U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

October 2, 2014

MEMORANDUM NO:
2015-FW-1801

Memorandum

TO: David G. Pohler
Director, San Antonio Office of Public Housing, 6JPH

Craig T. Clemmensen
Director, Departmental Enforcement Center, CACB

Dane Narode
Associate General Counsel, Program Enforcement, CACC

//signed//
FROM: Gerald Kirkland
Regional Inspector General for Audit, 6AGA

SUBJECT: The Management of the Housing Authority of the City of Taylor, Taylor, TX, Did Not Exercise Adequate Oversight of Its Programs

INTRODUCTION

In accordance with our annual audit plan to review public housing programs and because of an anonymous complaint and issues identified by the San Antonio Office of Public Housing, we reviewed the Housing Authority of the City of Taylor, Taylor, TX. Our objectives were to determine whether the Authority operated its public housing and related grant programs in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements and to determine whether the complainant's allegations were valid. Specifically, the complainant alleged that the former executive director gave away, sold, or transferred Authority-owned properties to other entities. The Office of Public Housing identified additional concerns regarding ineligible Section 8 Homeownership Voucher Program participants, unsupported salaries for employees working at multiple properties, and improper expenditures by a former executive director.

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.

METHODOLOGY AND SCOPE

The review generally covered the period October 1, 2010, to September 30, 2013. We expanded the scope as necessary to accomplish our objectives. We conducted our work at the Authority's administrative offices in Taylor, TX, at the Office of Public Housing in the San Antonio, TX field office, and the Office of Inspector General's (OIG) offices in San Antonio and Fort Worth, TX, between February 24 and June 3, 2014.

To accomplish our objectives, we reviewed the Authority's

- Policies, procedures, and board meeting minutes from January 8, 2001, to February 8, 2014.
- Electronic financial data from October 1, 2010, through September 30, 2013. We did not perform an assessment of information system controls, but determined the underlying financial information related to the questioned costs identified in this memorandum was sufficiently reliable to meet our review objectives. For example, we traced payroll charges to wages reported on the Internal Revenue Service's Form W-2, Wage and Tax Statement, and traced the Authority's payments for the parking lot to the available bank statements.
- Available bank statements dated from October 1, 2010, through September 30, 2013. During the review, the Authority's new management was unable to locate all of the bank statements. It provided only about 50 percent of the bank statements for the Authority's HUD programs and the properties that it still managed. Also, it provided only about 16 percent of the bank statements for the Market Apartments and none of the bank statements for Heritage Oaks or Mallard Run Apartments, currently managed by Mallard Run Housing Development Corporation (Mallard Run). The lack of bank statements limited our ability to completely review 1) transfers between the various entities and 2) the cash receipts and expenses of Market Apartments.
- Financial information, program applications, and property ownership documents from April 1, 2003, to April 9, 2008, for Section 8 Homeownership Voucher Program payments and HOME Investment Partnerships Program assistance paid to a former executive director's son.
- Financial information from October 1, 2006, to September 1, 2009, for Section 8 Homeownership Voucher Program payments to the former Section 8 program manager.
- Financial information from October 1, 2005, to February 17, 2012, to identify payments to Mallard Run for a parking lot owned by the Authority.
- Monthly voucher files generally from October 2006 through February 2014 containing bank statements, vouchers, and invoices.
- Audited financial statements for 6 fiscal years ending September 30, 2012.
- Contracts with the previous executive director, dated June 24, 2013; the operation manager, dated July 15, 2013; and the program coordinator, dated August 12, 2013.
- Personnel files of current and former employees.

We also

- Interviewed selected HUD San Antonio Office of Public Housing staff, a representative from the independent public accounting firm used by the Authority, Authority staff, various board members, and a fee accountant.
- Obtained and reviewed property records from the Williamson County Appraisal District and the Williamson County Clerk, dating back to June 16, 1988, to determine the ownership of properties previously managed by the Authority.
- Reviewed and obtained an understanding of the relevant laws, regulations, and HUD's guidance.

BACKGROUND

The Authority is a political subdivision under State of Texas legislation for the purpose of undertaking activities, including the construction, maintenance, or operations of decent, safe, and sanitary housing for low income persons. It is governed by a five-member board of commissioners who are appointed and can be removed by the mayor of Taylor. The board is responsible for establishing operating policies and overseeing the executive director, who manages the Authority's day-to-day operations.

Prior to June 2008, the Authority managed 120 low rent public housing units, 78 housing choice vouchers, 111 additional units related to a business activity, and two instrumentalities reported as blended component units.[1] During June 2008, the executive director began to separately manage some of these properties through a related component unit, Mallard Run, as shown in table 1. The Authority also administered 142 housing choice vouchers, including 4 units at Market Apartments and all 64 Heritage Oaks Apartments units.[2]

Table 1: Properties owned and managed by the Authority after June 2008

Description	Units managed	
	Authority	**Mallard Run**
Low-rent public housing (Authority owned)	118	
Market Apartments (Authority owned business activity)		7
Heritage Oaks Apartments (blended component unit)		64
Mallard Run Apartments (blended component unit)		40
Total units	**118**	**111**

[1] Component units are legally separate entities for which the Authority is financially accountable.
[2] Heritage Oaks Apartments was previously known as Sunset Apartments.

HUD provided the Authority the following federal funding for the 3 fiscal years ending September 30, 2013.

Table 2: HUD funding for the fiscal years reviewed

Program	2011	2012	2013	Total
Low-rent operating subsidy	$ 440,276	$ 357,526	$ 340,870	$1,138,672
Housing Choice Voucher program	936,692	815,424	828,884	2,581,000
Public Housing Capital Fund program		123,526	128,101	251,627
Grand total	$1,376,968	$ 1,296,476	$1,297,855	$3,971,299

Since January 2013, the Authority has employed three executive directors.

Table 3: Authority executive directors

Executive director	Start of employment	End of employment
Former executive director (director 1)	January 1999	January 2013
Previous executive director (director 2)	June 2013	November 2013[3]
Current executive director	February 2014	

RESULTS OF REVIEW

Both the complainant and HUD raised valid issues concerning improper activities. The Authority did not implement adequate policies and procedures and did not properly manage its public housing and related grant programs in accordance with HUD requirements. Specifically, the Authority (1) did not properly account for its funds, (2) allowed director 1 to improperly transfer assets, (3) paid unsupported salaries to employees who worked on multiple activities, and (4) allowed director 1 to transfer funds to lease and purchase a parking lot the Authority already owned, and (5) allowed director 2 to circumvent financial and procurement controls. In addition, the Authority violated the conflict-of-interest provisions of the Section 8 Homeownership Voucher Program and the HOME Investment Partnerships program. These issues occurred because management, consisting of the board and the various prior executive directors, did not follow HUD's requirements and did not implement adequate internal controls. Consequently, the Authority lost control and possession of a $255,000 property it owned, lost control of two component units with net asset values of more than $1.7 million, and incurred $392,059 in questioned costs.

The Authority Improperly Comingled Its Federal and Non-Federal Funds.

The Authority did not implement the required financial controls and comingled its Federal and non-Federal funds in its general fund account.[4] This comingling of funds occurred because the Authority's management deposited and expended Federal and non-Federal funds from the general fund but did not maintain a separate accounting of the available balances of Federal and

3 Director 2's resignation took effect on November 15, 2013.

4 Comingling occurs when funds from one program are used to pay expenditures for another program in excess of the funding available for second program.

non-Federal funds as required.[5] As a result, when the Authority used this account to pay operating expenses or other costs, it could not show that it restricted its Federal funds to only Federal program expenses. With the exception of the HOME Investment Partnerships Program and Section 8 Homeownership Voucher Program payments, the Authority used the comingled general funds to pay all of the questioned costs. The Authority should implement the required controls to maintain accurate financial records that show the source and application of program funds in sufficient detail to document that it properly uses its program funds.

The Authority Lost Control and Possession of Three Properties.
The Authority no longer managed three properties valued at more than $2 million.[6] The properties were instrumentalities of the Authority and it reported their assets, liabilities, and revenues as component units on its financial statements. All of the properties had units where the tenants received housing choice vouchers. Thus, the Authority received and report rental income and housing choice voucher administrative fees for these properties. The loss of control occurred because director 1 acted outside his authority. In June of 2008, director 1 told the board that it would be difficult to for the Authority to manage the housing choice voucher program and it needed to separate the various properties. He also indicated the change would enable the Authority to earn more administrative fees as the tenants would no longer live at a property owned and managed by the Authority. The board discussed releasing control of the properties and donating them, but it tabled the issue. It did not approve a resolution to transfer ownership and management of the properties to Mallard Run. However, director 1 took possession and control of the bank accounts and financial records and began managing the properties through Mallard Run, of which he was also the executive director. Further, Director 1 revised the various boards of the properties so that the boards no longer matched the board of the Authority, which limited the Authority's ability to control the properties and access their financial information. When interviewed, director 1 could not provide any proof of board approval for his actions. Further, the board did not take immediate action to prevent the transfer or regain control of its properties. As a result, the Authority's financial position deteriorated, and HUD increased program funding by $574,077. In the fiscal year ending September 30, 2008, the year of the management change, the Authority's net operating income decreased more than $300,000. The Authority's operating net income decreased again in fiscal year 2009. Without the $574,077 increase in HUD program funding, the Authority's net operating income would have been ($393,446).

Director 1 resigned as executive director of the Authority in January 2013 but maintained his position as executive director of Mallard Run. Director 1 did not allow the Authority to review the financial information or have any type of oversight or control of the transferred properties. The Authority should take actions to reclaim its properties to improve its financial position and reduce its reliance on HUD program funding.

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5 Regulations at 24 CFR (Code of Federal Regulations) part 85.20(b)(2) and (b)(3) require grantees and subgrantees to maintain records that adequately identify the source and application of funds provided for financially-assisted activities. Section 9.C. of the Low Income Annual Contribution Contract (ACC) requires the Authority maintain records that identify the source and application of funds in a manner as to allow HUD to determine that all funds have been expended in accordance with each specific program regulation and requirement.

6 Net value of component units (Mallard Run and Heritage Oaks) totaled to $1,777,266 and Market Apartments' 2013 appraised value totaled to $255,000.

The Authority Paid the Salary of Employees Who Did Not Work Exclusively on Authority Properties.

In violation of Federal cost principles, the Authority improperly paid the salaries for employees assigned to work at properties managed by Mallard Run. This condition occurred because the Authority did not implement adequate financial controls over the allocation of payroll costs. Specifically, the Authority paid 100 percent of the salaries for director 1 and two maintenance employees. However, from July 1, 2008, through January 2013, director 1 managed properties for the Authority's Federal programs and Mallard Run. The Authority assigned the two maintenance employees to work at two properties managed by Mallard Run (Heritage Oaks and Mallard Apartments). Timesheets for director 1 and the maintenance employees did not include sufficient detail to show how much time was spent working for the Authority or for Mallard Run. Consequently, as shown in table 4, the Authority paid a total of $243,442 in unsupported salaries for director 1 and the maintenance employees. The Authority should determine how much of the $243,442 of the salaries for individuals assigned to work at multiple properties were improperly paid with Federal funds and repay the amounts to the appropriate program from non Federal funds. If the Authority is unable to accurately determine the amount due to and due from each program or support that the funds charged to the Federal program were appropriate, the full $243,422 should be repaid to HUD. In addition, the Authority should implement policies and procedures to ensure that the allocation of employee salaries is supported by employee time reports as required by Federal cost principles.[7]

Table 4: Unsupported Salaries

Employee	Property assignment & dates	Authority salary payments
Director 1	Mallard Run and Authority July 2008, to January 2013	$ 83,018
Maintenance employee 1	Mallard Run Fiscal years 2010 to 2012	95,740
Maintenance employee 2	Heritage Oaks July 2008, to December 2010	64,684
Total unsupported salaries		$243,442

Director 1 Transferred Authority Funds to Mallard Run To Lease and Purchase a Parking lot the Authority Already Owned.

Based on director 1's guidance, the Authority paid $40,600 to Mallard Run for a parking lot that the Authority already owned. In November of 2000, director 1 purchased the parking lot property using $4, 000 of Mallard Run's funds, but the Authority was the purchaser on the settlement statement and was recorded as owner of record on the deed. From October 2005 to February 2012, director 1 used $10,600 from the general fund to electronically transfer monthly lease payments of $50 to Mallard Run. However, it wasn't until January 2007 that director 1 actually signed an agreement with Mallard Run for the Authority to lease and purchase the parking lot, even though the Authority still owned it. On February 17, 2012, director 1 transferred another $30,000 from the general fund to Mallard Run to purchase the parking lot.

7 Regulations at 2 CFR Part 225, appendix B state that employees working on more than one cost objective must account for the total time in the reporting period and timesheets must reflect an after-the-fact distribution of time spent for each cost objective

When questioned about this parking lot, director 1 said the Authority was short on cash when the lot was originally purchased, so he used Mallard Run funds to purchase the lot and to construct the parking surface. However, director 1 could not produce documents or financial records to support his claim. Additionally, financial records showed that the Authority had cash on hand at the time of the original purchase, and the property deed showed the Authority as the owner. The Authority should repay its Federal program accounts $40,600.

Director 2 Made Ineligible, Unsupported, and Unnecessary Payments.
In violation of Federal requirements and its policy, the Authority paid ineligible, unsupported, and unnecessary expenses. It paid these costs because its financial controls and procurement policy were outdated or inadequate. Consequently, the Authority incurred $79,471 in questioned costs.

The Authority Paid $16,981 To Purchase a Vehicle It Did Not Need
In July of 2013, director 2 failed to follow the Authority's policy and used several electronic funds transfers and the Internet to purchase a vehicle costing $16,981. All of the electronic transfers exceeded the $2,999 check-writing authority of director 2. The payments went unnoticed by the board due to their electronic nature. When the dealer delivered the car, the board questioned the purchase, and in violation of its disposition policy, the Authority later sold the car to one of its employees. The Authority deposited $16,900 back into the general fund from the sales proceeds but could not show that it returned funds to the appropriate program accounts used by director 2 for the purchase. The Authority needs to revise its policies to include electronic transactions and return the sales proceeds to the correct program accounts.

The Authority Lacked Support for $11,833 Paid To Cancel a Phone System and Install a New One
In July 2013, in violation of the Authority's and Federal procurement requirements, director 2 improperly canceled the Authority's phone system contract and obtained a new one. Director 2 obtained a price quote from only one vendor, rather than the required three, and did not document a cost analysis to determine cost reasonableness. The board was unaware of these improper activities as it gave director 2 authority to enter into contracts. As a result, the Authority could not support the $1,844 paid to terminate the first phone contract and the $9,989 paid to enter into a new phone service agreement. The Authority needs to either support or repay $11,833 to its Federal program accounts.

The Authority Improperly Paid $657 for Employee Meals and Other Personal Items
In violation of Federal cost principles, director 2 and two employees used Authority credit cards to eat at local restaurants, order pizza, and send a bouquet of flowers to director 1. This condition occurred because the board did not adequately review expenditures as prescribed by the Authority bylaws. Consequently, director 2 and the two employees used $657 to pay ineligible expenses. The Authority must repay $657 to its Federal program accounts.

The Authority Paid $50,000 in Unnecessary Severance for Employees Whose Employment Was Terminated

The Authority paid $50,000 in unnecessary[8] severance for two employees who worked at the Authority for less than 6 months. In July and August of 2013, director 2, without the board's knowledge, executed employment contracts with two new employees, both of whom previously worked for director 2 at the Gainesville Housing Authority in Gainesville, FL. In addition, the Authority paid $7,500 in expenses for both employees to relocate from Gainesville, FL. The employment contracts included severance pay provisions equal to 6-month's pay if their employment was terminated without cause. On November 1, 2013, without the board's knowledge, director 2 terminated the employment of the two new employees. On November 4, 2013, he electronically transferred the net amount of $50,000 in gross severance pay to their bank accounts. Director 2's check-writing authority was limited to $2,999. By electronically transferring the funds, director 2 circumvented the controls. This condition occurred because (1) the Authority's procurement policy allowed director 2 to execute contracts without board review and approval, including contracts that contained provisions that exceeded director 2's check-writing authority; (2) the Authority did not have a policy governing electronic transfers; and (3) the Authority did not restrict director 2's bank account access when he tendered his resignation. As a result, the Authority paid $50,000 in unnecessary severance costs, which needs to be repaid.

The Authority Inappropriately Made $28,546 in Section 8 and HOME Program Payments to Two Individuals Who Had Prohibited Conflicts of Interest.

In violation of various conflict-of-interest provisions, the Authority made owner housing assistance payments to a former Section 8 program manager and the son of director 1. The Authority also paid HOME Investment Partnerships Program downpayment assistance to the son of director 1. This condition occurred because director 1 and the previous Section 8 program manager ignored the conflict-of-interest requirements.[9] The Authority approved applications for the Section 8 program manager and for the son of director 1 to participate in the Authority's Section 8 Homeownership Voucher Program. The Section 8 program manager approved the HOME Investment Partnerships down payment assistance grant. In addition to the conflict-of-interest violations, the program manager owned a home before participating in the Homeownership Voucher Program, which is not allowed.[10] During this time, director 1 certified to HUD that the Section 8 program information had been examined, and was true, correct, and complete. Consequently, the Authority inappropriately paid $28,546 in assistance. This amount included $6,422 paid to the son in owner housing assistance payments and $5,000 in HOME Investment Partnerships Program down payment assistance, and $17,124 paid to the program manager for owner housing assistance. The Authority needs to repay $23,546 to its Section 8 Homeownership Voucher Program and $5,000 to its HOME Investment Partnerships Program.

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8 Unreasonable or unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.

9 Section 13 of the housing assistance contract, and HOME Investment Partnerships Program regulations at 24 C FR 92.356 (b), prohibit a public housing agency employee who formulates policy or influences decisions with respect to the Program (a covered employee) to have a direct or indirect interest in a housing assistance payments contract. The prohibition includes a child or family member of the covered employee.

10 24 CFR 982.627 (a)(6)

CONCLUSION

The complainant and HUD raised valid concerns. The Authority did not implement adequate policies and procedures and did not properly manage its public housing and related grant programs in accordance with HUD requirements. It did not properly account for its funds, allowed previous executive directors to circumvent financial controls and improperly transfer assets, and did not maintain support for the allocation of salaries. Additionally, the Authority violated conflict-of-interest provisions of the Section 8 Homeownership Voucher Program and the HOME Investment Partnerships program. These issues occurred because management, consisting of the board and prior executive directors, did not follow HUD's requirements and did not implement adequate internal controls. As a result, the Authority lost control and possession of a $255,000 property it owned, lost control of two blended component units with net asset values of more than $1.7 million, and incurred $392,059 in questioned costs.

RECOMMENDATIONS

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

1A. Implement the required controls to maintain accurate financial records that show the source and application of program funds in sufficient detail to determine that the program funds are properly used.

1B. Correct its accounting records to show the proper amounts available in each pooled fund and include the appropriate due-to and due-from balances. In making the corrections, the Authority should reclassify any improperly classified transactions and repay the appropriate programs.

1C. Take action to reclaim its properties valued at $2,032,266 to improve its financial position, decrease its reliance on HUD program funding, and address its comingling issues.

1D. Determine how much of the $243,442 in salaries for individuals assigned to work at multiple properties was improperly paid with Federal funds and repay the amounts to the appropriate programs from non-Federal funds. If the Authority is unable to accurately determine the amount due to and due from each program or support that the funds charged to the Federal programs were appropriate, the full $243,422 should be repaid to HUD.

1E. Implement procedures to ensure that salaries are appropriately allocated among the Authority's programs and the other entities and that adequate documentation is maintained to support the allocations.

1F. Determine whether the Authority improperly used Federal funds totaling $40,600 to make lease payments on the parking lot it already owned. If Federal funds were improperly used, the Authority should repay $40,600 from non-Federal funds to its

Federal program accounts. If the Authority is unable to accurately determine the amount due to and due from each program or support that the funds charged to the Federal program were appropriate, the full $40,600 should be repaid to HUD.

1G. Correct its various program fund balances to properly account for the funds it received from the sale of the unsupported car purchase costing $16,981.

1H. Determine whether the Authority improperly used Federal funds totaling $11,833 which were used to cancel an existing phone system and purchase a new one. If Federal funds were improperly used, the Authority should repay $11,833 to its Federal program accounts from non-Federal funds. If the Authority is unable to accurately determine the amount due to and due from each program or support that the funds charged to the Federal program were appropriate, the full $11,833 should be repaid to HUD.

1I. Determine whether the Authority improperly used Federal funds totaling $657 which were used to purchase ineligible meals and other personal items. If Federal funds were improperly used, the Authority should repay $657 to its Federal program accounts from non-Federal funds. If the Authority is unable to accurately determine the amount due to and due from each program or support that the funds charged to the Federal program were appropriate, the full $657 should be repaid to HUD.

1J Determine whether the Authority improperly used Federal funds totaling $50,000 which were used to pay unnecessary severance contract costs. If Federal funds were improperly used, the Authority should repay $50,000 to its Federal program accounts from non-Federal funds. If the Authority is unable to accurately determine the amount due to and due from each program or support that the funds charged to the Federal program were appropriate, the full $50,000 should be repaid to HUD.

1K. Adopt a financial policy that includes provisions for review and approval of disbursements, including electronic fund transfers.

1L. Revise its procurement policy to include board review and approval of contracts before they are executed by the executive director.

1M. Repay $23,546 to its Section 8 Homeownerhip Voucher program from non-Federal funds for the $17,124 in ineligible owner housing assistance payments to the former Section 8 program manager and the $6,422 in ineligible owner housing assistance payments to the son of director 1.

1N. Repay $5,000 to its HOME Investment Partnerships program from non-Federal funds for the ineligible downpayment assistance it provided to the son of director 1.

We recommend that the Director, Departmental Enforcement Center

1M. Take appropriate administrative sanctions, including suspensions, limited denials of participation, and debarments against director 1, director 2, and the Section 8 program manager.

We recommend that the Associate General Counsel for Program Enforcement

1N. Determine legal sufficiency, and if legally sufficient, pursue remedies under the Program Fraud Civil Remedies Act (31 U.S.C. 3801-3812), civil money penalties (24 CFR 30.35), or both against director 1 and the Section 8 program manager for submitting false claims for Section 8 Homeownership Voucher Program and HOME Investment Partnerships Program assistance payments.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Unreasonable or unnecessary 3/	Funds to be put to better Use 4/
1C				$2,032,266
1D		$243,442		
1F	$40,600			
1G		16,981		
1H		11,833		
1I	657			
1J			$50,000	
1M	23,546			
1N	5,000			
Total	$69,803	$272,256	$50,000	$2,032,266

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.

3/ Unreasonable or unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.

4/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Authority implements our recommendation to regain control of its properties, net assets will increase and its overall financial position should improve.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

Taylor Housing Authority
Where Housing Excellence Begins...

September 22, 2014

Attn: Teresa Carroll, Assistant Regional Inspector for Audit
Gerald R. Kirkland
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
819 Taylor St., Suite #13A09
Ft. Worth, Texas 76102

Re: OIG Audit

Dear Mr. Kirkland

This is in response to the draft audit report entitled "The Management of the Housing Authority of the City of Taylor, Texas". The Taylor Housing Authority (THA) appreciates the hard work and dedication shown by the OIG auditors, in reviewing the records of the housing authority. We completely understand the importance of complying with HUD regulations and will work closely with our HUD area office to correct any and all deficiencies as referenced in the OIG report.

Comment 1

All items of concern occurred, while the THA was under the management of Directors I and II. Since that time, we have hired new management and staff and have developed new internal control processes. The internal controls will ensure that the findings are corrected and that THA is in full compliance with HUD regulations. THA will maintain accurate financial records that show the source and application of program funds in sufficient detail to determine that the program funds are utilized as required.

Comment 1

P. (512) 352-3231 ▪ F. (512) 365-5464
311-C East 7th Street
Taylor, TX 76574

1

Ref to OIG Evaluation	Auditee Comments
	The following is our response to the specific findings:
	1. The Authority Improperly Comingled Its Federal and Non-Federal Funds.
Comment 1	The THA has hired [redacted], CPA with Urlaub Accounting, as its' fee accountant. [redacted] is a professional who is well respected within the industry and by HUD. He oversees all THA accounting functions and makes sure that all program transactions are being recorded as required and funds are being maintained separately to avoid comingling of funds.
	THA has consolidated bank accounts and does not use automatic bank transfers for operating expenses. Due to and due from balances between programs are being monitored and are repaid on a monthly basis. The THA has ceased using the asset management model of accounting and is operating under a cost allocation plan developed by our fee accountant.
	THA will audit records in question, to identify any funds that were comingled and make the necessary adjustments to correct the situation.
	2. The Authority Lost Control and Possession of These Properties
Comment 2 **Comment 1**	Director I severed the relationship between the THA and the properties in question, and after resigning from the THA, began managing the properties himself. THA has sent a demand letter requesting the return of the Mallard, Market and Heritage properties. They have failed to respond. Therefore, THA has hired legal counsel to assist in reclaiming the properties. Our legal counsel has communicated our intention to regain possession of the properties to their attorney.
	Financial records will then be reviewed and audited as required, to determine the financial position of the properties in question.
	3. The Authority Paid Salaries of Employees Who Did Not Work Exclusively on Authority Properties
Comment 3	THA will review payroll records to verify the actual portion of the $243,442 salaries in question were unsupported. THA will only be able to recover these records if and when the properties in question are recovered and in the possession of THA.
Comment 1	All salaries of current THA employees are being appropriately allocated to the prospective program. THA no longer operates under the assessment management model. THA now operates under a cost allocation plant.
	2

Ref to OIG Evaluation | **Auditee Comments**

4. Director I Transferred Authority Funds to Mallard Run to Lease and Purchase a Parking Lot for the Authority Already Owned

Comment 1

THA will conduct the necessary research to determine whether $49,600 was paid for a parking lot, which was already owned by THA. If so, THA will take action to recover those funds.

5. Director 2 Made Ineligible, Unsupported and Unnecessary Payments
The Authority Paid $16,981 to Purchase a Vehicle It Did Not Need

Comment 4
Comment 1

The Authority has sold the car and $16,900 of those funds have been repaid to the appropriate account. THA will take action to attempt to recover the remaining $81.00.

The Authority Lacked Support for $11,833 paid to Cancel a Phone System and Install a New One.

Comment 5
Comment 1

THA will conduct research to determine whether the $11,833 in unsupported costs paid to terminate the phone contract was allowable.

The Authority improperly paid $657 for Employee Meals and Other Personal Items.

Comment 1

THA will conduct research on these expenses. In order to avoid this in the future, employees are required to follow procurement procedures and do not make unauthorized purchases. Credit card statements are reviewed on a monthly basis by management and the fee accountant.

Director II did not have the authority to do this. THA will use all civil and criminal measures to recover monies which were spent inappropriately and were ineligible costs.

The Authority Paid $50K in Unnecessary Severance for Employees Who's Employment Was Terminated

Comment 6

Director II did not have authority to sign employment contracts nor pay severance packages to employees in question, particularly since he had given notice (September 20, 2014) of his resignation to be effective November 15, 2013, prior to authorizing the payments.

Comment 1

The THA has filed a claim with its insurance provider, Texas Municipal League (TML), to recover the loss of these funds. Civil and criminal penalties will be pursued as deemed necessary

Ref to OIG Evaluation	Auditee Comments

to recover the $50K classified as unreasonable and unnecessary by the OIG. Current employees strictly follow personnel policies and procedures.

6. The Authority Inappropriately Made $28,546 in Section 8 and HOME Program Payments to Two Individuals Who Had Prohibited Conflicts of Interest

Director I approved the payment of $23,546 classified as ineligible by the OIG. The THA does not currently have any employees receiving ineligible rental subsidies from the Section 8 Housing Choice Voucher program. All new program participants are approved for participation by the Executive Director and senior staff.

Comment 1

THA will verify these amounts and request that the monies be repaid by the employees in question. THA will use all necessary measures, including filing civil or criminal charges and debarment from any association with HUD or federally funded programs.

The THA will continue reviewing its records and those provided by the OIG to verify the actual amount of liability. For whatever amounts that we are unable to recover, we are requesting a long term repayment plan. The THA does not have the resources available to repay these amounts without it adversely affecting the services that we provide to our community.

Please contact our office if you should have any further questions.

Sincerely,

Roy Rangel

Roy Rangel, Board Chairperson

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OIG Evaluation of Auditee Comments

Comment 1 The Authority generally agreed with the findings and has begun taking corrective actions to address the recommendations. However, it will need to work with HUD to ensure the deficiencies are corrected, that the new policies and controls comply with HUD requirements, and the program accounts are repaid for the ineligible costs.

Comment 2 The Authority indicated it had already begun action to retake possession of the properties and their records. Obtaining the financial records should enable the Authority to address the comingling issue.

Comment 3 The Authority agreed to review its payroll records to identify the unsupported salaries and said it has adopted a new cost allocation plan for employee salaries. However, if the Authority is unable to accurately determine the amount of salaries expenses allocable to Federal and non-Federal programs, the full $243,422 should be repaid to HUD.

Comment 4 The Authority said it has already repaid the funds for the vehicle purchase. We agree the Authority deposited the proceeds from sale in its general fund. However, it still needs to record the repayment to the appropriate program accounts used to purchase the vehicle.

Comment 5 The Authority did not address the procurement of the new contract. If the Authority improperly used federal funds and cannot provide support for the cancellation and procurement of its phone systems, the full $11,833 should be repaid to HUD.

Comment 6 The Authority agreed that director 2 exceeded his Authority when he approved the severance for the two employees and agreed to take steps to recover these costs. The Authority also separately provided additional information concerning director 2's termination date. We made minor changes in the report based on this new information.