$3.8 million to repay a debt owed to HUD. As further discussed in finding 2, the Authority spent more funds than it had available for some of its programs. Further, it wasted funds on inappropriate and unnecessary procurements (finding 3). According to the Authority’s financial records, its fund balances declined from almost \$37.9 million at the end of its fiscal year 2009 to just over \$1.6 million at the end of its fiscal year 2012 as illustrated in figure 2.

Figure 2



FY = fiscal year

Conclusion

The Authority’s management and board of commissioners failed to establish a control environment designed to provide reasonable assurance that it complied with Federal requirements. They failed to enact policies and procedures to ensure the integrity of financial operations and compliance with procurement requirements. Instead, they neglected their management and oversight responsibilities; wasted Authority funds, at times for personal gain; circumvented existing internal controls; and manipulated accounting records. These conditions occurred because the Authority’s management and board failed to exercise their fiduciary responsibilities and did not act in the best interest of the Authority. As a

result of these conditions, the Authority incurred questioned costs of more than \$27 million, including more than \$2.4 million in unsupported expenditures, and did not have funds to repay a \$3.8 million debt due to HUD.

Recommendations

We recommend that the Director, Office of Public Housing, Houston, TX, require the Authority to

- 1A. Provide support showing that the \$2,466,779 in unsupported expenses, shown in appendix C to this report, either were paid from non-Federal funds or provide support showing the expenses were an eligible use of Federal funds. Any unsupported expenditures from Federal funds should be repaid to the Authority's Housing Choice Voucher program or to HUD if the Authority is unable to determine the source of funds used to pay the expenses. Any repayments must be from non-Federal funds.
- 1B. Reclassify the misclassified expenses to the proper accounts in its accounting records.

We recommend that the Director, Departmental Enforcement Center,

- 1C. Take appropriate administrative action, including possible debarment, against the former executive director and board members responsible for the actions identified in this report.

Finding 2: The Authority’s Management Failed To Enact Adequate Financial Controls

The Authority’s financial records did not comply with requirements. This condition occurred because the Authority’s management and board failed to implement adequate financial controls. Specifically, the Authority’s fiscal controls and accounting procedures were inadequate to ensure that it maintained complete and accurate records of its pooled fund transactions. Its managers effectively comingled Federal and non-Federal funds for fiscal year 2012 in violation of the Authority’s annual contributions contract and HUD requirements. Authority managers hid their overspending for certain programs by not entering fund transfers into the accounting system or maintaining adequate documentation, including a written cost allocation plan. Further, they misclassified some expenses. As a result, the Authority incurred more than \$17.8 million in unsupported costs and misspent \$3.8 million in Federal DHAP funds that it was unable to repay HUD.

Authority Management Comingled and Misspent Federal Funds

The Authority’s management comingled its Federal and non-Federal funds in violation of HUD requirements. HUD allowed the Authority to pool or combine funds from various sources into one master account or general fund for the payment of expenses rather than requiring separate bank accounts for each fund. However, the Authority could use these pooled funds only for any expenditure chargeable to the programs that had funds on deposit. As generally used, the term “comingling of funds” refers to the use of one program’s funds to pay expenditures for and in excess of the funds available for another program. HUD prohibits withdrawals for a specific program in excess of the funds available on deposit for that program, and the Authority cannot use Federal funds for non-Federal purposes. Therefore, HUD instructs public housing agencies to maintain supporting documentation for pooled fund transactions in enough detail to provide an adequate audit trail.⁷ Thus, while the Authority could combine its funds into one general fund, its accounting system needed to track the funds well enough to keep it from comingling the funds.

The Authority’s contract with HUD provided that it had to maintain current, complete, and accurate books of account in such a manner as to permit preparation of statements and reports required by HUD and a timely and effective audit.⁸ HUD empowered housing agencies such as the Authority to establish their own systems for financial management and record keeping as long as the system, among other things, maintained adequate records and had internal controls in

⁷ HUD Guidebook 7510.1G, paragraphs II-15 and II-16

⁸ 24 CFR Part 982.158 (a)

place. However, the Authority did not have adequate internal controls, including written policies and procedures, to ensure that it maintained complete and accurate books of record for its program and nonprogram funds. Thus, it did not accurately track each fund’s sources and uses in its accounting system.

HUD’s guidance advised that the pooling of funds in a master account would result in “due to-due from” transactions in the financial records.⁹ However, rather than making due to-due from accounting entries in its records to transfer or “loan” funds to a particular program when it was running low of funds, Authority staff continued making expenditures for the program, which resulted in negative balances for some accounts in its financial records.

Table 1 shows the Authority’s fund balances for its larger programs at the end of fiscal year 2012 (see appendix E for all fund balances). Some of the balances were negative, meaning that the Authority spent more money than it had available for those programs. Since the Authority pooled its funds, the balances reflected that the Authority used available funds from other programs to pay expenses for the programs with negative balances. Also, since the Authority did not record due to-due from transactions in its financial records, there was no audit trail, and neither we nor the Authority was able to determine how much money was owed to specific programs. In effect, Authority management hid the overspending for certain programs by not recording due to-due from transactions and not maintaining adequate documentation for its pooled fund transactions.

Table 1: Major program fund balances for fiscal year 2012

Program	Fiscal year ending March 31, 2012
Housing Choice Voucher	\$ (1,217,150)
Veterans Affairs Supportive Housing	498,989
Disaster Voucher Program	1,708,139
DHAP	(73,353)
DHAP-IKE – Harris County	5,385,206
DHAP-IKE – Texas	760,360
Cypresswood Estates	(4,481,290)
Affordable Housing	(1,046,336)

For example, according to the Authority’s records, at the end of fiscal year 2012, its Cypresswood Estates development and its Affordable Housing Division were overexpended by a combined \$5.5 million. Further, both the Cypresswood and Affordable Housing funds generally were supported by non-Federal funds, and their activities were predominately non-Federal. The remaining funds were fully funded from Federal sources. Given the fund balances as of March 31, 2012, the

⁹ HUD Guidebook 7510.1G, paragraph II-15

Authority used Federal funds to fund non-Federal activities. While other programs had small balances, the only program with a balance large enough to cover most of the overages was DHAP-Ike. The DHAP-Ike program consisted of Federal FEMA disaster funds, which were administered by HUD. However, the specific amounts paid from each fund could not be determined due to the lack of proper accounting records.

The Cypresswood Estates was a newly constructed apartment complex for senior citizens. It was built with a mixture of Federal and non-Federal funds and was advertised as a green, sustainable community.

In addition, the Authority owed HUD \$3.8 million in overfunded DHAP-Ike security and utility deposits and administrative fees at the end of fiscal year 2012. However, the Authority was unable to repay HUD because it did not have the funds. HUD should require the Authority to enter into an agreement to repay the \$3.8 million.

The Former Executive Director Was Aware of the Fund Deficits

According to the chief financial officer, the former executive director was aware of the deficits in the operating accounts. The former executive director expected the Authority to receive revenue that would cover the deficits. However, the Authority did not receive those revenues.

One such revenue that did not materialize was \$2.8 million that the Authority expected to receive from Harris County for reimbursement of expenses for building the Cypresswood Estates senior housing development. According to the Authority's chief financial officer and chief development officer, Harris County did not reimburse the Authority because the Authority did not follow Harris County's procedures in obtaining approval for contractors and due to additional, unexpected project costs.

A second example of unrealized revenue was an expected reimbursement from FEMA for money that the Authority spent to perform a damage assessment after Hurricane Ike. According to statements from the former executive director in the February 25, 2009, board of commissioners meeting minutes, the former executive director expected to be able to use the damage assessment as a model for future disasters in the area. FEMA denied more than \$7 million in reimbursement requests from the Authority.

As discussed in finding 1, the Authority also did not realize revenue from the failed Patriots on the Lake project.

The Authority should determine the source of funds used for the combined \$17.8 million in unreimbursed expenditures it made for Cypresswood Estates (\$2.8 million), the damage assessment (\$7 million), and Patriots on the Lake (\$8 million). For any instances in which the Authority cannot clearly support that the sources of funds were non-Federal, it should reimburse HUD or the appropriate Federal program if it can be determined.

Other Fiscal Control Weaknesses Existed

The Authority did not have a written indirect cost allocation plan, even though federal regulations required it to prepare and certify one.¹⁰ Indirect costs are those that have been incurred for common or joint purposes. Such costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. Further, the Authority sometimes transferred funds from one program to another and reclassified expenses without documentation to justify the reclassifications. The chief financial officer explained that the former chief administrative officer instructed him to reclassify the expenses. To prevent the future improper allocation of costs, the Authority should adopt and implement a cost allocation plan that includes procedures to ensure that it reasonably allocates costs to the programs that benefit from them. The Authority should also repay any amounts allocated to HUD programs that it cannot support.

In addition, Authority accounting staff did not ensure that the Section 8 net restricted assets account balance was correct in its financial records. The Authority's staff did not correct its internal records after the Authority and HUD agreed on a \$513,134 adjustment in the voucher system. This adjustment was also shown in the Authority's fiscal year 2010 audited financial statements. However, because the Authority never made the adjustment in its financial records, those records were inaccurate. The Authority should ensure that it includes the adjustment in its financial records.

Finally, the Authority did not maintain controls over its inventory. It could not provide an inventory list and could not locate more than \$150,438 in computers and other equipment. The majority of the missing equipment was laptop computers and electronic tablets. However, desks and three iPads were also missing. Most of the equipment was purchased for DHAP. Since the Authority could not locate the equipment, it removed the missing items from its books. The Authority should develop a system for tracking its inventory and periodically conduct physical inventories to ensure that equipment and other valuable items are accounted for. The system should have procedures designed to reduce the risk

¹⁰ 2 CFR Part 225, Appendix A, paragraphs F(1) and H(1)

of theft or loss of inventory items and include requirements that hold employees responsible for missing inventory items.

Conclusion

The Authority's financial records did not comply with requirements. This condition occurred because the Authority's management and board failed to implement adequate financial controls. Specifically, the Authority's fiscal controls and accounting procedures were inadequate to ensure that it maintained complete and accurate records of its pooled fund transactions. As a result, it incurred more than \$17.8 million in unsupported costs and misspent \$3.8 million in Federal DHAP funds that it was unable to repay HUD. HUD should require the Authority to implement adequate fiscal controls, including written policies and procedures, that reasonably ensure the accuracy of its financial records and reports. HUD should also require the Authority to correct its accounting records to properly account for its transactions in sufficient detail to account for the sources and uses of all funds, support or repay more than \$17.8 million, and execute an agreement to repay the \$3.8 million debt it owes HUD for ineligible DHAP-Ike expenditures.

Recommendations

We recommend that the Director, Office of Public Housing, Houston, TX, require the Authority to

- 2A. Implement fiscal controls, including written policies and procedures, that reasonably ensure the accuracy of its financial records and reports and that it maintains complete and accurate books of record for its Federal and non-Federal program funds. The controls should include procedures for accounting for pooled funds, a cost allocation method, and an inventory system.
- 2B. Correct its accounting records to show the proper amounts available in each pooled fund and include the appropriate due to-due from balances. In making the corrections, the Authority should reclassify any improperly classified transactions and pay back the appropriate programs.
- 2C. Repay from non-Federal funds the \$3,811,279 it owes HUD for ineligible expenditures from DHAP-Ike funds.
- 2D. Determine how much of the \$2,827,829 in unreimbursed expenditures for Cypresswood Estates was made with Federal funds and repay that amount to the appropriate program. If the Authority is unable to accurately determine the amount due to-due from each program and support that funds charged to

Federal programs were appropriate, the full \$2,827,829 should be repaid to HUD.

- 2E Determine how much of the \$7,010,079 in unreimbursed expenditures for damage assessment was paid with Federal funds and repay that amount to the appropriate program. If the Authority is unable to accurately determine the amount due to-due from each program and support that funds charged to Federal programs were appropriate, the full \$7,010,079 should be repaid to HUD.
- 2F. Determine how much of the \$8,011,036 in unreimbursed expenditures for Patriots on the Lake was made with Federal funds and repay that amount to the appropriate program. If the Authority is unable to accurately determine the amount due to-due from each program and support that funds charged to Federal programs were appropriate, the full \$8,011,036 should be repaid to HUD.
- 2G. Make a \$514,134 adjustment to its net restricted assets fund balance to reflect the adjustment that HUD made in its voucher system and that is reflected in the Authority's fiscal year 2010 audited financial statements.

Finding 3: The Authority Failed To Comply With Procurement Requirements

The Authority failed to follow Federal procurement regulations. It engaged in prohibited procurement practices such as using a prohibited cost-plus contract type, violating conflict-of-interest requirements, not executing contracts for recurring or large expenses, and failing to keep a contract log. These conditions occurred because the Authority's management and board failed to enact policies and procedures to ensure compliance with procurement requirements. Further, they attempted to conceal conflicts-of-interest. As a result, at least \$1.9 million in procurements was unsupported, unreliable, not necessarily in the best interests of the Authority, and potentially an ineligible use of Federal funds. Further, the Authority must repay the State of Texas and HUD \$720,000 that it used for an ineligible contract and must provide support that it properly used another \$1.1 million in HOME Investment Partnerships Program funds or return those funds to HUD.

The Authority Executed a Prohibited Cost-Plus Contract

The Authority used a prohibited cost-plus-a-percentage-of-cost contract for its Cypresswood Estates housing development. According to the contract, the Authority funded the development with \$5 million in Community Development Block Grant (CDBG) Disaster Recovery Program funds, \$4 million in Neighborhood Stabilization Program funds, and \$1.9 million in non-Federal funds. According to HUD records, the Authority also used \$1.1 million in HOME funds for the development. However, the contract did not mention the HOME funds or how the Authority used them.

HUD's Office of Community Planning and Development had oversight of the CDBG Disaster Recovery Program, the Neighborhood Stabilization Program, and the HOME program. HUD's general procurement rules at 24 CFR (Code of Federal Regulations) 85.36(f)(4) prohibit grantees and subgrantees from using cost-plus contracting methods. Further, 24 CFR 570.489(g) prohibits the use of cost-plus contracts for CDBG-funded projects. Also, according to the Federal Register, Volume 73, Number 194, dated October 6, 2008, Neighborhood Stabilization Program grants are to be considered CDBG funds and, thus, would be subject to CDBG rules, including a prohibition from using cost-plus contracts. Therefore, Federal regulations prohibit using any of the three Federal funding sources for cost-plus contracts.

We did not consider the entire prohibited cost-plus contract to be ineligible because the Authority received goods and services under it. We only considered the plus part of it to be ineligible. According to the

contract, the “plus” part was comprised of three components: profit (6 percent), general conditions (6 percent), and overhead (2 percent). Profit may have been an eligible item, but both general conditions and overhead were ineligible markups and totaled 8 percent of the Federal funds in the contract, or about \$720,000 (\$400,000 in CDBG Disaster Recovery Program funds and \$320,000 in Neighborhood Stabilization Program funds). The Authority should repay these ineligible expenses.

Harris County also awarded \$1.1 million in federal HOME funds for the development of Cypresswood Estates on October 27, 2011, approximately 5 months after the project was completed on May 31, 2011.¹¹ Because of the condition of the Authority’s books and records, we could not determine for what purpose the Authority used the HOME funds since the development had been completed. The Authority should either provide documentation to show that the funds in table 2 were used for an eligible purpose or repay them to HUD.

Table 2: Funding sources and uses in Cypresswood Estates

Fund source	Contract amount	Questioned amount	Reason cost was questionable
CDBG disaster funds	\$5,000,000 ¹²	\$400,000	Markups other than profit were ineligible.
Neighborhood Stabilization Program	4,000,000	320,000	Markups other than profit were ineligible.
Private funding	1,900,000	None	Not questioned
HOME	N/A	1,105,534	Use unsupported
Total	\$10,900,000	\$1,825,534	

The Authority entered into the prohibited cost-plus contract when it replaced a general contractor with a new contractor. We reviewed the cost-plus contract, but we did not review the initial contract. Cost-plus contracting methods are prohibited because they provide no incentive to the contractor to minimize the cost to the government.

According to the cost-plus contract and the chief development officer, the Authority changed contractors less than 2 years into the original contract¹³ because the former executive director changed the development plans. The former executive director wanted to obtain a

¹¹ According to the Authority’s audited financial statements, Cypresswood Estates was placed into service in June 2011.

¹² The construction contract showed that CDBG funds in the amount of \$5,000,000 provided partial funding for the project. However, the audited financial statements for Fiscal Year 2010 showed that the project received CDBG funds in the amount of \$5,574,826.

¹³ The Authority signed the original contract on April 29, 2009, and the replacement contract on March 17, 2011.

higher LEED (Leadership in Energy and Environmental Design) or “green” building certification. The initial contractor was not going to be able to meet a May 31, 2011, deadline that would allow the Authority to fully benefit from available Federal funding for “green” development activities. According to the chief development officer, it would not have been feasible to use the normal contracting process to hire a new contractor and finish the project by the May 31, 2011, deadline because much of the subcontract work would have had to be rebid. The new contractor agreed to complete the development by the deadline.

Harris County did not reimburse the Authority for more than \$2.8 million in construction expenses for the Cypresswood Estates project because the Authority did not use County-approved contractors. According to the chief development officer, the County also did not reimburse the Authority \$87,000 in “expediting” fees that the Authority paid directly to several construction company employees in violation of its contract with the construction company. Since the payments violated the contract, if the Authority used Federal funds to make the \$87,000 in payments, those payments would also be an ineligible use of Federal funds. Therefore, the Authority needs to either show that it did not use Federal funds or repay the \$87,000 from non-Federal funds.

The Authority Violated Conflict-of-Interest Prohibitions

The Authority’s management violated conflict-of-interest prohibitions when it contracted with two companies that employed former chairmen of the Authority’s board of commissioners, either during or shortly after their tenure.

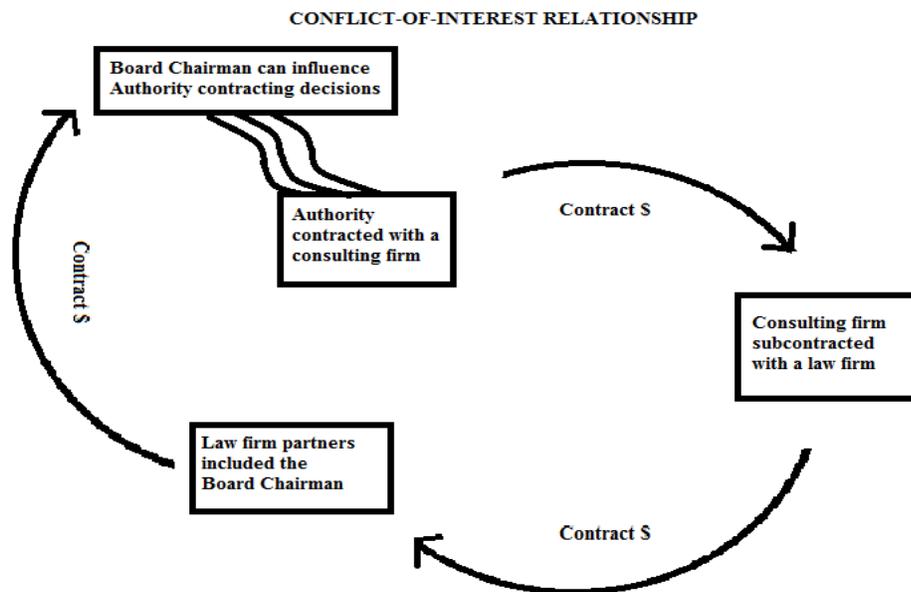
In one case, the Authority’s board of commissioners awarded a DHAP subcontract to a consulting firm only 2 months after a former board chairman, who was also a partner in the consulting firm, resigned from the board in May 2007. According to 24 CFR 982.161, a 1-year period must pass before any present or former officer of a housing authority can contract with the agency. In addition, the board of commissioners’ 2007 policies and procedures manual, paragraphs 2.8 and 2.9, required a 1-year waiting period. The former board chairman’s firm then signed a contract with the Authority after the 1-year waiting period expired. According to the Authority’s records, it paid the firm \$436,011 before signing a contract in September 2008.

In a second case, the former executive director and the board allowed a consulting firm that was contracted with the Authority to subcontract with a law firm to provide services pertaining to the contract with the Authority. The Authority’s board chairman at the time was a litigation partner employed by the law firm. This former board chairman, who served as chairman from June 2007 until

February 2012, also personally incurred charges against the contract, and the Authority paid the law firm for his work performed under the contract while he was still the board chairman. According to its accounting records, the Authority paid the consulting firm a total of \$920,315 for this contract, which included \$773,731 charged for the subcontracted law firm's services. On January 3, 2013, the Authority's interim executive director recovered the \$773,731 from the subcontractor. Therefore, the Authority effectively only paid the consulting firm \$146,584¹⁴ under the contract.

Both paragraph 2.8 of the board of commissioners' 2007 policies and procedures manual and paragraph 3.64 of its draft 2009 policies and procedures manual prohibit commissioners from having a significant financial interest or a direct or indirect interest in a contractor or consultant with which the Authority conducted business. Figure 3 outlines the relationship between the board chairman and the Authority, the consulting firm, and the law firm. It shows how the board chairman could indirectly receive funds from the Authority.

Figure 3



A payment to a person or organization with a conflict-of-interest is not in and of itself an ineligible payment because the Authority may have received some value for its money. However, the \$582,595¹⁵ paid to the employer of one former board chairman and to the consulting firm that subcontracted the law firm which employed the other former board chairman was particularly questionable because of the chairmen's attempts to circumvent conflict-of-interest rules. Further, according to the Authority, the \$146,584 paid to the consulting firm may have

¹⁴ \$920,315 - \$773,731 = \$146,584

¹⁵ \$436,011 + \$146,584 = \$582,595

included markups of legal fees paid to the law firm with a conflict of interest. Since the legal fees were the result of an improper subcontract, the markups on those fees may also be ineligible. The Authority should show that it received the services for which it was charged and that those services cost the same or less than comparable services from a source without a conflict-of-interest relationship with the Authority. If it used Federal funds to pay for the services and either did not receive them or paid more for them than it would have paid a source without a conflict-of-interest relationship, it should repay the funds to the appropriate source program or to HUD.

Appendix F provides additional evidence of a former board chairman's conflict-of-interest. It is a notification letter of the executive director's bonus, which appears to have been prepared on stationery from the law firm for which he worked.

To further demonstrate the board's disregard for its fiduciary responsibilities, on August 6, 2007, the Authority's general counsel told the board in a letter that awarding a contract to a consulting firm, the partners of which included a former board chairman, could be viewed as a conflict-of-interest and that the board could apply for a waiver from HUD. However, instead of selecting a different consulting firm or applying for the waiver, the Authority continued to make payments to the former board chairman's firm.

The former board chairman, who was a partner in the consulting firm that was contracted with the Authority, tried to conceal the conflict-of-interest relationship of the law firm that it subcontracted. According to a note attached to a \$215,595 invoice, he instructed his staff to remove the law firm's name from the invoice.

The Authority Did Not Have Required Contracts for Recurring and Large Expenses

The Authority's staff could not identify all of its contracts. Since the Authority did not maintain a contract log or other means to identify its procurements, its staff prepared a list of its contracts for the audit; however, the list was incomplete and did not contain some vendors to which the Authority paid more than \$25,000, including one of its largest vendors. We selected for review 14 vendors, to which the Authority paid more than its small purchase limit of \$25,000, and requested copies of the contracts. We also selected a \$25,000 contract with a vendor that had a conflict-of-interest relationship with the Authority. The accounting staff was able to provide contracts for only 7 of the 15 vendors. We obtained copies of contracts for 2 more of the 15 vendors from other sources.

For the nine contracts obtained, the Authority sometimes paid more than the maximum amount shown on the contract. For example, the Authority executed a contract with SMASH Visual for \$3,000 plus reimbursable expenses to provide

architectural drawings. According to the September 16, 2009, board minutes, the board authorized the Authority to execute another contract with SMASH Visual for an amount not to exceed \$42,000 to design and maintain the Authority's Web site. The Authority did not have a copy of this second contract in its file. It had paid SMASH Visual \$171,100 as of March 31, 2012.

In another example, the Authority paid a consulting firm, in which a former board chairman was a partner, significantly more than the contract amount. The former board chairman resigned from the Authority's board in May 2007. On September 8, 2008, the Authority signed a \$25,000 contract with the firm for emergency management services shortly after Hurricane Ike. The contract was to end on December 31, 2010. The contract amount was based on hourly rates, according to a schedule in the contract, and included out-of-pocket expenses. According to the contract, the fees were to be renegotiated after reaching the limit; however, there was no evidence that the fees were renegotiated. A sample of invoices showed that the Authority paid at least \$78,887 under the \$25,000 contract. Therefore, the Authority paid at least \$53,887 more than the contract amount.

Further, the Authority did not have required contracts for some recurring expenses with aggregate costs well above the small purchase threshold. Table 3 contains recurring expenses that the Authority should have procured through contracts. It also shows payments that the Authority made to vendors in excess of the contract amounts. The Authority should provide evidence to show that these payments totaling more than \$1.2 million were either not made with Federal funds or were eligible uses of Federal funds that were properly supported.

Table 3: Payments to vendors without a contract or in excess of contract amounts

Vendor	Payments as of March 31, 2012	Contract on file	Less payments supported by contract(s)	Unsupported amount
Nan McKay	\$ 705,187	No	\$ 0	\$ 705,187
SMASH Visual	171,100	Yes	3,000 ¹⁶	168,100
Carona's Housekeeping	109,216	Yes	6,317	102,899
Berg Oliver Associates	171,313	Yes	55,500	115,813
Possible contract employee	63,525	No	N/A	63,525
Condrey & Associates	35,000	No	N/A	35,000
PC Mall Gov. Inc.	26,012	No	N/A	26,012
McConnell, Jones, Lanier, and Murphy	78,887 ¹⁷	Yes	25,000	53,887
Totals	\$ 1,360,240		\$ 89,817	\$ 1,270,423

¹⁶ The contract for architectural drawings included allowable reimbursable expenses, if any. The Authority could not provide a copy of the \$42,000 contract to design and maintain its Web site.

¹⁷ The actual amount paid under this contract was likely much higher. We questioned payments on only five invoices that could be conclusively identified as payments for the emergency services contract.

The Authority's Management and Board Failed To Establish Controls Over Procurement

In further noncompliance with procurement requirements, the Authority did not have an adequate contract administration system in place. Specifically, it did not implement and maintain a contract administration system sufficient to record and track the significant history of each procurement action as required by Federal and State procurement requirements and its own internal policies. This condition occurred because the former executive director, who was also the Authority's contracting officer and performed most of the contracting, failed to establish adequate controls over procurement and the board ignored its oversight responsibilities. As a result, the Authority could not identify all of its contracts or show that it had received the goods and services that it paid for.

In some cases, the board meeting minutes showed that a request for proposal, which is required in public bidding, had been issued and the number of respondents, but other critical information was missing, such as whether the Authority performed independent cost estimates, the method of procurement chosen, the contract type selected, the rationale for selecting or rejecting offers, and the basis for the contract price. However, there was no evidence in the board meeting minutes that the board discussed many of the contracts. Further, the board ratified some contracts after the former executive director informed the board that he had signed the contracts. The former executive director also did not obtain board approval for contracts over its small purchase limit of \$25,000, and the Authority could not provide contracts for several vendors to which it had paid funds well in excess of its small purchase limit of \$25,000.

Staff members stated that they were unaware of whether there had ever been an established procurement function at the Authority or the existence of procurement files. Due to the lack of procurement files and documentation, we could not determine what procurement procedures the Authority used in its contracting and procurement for goods and services.

Although the Authority had a written procurement policy, the board repeatedly failed to approve this and other policies such as its own Board of Commissioners' Policy and Procedures Manual, although they were brought up for discussion at board meetings more than once. The September 2, 2009 board minutes also showed that there were arguments among board members regarding policies and procedures. The minutes showed that when one board member questioned the Authority's contracting process, arguments ensued between him and the board chairman, who accused the board member of trying to destroy the Authority. This

board chairman was involved in a contractual relationship that violated conflict-of-interest rules with the Authority and tried to hide the relationship.

The board members also failed to follow their own policies by not requiring members to complete required conflict-of-interest reporting forms and informing fellow board members when the possibility of a conflict might exist. HUD should require current and prospective board members to obtain HUD-approved training that explains their roles and responsibilities.

Conclusion

The Authority engaged in poor procurement and sometimes prohibited procurement practices such as cost-plus contracts and contracts that violated conflict-of-interest restrictions. It also did not use contracts for several large or recurring expenses and did not have an adequate contract administration system in place. These conditions occurred because the Authority's management and board failed to enact policies and procedures to ensure compliance with procurement requirements. Further, they attempted to conceal conflicts-of-interest. As a result, the Authority paid at least \$1.2 million in unsupported contracting costs. It also paid and \$582,595 in questionable costs to two contactors due to conflict-of-interest violations and possible ineligible markups. Further, the Authority incurred \$720,000 in ineligible contract costs using CDBG Disaster Recovery and Neighborhood Stabilization Program funds by using a prohibited cost-plus contract for one of its developments and did not explain how it used another \$1.1 million in HOME funds after the development was completed. The Authority should repay HUD and the State of Texas \$720,000 for the ineligible payments using the prohibited cost-plus contract and support or repay more than \$3 million to its programs or HUD as appropriate and implement a procurement process that complies with requirements.

Recommendations

We recommend that the Director, Office of Public Housing, Houston, TX, require the Authority to

- 3A. Support that it did not pay the \$87,000 in expediting fees with Federal funds or repay those funds to the appropriate program or HUD.
- 3B. Determine whether it received the services for which it paid \$582,595 under two contracts that violated conflict-of-interest prohibitions and that those services cost the same or less than comparable services from a source without a conflict-of-interest relationship with the Authority. If it used Federal funds to pay for the services and it either did not receive the services or paid more for them than it would have paid from a source without a conflict-of-interest relationship, it should repay the funds to its appropriate program or HUD.

- 3C. Support or repay the \$1,270,423 in questionable contract and procurement payments to its appropriate program or HUD.
- 3D. Implement procurement and contracting policies and procedures that comply with HUD requirements, including
- Establishing and maintaining procurement files that document the history of procurements and
 - Implementing procedures to identify its contracts and monitor contract performance.
- 3E. Ensure its current and prospective board members obtain HUD-approved training that explains their roles and responsibilities.

We recommend that HUD's Deputy Assistant Secretary for Grant Programs require the Authority to

- 3F. Repay the State of Texas the \$400,000 in CDBG Disaster Recovery Program funds that was an ineligible contract expense under a prohibited cost-plus contract.

We recommend that the Director, Office of Community Planning and Development, Houston, TX, require the Authority to

- 3G. Repay HUD \$320,000 in Neighborhood Stabilization Program funds that were an ineligible contract expense under a prohibited cost-plus contract.
- 3H. Support that it used \$1,105,534 in HOME funds for eligible costs for Cypresswood Estates or repay the funds to HUD.

SCOPE AND METHODOLOGY

We performed our fieldwork at the Authority's office located at 8933 Interchange Drive, Houston, TX, and at our office located in Houston, TX. We performed our audit work from April 2012 through January 2013. Our audit scope was April 1, 2009, through March 31, 2012. We expanded the scope of the review as needed to accomplish our objectives.

To accomplish our objectives, we

- Reviewed relevant laws, regulations, and HUD guidance
- Reviewed the Authority's policies and procedures.
- Reviewed the Authority's board of commissioners meeting minutes for the period January 2009 through March 2012.
- Reviewed the Authority's audited financial statements for its fiscal years 2010 and 2011.
- Analyzed the Authority's financial records.
- Reviewed a list of the Authority's contracts.
- Selected 3 contracts and 15 vendors to review the procurement history.
- Reviewed 156 disbursement transactions that occurred from April 1, 2009, through March 31, 2012.
- Reviewed data supporting salary equalization payments made to employees.
- Interviewed Authority and HUD staff in Houston and Ft. Worth, TX, and Kansas City, KS.

Sampling Methodology

We determined that a nonrepresentative sample of financial transactions was appropriate because we knew enough about the population to focus on certain items in the population that were potentially problematic. We selected a judgmental sample of 156 of the more than 6,400 transactions in the Authority's check registers for the period April 2009 through March 2012. We selected transactions that had been previously identified by the media, the current executive director, HUD, and our review. The sample transactions represented more than \$10 million of the more than \$94 million that the Authority spent from April 1, 2009, through March 31, 2012.

We also determined that a nonrepresentative sample of contracts was appropriate because we knew enough about the population to identify a relatively small number of items of interest that were likely to be misstated or otherwise had a high risk. We selected seven vendors from the Authority's contract list and nine other vendors that were not on the contract list.

We reviewed the general expenses listed in the compensation section of the Cypresswood contract. We did not try to determine how the contractor used Federal funds.

Scope Limitation

We encountered a scope limitation because some records, especially records of procurement, were incomplete, were destroyed, or never existed. This condition limited our ability to gain a complete understanding of the control environment that existed at the Authority and reasons behind decisions for past actions. In most cases, this limitation resulted in program costs being

deemed unsupported. However, despite the scope limitation, we conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of operations – Policies and procedures that have been implemented to reasonably ensure that procurement, expenditure, and financial reporting activities are conducted in accordance with applicable laws and regulations.
- Compliance with applicable laws and regulations – Policies and procedures that have been implemented to reasonably ensure that payments to vendors and procurement activities comply with applicable laws and regulations.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The Authority did not enact adequate written policies and procedures. Further, the executive director and board chairmen circumvented the existing policies and procedures (findings 1, 2, and 3).
- The Authority lacked adequate controls to ensure that all disbursements were for supported activities or that it properly allocated costs. Further, it did not have adequate controls to account for its inventory (findings 1 and 2).
- The Authority lacked adequate controls to ensure that it maintained complete and accurate records of its pooled fund transactions and did not comingle funds (finding 2).
- The Authority did not have controls in place to ensure that procurement activities complied with applicable laws and regulations (finding 3).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A		\$2,466,779
2C	\$3,811,179	
2D		2,827,829
2E		7,010,079
2F		8,011,036
3A		87,000
3B		582,595
3C		1,270,423
3F	400,000	
3G	320,000	
3H		1,105,534
Totals	<u>\$4,531,179</u>	<u>\$23,361,275</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a 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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Harris County Housing Authority

**Response to
HUD Office of Inspector General Audit of
Section 8 Housing Choice Voucher, Disaster Housing Assistance,
Neighborhood Stabilization, and HOME Programs**

Draft Dated April 18, 2013

Introduction

The Harris County Housing Authority ("HCHA" or "Housing Authority") has experienced significant change in the past year. Starting in late 2011, it became apparent that certain expenditures by the former HCHA administration were questionable business decisions. A new Board of Commissioners ("Board") was appointed and a new Chief Executive Officer ("CEO") and key staff were hired. Once the new Board and CEO began looking at HCHA's past practices, the Housing Authority notified the U.S. Department of Housing and Urban Development ("HUD") about HCHA's preliminary findings. These same issues that HCHA identified became the subject of the above-referenced draft audit (the "Audit") by HUD's Office of Inspector General ("OIG").

HCHA greatly appreciates the opportunity to respond to the Audit. The Housing Authority in no way seeks to defend any inappropriate actions of and decisions made by the former HCHA administration. Rather, the Housing Authority seeks to highlight the many positive reforms that have been made by the current HCHA administration that will prevent problems with the Housing Authority in the future. These include: adoption of a significant number of policies that address each of the issues highlighted in the Audit; dramatically reducing HCHA's administrative budget by nearly 50%; and implementation of an overall system of checks and balances that ensures proper Board oversight as well as public transparency. Although the Audit recommends that, in addition to policy changes, certain reimbursements to accounts should

Comment 1

DMEAST #16798309 v8

**Comment 1
(continued)**

be made, it would be detrimental to HCHA's recovery for HUD to adopt such recommendations. Requiring HCHA to pay these funds would have a devastating financial impact on the agency and would punish the Housing Authority and its low-income clients twice for the poor decisions made by the prior HCHA administration.

A full response to the Audit and its findings follows. HCHA looks forward to working with HUD and the OIG to resolve the Audit findings so that the Housing Authority can continue to move forward and serve low-income families in Harris County.

Response

In late 2011, several aspects of HCHA's operations fell far short of the high standards that the Housing Authority sets for itself. In particular, certain actions by former chairpersons of the Board and staff in key positions were inconsistent with applicable requirements and significantly strayed from HCHA's mission. In response, the Harris County Commissioners Court, which appoints the HCHA Board, appointed a new Board.¹ The Board elected a new chairperson and hired a new interim CEO, Tom McCasland. Other senior staff in key positions resigned or otherwise separated from employment. Following the dramatic changes in leadership, HCHA took a number of actions to ensure that the issues that gave rise to the Audit would not be repeated.

¹ The Court replaced 4 out of 5 of the Board members. The remaining Board member had actively questioned many of the activities of the former HCHA administration and had voted against approving a 2010 contract for the former executive director. This remaining Board member was selected to be the new Chairperson of the Board and, along with the new Board, has overseen and participated in the remarkable transformation of the Housing Authority during the past year. This Chairperson recently decided to resign from the Board, so as of early May 2013, another new Board member was appointed. A response to the Audit from this Chairperson is included as Exhibit A to HCHA's Audit response.

We appreciate the credence that this report gives to the grave concerns about past practices that have been regularly expressed by both the new Board and the new CEO to HUD and other federal agencies. In fact, except for the \$1.1 million in disputed HOME funds (which is an unsupported finding), nearly every other finding was previously identified by HCHA and communicated to HUD and other investigatory bodies as soon as the new Board and the new CEO learned of the issue. In fact, many of the issues in this report were publicly reported to the new Board by the new CEO in HCHA's April and May 2012 Board meetings.

Comment 1

In the past fourteen months, HCHA has made significant changes that address these concerns. Detailing these actions provides the most appropriate resolution to the Audit's findings. Although the Audit recommends repayment of HCHA accounts in many cases as well, the implementation of those recommendations would take needed resources away from low-income residents and further impede HCHA's ability to move forward. We believe that the better course of action is for HUD to continue to work with the new HCHA administration so that the new policies and procedures already in place protect the agency from again becoming susceptible to such an abuse of power.

Comment 2

The new HCHA administration has made great strides to restore public trust in the Housing Authority and to improve HCHA's operations, particularly in the areas of procurement, conflict of interest issues, and financial management. During this short period, HCHA has:

- Engaged a certified accountant with over twenty-four years of experience in housing authority accounting and operations (the "CPA") to begin the lengthy task of reconciling financial records kept by the previous administration. Although this task will take some time, the process has begun and the Housing Authority is optimistic that it will have a better understanding of past financial practices and fund allocations in the coming months;

- Recouped \$773,771, the entirety of legal fees paid to a firm in which the former Board chairperson was a partner;
- Reduced administrative expenses by nearly 50% from Fiscal Year (“FY”) 2012 to FY 2013;
- Sold vehicles, terminated or rebid contracts that were past the term of the contract, negotiated a reduction of costs of other contracts, negotiated settlements for consultant invoices, and brought in any past due accounts receivables that could be collected. The net result of these actions is that the administrative portion of HCHA’s FY 2013 budget will end the year in the black, compared to a \$2.7 million deficit the previous year. Included in the vehicle sales was sale of a truck owned by the Housing Authority and used by a former Board chairperson, thereby recouping \$35,400 of the \$44,000 originally paid for the truck. HCHA has notified the former Board chairperson that he must provide documentation that the truck was used for Housing Authority business or repay the \$8,741.97 balance. If the former chair does not do either, then HCHA will report the balance as taxable income to the former chair;
- Instituted significant new financial controls, including policies, procedures, and oversight.

Comment 2

HCHA has developed, adopted, implemented, and enforced the following policies/procedures, each of which addresses a different aspect of the concerns cited in the Audit, and are attached to this response as Exhibits B - I:

- A *Procurement Policy* governing all types of procurement activities and necessary Board approvals for the same;
- An *Ethics Policy* governing a number of issues, including gifts and economic benefits, disclosure and resolution of conflicts of interest, outside employment, and interests in contracts;
- A requirement that all Board members sign a *Conflict of Interest Statement* confirming receipt of the Ethics Policy and disclosing various volunteer, employment, and financial affiliations;
- A *Nepotism Policy*, setting forth specific guidelines regarding employment of related persons;
- An *Automobile Usage Policy* governing employee use of HCHA-owned vehicles;
- An *Open Government Policy* regarding disclosure of information to the public;
- A *Travel Policy* applicable to persons travelling on HCHA business at HCHA's expense; and
- A *Checkwriting Policy*.

Comment 2

These new policies and the new leadership at HCHA will ensure that the issues that gave rise to the Audit's focus will not and cannot be repeated. HCHA will continue to work with HUD and the OIG, as well as the public and HCHA's clients, to resolve any issues and restore trust in the agency and its mission. As discussed in more detail below, HCHA is in the process of investigating and reconciling expenditures made from 2005-2012 by the prior HCHA administration, and will work with HUD to substantiate relevant expenditures based upon this multi-year review. In many cases, we believe the most appropriate resolution

Comment 1

**Comment 1
(continued)**

– one that will allow HCHA to continue to move forward and not be penalized twice for the prior administration’s actions – will often be modifications to and implementation of policies and training. That way, HUD, OIG, and the public can ensure that appropriate controls and oversight are established for the Housing Authority moving forward.

Finally, the new HCHA administration has no desire to defend any of the inappropriate actions of the prior administration. However, neither do we desire to be further punished for what was most certainly a shared failure of oversight. With few exceptions, our response below contesting certain recommendations is not a defense of the former HCHA administration. Instead, it flows from the new administration’s desire to ensure that HCHA and its low-income residents are not saddled with three to four decades of debt that will cripple the agency’s ability to carry out its mission.

More specific responses to the Audit findings follow.

1. Finding 1: The Housing Authority’s management and Board have now established a proper internal control environment of checks and balances to rectify past issues, to comply with Federal requirements, and to ensure that public dollars are spent in the best interest of HCHA, its mission, and its clients.

Comment 3

We believe that most of the expenditures cited in the Audit were eligible costs that should not be required to be repaid, even though they were likely bad business decisions or expenditures that the new HCHA administration would never approve. As described elsewhere in this response, HCHA has already taken substantial steps to ensure that current and future expenditures are consistent with our mission.

Comment 4

Several clarifications to the Audit findings are necessary. First, at no time did the executive salaries paid by HCHA exceed a federally imposed cap. In August 2011, HUD asked all housing authorities to report the salaries of their 5 highest compensated employees. Subsequently, the FY 2012 HUD appropriations established a one-year

cap of \$155,500 on the amount of FY 2012 federal dollars that could be used for housing authority salaries. HUD indicated via Notice PIH-2012-14, dated February 24, 2012, that the effective date of the cap was March 17, 2012. In response to the notice, the new HCHA CEO immediately reduced the salaries of two employees, including the former executive director, to comply with the cap. As such, FY 2012 dollars were used in accordance with the salary cap, and HCHA has complied and continues to comply with applicable federal requirements regarding salaries.

Comment 4

Further, the salaries paid to the former executive director were paid pursuant to Board-approved employment contracts, and Section 3.3 of the contract covering the period from September 1, 2007-August 31, 2010 authorized the Board in its “sole discretion” to award bonuses to the former executive director. Similarly, the Board was advised of salary matters applicable to other employees. Consistent with common housing authority practices, the Board did not vote on salaries for persons other than the executive director. Although at least some of the payroll expenses are not defensible from a business perspective, we can find no clear violation of a HUD requirement. As such, the payroll expenses should be removed from the list of questionable expenditures for which the Audit recommends repayment.

Comment 4

We note that HCHA remains compliant with all applicable HUD requirements regarding salaries. More importantly, the Housing Authority has already significantly reduced its payroll expenditures by nearly \$1 million, a 34% reduction, to ensure that its funds are spent, not only for eligible purposes, but also consistent with its mission. HCHA’s current salaries are consistent with local pay scales. Thus there is no issue regarding salaries.

Comment 4

Comment 5

Two other expenditures should not have been identified as “unsupported” in the Audit. First, \$13,000 in gift cards for low-income families are part of a Housing Authority resident services initiative to assist the families with moving in to a new home. HCHA’s clients have little to no extra income to help them buy basic goods for a new house.

Comment 5

The gift cards were for Wal-Mart, and provided a small amount of funding to help outfit the families' new home. There is no prohibition in law or regulation against providing this type of assistance to residents, and the Audit has not cited any requirement that this expenditure violates. Second, the Audit questioned an expenditure of \$4326 for a holiday party and another expenditure related to an employee appreciation award lunch and banquet. Periodic events for staff are essential for morale in any workplace. Again, there is no prohibition on these types of expenditures as part of operating expenses and no legal requirement has been cited that would prohibit this expenditure. We note that the new administration has nearly eliminated food and beverage expenses for HCHA.

Comment 2

The new HCHA administration has instituted a number of checks and balances to ensure that there is a proper control environment that will ensure compliance with applicable Federal requirements. These measures include active Board oversight of the agency as well as implementation and enforcement of a number of policies governing both the Board and HCHA employees. As described in the introduction to this response, HCHA has implemented and is enforcing a number of new policies to prevent any future imprudent business decisions, including the following:

- A *Procurement Policy* governing all types of procurement activities and necessary Board approvals for the same;
- An *Ethics Policy* governing a number of issues, including gifts and economic benefits, disclosure and resolution of conflicts of interest, outside employment, and interests in contracts;
- A requirement that all Board members sign a *Conflict of Interest Statement* confirming receipt of the Ethics Policy and disclosing various volunteer, employment, and financial affiliations;

- A *Nepotism Policy*, setting forth specific guidelines regarding employment of related persons;
- An *Automobile Usage Policy* governing employee use of HCHA-owned vehicles;
- An *Open Government Policy* regarding disclosure of information to the public;
- A *Travel Policy* applicable to persons travelling on HCHA business at HCHA's expense; and
- A *Checkwriting Policy*.

As discussed in more detail below, HCHA has also implemented significant new financial controls to separate and track funding sources, reduce costs, particularly payroll costs, and maintain accountability to the Board. The CPA is also engaged in the painstaking process of reconciling accounts and expenditures dating back to 2005. Although his review will take some time, we will have better understanding on the sources the prior administration used for expenditures in the coming months.

Proposed Resolution:

Finding 1A – Per the above discussion, we believe the proper amount for which support should be provided is \$663,166 (the amount of questioned findings less the cost of Walmart gift cards to help residents settle into their units, the cost of staff appreciation gatherings, and the payroll costs). Using the CPA's in-process reconciliation of HCHA's books from the prior administration, the Housing Authority can work with OIG and HUD to provide support for such expenditures and/or determine if non-federal funds were used for those remaining expenditures. We note, however, that many of these expenditures should not be considered ineligible costs that need to be repaid, but rather imprudent business decisions that were unchecked due to the Housing Authority's lack of policies and procedures.

Comment 2

As indicated above, HCHA has instituted a number of policies and practices that will ensure that current and future expenditures will not exceed available funds and will be consistent with HCHA's mission as well as Federal requirements. These new policies are the most appropriate resolution to the aspects of Finding 1A which, while not directly contrary to Federal requirements, strayed significantly from HCHA's mission.

Comment 2

Finding 1B –The Housing Authority's CPA is working to reclassify misclassified expenses identified in the Audit to the proper accounts.

Finding 1C – The Housing Authority does not object to this finding regarding enforcement actions against the prior administration. As demonstrated by both the Board and the CEO beginning on March 21, 2012, HCHA remains committed to providing any needed information if HUD proceeds to implement this recommendation.

2. Finding 2: The Housing Authority has established significant financial controls and is working to reconcile past discrepancies.

The Housing Authority shares the Audit's concerns about the practices of the prior HCHA administration. HCHA has contracted with a financial expert (referred to herein as the CPA) who is in the process of tracing and reconciling expenditures made by the prior administration starting in 2005. This process will take several months, but it should give HCHA a better understanding of prior expenditures.

Comment 6

The CPA's review will include expenditures for construction of Cypresswood Estates, an award-winning affordable housing project that has been touted by HUD as a good example of green building. Although the Audit asserts that expenditures for Cypresswood should have been primarily non-federal, the rationale for this assertion is unclear since three different types of HUD funds (Community Development Block Grant ("CDBG"), HOME and Neighborhood Stabilization Program

(“NSP”)) were also granted to the project and OIG has not cited any legal support to back its assertions. As HCHA works to reconcile the Cypresswood and other accounts, we will have more information about the sources used on the project; however, we believe that many of the Cypresswood expenditures are eligible uses of Federal as well as non-Federal funds.

Comment 7

The Audit seeks support for expenditures on HCHA’s Patriots by the Lake development, an affordable development that was originally planned to serve veterans. The Audit asserts that expenditures for land acquisition and construction costs were ineligible uses of Federal funds because the development did not come to fruition and based on poor decision making regarding expenses reported in newspaper articles. The Audit does not cite any legal support for the proposition that the expenditures were ineligible. Although, in hindsight, this development effort was not prudent from a business perspective, the expenditures were not ineligible simply because the development project failed. All too often, projects are started but not completed for various reasons, which may include faulty assumptions, which appears to have occurred in this case. Our collective disappointment with the decision making process in Patriots by the Lake does not, by itself, render the expenditures ineligible. As a result, the finding should be removed.

Comment 8

The Audit also questions the eligibility of a damage assessment conducted after Hurricane Ike. Although FEMA did not reimburse HCHA for the expenditures, it appears to be an eligible use of Federal funds as the expenditure directly related to housing needs. Again the Audit does not cite any legal support for the proposition that the expenditure was ineligible. We will know more regarding the sources of funds used once the CPA completes his review; however, this expenditure should be allowable under most of our housing programs.

The Housing Authority is optimistic that a clearer understanding of the financial records will emerge once the CPA’s work is complete. HCHA will work diligently with HUD to provide support for expenditures and correct accounting records.

Comment 2

While the CPA is hard at work to address past accounting practices, the Housing Authority has focused on current practices and creating appropriate checks and balances to ensure that past mistakes are not repeated. HCHA has completely segregated its non-Federal and Federal funds into separate checking accounts. Although not a HUD requirement, HCHA has established separate checking accounts for each Federal program, as HCHA believes this will be the best way to ensure that improper co-mingling and confusing expenditure practices will not be used. Related to the separation of accounts, the Housing Authority has established and uses a Central Office Cost Center (“COCC”). As indicated above, HCHA has also adopted many written policies geared at strengthening financial controls. In addition, the Housing Authority conducts an annual inventory. HCHA has made significant budget cuts, particularly in the area of payroll: payroll reductions alone total approximately \$1 million. While prior increases in costs coincided with a dramatic increase in federal funding of disaster relief programs, HCHA has implemented procedures and policies that will provide checks and balances to ensure that future federal funding increases will not result in unnecessary increases in spending by HCHA.

Comment 2

Board oversight has significantly increased. The Board must approve the annual budget, and reviews the check register monthly for all administrative and affordable housing expenses. The Board and the Housing Authority have also increased public transparency, publishing board minutes on the HCHA website and strictly adhering to state law regarding public requests for information.

Proposed Resolution:

Comment 2

Finding 2A – As discussed above, HCHA has already complied with much of this Audit recommendation. The Housing Authority has adopted and implemented a number of policies and procedures designed to ensure the accuracy of its financial records and reports. HCHA also maintains complete and accurate books of record and separate accounts for its Federal and non-Federal program funds and has established a COCC to assist with the separation of funding sources. The Housing

Comment 2

**Comment 2
(continued)**

Authority conducts an annual inventory and allocates costs correctly between its Federal and non-Federal programs using the new financial systems. Within the next 90 days, HCHA will codify its cost allocation method and inventory system in written policies, which will be made available to HUD upon request.

Comment 2

Finding 2B – As discussed above, HCHA has hired a financial expert (referred to herein as the CPA) who is in the process of reconciling expenditures by the prior HCHA administration using the pooled fund, and we will have a better sense of the CPA’s findings in the coming months. Once we have the CPA’s findings, the Authority will make appropriate corrections to its records and systems to reflect the CPA’s findings.

Comment 2

Finding 2C – HCHA will work with HUD to enter into a repayment agreement regarding the approximately \$3.8 million in DHAP-Ike utility and security deposits and administrative fees.

Comment 2

Finding 2D – As discussed above, we will have a clearer understanding in the coming months of the source of funds used for Cypresswood Estates; however, the expenditures were not categorically ineligible uses of Federal funds, if such funds were used on the development. HCHA will work with HUD to provide available documentation on the expenditure and to confirm the eligibility of expenditures, if any, made with Federal funds.

Comment 2

Finding 2E – As discussed above, while the current HCHA administration would never have authorized the damage assessment expenses, we do not believe that the expenditures for the damage assessment were necessarily an ineligible use of Federal funds, if indeed Federal funds were used for the assessment. Once we have the results of the CPA’s review of the sources and uses of funds from this and other accounts, HCHA can work with HUD to confirm the eligibility of the expenditures.

Comment 2

Finding 2F – As discussed above, we will have a clearer understanding in the coming months of the source of funds used for Patriots by the Lake. Again, the expenditures were not categorically ineligible uses of Federal funds, if such funds were used on the development. HCHA will work with HUD to provide available documentation on the expenditure and to confirm the eligibility of expenditures, if any, made with Federal funds.

Comment 9

Finding 2G – HCHA has made the recommended adjustment to its net restricted assets (“NRA”) fund balance. We have provided this documentation to the OIG. As such, this finding should be removed or closed out. HCHA will continue to work with HUD to ensure that its books accurately reflect NRA and other funds balances.

3. Finding 3: The Housing Authority has overhauled its procurement system, implementing a necessary procurement policy, conflict-of-interest policy, and related checks and balances to ensure compliance with procurement regulations.

Comment 10

Cypresswood Estates was a public/private venture that included HUD CDBG, NSP and HOME funds along with a significant amount (\$1.9 million) of private funds. There is no support for the finding that the general conditions and overhead were unallowable. First, HCHA’s contract with the Cypresswood general contractor (the “Contract”) did not function as a prohibited cost-plus contract. As described in Chapter 11 of the Procurement Handbook for Public Housing Agencies, a cost-plus contract is generally one in which the “contractor’s profit increases in proportion to its costs incurred in the performance of the contract” and there is an incentive for “the contractor [to] design[] an overly expensive construction project in order to increase profits.” To the contrary, the costs were fixed in this case by a budget and contract language which prohibits the contractor from increasing the cost of the contract in order to increase its profit, general conditions and overhead fees. Section 4.1 of the Contract required HCHA’s approval of all costs of the work, which was to be performed exclusively by subcontractors and not by the general contractor. Similarly, any change orders or other

cost modifications had to be approved by HCHA. As such, cost controls were established to prevent unnecessary cost increases. An approved budget which, along with the Contract, is included at Exhibit K, clearly fixes the approved costs. It is our understanding that this budget served as the final budget, with no further modification. Given that the Contract costs were fixed, there was no ability for the general contractor to use the Contract as a cost-plus contract type.

Comment 10

Second, the 6% general conditions and 2% overhead charged under the contract are wholly consistent with local standards for construction contracts. Further, they are consistent with safe harbors under the public housing program, which provide that further HUD approval is not required for costs within the following safe harbors: profit equal to 2% of construction costs, general conditions equal to 6% of construction costs, and overhead equal to 2% of construction costs. See HUD's Cost Control and Safe Harbor Standards for Rental Mixed-Finance Development dated April 9, 2003. Although the CDBG and NSP programs do not include clear guidance regarding similar safe harbors, the public housing program safe harbors are illustrative. As such, the general conditions and overhead amounts were reasonable and no repayment of general conditions or overhead paid should be required. Further, the Audit assumes that just because general conditions and overhead comprise 8% of the project's budget, a commensurate proportion of CDBG and NSP funds were used for that purpose. The project's \$1.9 million in private funds may have been used to pay for this part of the contract.

Comment 11

Finally, we note that there is no support provided for the assertion that a portion of the expediting fees were ineligible. HCHA does not know why, or whether, these fees were paid to an employee of the general contractor rather than the contractor directly. Regardless, Harris County has determined that it should have paid for expediting fees from its non-Federal TIRZ Affordable Housing Set-Aside ("AHSA") account. The County is in the process of transferring AHSA funds into its HUD CDBG account. As the County is already resolving this issue,

there is no justification for seeking reimbursement from HCHA for the same funds.

Comment 12

The allegation in the Audit that HOME funds were improperly used is without support. Prior to issuance of the Audit, HCHA provided clear evidence to the OIG, included at Exhibit J to this response, confirming the proper use of HOME funds. We note that the Harris County, Texas, Community Service Department reviewed each request for dispersal of HOME funds prior to dispersal of such funds. The review was detailed, and identified any payments for which reimbursement could not be granted due to ineligibility or other reasons. As such, payment was only made for eligible costs, and the OIG's finding should be removed.

Comment 13

HCHA recognizes that, absent obtaining a HUD waiver, the prior Board should not have authorized contracts with prohibited conflicts-of-interest. As soon as the current administration became aware of the conflict of interest, HCHA worked diligently to recoup funds associated with such contracts. HCHA is in the process of filing suit against the consulting firm affiliated with the former Board chairperson to recoup funds paid to that firm. Additionally, HCHA has already recouped all funds paid under the subcontract with the law firm at which the other former Board chairperson was a partner. Those funds were repaid on January 4, 2013. Below is the joint statement to which HCHA and the law firm agreed, which confirms the repayment and resolution of the matter:

The Harris County Housing Authority and the law firm of Haynes and Boone, LLP today announced an agreement resolving issues that arose from legal work performed by Haynes and Boone for an HCHA contractor in 2008 and 2009. Due to a misunderstanding regarding the HCHA contracting process, Haynes and Boone has agreed to refund the legal fees paid to Haynes and Boone by the contractor.

The Commissioners of Harris County Housing Authority take seriously their obligations to serve, responsibly earn and keep the public trust, wisely appropriate taxpayer dollars, and further the Agency's Mission.

"This matter was never about the quality of the legal work provided by Haynes and Boone, but was instead about the process under which our contractor authorized that work," said HCHA Chairman Beto Cardenas. "Haynes and Boone continues to show its dedication to the people of Harris County and HCHA is grateful for its professional ism and attention to this matter."

"We are pleased that we were able to resolve these issues to everyone's satisfaction," said Terry Conner, Haynes and Boone managing partner. "Haynes and Boone has a long-standing professional relationship with HCHA, and we value our leadership role in the Houston business community."

Both parties now consider this matter to be fully resolved.



Comment 13

As such, it is erroneous for the Audit to conclude that funds are still owed from the law firm, and this finding should be removed.

Comment 13

The remaining funds cited in the audit were paid and due to the consulting firm that had issued the subcontract to the law firm, but those remaining funds were for consulting services performed by the consulting firm or were markups of the legal fees. These amounts were not passed through to the former Board chairperson's law firm for its legal services. Repayment of the funds paid to the consulting firm will be one of the claims in the above-described lawsuit. HCHA will keep HUD apprised of the status and results of this lawsuit.

Comment 14

While the OIG, current HCHA Board and new CEO have all questioned the prudence of at least some of the contracting activity of the prior HCHA administration, the services received from the vendors identified in the Audit were eligible uses of Federal funds, and thus not subject to repayment. We will work with HUD to provide documentation of the funding source and/or eligible use.

Comment 2

Finally, HCHA recognizes that the prior Housing Authority administration did not establish proper procurement and contract controls. The current HCHA administration has made substantial changes that create a robust contract administration system. In August 2012, the Board adopted a Procurement Policy. A revised policy, included at Exhibit B, was adopted in October 2012. HCHA has implemented that revised Procurement Policy. The requirements of the policy are strictly followed and enforced, and the Board is involved, when required, in procurement decisions. For example, the policy requires that all procurements in excess of \$25,000 be approved by the Board, and HCHA strictly enforces this provision. HCHA has also made efforts to increase the transparency of Board decisions, implementing an Open Government Policy that requires rapid response to public requests for information, and all board meeting information and minutes are available on HCHA's website. Board members are also required to understand and follow HCHA's new Ethics Policy, applicable to the Board and all employees, complete a conflict-of-interest reporting form, and complete State-mandated trainings relating to the Open Meetings Act and the Public Information Act.

Proposed Resolution:

Comment 11

Finding 3A – There is no support provided for a finding that a portion of the expediting fees were ineligible. Further, the County is reimbursing its CDBG accounts with Non-Federal funds for expenditures for the expediting fees. As such, this finding should be removed.

Comment 13

Finding 3B – As indicated above, HCHA has already recouped all funds paid to the law firm of the former Board chairperson, thus this finding should be removed from the Audit. HCHA is filing suit against the other former Board chairperson’s consulting firm.

Comment 14

Finding 3C – Despite the poor organization of the contracting system used by the prior HCHA administration, the payments to vendors were eligible uses of Federal funds. HCHA will work with HUD to support the eligibility of any Federal funds used to pay those vendors.

Comment 2

Finding 3D – HCHA has already complied with the recommendation in Finding 3D. As such it should be eliminated or closed out. As discussed above, HCHA implemented and enforces a Procurement Policy included at Exhibit B. Section 20 of that Policy describes the policy for establishing and maintaining procurement files, including documenting in the files “the [r]ationale for the method of procurement (if not self-evident),” the “[r]ationale of contracting pricing arrangement (also if not self-evident),” the “[r]eason for accepting or rejecting the bids or offers,” the “[b]asis for the contract price.” Contract copies are also to be included in the file, as well as documentation of related contract actions. A contract register has been implemented as well.

Comment 2

Finding 3E – The HCHA Board is committed to good governance and takes very seriously its fiduciary responsibilities. The Board has already completed two training on Texas’ open records and open meetings law. On September 19, 2012, the Board also participated in a training conducted by the local HUD office. As a new Board member has just joined the Board, HCHA will plan to schedule another training with the HUD office. As such, this finding should be eliminated or closed out.

Comment 10

Finding 3F – As indicated above, the Cypresswood Estates general contractor contract was not a cost-plus contract. The general conditions and overhead costs are allowable, and further, may not have been paid with Federal funds. This finding should be removed.

Comment 10

Finding 3G – As indicated above, the Cypresswood Estates contract was not a cost-plus contract. The general conditions and overhead costs are allowable, and further, may not have been paid with Federal funds. This finding should be removed.

Comment 12

Finding 3H – HCHA has already provided to the OIG support for the use of HOME funds for eligible costs at Cypresswood Estates. This support is also attached at Exhibit J. The documentation confirms that funds were spent for eligible purposes. As such, this finding should be removed.

Conclusion

HCHA does not seek to make any excuses for the actions of the prior Housing Authority administration. Many of these actions were inconsistent with HCHA’s mission to serve low-income families and may have been bad business decisions. During the past year, the new HCHA Board and management has made significant strides to implement meaningful checks and balances that will ensure accountability, transparency, and adherence to HUD and local requirements. In short, these changes will prevent the events of the past from reoccurring.

HCHA will continue to work with HUD and the OIG, as well as the public and HCHA’s clients, to resolve any issues and restore trust in the agency and its mission. The appropriate, and most meaningful, resolution to the Audit findings is one that will support the many changes that the current HCHA administration has implemented. As described above, the policies and procedures and internal changes implemented by HCHA should resolve each of the Audit’s findings. HCHA is open to other suggestions regarding policy changes that HUD or OIG may have which could further ensure the appropriate level of checks and balances at the Housing Authority. To recommend repayment of such large sums of money simply penalizes the low-

income families served by the Housing Authority again for the actions of its prior administration, and will significantly hinder HCHA's ability to move forward and serve its clients.

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May 6, 2013

By Email

Gerald R. Kirkland
Regional Inspector General for Audit
United States Department of Housing and Urban Development
Office of Inspector General
819 Taylor Street, Suite 13A09
Fort Worth, Texas 76102

Re: Draft Audit Report of the Harris County Housing Authority

Dear Mr. Kirkland:

Thank you for meeting with staff and members of the board of commissioners of the Harris County Housing Authority on April 23, 2013. We appreciate the efforts of the audit team to review carefully the Housing Authority's operations over the last several years and we take seriously the concerns that you raise. The report notes several substantial shortcomings in the Authority's internal controls and compliance with procurement rules, which, as you know, are issues about which I had concerns during my tenure on the Authority's board of commissioners.

From my earliest days as a board commissioner in 2010, I questioned the lack of board-approved policies, procedures, and procurement guidelines, and indeed, based on these concerns, cast the sole vote in opposition to an extension of an employment contract with the Authority's former CEO. I repeatedly made calls, both inside the Authority and publicly, for more serious fiscal management and oversight of the Authority.

On March 21, 2012, my fellow commissioners unanimously elected me chairman, and one of our first decisions was to hire an interim CEO, Thomas McCasland, to lead the Authority. Only after I became the chair, and Mr. McCasland took the reins at the Authority, did I learn of the existence of aged demand letters for reimbursement of millions of dollars to federal agencies that had remained unanswered. I also learned for the first time the extent of the Authority's financial condition, including that the Authority had insufficient funds to operate or meet payroll, and that monies for certain programs had been used to cover shortfalls for others (also an issue noted in your report). Thereafter, I was informed that the former CEO had instructed former senior staff to either not speak with me about these issues and/or to conceal prior inappropriate expenditures.

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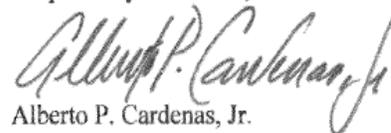
Following these revelations, Mr. McCasland and I took swift action to involve authorities, including my communicating with United States Senator Kay Bailey Hutchison, Senior United States District Judge George P. Kazen, and the United States Attorney for the Southern District of Texas Ken Magidson. These initial consultations led to an investigation by the FBI, which I invited and welcomed.

During my tenure as Chairman of the Authority, I ensured, together with Mr. McCasland, that your Office received full cooperation from the Authority's staff and we have worked diligently to implement controls designed to ensure that the issues identified in the report do not recur. The Authority has taken action to recover misappropriated funds, establish policies and procedures regarding procurement, ethics, conflict of interest, travel, nepotism, and open government. In addition, the board of commissioners engaged a new accounting firm and Mr. McCasland has hired new staff, revised budgets to reflect provided income with responsible expenditures. More importantly, Mr. McCasland has guided the Authority toward serving our critical mission.

I am confident that the Authority will continue to cooperate with all investigative authorities. Difficult decisions have been made – but each has been done with an eye toward improvement and a reflection of correctness.

Included with this letter is a concluding article published in the *Houston Chronicle* describing my role in attempting to reform the Authority and bringing these issues to light. I was humbled to have served as the lone appointee kept on the Authority's board by the Harris County Commissioners' Court during a time of necessary transition and remain committed to assisting your Office with its work. I ask that the Agency's Final Report, in addition to describing the past shortcomings at the Authority, also reflect our shared efforts to uncover these concerns and make substantial improvements to the Authority.

Respectfully submitted,



Alberto P. Cardenas, Jr.

enclosure

OIG Evaluation of Auditee Comments

Comment 1 The Authority stated that requiring it to reimburse its accounts would have a devastating financial impact, and would punish both the Authority and its low-income clients for decisions made by former managers. The Authority proposed that a better recommendation would be for HUD to continue to assist the Authority's current managers in implementing its policies and procedures to prevent such an abuse of power from recurring in the future.

The majority of the questioned costs in the report are unsupported. Appendix A contains a definition of unsupported costs. During the audit resolution process the Authority will have an opportunity to provide HUD with support for these expenditures. Further, since the Authority was not properly maintaining its financial records, OIG recommended that it correct them. Doing so may reveal that non-federal funds were used to pay some of the questioned costs. If so, those costs would not have to be repaid. The actions of the prior board and management have unfortunately placed the Authority and its residents in a precarious financial position. However, the OIG's responsibility is to report the conditions, which in this case largely involve misuse of HUD funds, and make appropriate recommendations. By definition, any ineligible costs must be repaid, and unsupported costs must be adequately supported or repaid. The Authority will need to work with HUD to reach acceptable solutions. We did not change recommendations for reimbursement based on the comment.

Comment 2 The Authority was responsive to our findings and recommendations, and it outlined steps that it had taken to improve its operations.

We commend the Authority for being proactive and taking what appears to be aggressive steps to improve operations at the Authority. HUD's program offices will determine whether the Authority's actions address the recommendations.

Comment 3 The Authority stated that most of the questioned costs in the report should be considered eligible and should not be required to be repaid. However, it also agreed that the expenditures were likely the result of bad decisions that the current managers would not have approved.

Disagreements on unsupported and ineligible costs are addressed in later comments. The Authority will need to provide support to HUD for any unsupported costs and repay any ineligible costs.

Comment 4 The Authority said that since its executive salaries did not exceed a federally imposed cap, it did not violate any HUD requirements. However, the Authority also agreed that at least some of the payroll expenses were "not defensible from a business perspective", and said that it had reduced payroll by nearly \$1 million and that its current salaries were consistent with local pay scales.

OIG did not cite the federally imposed salary cap in the report. The basis for questioning excessive salaries and bonuses paid to Authority executives is 2 CFR (Code of Federal Regulations) Part 225, “Cost Principals for State, Local, and Indian Tribal Governments” (formerly Office of Management and Budget Circular A-87). As with other expenses covered by this Federal regulation, whether a particular expense is allowed is determined in part by whether the expense is reasonable. Appendix B, Section 8.b. of the regulation also says “compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.” The salaries violated the reasonableness standard both because payments for some employees exceeded the maximum salaries recommended in the two compensation studies commissioned by the Authority’s Board, and because the performance and bonus pay for some employees sometimes exceeded their annual base salaries during fiscal year 2010. We did not change the report based on the comment.

Comment 5 The Authority stated that the expenditures of \$13,000 for gift cards for housing development residents and \$4,326 for an employee holiday party were for good causes. It said that the expenditures helped the residents and improved workplace morale, and were not prohibited.

The expenses violated 2 CFR Part 225, “Cost Principals for State, Local, and Indian Tribal Governments”. This regulation states that entertainment expenses as well as contributions and donations are unallowable costs to be included in Federal awards. While the expenses may have been for good causes, they cannot be paid with Federal grant funds. If the Authority can show that Federal funds were not used for these costs, they may be allowable. We did not change the report based on the comment.

Comment 6 The Authority disputed the conclusion that Cypresswood expenditures should have been primarily non-federal.

The Authority misunderstood the statement on page 14 of the report. We did not say that all expenditures to build Cypresswood Estates should have been non-Federal and we recognized on page 15 that the development was built with a mixture of Federal and non-Federal funds. However, affordable housing developments are typically considered non-Federal properties because their revenues, including developer fees and ground lease revenues, are considered non-Federal funds that are not subject to HUD oversight. We did not change the report based on the comment.

Comment 7 The Authority stated it agreed that expenditures for land acquisition and construction costs for the Patriots on the Lake project were not prudent from a business perspective, but it disagreed with the conclusion that the expenditures were ineligible because the project failed.

The expenditures were ineligible because they violated 2 CFR 225 regarding allowable costs and the reasonableness standard. We also noted that the

Authority agreed they were not prudent business decisions. We did not change the report based on the comment.

Comment 8 The Authority stated that expenditures for the Hurricane Ike damage assessment should be an eligible use of Federal funds as they were directly related to housing needs, even though FEMA did not reimburse the Authority for the expenditures.

We questioned the expenditures because they did not appear to be a necessary or reasonable use of Federal funds, and were not prudent business decisions. Therefore, they violate the allowable costs and reasonableness standard of 2 CFR 225. We did not change the report based on the comment.

Comment 9 The Authority said that it had made the recommended adjustment to the net restricted assets account balance and provided the OIG with documentation.

The former chief financial officer provided us with documentation of the amount of the adjustment that should have been made. However, he did not provide documentation to show that the adjustment was actually made. The Authority will have to work with HUD during the audit resolution process to determine whether the adjustment was made. We did not change the recommendation based on the comment.

Comment 10 The Authority stated that the Cypresswood Estates contract was not a prohibited cost-plus contract because the Authority kept costs within a budget and it and not the contractor approved all costs. The Authority also stated that the amount of markups for “general conditions” and “overhead” were consistent with other HUD regulations. Further the Authority stated that the costs may have been paid with non-federal funds.

We disagree with the Authority’s assessment of the type of contract. The first paragraph of Article IV, page 3 of the contract states that the Authority “shall pay the CONTRACTOR...the cost of work...plus markups thereon” and specifies the percentages of markups for profit, overhead, and general conditions. Chapter 10.1, paragraph A.5.a of HUD Handbook No. 7460.8 REV 2 clearly prohibits this type of cost-plus-a-percentage-of-cost contract. The contractor had no incentive to reduce costs, and every incentive to increase them regardless of whether the Authority exercised final approval authority over those costs.

We discussed the contract and the eligibility of markups for general conditions and overhead with a representative of HUD’s Office of Community Planning and Development. The representative stated that HUD will review the contract and its costs and confirm whether the contract was eligible. If the Authority shows that non-Federal funds paid for the markups, they will not be ineligible.

Comment 11 The Authority disagreed that the expediting fees paid to employees of the general contractor were ineligible to be paid from Federal funds. However, it also noted that Harris County had determined that it should have paid the fees from one of its

non-Federal accounts, and was in the process of transferring the non-Federal funds.

The Authority should provide documentation of the resolution of this issue to HUD.

Comment 12 The Authority disputed the finding that it could not support the use of the \$1.1 million in HOME funds. It provided documentation which it said supported the use of the funds and said that Harris County's Community Services Department reviewed each request for dispersal of funds.

We reviewed the documentation provided. The documents did not include a contract or contractor invoices showing that the funds were used for an eligible purpose in the Cypresswood Estates development. Therefore, we did not deem the documentation to be sufficient to change the report.

Comment 13 The Authority stated that it had recouped all funds paid under a subcontract with a law firm that had a conflict-of-interest with the Authority. It stated that additional funds noted in the report were for consulting services performed by a consulting firm or were markups of the legal fees.

After additional review, we changed the report to clarify that the amount of funds the Authority recouped was what was paid to the law firm as a subcontractor. However, we did not reduce the questioned cost because, as the Authority pointed out, the \$146,584 paid to the consulting firm may have included markups on legal fees which could be ineligible since the legal fees were the result of an improper conflict-of-interest subcontract.

Comment 14 The Authority stated the services received from the vendors identified as receiving payments in finding 3 were eligible uses of Federal funds.

Large payments without a contract and payments in excess of a contract are questionable, and could be evidence of an attempt to circumvent procurement controls. We did not change the report based on the comment.

Comment 15 The Authority provided an Appendix A to its response which is a letter from a former board chairman who recently departed. This former board chairman, although a board member during part of our audit period, is not either of the former board chairmen that are discussed in the report.

Appendix C

SCHEDULE OF QUESTIONABLE MISCELLANEOUS EXPENDITURES

Questionable contributions

Date	Payee	Description	Amount
08/20/2009	Helping A Hero.Org	To support military personnel	\$ 25,000
10/21/2009	NAACP Houston Branch	Freedom Fund banquet sponsorship	5,000
10/22/2009	NAACP Houston Branch	Freedom Fund gala	5,000
10/23/2009	NAACP Houston Branch	Centennial Freedom Fund banquet	1,500
11/02/2009	National Japanese American Memorial Foundation	Rescue of Lost Battalion dinner	10,000
11/04/2009	National Japanese American Memorial Foundation	Commemorative book	6,500
12/21/2009	Helping a Hero.Org	To help construct a home for a retired serviceman	25,000
12/21/2009	Housing authority employee reimbursements	Gift cards for affordable housing development residents	1,500
12/21/2009	Housing authority employee reimbursements	Gifts for family in need-five children for Christmas	1,500
01/14/2010	Space Center Rotary Foundation	Extreme Makeover home construction	25,000
12/20/2010	Walmart	Gift cards for affordable housing development residents	3,000
10/21/2011	Humble 24 Hour House	Donation	500
12/16/2011	Walmart	Christmas gift cards to housing development residents	8,500
Total questionable contributions			\$118,000

Questionable entertainment, travel, and personal expenses

Date	Payee	Description	Amount
12/11/2009	Dave & Buster's	Christmas party – food, beverage, and bowling for 50 people	\$ 4,326
06/22/2010	Previous executive director	Dental reimbursement claims for executive director and his daughter	4,969
08/02/2010	Incredible Events, Inc.	Band for an event	4,000
08/10/2010	Texas Housing Association	Golf tournament – executive director and three employees	240
02/25/2011	Davis Chevrolet	2011 Chevy Avalanche for board chairman's use	44,142
05/18/2011	U.S. Green Building Counsel Texas Gulf Coast Chapter	Golf tournament – executive director, two employees, and one nonemployee	1,200
07/22/2011	Seven The Poet	Performance at Sierra Meadows housing development grand opening on July 18, 2011	1,500
09/30/2011	Various	Foreign travel to South Africa from August 12, 2011, through September 30, 2011 ¹⁸	940
Total questionable entertainment, travel, and personal expenses			\$61,317

¹⁸ Original charges totaled \$25,403; however, the former executive director, the chief development officer, a County staff person, and two contractors repaid all but \$940.

Other unreasonable and unnecessary expenses

Description	Amount
Excessive payroll expenses	\$1,786,287
Statues and monuments for housing developments	192,739
Shirts	66,071
Museum district apartments	54,006
Book project	24,000
Trophies, plaques, and awards	27,248
Letters handwritten by Abraham Lincoln	18,000
Helicopter, chartered bus, and golf cart rentals for a grand opening	14,582
Antique gold-plated "Challenge" coins	11,138
Former HUD Secretary speaker fee	10,000
Presidential signed collage	5,195
Other, including public relations for a grand opening, local lodging for employees, and food for employee appreciation award lunch and banquet	78,196
Total other unreasonable or unnecessary expenses	\$2,287,462

Total questionable miscellaneous expenses

\$2,466,779

Appendix D

SCHEDULES OF FEDERAL AND NON-FEDERAL FUNDS RECEIVED

Federal funds received

Federal funding	FY 2010	FY 2011	FY 2012	Total
Public and Indian housing (PIH) funds:				
Section 8 - housing choice vouchers	\$26,767,175	\$35,595,433	\$31,950,755	\$ 94,313,363
DHAP	36,520,909	11,494,162	2,752,608	50,767,679
Housing choice vouchers-Disaster Voucher Program	1,105,425	476,324	90,710	1,672,459
Veterans Assistance Supportive Housing	0	557,594	667,442	1,225,036
Section 8 Moderate Rehabilitation-Single Room Occupancy	327,233	329,498	333,391	990,122
Section 8 Moderate Rehabilitation	57,344	49,924	49,496	156,764
Total PIH funding	\$64,778,086	\$48,502,935	\$35,844,402	\$149,125,423
Other HUD funding - passed through Harris County				
Community Development Block Grant & Neighborhood Stabilization Program ¹⁹	\$1,761,665	\$2,126,385	\$6,240,541	\$10,128,591
HOME Investment Partnerships Program ²⁰	1,882,297			1,882,297
Total other HUD funding	\$3,643,962	\$2,126,385	\$6,240,541	\$ 12,010,888
Total Federal funds	\$68,422,048	\$50,629,320	\$42,084,943	\$161,136,311

Non-Federal funds received

Type of funds	FY 2010	FY 2011	FY 2012	Total
Developer fee revenue	\$1,125,884	\$1,143,523	\$741,714	\$3,011,121
Ground lease revenue	71,000	71,000	73,000	215,000
Partnership management fee revenue			44,423	44,423
Other revenue	169,061	201,975	225,209	596,245
Total non-Federal funds	\$1,365,945	\$1,416,498	\$1,084,346	\$3,866,789

¹⁹ These funds were passed through the County's Community and Economic Development Department for the purpose of acquiring and codeveloping affordable housing for senior citizens and families using the Federal Low-Income Housing Tax Credit program. They include funds used for the Cypresswood Estates seniors development.

²⁰ These funds were passed through the County's Community and Economic Development Department for the purpose of acquiring and codeveloping affordable housing for seniors and families using the Federal Low-Income Housing Tax Credit program.

Appendix E

FUND BALANCES AS OF MARCH 31, 2012

Program name	FY 2009	FY 2010	FY 2011	FY 2012
Housing Choice Voucher	\$3,450,412	\$1,062,357	\$3,442,077	(\$1,217,150)
Moderate Rehabilitation	7,509	5,051	24,400	32,016
Jackson Hinds Garden	67,134	29,255	2,421	53,838
Disaster Voucher Program	1,227,695	1,142,351	1,168,789	1,708,139
Cypresswood Estates	0	793,001	235,055	(4,481,290)
Affordable Housing	198,877	286,782	116,152	(1,046,336)
LA187 – St Bernard Parish	(103,500)	0	0	0
Veterans Affairs Supportive Housing	0	0	439,140	498,989
DHAP	4,289,941	1,514,841	(114,455)	(73,353)
TX999 DHAP – USA	3,390,537	2,458,528	31,627	31,434
LA001 DHAP – Housing Authority of New Orleans	4,692,482	0	0	0
LA999 DHAP – Jefferson Parish	1,701,915	1,618,915	0	0
LA998 DHAP – St. Bernard Parish	243,037	189,037	0	0
LA997 DHAP – Slidell	580,438	503,938	0	0
DHAP-IKE – Harris County	15,523,202	10,106,258	4,401,794	5,385,206
DHAP-IKE – Texas	4,911,683	3,361,499	1,474,758	760,360
LA996 DHAP – New Orleans phase 2B & later	(2,287,987)	0	0	0
Totals	\$37,893,375	\$23,071,813	\$11,221,758	\$1,651,853

Appendix F

BONUS NOTIFICATION LETTER

haynesboone

December 15, ²⁰⁰⁹~~2008~~

██████████
Executive Director
Harris County Housing Authority
8410 Lantern Point Drive
Houston, TX 77054

Re: Award of Bonus for Exceptional Performance

Dear ██████████:

Please be advised that the board of directors of the Harris County Housing Authority has chosen to award you the sum of \$60,000.00 as a salary bonus for exceptional performance of your responsibilities as Executive Director of the Authority. This bonus is granted by the board, in its sole discretion, as allowed under the terms and conditions of your current Employment Agreement with the Authority.

Please cause a copy of this letter to be presented to ██████████, Chief Financial Officer of the Authority, who may rely on it to issue to you a check in the full amount of such bonus.

The board appreciates your outstanding service to the citizens of Harris County and looks forward to your continued employment in the capacity of Executive Director.

Sincerely,

/s/ ██████████

██████████
Chairman of the Board