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Audit Report Number 2012-AT-1002

TO: Victoria Main, Director , Jacksonville Office of Public Housing, 4HPH

Craig Clemmensen, Director, Departmental Enforcement Center, CACB

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FROM: James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The Sanford Housing Authority Lacked Adequate Management of and Controls Over Its Public Housing and Section 8 Programs

HIGHLIGHTS

What We Audited and Why

We audited the Sanford Housing Authority (Authority) to assess certain issues raised in a congressional referral. The referral alleged improper use or mismanagement of the Authority's public housing, American Recovery and Reinvestment Act, and Section 8 Housing Choice Voucher program funds.

The audit objectives were to determine whether the Authority properly used and accounted for public housing, Recovery Act, and Section 8 funds.

What We Found

We questioned the use of more than $1.2 million, which the prior executive director and board spent or allowed to be spent for costs that were abusive or ineligible, not reasonable, or not properly supported. The audit also identified inadequate controls over reimbursements due from other housing agencies for the Housing Choice Voucher program. Some of the questioned expenditures represented abuses in violation of Federal, U.S. Department of Housing and Urban Development (HUD), and Authority requirements or policies. Other portions of the expenditures diverted funds that could have been used to address some of the projects' repair needs. The audit detected some of the same types of significant findings or concerns mentioned in past reviews of the Authority's operations conducted by HUD and the Authority's independent auditors. These conditions occurred because the prior executive director and board failed to properly manage the Authority's operational and financial affairs. As a result, HUD is now obligated to spend more than $9 million to relocate tenants and demolish public housing units that might have been preserved through proper management of project operations.

The audit did not identify any reportable issues related to the Authority's use of Recovery Act funds.

What We Recommend

We recommend that the Director of the Departmental Enforcement Center initiate appropriate administrative actions (such as suspensions, debarments, or limited denials of participation) against the Authority's prior executive director, past board chairperson, and an employee, who were responsible for the long-term mismanagement or abuse of the Authority's public housing and Section 8 program funds or operations. We also recommend that the Director pursue civil action against the prior executive director and an employee for specific abuses of the Authority's credit cards or leave policies.

We recommend that the Director of HUD's Jacksonville Office of Public Housing require the Authority to assess the $1.2 million questioned by the audit and to (1) seek recovery from the appropriate individuals for Authority funds that were used for personal or nonofficial and abusive purposes, (2) reimburse ineligible costs and the unnecessary redevelopment plan costs that were not budgeted, (3) determine the reasonableness of costs that were not properly procured and reimburse amounts determined to have been excessive, and (4) reimburse costs that were not properly supported if it cannot establish that the costs were for reasonable and necessary project expenditures. We also recommend that the Director require the Authority to ensure that it has collected the full amounts due from other housing agencies for portable tenants, improve controls and procedures over the use of its credit cards, and provide adequate training for its board members.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the Authority and the board chairperson a discussion draft report on September 15, 2011, and held an exit conference with Authority officials on October 4, 2011. The Authority provided written comments on October 14, 2011. It generally agreed with the report.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

TABLE OF CONTENTS

BACKGROUND AND OBJECTIVES

We received a congressional referral submitted to the Office of Inspector General (OIG) complaint hotline in August 2010. The referral requested a review of some of the allegations raised by the media, regarding improper use or misappropriation of funds, and issues identified during HUD's April 2010 financial and management assessment of the Authority's operations. The Authority received more than $21 million in HUD funding for the period January 1, 2006, through September 30, 2010. The funding included more than $13.2 million for housing operating and Public Housing Capital Fund programs, $3.3 million for the Section 8 Housing Choice Voucher program, $3.7 million for two emergency Capital Fund grants, and $1 million for an American Recovery and Reinvestment Act of 2009 grant.

The Authority was established on May 20, 1941, to engage in the acquisition, development, leasing, and administration of low-rent public housing. It is governed by a five-member board of commissioners appointed by the mayor of Sanford and was managed by an executive director appointed by the board. Under the public housing program, the Authority owns and manages 480 units of public housing at six developments in Sanford.

The public housing operating and Capital Fund programs are authorized under Section 9 of the United States Housing Act of 1937 as amended. The funds are provided to make assistance available to public housing agencies for the operation and management, financing, modernization, and development of public housing. The Housing Choice Voucher program is authorized under Section 8 of the Housing Act. The funds are provided for housing authorities to provide rental subsidies so that eligible families can afford decent, safe, and sanitary housing. The emergency Capital Fund program provides additional grants to public housing agencies to carry out capital and management activities. The Recovery Act funds were authorized under Title XII of the Act as amended.

HUD placed the Authority into administrative receivership in August 2003, during which time the HUD receivership team worked to restore the physical and financial viability of the Authority. HUD managed the Authority's operations for 29 months while it was in receivership and returned management to the Authority on January 21, 2006. From January 2006 through June 2009, none of Authority's six projects sustained standard level ratings of 18 and above for physical condition. As a result of the physical decline, HUD approved the Authority's request to demolish 374 of its 480 public housing units. In April 2010, HUD completed an assessment of the Authority's operations and determined that the Authority was not effectively managing and maintaining its assets. In July 2010, the Authority's board voted to remove the prior executive director, effective August 2010. The Authority entered into a temporary service agreement with the Orlando Housing Authority to manage its day-to-day operations, and it has transferred its Section 8 program to other housing agencies.

In July 2007, the Authority converted its financial operations to HUD's asset management project model for project-based budgeting and accounting. Under this model, the Authority adopted a fee-for-service method and established a central office cost center. The fees paid by the projects to the cost center were used to administer the Authority's operations. Funds received from these fees are revenues of the Authority's cost center and are not regulated by HUD.

Our audit objectives were to determine whether the Authority properly used and accounted for public housing, Recovery Act, and Section 8 funds.

RESULTS OF AUDIT

Finding: The Authority Lacked Adequate Management of and Controls Over Its Public Housing and Section 8 Programs

The Authority spent more than $1.2 million for questioned costs because the prior executive director and board did not properly manage the operational and financial affairs of the Authority's public housing and Section 8 programs. Specifically, we found

- Credit card and leave abuses,
- Expenditures for services that were not budgeted or not eligible,
- Failures to comply with procurement requirements,
- Inadequate controls over Section 8 portable housing assistance payments due from other housing agencies,
- Inadequate management and oversight by the board,
- Expenditures for costs that were not properly supported, and
- Inadequate attention to the projects' physical needs.

Due to the above conditions, the physical condition of the Authority's public housing program units had deteriorated to the extent that HUD approved requests to demolish 374 of its 480 public housing units. As a result, HUD is now obligated to spend more than $9 million to relocate tenants and demolish public housing units that might have been preserved through proper management of project operations.

We reviewed transactions that primarily occurred during or after November 2007. We focused the review on transactions after that date because during and before that period, HUD and the Authority's independent auditors had repeatedly put the prior executive director and board on notice about significant concerns that they had with the inadequate management of the Authority's operations and the physical maintenance of the projects (appendix C). Yet the prior executive director and the board did not properly address and resolve these concerns. The issues discussed below reflect violations that existed in areas that were the subject of concerns previously expressed by HUD, the Authority's independent auditors, or both.

Credit Card and Leave Abuses

The audit identified more than $50,000, detailed in appendixes D and E, in credit card and leave abuses by the prior executive director and another employee that were mostly associated with expenditures from the Authority's central office cost center. We recognize that cost center funds are not regulated by HUD. However, the funds are subject to the Authority's policies, which prohibited the type of abuses detected by the audit. The misuse of the cost center funds, although not regulated by HUD, is subject to Federal requirements at Section 18 of the United States Code, Part 666. Specifically, the audit identified

- Misuse of the Authority's credit card for personal or nonofficial charges,
- Abuse of annual leave, and
- Unreasonable payments for accrued leave.

Misuse of the Authority's credit card for personal or nonofficial purchases - The prior executive director misused and allowed an employee to misuse the Authority's credit cards for personal or nonofficial purchases that totaled more than $16,400. The charges, detailed in appendix D, were for trips to destinations such as Puerto Rico, Israel, and Las Vegas and other personal travel for the prior executive director's spouse and for various purchases he and the employee made at clothing stores. The prior executive director allowed the personal or nonofficial charges to be recorded in the Authority's general ledger as cost center expenditures. We identified reimbursements for $6,425 of the charges but did not locate reimbursements for the remaining balance, $10,017. The reimbursements were in effect an acknowledgement by the prior executive director and the employee that the amounts they repaid were for personal purchases.

In addition, the prior executive director and the employee did not prepare travel vouchers for the above trips. This was significant considering that the trips occurred after HUD had recommended the preparation of such vouchers to support the cost incurred for travel. Without the travel vouchers, we did not have adequate records to establish and account for the total cost associated with the personal trips or other official travel performed by Authority staff.

Abuse of annual leave - The Authority's prior executive director did not take annual leave or leave without pay for the above personal or nonofficial trips to Puerto Rico and Israel, which he took during the Authority's normal duty hours. This action overstated his annual leave balances by 240 hours, which the Authority used to support separate payments, discussed below, that he received for accrued leave.

Item number	Trip destination	Dates	Weekdays		Hours	Leave taken
			From	To		
1	Puerto Rico	Oct. 14-19, 2007	Monday	Friday	40	0
2	Puerto Rico	Nov. 4-9, 2007	Monday	Friday	40	0
3	Puerto Rico	Dec. 1-7, 2007	Monday	Friday	40	0
4	Puerto Rico	Mar. 3-7, 2008	Monday	Friday	40	0
5	Puerto Rico	Mar. 17-19, 2008	Monday	Wednesday	24	0
6	Puerto Rico	Oct. 11-15, 2008	Monday	Wednesday	24	0
7	Israel	May 11-14, 2009	Monday	Thursday	32	0
	Total				240	0

The prior executive reimbursed all or a portion of the costs for trips in items 2, 3, 4, and 5 and thus recognized that the trips were for personal reasons. Yet he did not charge annual leave for the official duty hours that he spent on the personal or nonofficial trips.

Unreasonable or abusive payments for accrued annual and sick leave - The prior executive director used $33,604 in cost center ($21,714) and public housing ($11,890) funds to make questionable payments to himself for accrued annual and sick leave, detailed in appendix E. The amount included more than $7,890 for ineligible cost center payments associated with the 240 hours discussed above, in which he deliberately failed to take annual leave when performing personal or nonofficial travel on Authority time. He also received compensation as regular salary payments for the 240 hours that he should have charged to leave. The ineligible amount also included $11,890 paid for the prior executive director's sick leave from public housing funds, although the amount was a cost center expense.

The prior executive director's deliberate mishandling of his annual leave records caused us to conclude that the leave payments, which were not classified to be ineligible, were not supported as reasonable cost center expenditures. The prior executive director's deliberate failure to take annual leave when due resulted in credibility issues, which brought into question the accuracy of his sick leave balances, which were also used to justify payments for accumulated leave. As a result, the remaining $13,824 ($33,604 less $19,780 for ineligible payments) of the leave payments was not supported as reasonable expenditures of cost center funds.

Expenditures for Costs That Were Not Budgeted or Ineligible

The prior executive director and the board allowed the use of more than $481,000 in public housing funds for costs that were not budgeted ($400,000) or were ineligible ($81,000).

Expenditures for costs that were not budgeted - The prior executive director and the board allowed the use of more than $400,000 in project operating funds for an unbudgeted plan to redevelop an undetermined portion of the Authority's public housing projects. Section 11(D) of the Authority's annual contributions contract states that the Authority may not incur any operating expenditures except pursuant to an approved operating budget. We recognize that the projects needed substantial renovation, but the funds used to pay for the redevelopment planning were not included in the budget. The unbudgeted expenditures were not necessary and reasonable project costs, and they deprived the projects of cash that was needed to pay for maintenance and repairs. The $400,000 included

- $383,600 paid to an architect for various work and services, including concept drawings, associated with the Authority's unbudgeted redevelopment plans.

In addition, as discussed below, the prior executive director exceeded his $100,000 purchase authority when he allowed the architect to perform redevelopment planning services, costing more than $383,600, which was not covered by a contract designed and executed for that purpose. Specific details concerning the payments are presented in appendix F.

- $11,600 paid to a contractor for the preparation of boundary and topographic surveys related to the redevelopment plan.

- $4,900 paid to a contractor for geotechnical exploration in connection with the redevelopment plan.

In addition, the Authority expended $21,050 from its cost center funds for work associated with the redevelopment plans, although the expenditures were not included in the cost center budget. We recognize that the cost center funds are not regulated by HUD and the Authority was not required to provide HUD with a budget for its cost center accounts. However, the payments further illustrated the prior executive director's and board's lack of attention to the Authority's budget.

<u>Expenditures for ineligible costs</u> - The prior executive director either authorized or did not conduct the oversight needed to detect that his staff inappropriately transferred more than $81,000 from public housing funds to the Authority's cost center for asset management fees when the projects did not have excess cash. The regulations at 24 CFR (Code of Federal Regulations) 990.280(5)(ii) do not permit the payment of asset management fees unless the project has excess cash flow available after meeting all reasonable operating needs of the property. The fees, detailed in appendix F, were paid between July 2008 and November 2009. They included more than $ 23,900, which the prior executive director allowed after HUD specifically instructed the Authority to stop making the charges. The fees deprived the projects of cash that was needed to pay for maintenance and repairs.

Inadequate Compliance With Procurement Requirements

The prior executive director spent more than $1.1 million for services provided by three firms without support that he acquired the services in compliance with HUD's and the Authority's procurement requirements. He purchased the services on a case-by-case basis through small purchases, which in total exceeded his $100,000 purchase authority. The regulations at 24 CFR 85.26(c)(1) require all procurement transactions to be conducted in a manner that provides full and open competition. The Authority's procurement policy limited the executive director's purchase authority to $100,000 and stated that it was the responsibility of the executive director to ensure that all procurement actions were conducted in accordance with the policies. The policy also prohibited the breaking down of purchases aggregating more than the small purchase threshold into several purchases merely to (1) permit use of the small purchase procedures or (2) avoid requirements that applied to purchases that exceed the small purchase threshold. The policy further stated that the Authority was required to maintain records that were sufficient to detail the significant history of each procurement action and that the records were to be retained for 3 years after the final payment and all matters pertaining to the contract were closed.

The prior executive director did not follow or document compliance with the above requirements, which was needed to ensure that the payments made for services were reasonable and did not exceed his purchase authority. Specifically, Authority officials could not provide evidence of competition and formal executed contracts, including the terms and scope of services for the work, to support the reasonableness of more than $1.1 million paid during fiscal years 2008 to 2010 to three firms included in our audit sample.

Description	**Total**	**2010**	**2009**	**2008**
Firm A	$ 646,557	$ 49,105	$ 511,542	$ 85,910
Firm B *	383,673	38,777	344,896	
Firm C	105,293		105,293	
Total	$ 1,135,523	$ 87,882	$ 961,731	$ 85,910

* The payment to this firm, also mentioned in the previous section, was counted only once as a questioned cost, appendix A, recommendation 1E, because it was not budgeted.

In each of the above cases, the prior executive director purchased the services through a series of smaller purchases, which individually fell within his purchase authority but in total exceeded his $100,000 purchase authority. The purchases included more than

- $646,000 paid to firm A for construction type services, which included but were not limited to unit turnaround, sidewalk and driveway repairs, installation of mailboxes and stations, and the replacement of windows and doors. We requested but the Authority officials could not provide evidence of a fixed price contract for the services or evidence that the services were purchased according to HUD's and the Authority's own procurement requirements. We also observed that the payments to firm A caused the Authority to exceed its fiscal year 2009 extraordinary maintenance budget by more than $232,000. The payments were approved by the prior executive director and a past chairperson of the board.

  We examined support for $386,128, or 62 percent, of the payment amounts. They appeared to be for necessary project work and were mostly supported by purchase orders and invoices. However, we could not determine whether the amounts paid were reasonable because the

Authority could not support that the services were purchased through the required competitive procurement process. The payments also included more than $2,300 that was not supported by invoices.

- $383,000 paid to firm B for services related to redevelopment plans, discussed in the previous section, for which there was no contract. The board and prior executive director approved and executed a separate nonspecific scope of service contract with firm B for general project-related architectural services, such as sidewalk handicap accessibilities, illuminations of one of the projects, and other services that the Authority may need from time to time. The contract was not designed to include work related to the unbudgeted redevelopment planning process. After awarding the nonspecific service contract, the architect stated that the prior executive director kept requesting additional services related to the redevelopment plan. The payments were approved by the prior executive director and a past chairperson of the board.

  We examined support for 100 percent of the payments and determined that they were mostly supported by letters of agreement and task orders in addition to the individual invoices. The Authority could not provide evidence of a contract for the redevelopment services or evidence that the services were purchased according to HUD's and the Authority's own procurement requirements.

- $105,000 paid to firm C, but the Authority could not locate a contract and invoices to support what the costs were for or whether it followed competitive procedures to purchase the services. Thus, in addition to the questionable procurement, the costs were not properly supported. The Authority's staff provided unsigned purchase order documents from its computer system, which showed that the firm performed painting services. However, the staff could not provide records with authorizations and approvals for the payments and invoices to support what the costs were for and where the work was done.

Inadequate Controls Over Section 8 Portable Housing Assistance Payments Due From Other Housing Agencies

The prior executive director did not establish and implement adequate controls over reimbursements due from other public housing agencies for portable Section 8 housing assistance payments that the Authority paid on their behalf. The Section 8 consolidated annual contributions contract requires that the Authority maintain complete and accurate books of account and records for the program in accordance with HUD requirements and that the records permit a speedy and effective audit. We reviewed the general ledger for portable housing assistance payments that the Authority made on behalf of other housing agencies and the related subsidiary accounts receivable for the months December 2009 through March 2010. The tests showed that the Authority did not

- Properly accrue housing assistance payment reimbursements due from other housing agencies. We identified more than $17,000 in housing assistance payments that the Authority made to landlords on behalf of other housing agencies, but it did not accrue and post the amounts to its subsidiary accounts receivable, appendix H. The $17,000 represents the difference between the portability housing assistance payment expense recorded in the general ledger and the amount accrued in subsidiary accounts receivable for the 4 test months. The failure to accrue the payments resulted in an understatement of the receivables. This was a significant issue, considering past problems that the Authority had in this area. For instance, in 2007 and 2008, the Authority wrote off more than $1.1 million in Section 8 portability accounts receivable because its records were in such poor condition that it could not rely on them as a basis for pursuing collection. The prior executive director was aware of this condition and its related importance to maintaining accurate accounts receivable records.

  An Authority official stated that the Authority used form HUD-52665, Family Portability Information, which it gave to each housing agency as the control for housing assistance payments that the Authority made on its behalf. The official stated that the Authority did not bill the housing agencies for portability payments due from them, although the Authority's policy required monthly billings. The forms HUD-52665 were not a substitute for accurate accounts receivable records. The Authority needed to maintain accurate accounts receivable records to ensure proper control over the amounts due from other housing agencies and reduce the potential for future write-offs like those discussed above that were made in 2007 and 2008.

- Post collections to the general ledger. We identified more than $39,000 in direct deposit payments that the Authority received from other housing agencies to reimburse it for housing assistance payments which were not posted to the general ledger or recorded in its subsidiary accounts receivable ledger. The accounting technician stated that she did not post the transactions because she had not been instructed on how to handle such transactions.

Due to the poor condition of the records, we could not readily determine the adverse impact that the above conditions had on the Authority's Section 8 Housing Choice Voucher program relative to the portable vouchers. However, the independent auditors' reports showed that the Authority's overall Section 8 program had a deficit of more than $122,000 for fiscal year 2008 and more than $85,000 for fiscal year 2009. We did not determine whether any of the conditions discussed above contributed to these deficits. However, the lack of accurate accounts receivable records reduced the assurance that the Authority had properly identified the amounts due from other housing agencies and collected the proper amounts from them.

With HUD's approval, the board transferred its Section 8 portable voucher program to other housing agencies, effective January 1, 2011.

Inadequate Board Management and Oversight

The board did not properly manage the prior executive director and allowed an environment that permitted many of the management failures identified during the audit. Specifically, the board or a past board chairperson did not

- Prepare annual evaluations of the prior executive director's performance,
- Require compliance with budget requirements,
- Follow controls over the electronic check signing process, or
- Follow the Authority's policy that prohibited the payment of cash for accrued leave in reference to the prior executive director.

<u>Annual evaluations of the prior executive director's performance not performed</u> - The board did not prepare or document that it prepared annual performance evaluations of the prior executive director as required by his employment contract executed on June 8, 2005. The contract provided that the board would review and evaluate the executive director's performance at least annually in advance of his employment anniversary date or the beginning of the Authority's fiscal year, whichever occurred first. The prior executive director's personnel file contained no evaluations for years 2008 and 2009 and a satisfactory evaluation for 2007.

The absence of the 2008 and 2009 performance evaluations for the prior executive director was critical, considering HUD's past problems with the management operations of the Authority. In addition, the acceptable performance evaluation for 2007 was questionable considering those concerns. For instance, before and during 2007, reports prepared by HUD and the Authority's independent auditors documented findings and concerns which involved multiple areas of the Authority's public housing and Section 8 program operations (appendix C). Yet the board provided the prior executive director with a satisfactory evaluation in 2007. The personnel file did not document performance evaluations for 2008 and 2009, despite the continuation of adverse findings and concerns raised in reports by HUD and the Authority's independent auditors in 2007 and prior years and during 2008 and 2009.

In 2010, a new board chairperson began to question actions by the prior executive director, and the board prepared a formal evaluation of his performance. The 2010 evaluation resulted in a decision by the board to terminate the prior executive director's employment contract, effective August 2010. This belated action resulted in a missed opportunity by the board to intervene and possibly stop or reduce the level of mismanagement and financial harm discussed in this report.

Lack of compliance with budget requirements - As discussed above, the prior executive director spent more than $400,000 for a plan to redevelop the Authority's public housing projects that was not included in the operating budget. The board approved the redevelopment plan on July 31, 2008, but it did not approve a budget to implement the plan. After the board approved the redevelopment plan, the prior executive director obtained the services of an architect and several other consultants to render drawings and conduct studies relative to the redevelopment (see appendix F). The board minutes recorded several occasions on which the architect or the consultants made presentations to the board or the prior executive director provided and discussed with the board detailed work products that they provided to him.

The board minutes showed no evidence that the board appropriately questioned the prior executive director about the source of funds used or which he planned to use to pay for the costs associated with the redevelopment plan. A past board chairperson approved at least $278,000 in public housing funds to pay for some of the redevelopment costs, although none of the costs was included in the Authority's budget. A later board chairperson stated that she had learned about the substantial redevelopment plan costs and the architect's letters to the Authority requesting payment. However, by that time, the later board chairperson stated that the payments made to the architect were causing the Authority to have a shortage of cash to pay other bills, including the bills for project utilities.

Controls over the electronic check signing process circumvented - According to individuals interviewed during the audit, the prior executive director and a past board chairperson circumvented the internal control that required dual signatures on checks issued by the Authority. This circumvention created the opportunity for the prior executive director to issue checks without assurance of review and approval.

The prior board chairperson and an Authority employee stated that a past board chairperson provided the prior executive director with his password, which allowed the prior executive director to electronically sign Authority-issued checks on his behalf. The Authority's check signing process required two signatures, one from the executive director and one from the board chairperson.

When the board chairperson was replaced, the later board chairperson stated that the prior executive director requested her check signing password and told her that he had done the same with the past chairperson, who provided him with his password. The later chairperson stated that she refused the request. We could not independently verify the accuracy of the claimed circumvention. However, the employee and the later chairperson held positions of responsibility, claimed to have direct individual knowledge of this condition, and provided an account of the matter that was consistent and appeared to be plausible.

Noncompliance with Authority policy that prohibited the payment of cash for accrued leave - On February 21, 2008, the board passed a resolution to allow the prior executive director to receive cash payments for accumulated annual and sick leave, which were otherwise prohibited by its personnel policy. However, we identified payments totaling more than $16,000 that were made before the resolution. The resolution was not retroactive to when the payments started. A past board chairperson approved the payments, although at that time the payments were prohibited by the Authority's personnel policy and the past chairperson did not have the authority to authorize the payments. The $16,000 is already included in the cost questioned above for unreasonable or abusive payments for accrued annual and sick leave.

Expenditures for Costs That Were Not Adequately Supported

The Authority spent more than $13,900 for costs that were not adequately supported. The regulations at 24 CFR 85.20(b) provide that the accounting records must be supported by source documentation. This amount is in addition to the amounts presented above that involved procurement violations. The amount was paid to a firm for construction-related services. The file contained an invoice from the firm for $39,829, but the payment was for only $13,950. The invoice contained a notation that the services were for work performed beyond the initial scope of work. An Authority employee stated that the Authority was not satisfied with the work performed by the firm and decided to terminate the contract. However, the Authority could not provide a contract for the services, a written record to support why the amount paid was different from the invoiced amount, or a written record related to the settlement of disputed items. The prior executive director and the past board chairperson signed the check used to pay the contractor.

Inadequate Attention to the Projects' Physical Needs

The lack of proper management by the prior executive director and the board contributed to an overall decline in the physical condition of the Authority's public housing projects and plans to demolish most of the units. Section 4 of the Authority's annual contributions contract with HUD provides that the Authority must at all times develop and operate each project solely for the purpose of providing decent, safe, and sanitary housing for eligible families in a manner that promotes serviceability, economy, efficiency, and stability of the projects and the economic and social well-being of the tenants. From 2003 until January 2006, the Authority was in receivership, and HUD managed its operations. During that period, HUD borrowed more than $4 million[1] on behalf of the Authority for renovation work at the projects. When HUD returned the management to the Authority, four of the six projects still scored below 18 (the minimum score for acceptable physical condition), and only two of the projects scored 18 or above. The low inspection scores, shown in the table below, highlighted a need for the Authority to ensure that it made maximum use of its limited financial resources to take care of the projects' repair needs.

		Physical inspection scores				
		Under HUD receivership	Under authority management			
AMP number	Project name	**2005**	**2006**	**2007**	**2008**	**2009**
AMP 1	Castle Brewer Court	13.3	13.3	18.4	15.8	10.9
	William Clark Court	19.1	19.1	12.9	15.8	10.9
AMP 2	Edward Higgins Terrace	14.5	14.5	10	16.9	10.9
	Cowan Moughton Terrace	20.7	20.7	16.6	16.9	10.9
AMP 3	Lake Monroe Terrace	14.8	14.8	9.9	15.6	10.3
AMP 4	Redding Gardens	17.3	17.3	14.7	19.9	13.7

* AMP = assessment management project

Despite the projects' poor physical condition, as indicated by the inspection scores, the prior executive director and board allowed conditions that contributed to the expenditure of more than $1.2 million in Authority funds for ineligible asset management fees ($81,590), unbudgeted redevelopment plan costs ($400,221), purchases without documented competition ($751,850), and costs that were not properly supported ($13,900). The Authority incurred most of the questioned costs in 2009, which was the same year in which the projects received their lowest physical inspection scores after HUD returned management to the Authority. The ineligible and unbudgeted portion of the questioned costs (more than $481,000) deprived the projects of cash that should have been used to address some of the repair needs. The same is true for any excessive amounts that the Authority may have paid for costs that were not properly procured (more than $751,800).

Due to the decline in the projects' physical condition, the Authority submitted emergency funding and inventory removal applications to HUD in August and September 2010 to demolish 374 of the Authority's 480 public housing units and relocate the tenants. HUD approved the applications in September 2010 and April 2011. Several of the demolition requests mentioned the lack of attention to deferred maintenance as one of several factors that contributed to the demolition requests. As a result, HUD is now obligated to spend more than $9 million to relocate the tenants and demolish public housing units, although some of the units

[1] At the time of our audit, the Authority was still repaying the loan from annual capital grants awarded by HUD.

might have been preserved through proper management of project operations. At the time of our review, the Authority had relocated most of the tenants from the projects, and another housing agency was managing the Authority's operations.

Conclusion

The audit questioned the use of more than $1.2 million, which the prior executive director and board allowed to be spent for costs that were not reasonable, budgeted, properly procured, or properly supported. Some portions of the expenditures represented outright abuses in violation of Federal, HUD, or Authority requirements or policies. Other portions of the expenditures diverted funds that could have been used to address some of the projects' maintenance and repair needs. The audit also identified continuous violations regarding the Authority's inability to properly account for amounts due from other housing agencies for housing assistance payments that it made for portable tenants in its Housing Choice Voucher program.

The audit detected the continuation of certain significant management failures long after they were reported as findings or concerns in past reports by HUD and the Authority's independent auditors (appendix C). These conditions contributed to a decline in the financial and physical condition of the Authority's public housing projects and conditions that led HUD to approve requests to demolish 374 of the Authority's 480 public housing units and relocate the tenants. As a result, HUD is now obligated to spend more than $9 million to relocate the tenants and demolish public housing units that might have been preserved through proper management of project operations.

Recommendations

We recommend that the Director of the Departmental Enforcement Center

1A. Initiate appropriate administrative actions (such as suspensions, debarments, and limited denials of participation) against the Authority's prior executive director, past board chairperson, and an employee, who contributed to the mismanagement or abuse of the Authority's public housing and Section 8 program funds or operations.

1B. Pursue civil or administrative action against the prior executive director and an employee for specific abuses of the Authority's credit cards and leave policies.

We recommend that the Director of the Jacksonville Office of Public Housing require the Authority to

1C. Require the prior executive director and employee to reimburse the Authority $10,017 that was not supported as reimbursed for personal/nonofficial travel or support that they have made the payments.

1D. Require the prior executive director to reimburse the Authority the $19,780, detailed in appendix E – note c, that he received for ineligible accrued annual and sick leave payments.

1E. Require the prior executive director to support the reasonableness of the $13,824, detailed in appendix E - note d, that he received for accrued annual and sick leave payments or to reimburse the Authority for the payments.

1F. Reimburse the projects, from nonfederal funds, $400,221 paid for redevelopment plan costs that were not budgeted.

1G. Reimburse the projects, from nonfederal funds, $81,590 for ineligible asset management fees that they paid to the central office cost center fund.

1H. Determine the reasonableness of the $751,850 paid for services that were not properly procured and reimburse the Authority, from nonfederal funds, the amounts determined to exceed what was reasonable.

1I. Reimburse the Authority, from nonfederal funds, the $13,950 for costs that were not properly supported if it cannot establish that they were for reasonable and necessary project expenditures.

1J. Prepare an assessment to determine whether it has collected the full amounts due from other housing agencies for portable tenants starting in fiscal year 2009 (the year after the 2008 fiscal year write-off) and if not, bill and seek to collect the past due amounts.

1K. Ensure that the board receives adequate training concerning their responsibility to monitor and evaluate the performance of the executive director and to provide general oversight of the Authority's operational and financial affairs.

1L. Strengthen its monitoring, control, and procedures over the use of the Authority's credit card, documentation for travel (such as the preparation of travel vouchers for each trip), authorizations and support for payments made for accrued leave, and compliance with procurement requirements.

SCOPE AND METHODOLOGY

We performed the audit between October 2010 and May 2011 and conducted the audit fieldwork at the Authority in Sanford, FL, and the HUD Office of Public Housing and our office in Jacksonville, FL.

We did not review and assess general and application controls for computer-processed data that Authority staff entered into its electronic general ledgers. We conducted other tests and procedures to ensure the integrity of computer-processed data that were relevant to our objectives. The tests included a comparison of information shown in the general ledgers with the source documentation such as contracts, invoices, purchase orders, task orders, purchase requisitions, and cancelled checks.

The review generally covered the period November 1, 2007, through August 31, 2010. We adjusted the review period when necessary. To accomplish our objectives, we

- Reviewed the Authority's public housing and Section 8 annual contributions contracts with HUD and searched the Code of Federal Regulations, Office of Management and Budget circulars, HUD handbooks, and other HUD guidance pertaining to the public housing, Section 8, and Recovery Act programs.

- Reviewed Authority policies and procedures related to credit cards, procurement, personnel, and leave.

- Interviewed and consulted with officials of the Jacksonville Office of Public Housing, Jacksonville and Atlanta Offices of General Counsel, and the Authority (employees and board members).

- Reviewed the Authority's board minutes.

- Obtained and assessed prior HUD monitoring reviews and independent auditor reports on the Authority's operations.

- Selected 18 vendors and other payees (such as credit card purchases, payment to selected employees, asset management fee payments, etc.) for our primary focus. The payments included amounts to firms or individuals that provided redevelopment planning or construction services. Based on preliminary results, we narrowed the sample to 11 vendors and other payees for a detailed review of more than \$1.6 million (87 percent) of the more than \$1.9 million the Authority paid to them from November 2007 to August 2010. The payments included disbursements for the Authority's public housing (including operating, capital, and cost center operations) and Recovery Act programs.

- Selected for review 8 of 90 housing agencies used by the Authority in its Section 8 portable program. We selected agencies that had the largest number of portable tenants based on the Authority's portable active family report for the period October 2008 to September 2010. We reviewed 100 percent of the agencies' portable housing assistance payments and accruals for 4 test months (December 2009, January 2010, February 2010, and March 2010). We selected the test months based on the highest total Section 8 portable housing assistance payments for the housing agency that had the largest number of portable tenants.

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 objectives:

- Effectiveness and efficiency of operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Reliability of financial reporting - Policies, procedures, and practices that management has implemented to provide reasonable assurance that financial information is relevant, reliable, and fairly disclosed in reports.

- Compliance with applicable laws and regulations - Policies and procedures that management has implemented to provide reasonable assurance that program implementation is in accordance with laws, regulations, and provisions of contracts or grant agreements.

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 Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The Authority lacked adequate management of and controls over its public housing and Section 8 programs (see finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unreasonable 2/	Unsupported 3/
1C	$10,017		
1D	19,780		
1E		$13,824	
1F		400,221	
1G	81,590		
1H		751,850	
1I			$ 13,950
	$111,387	$1,165,895	$13,950

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/ 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.

3/ 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**

S·H·A
SANFORD · HOUSING · AUTHORITY

October 14, 2011

James D. McKay
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General for Audit, Region 4
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

Dear Mr. McKay:

Enclosed is the response to the audit report of the Sanford Housing Authority's operations. Included are your Findings in abbreviated format and then the Sanford Housing Authority's Response. If you have any questions, please contact me.

Sincerely,

Melvin Philpot
Chairman, Board of Commissioners
Housing Authority of the City of Sanford, Florida

Enclosure

MP/VB/vb

TDD # 407-894-9891
Barbara Green Central Administration Office
94 Castle Brewer Court
Sanford, FL. 32771

Relay # 7-1-1
Phone 407-323-3150
Fax 407-324-1806

"Equal Housing Opportunity"

Comment 1

Comment 1

SANFORD HOUSING AUTHORITY RESPONSE TO THE
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)
OFFICE OF INSPECTOR GENERAL (OIG) AUDIT REPORT
OCTOBER 14, 2011

STATEMENT FROM THE CHAIR OF THE BOARD

In the past, the board of commissioners for the Sanford Housing Authority met on the third Thursday of each month for 1 – 2 hours per meeting. Approximately, one week prior to each meeting the board is provided with a packet of information consisting of the budget, state of the authority, executive director's report and any information that he had to share. The board members, past present and future are unpaid volunteers with some level of expertise in many subjects. We are required to rely on the executive director's expertise and knowledge of some of the complex issues required to operate the Housing Authority. We only had one person who was responsible for providing us with accurate information to make decisions about the oversight of our authority that was the executive director. He was our subject matter expert regarding all issues, policies and details regarding the operation of our authority. That is all we had to rely upon. According to this audit report, there were several findings associated with the oversight and management of our housing authority, all of which are issues associated with our board entrusting the prior executive director to perform his job effectively and efficiently. Any breach, misinformation or lack of proper execution of our responsibilities, as board members was based upon information that we were provided/not provided by the executive director.

Since 2007, we have had five (5) new commissioners to participate on our board and we have never had the opportunity to build continuity or the capacity necessary to be effective in the execution of our duties. We do not disagree with the audit findings that the board needs more training. However the missing component of the audit is the human aspect. That is the countless hours that the volunteer citizens who have served as board members have contributed to make the Sanford Housing Authority a better place to live for our residents. Since I have been on the board, we have battled several litigations, numerous insults by people who have limited knowledge of housing authority activities as well as countless infringements by the media. Our goal has been and continues to be the same: make things better for our residents. I have great admiration for those who I have served with because they are good decent citizens that just simply wanted to help. Who among us could have known that our good intentions could become misrepresented and improperly executed? But I, just as the past and current board members, still believe in our mission and the mission of the United States Department of Housing and Urban Development (HUD). That is the goal to provide the low income residents of our city with safe, decent, affordable housing. They deserve that and I am sure I speak for my fellow board members when I say, "We will continue to move forward with that vision in mind."

1

OIG FINDING #1: Credit Card and Leave Abuses

"The Authority Lacked Adequate Management of/and Controls Over Its Public Housing and Section 8 Programs

The audit identified more than $50,000, detailed in appendixes D and E, in credit card and leave abuses by the prior executive director and another employee that were mostly associated with expenditures from the Authority's central office cost center .. . Specifically, the audit identified

- Misuse of the Authority's credit card for personal charges,
- Abuse of annual leave, and
- Unreasonable payments for accrued leave.

Misuse of the Authority's credit card for personal purchases –
The prior executive director misused and allowed an employee to misuse the Authority's credit cards for personal purchases. .. This was significant considering that the trips occurred after HUD had recommended the preparation of such vouchers to support the cost incurred for travel...

Abuse of Annual Leave - The Authority's prior executive director did not take annual leave or leave without pay for the above personal trips to Puerto Rico and Israel, which he took during the Authority's normal duty hours. This action overstated his annual leave balances by 240 hours, which the Authority used to support separate payments ... that he received for accrued leave...

Unreasonable or abusive payments for accrued annual and sick leave- The prior executive director used $33,604 in cost center ($21,714) and public housing ($11,890) funds to make questionable payments to himself for accrued annual and sick leave.... He also received compensation as regular salary payments for the 240 hours that he should have charged to leave. The ineligible amount also included $11,890 paid for the director's sick leave from public housing funds, although the amount was a cost center expense...As a result, the remaining $13,834 ($33,604 less $19,780 for ineligible payments) of the leave payments was not supported as reasonable expenditures of cost center funds. "

SHA RESPONSE #1: Misuse of Credit Card and Leave Abuses

Personal Purchases and Travel to Puerto Rico and Israel

Comment 2 The employee indicated in the report has repaid all of the charges. The prior executive director has repaid some charges made on the Sanford Housing Authority credit card.

Comment 3 The membership of the board of commissioners has changed since these costs were incurred. Two of the current Sanford Housing Authority commissioners were on the board when these costs were incurred: commissioners and . With regard to the travel to Puerto Rico, past and current commissioners state that the prior executive director led them to believe that there was an approved Interlocal Agreement with the Puerto Rico Housing Authority for him to provide assistance with their Section 8 Program. It was the board's belief that the prior executive director was requested by the Puerto Rico Housing Authority to assist them with their Section 8 Program. To date, that Interlocal Agreement has not been located.

Comment 4 With regard to the travel to Israel, it was the board of commissioners understanding that it was travel pursuant to the prior executive director serving on the International Committee of the National Association of Housing and Redevelopment Officials.

2

Comment 5

Comment 5

Comment 6

Comment 6

Comment 7

Leave Abuses

June 8, 2005, the prior executive director's contract was executed for the Sanford Housing Authority by the United States Department of Housing and Urban Development.

June 13, 2007, the past chair of the board authorized an amendment of the prior executive directors contract to include the payment for accrued annual and sick leave without a vote of the board.

February 21, 2008, a board resolution authorized the payment for the accrued leave.

OIG FINDING #2: Expenditures for Costs That Were Not Budgeted or Ineligible

"The prior executive director and the board allowed the use of more than $481,000 in public housing funds for costs that were not budgeted ($400,000) or were ineligible ($81,000).

Expenditures for costs that were not budgeted- The prior executive director and the board allowed the use of more than $400,000 in project operating funds for an unbudgeted plan to redevelop an undetermined portion of the Authority's public housing projects. ...

Expenditures for ineligible costs - The prior executive director either authorized or did not conduct the oversight needed to detect that his staff inappropriately transferred more than $81,000 from public housing funds to the Authority's cost center for asset management fees when the projects did not have excess cash. ... The fees deprived the projects of cash that was needed to pay for maintenance and repairs."

SHA RESPONSE #2:

Expenditures for costs that were not budgeted

The prior executive director and the past board Chairperson compromised the authority of the board of commissioners. The past chair authorized the prior executive director to make payments for contracts that exceeded the authority given to him by the board of commissioners.

The board of commissioners of the Sanford Housing Authority relied on the prior executive director's assurance that the funding was adequate and available. The board was misinformed. When one of the contractors was not paid for insufficient funds, the board was then put on notice that the funds were not available.

OIG FINDING #3: Inadequate Compliance

"The prior executive director spent more than $1.1 million for services provided by three firms without support that he acquired the services in compliance with HUD's and the Authority's procurement requirements. ... "

SHA RESPONSE #3:

The board of commissioners relied upon the prior executive director to ensure that the agency's procurement activities comply with procurement policy and 24 CFR 85.36. The board of commissioners' role is to develop policy. The executive director has the responsibility to implement that policy.

OIG FINDING #4: Inadequate Controls Over Section 8 Portable Housing Assistance Payments Due From Other Housing Agencies

"The prior executive director did not establish and implement adequate controls over reimbursements due from other public housing agencies for portable Section 8 housing assistance payments that the Authority paid on their behalf....Due to the poor condition of the records, we could not readily determine the adverse impact that the above conditions had on the Authority's Section 8 Housing Choice Voucher program relative to the portable vouchers. However, the independent auditors' reports showed that the Authority's overall Section 8 program had an overall deficit of more than $122,000 for fiscal year 2008 and more than $85,000 for fiscal year 2009... With HUD's approval, the board transferred its Section 8 portable voucher program to other housing agencies effective January 1, 2011."

SHA RESPONSE #4:

Comment 7

The board of commissioners relied upon the prior executive director to ensure that the Section 8 Program include the portability program, was properly implemented. The day-to-day operation and implementation of the Section 8 Program is the responsibility of the executive director. The board of commissioners' role is to develop policy. The executive director has the responsibility to implement that policy.

OIG FINDING #5: Inadequate Board Management and Oversight

"The board did not properly manage the executive director and allowed an environment that permitted many of the management failures identified during the audit. Specifically, the board or a former board chairperson did not

- Prepare annual evaluations of the prior executive director's performance,
- Require compliance with budget requirements,
- Follow controls over the electronic check signing process, or
- Follow the Authority's policy that prohibited the payment of cash for accrued leave in reference to the prior executive director.

<u>Annual evaluations of the prior executive director's performance not performed</u> - The board did not prepare or document that it prepared annual performance evaluations of the prior executive director as required by his employment contract executed on June 8, 2005... In addition, the acceptable performance evaluation for 2007 was questionable considering those concerns. ... Yet the board provided the prior executive director with a satisfactory evaluation in 2007. The personnel file did not document performance evaluations for 2008 and 2009, despite the continuation of adverse findings and concerns raised in reports.

<u>Lack of compliance with budget requirements</u> – As discussed above, the prior executive director spent more than $400,000 in operating funds for an unbudgeted plan to redevelopment the Authority's public housing projects...The board minutes showed no evidence that the board appropriately questioned the executive director about the source of funds used or which he planned to use to pay for the costs associated with the redevelopment plan. A past board chairperson approved at least $278,000 in public housing funds to pay for some of the redevelopment costs, although none of the costs was included in the Authority's (operating) budget....

Controls over the electronic check signing process circumvented – According to individuals interviewed during the audit, the prior executive director and the past board chairperson circumvented the internal control that required dual signatures on checks issued by the Authority This circumvention created the opportunity for the prior executive director to issue checks without assurance of review and approval...

Noncompliance with Authority policy that prohibited the payment of cash for accrued leave – On February 21, 2008, the board passed a resolution to allow the prior executive director to receive cash payments for accumulated annual and sick leave, which were otherwise prohibited by its personnel policy. However, we identified payments totalling more than $16,000 that were made before the resolution...The $16,000 is already included in the cost questioned above for unreasonable or abusive payments for accrued annual and sick leave."

SHA RESPONSE #5:

Comment 8

Annual evaluations of the prior executive director's performance not performed

Due to pending litigation and on advice of counsel, the board is not at liberty to comment on this Finding.

Lack of compliance with budget requirements

Comment 6

The prior executive director and the past board Chairperson compromised the authority of the board of commissioners. The past chair authorized the prior executive director to make payments for contracts that exceeded the authority given to him by the board of commissioners.

Controls over the electronic check signing process circumvented

Comment 9

The prior executive director and the past board Chairperson compromised the authority of the board of commissioners.

Comment 5

Noncompliance with Authority policy that prohibited the payment of cash for accrued leave

June 8, 2005, the prior executive director's contract was executed for the Sanford Housing Authority by the United States Department of Housing and Urban Development.

June 13, 2007, the past chair of the board authorized an amendment of the prior executive directors contract to include the payment for accrued annual and sick leave without a vote of the board.

February 21, 2008, a board resolution authorized the payment for the accrued leave.

OIG FINDING #6: Expenditures for Costs That Were Not Adequately Supported

"The Authority spent more than $13,900 for costs that were not adequately supported. This amount is in addition to the amounts presented above that involved procurement violations. ... However, the Authority could not provide a contract for the services, a written record to support why the amount paid was different from the invoiced amount, or a written record related to the settlement of disputed items. The prior executive director signed the check used to pay the contractor. "

5

Comment 6

SHA RESPONSE #6:

The prior executive director and the past board Chairperson compromised the authority of the board of commissioners. The past chair authorized the prior executive director to make payments for contracts that exceeded the authority given to him by the board of commissioners.

It is the responsibility of the executive director to ensure that his staff complied with proper accounting procedures, i.e., payment of expenses based on an invoice, having receipts for all purchases, etc. The board of commissioners' role is to develop policy. The executive director has the responsibility to implement that policy.

OIG FINDING #7: Inadequate Attention to the Projects' Physical Needs

"The lack of proper management by the prior executive director and the board contributed to an overall decline in the physical condition of the Authority's public housing projects and plans to demolish most of the units…."

Comment 9

SHA RESPONSE #7:

The board of commissioners relied upon the prior executive director to ensure that the Section 8 Program include the Public housing properties were properly maintained. The day-to-day operation and management of the Public Housing Program is the responsibility of the executive director. The board of commissioners' role is to develop policy. The executive director has the responsibility to implement that policy.

OIG Evaluation of Auditee Comments

Comment 1 The Authority commented that any breach, misinformation, or lack of proper execution of their responsibilities as board members was based upon information that it was provided or not provided by the prior executive director. The Authority agreed with our recommendation that the board needed more training.

Comment 2 The Authority stated that the employee indicated in the report has repaid all of the credit charges but it agreed with the determination cited in the report that the prior executive director had repaid only some of the credit card charges. At the time of our review, the employee and the prior executive director had not repaid all the personal charges they made to the Authority's credit card.

Comment 3 The Authority commented that with regards to the travel to Puerto Rico, the prior executive director lead them to believe that there was an approved Interlocal Agreement with the Puerto Rico Housing Authority for the prior executive director to provide assistance to the Puerto Rico Housing Authority with their Section 8 program. The Authority was unable to locate and provide the Interlocal Agreement. HUD officials stated that the Puerto Rico Housing Authority did not have a Section 8 program. As stated in the finding, the prior executive director reimbursed several of the Puerto Rico trips as personal charges. The reimbursements coupled with the lack of a documented purpose for the trips provided no basis to support that the trips were for official Authority business.

Comment 4 The Authority commented that it was the board's understanding that the trip to Israel was pursuant to the prior executive director serving on the International Committee of the National Association of Housing and Redevelopment Officials. Based on this explanation, the Authority should not have been charged the cost for a trip that was related to the prior director's position with the cited organization, and that organization should have paid the cost for the trip. We revised the report to show this trip was for nonofficial business versus a personal charge.

Comment 5 We acknowledged that the board had the authority to authorize the prior executive director to receive payments for accrued leave. However, the Authority made some of the leave payments before the board authorized them and other portions of the payments were ineligible because they were charged to the projects although they were central office cost center expenses. We questioned the remaining leave payments because the prior executive director did not keep accurate annual leave records. This condition caused us to question the accuracy of the prior executive director's overall leave records that were used to support payments to him for accrued annual and sick leave.

Comment 6 The Authority did not dispute the finding concerning expenditures that were not budgeted or which were ineligible. The Authority commented that the past board chairperson authorized the prior executive director to make payments for contracts that exceeded the authority given to the prior executive director by the board of commissioners.

Comment 7 The Authority did not dispute the accuracy of the procurement issues and Section 8 violations cited in the finding. The Authority commented that it relied on the prior executive director to ensure that the agency procurement and Section 8 activities complied with requirements or were properly implemented.

Comment 8 The Authority did not comment on the finding section concerning its failure to provide 2007 and 2008 performance evaluations to the prior executive director because that matter involved pending litigation.

Comment 9 The Authority did not dispute the accuracy of the information presented in the finding, but commented that the board of commissioners relied on the prior executive director to ensure compliance with requirements and to properly maintain the public housing properties.

Appendix C

SCHEDULE OF PAST FINDINGS OR CONCERNS BY HUD AND INDEPENDENT AUDITORS

Mismanagement issues	HUD - June 2006	HUD - April 2007	HUD - June 2007	IPA* - FYE** June 2007	HUD - August 2007	IPA - FYE June 2008	HUD - December 2008	HUD - June 2009	IPA - FYE June 2009
Inadequate controls (policy) over travel costs and credit card expenditures, excessive travel costs, and ineligible costs for personal travel		X	X						X
Budget overruns coupled with underspending in needed areas such as repairs and maintenance or deficits in the public housing program			X	X	X	X	X	X	X
Ineligible asset management fees							X	X	
Procurement – Small purchase procedures used for large purchases									X
Section 8 accounting deficiencies – For instance, amounts were not properly accrued for housing assistance payment reimbursements, or housing assistance payment collections were not posted to the general ledger.	X			X		X		X	X
Deficits in the Section 8 program			X		X		X	X	
No documentation for addressing housing quality standards deficiencies on a timely basis, properties in substandard condition, or failed Real Estate Assessment Center scores		X	X				X		

* IPA = independent public auditor
** FYE = fiscal year ending

Appendix D

SCHEDULE OF ABUSIVE CREDIT CARD CHARGES

Description	Check or reference no.	Payment date	Amount	Total	Note
Credit card purchases					
Prior executive director					
Puerto Rico travel	105769	11/14/2007	$ 1,848		
Puerto Rico travel	105987	12/11/2007	2,360		
Puerto Rico travel	106184	01/10/2008	1,860		
Puerto Rico travel	106729	03/20/2008	345		
Puerto Rico travel	106926	04/09/2008	3,157		
Airline ticket for wife June 2008	107522	07/14/2008	319		
Airline ticket for wife July 2008	107740	08/08/2008	40		
Puerto Rico travel	108181	10/21/2008	363		
Puerto Rico travel	108432	11/18/2008	1,501		
Men's clothing purchase	108916	01/23/2009	482		
Orbitz.com and ticket to Israel	109436	03/23/2009	2,310		
Israel travel	110085	06/16/2009	401		
Total personal/nonofficial charges from prior executive director				**$ 14,986**	
Less: reimbursement				**(6,053)**	
Prior executive director - total amount not reimbursed				**$ 8,933**	
Employee A					
Airline ticket for relative	107123	05/14/2008	219		
Men's store purchase	107314	06/20/2008	202		
Airline ticket for relative	107953	09/18/2008	235		
Airline ticket from Las Vegas	108637	12/16/2008	137		
Airline tickets, self and relative	108916	01/23/2009	346		
Las Vegas travel	111549	01/26/2010	317		
Total personal charges from employee A				**$ 1,456**	
Less: reimbursement				**(372)**	
Employee A - total amount not reimbursed				**$ 1,084**	
Total personal/nonofficial charges identified by the audit				**$ 16,442**	**a**
Less: reimbursement				**(6,425)**	
Total amount not reimbursed				**$ 10,017**	

Notes	
a	The prior executive director misused and allowed an employee to misuse the Authority's credit cards for personal or nonofficial purchases that totaled more than $16,400. The charges were for trips to destinations such as Puerto Rico, Israel (nonofficial travel), and Las Vegas and other personal travel for the prior executive director's spouse and for various purchases he and the employee made at

	clothing stores. We identified the charges based on a scan of the Authority's credit card statements for the period November 1, 2007, through August 31, 2010. However, we could not determine the full extent of personal or nonofficial charges that the prior executive director and employee made to their Authority-issued credit cards. In addition to being inappropriate, the prior executive director allowed the personal or nonofficial charges to be recorded in the Authority's general ledger as cost center expenditures. The audit identified $6,425 in reimbursements that were credited to cost center expense accounts to offset some of the above personal charges. The reimbursements demonstrated an acknowledgement by the prior executive director and the employee that the amounts they repaid were for personal purchases. The Authority could not provide support that the prior executive director and the employee reimbursed the remaining $10,017 for their personal or nonofficial purchases. This issue was significant because each of the above trips occurred after HUD had cited the Authority for using public housing funds to pay for personal travel and requested reimbursement in a monitoring report, dated July 31, 2007. HUD sent the report to the board chairperson and the prior executive director. The charges identified in the above table indicate that the prior executive director disregarded HUD's concerns. We also determined that the prior executive director and the employee did not prepare travel vouchers for the above trips. The Authority provided the credit card statements, check requests, and cancelled checks for the payments, but its staff could not locate and provide the supporting plane tickets, hotel receipts, and store purchase receipts needed to support the individual charges made to the credit card accounts. This issue was significant because HUD's July 2007 report also took exception to the Authority's failure to prepare travel vouchers after each trip as required by Florida statue. Each of the trips noted in the above table occurred after HUD's 2007 report. The missing travel vouchers indicated that the prior executive director continued to disregard the requirement for him and his staff to prepare travel vouchers. Without the travel vouchers, we lacked adequate records to establish and account for the total cost associated with the personal trips or for other official travel performed by Authority staff.

Appendix E

SCHEDULE OF ABUSIVE AND UNREASONABLE LEAVE PAYMENTS

Payment date	Check or reference number	Payment amount	Ineligible amount	Unreasonable payments	Notes
08/02/2007	105038	$ 6,345	$ 6,345	-	a, b, c
09/11/2007	105235	5,545	5,545	-	a, b, c
12/14/2007	106012	2,824	2,824	-	a, b, c
02/15/2008	106515	1,411	-	$ 1,411	a, d
06/23/2008	107302	2,824	1,412	1,412	a, c, d
07/21/2008	107556	2,824	1,694	1,130	a, c, d
11/24/2008	108434	2,293	841	1,452	a, c, d
01/06/2009	108882	2,478	1,119	1,359	a, c, d
03/27/2009	109464	1,412	-	1,412	a, d
11/08/2009	111036	2,824	-	2,824	a, d
12/31/2009	111297	1,412	-	1,412	a, d
05/06/2010	112370	1,412	-	1,412	a, d
		$ 33,604	$ 19,780	$ 13,824	

Notes	
a	On February 21, 2008, the Authority’s board passed a resolution that authorized the Authority to pay the prior executive director for his accumulated annual, sick, and personal leave which was otherwise prohibited by the Authority’s personnel policy. We examined all the leave payments made to the prior executive director from August 2007 through May 2010. We also assessed the prior executive director’s leave statements as part of the review. The leave statements showed that the he took no annual or sick leave from August 2007 through August 2010 except for 32 hours of annual leave in July 2010, or about 1 month before his employment was terminated. Instead of taking leave, the prior executive director received payments for his accumulated leave balances. The audit identified instances in which the payments, discussed in the following notes, were excessive due to deliberate omissions or errors.
b	These payments were made before the board’s February 21, 2008, resolution that authorized the Authority to make the prohibited payments. The resolution was not retroactive to when these payments occurred. A prior board chairperson approved the payments but was not authorized the do so.
c	The Authority paid the prior executive director more than $19,780 from its cost center and project funds for ineligible accumulated leave payments associated with these checks. The review indicated that the prior executive director deliberately failed to maintain accurate annual leave records, which were needed to support his entitlement to the annual leave payments. We also noted some problems with the accuracy of the prior executive director’s sick leave statements, which also caused ineligible payments.

Check number	Payment amount	Hours paid	Documented leave hours			Hours supported by leave balance	Excess hours	Ineligible amount
			Annual	Sick	Personal			
105038	$ 6,345	166	N/A	166	N/A	166	0	$ 6,345
105235	5,545	160	N/A	13	N/A	13	147	5,545
106012	2,824	80	0	N/A	N/A	0	80	2,824
107302	2,824	80	40	0	N/A	40	40	1,412
107556	2,824	80	0	32	N/A	32	48	1,694
108434	2,293	60	0	30	8	38	22	841
108882	2,478	70	12	18	8	38	32	1,119
Total	**$ 25,133**	**696**	**52**	**259**	**16**	**327**	**369**	**$ 19,780**

Specifically, the audit showed that the ineligible amounts included

- $6,345 for check 105038 because, although supported, the amount was paid from the Authority's public housing funds as opposed to its cost center account. The prior executive director's salary and leave were not direct project costs. The payment should have been made by the cost center account, which is funded by fees the Authority collected from the projects to cover its administrative costs. The regulations at 24 CFR 990.280(b)(4) provide that public housing agencies may only charge projects for expenses that are project-specific for management purposes.

- $5,545 for check 105235 because, as in the case of check number 105038, the Authority paid the amount from its public housing funds as opposed to the cost center funds. In addition, the leave statement contained an obvious error, which incorrectly showed a 179-hour sick leave balance when the actual balance should have been only 13 hours. The error occurred because the prior executive director had received a payment for 166 hours of sick leave, identified above for check number 105038, about a month earlier. That payment reduced his sick leave balance to only 13 hours.

$7,890 for checks 106012, 107302, 107556, 108434, and 108882 due to an overstatement in the prior executive director's annual leave statement balances. The leave statements were overstated because the prior executive director did not take annual leave for 240 hours he spent traveling during the Authority's normal duty hours (see finding 1 – subheading on leave abuse). We adjusted the leave statement for the 240 hours and recalculated the leave balances. The ineligible cost represents the difference between the actual leave payments made and what the payment would have been based on the adjusted balances. The excess leave payments also duplicated compensation that the prior executive director received as regular salary. We identified the personal/nonofficial trips based on a scan of the prior executive director's credit card activities, but we do not know and could not determine the extent to which he took personal trips during the Authority's normal duty hours without charging the time to annual leave. As a result, we considered the prior executive director's annual leave statement balances to be totally unreliable to support and determine his entitlement for accumulated leave payments.

d

The prior executive director's deliberate mishandling of his annual leave records (note c) caused us to question the accuracy of his overall leave records (annual, sick, and personal leave) that were used to support the payments for accumulated leave. As previously mentioned, the prior executive director's leave records showed that he took no annual or sick leave from August 2007 through August 2010 except for 32 hours of annual leave in July 2010, about 1 month before his employment was terminated. The deliberate failure to take annual leave when due brought into question whether the prior executive director did the same for his other leaves (sick and personal leave). Therefore, we question the reasonableness of the remaining $13,824 in leave payments, which were not included in the ineligible amounts.

Appendix F

SCHEDULE OF UNBUDGETED REDEVELOPMENT PLAN COSTS AND INELIGIBLE ASSET MANAGEMENT FEES

Description	Check or reference no.	Payment date	Amount	Total	Note
A. Unbudgeted redevelopment plan costs					
Architect	109199	02/18/2009	$ 2,202		a
Architect	109400	03/02/2009	16,376		a
Architect	109459	03/23/2009	3,023		a
Architect	109459	03/23/2009	28,293		a
Architect	109488	04/01/2009	8,306		a
Architect	109488	04/01/2009	26,384		a
Architect	109716	05/04/2009	52,186		a
Architect	109716	05/04/2009	1,738		a
Architect	110061	06/01/2009	7,289		a
Architect	110840	10/01/2009	13,401		a
Architect	110840	10/01/2009	8,942		a
Architect	110872	10/30/2009	1,864		a
Architect	110872	10/30/2009	21,395		a
Architect	111081	12/02/2009	1,114		a
Architect	111081	12/02/2009	21,395		a
Architect	111497	01/14/2010	1,977		a
Architect	111497	01/14/2010	19,556		a
Architect	111706	02/03/2010	2,529		a
Architect	111706	02/03/2010	19,556		a
Architect	111976	03/03/2010	1,414		a
Architect	111976	03/03/2010	19,556		a
Architect	112165	04/01/2010	3,690		a
Architect	112165	04/01/2010	262		a
Architect	112165	04/01/2010	24,225		a
Architect	112366	05/04/2010	2,044		a
Architect	112366	05/04/2010	24,225		a
Architect	112411	06/02/2010	2,413		a
Architect	112411	06/02/2010	26,848		a
Architect	112638	07/07/2010	19,685		a
Architect	112638	07/07/2010	1,785		a
Architect - subtotal				**$ 383,673**	
Contractor A	108203	10/21/2008	250		b
Contractor A	108659	12/16/2008	600		b
Contractor A	108659	12/16/2008	400		b
Contractor A	109191	02/18/2009	350		b
Contractor A	109702	05/04/2009	10,000		b
Contractor A - subtotal				**$ 11,600**	
Contractor B	110108	06/16/2009	4,948		c
Contractor B - subtotal				**$ 4,948**	
Total unbudgeted redevelopment plan costs				**$ 400,221**	

Description	Check or reference no.	Payment date	Amount	Total	Note
B. Ineligible asset management fees					
Fiscal year 2009	JE00000701	07/30/2008	$ 4,790		d
Fiscal year 2009	JE00000890	08/01/2008	10		d
Fiscal year 2009	JE00000737	08/30/2008	4,800		d
Fiscal year 2009	JE00000780	09/30/2008	4,800		d
Fiscal year 2009	JE00000824	10/31/2008	4,800		d
Fiscal year 2009	JE00000892	11/30/2008	4,800		d
Fiscal year 2009	JE00000893	12/31/2008	4,800		d
Fiscal year 2009	JE00000909	01/31/2009	4,800		d
Fiscal year 2009	JE00000923	02/28/2009	4,800		d
Fiscal year 2009	JE00000943	03/31/2009	4,800		d
Fiscal year 2009	JE00000950	04/30/2009	4,800		d
Fiscal year 2009	JE00000983	05/31/2009	4,800		d
Fiscal year 2009	JE00001005	06/30/2009	4,800		d
Total asset management fees recorded in general ledger for fiscal year 2009				**$ 57,600**	
Fiscal year 2010	JE00001065	07/31/2009	4,800		d
Fiscal year 2010	JE00001129	08/31/2009	4,800		d
Fiscal year 2010	JE00001154	09/30/2009	4,800		d
Fiscal year 2010	JE00001160	10/30/2009	4,800		d
Fiscal year 2010	JE00001177	11/30/2009	4,790		d
Total asset management fees recorded in general ledger for fiscal year 2010				**$ 23,990**	
Total ineligible asset management fee totals				**$ 81,590**	d
Grand total - redevelopment plan costs and asset management fees				**$ 481,811**	

Note	
a	The Authority spent more than $383,000 for excessive and unbudgeted architect and engineering fees associated with plans to redevelop an undetermined portion of the Authority's public housing projects. We recognize that the projects needed substantial renovation, but the funds used for the work should have been but were not planned and budgeted for that effort. The prior executive director and board initiated the redevelopment plan without budgeting funds needed to pay the associated costs and without properly notifying HUD about the effort. The board approved the initiation of the redevelopment plan on July 31, 2008, but there was no evidence from the board minutes that its members questioned the prior executive director about what specific work he would be doing, how much it would cost, and how the Authority would pay the preliminary cost associated the redevelopment plan. The board's failure to ask these questions up front was significant and resulted in its share of responsibility in the resulting costs that the prior executive director incurred, which were not budgeted. For instance, following the approval of the plan, the board minutes documented several occasions on which the prior executive director presented the board with architect designs, consultants' reports, and architect or consultant briefings that would cost money to complete. Yet the minutes contained no evidence that the board appropriately questioned the prior executive director about how the Authority was able to pay for the studies and the consultants' time. This was an oversight by the board, because one of the studies provided to the board discussed the potential problem of finding funds to pay the preliminary planning cost associated with the redevelopment plan. The prior executive director eventually spent more than $400,000 on the redevelopment. The amount included more than $383,000 for architectural services without a contract for the work. The payments exceeded the executive director's $100,000 purchase authority and violated HUD's and the Authority's procurement requirements. In essence, the prior executive director purchased the services through an

	unauthorized and inappropriate expansion of the architect's services under an existing but unrelated contract. We found no evidence to support that the prior executive director informed the board and HUD about the extensive costs before the issues became manifest, because the prior executive director could not find the funds needed to pay the architect, and the firm threatened to file a lawsuit. Most of the payments were approved by a past board chairperson. The prior board chairperson stated that she learned about the extensive payments only after she began looking into issues relative to the Authority's expenditures. However, by that time, the prior executive director was having trouble finding funds to pay the architect. HUD officials stated that they were not aware that the prior executive director had incurred such large amounts for architect and engineering fees relative to the unbudgeted redevelopment effort and they would not have authorized the payments if they had known about them.
b	Ineligible costs for a survey related to the redevelopment plan that was not budgeted
c	Ineligible costs for geotechnical exploration related to the redevelopment plan that was not budgeted
d	In a monitoring letter, dated March 13, 2009, HUD advised the Authority not to charge the projects with asset management fees when they did not have excess cash. However, the prior executive director did not stop the practice and continued to allow the fees to be charged to the projects. The Authority's general ledger showed that the Authority continued to charge the fees until it received a second monitoring letter from HUD, dated December 3, 2009. In the letter, HUD requested that the Authority reimburse $55,150 in asset management fees reported in the June 30, 2009, financial statement audit. However, by that time, the general ledger showed that the Authority had charged the projects $81,590 for ineligible asset management fees. Both letters were addressed to the past board chairperson and copied to the prior executive director. Following the second letter, the Authority stopped charging the fees, but the general ledger did not show that it reimbursed the projects for the $81,590, which included the $55,150 previously questioned by HUD.

Appendix G

SCHEDULE OF PURCHASES THAT WERE NOT PROPERLY PROCURED

Description	Check or reference no.	Payment date	Amount	Total
Firm A	105276	09/12/2007	$ 5,825	
Firm A	105550	10/11/2007	6,700	
Firm A	105592	10/12/2007	4,350	
Firm A	105798	11/14/2007	730	
Firm A	105801	11/16/2007	10,799	
Firm A	106010	12/11/2007	10,799	
Firm A	106209	01/10/2008	5,175	
Firm A	106263	01/31/2008	69	
Firm A	106592	03/01/2008	2,700	
Firm A	106769	03/20/2008	3,165	
Firm A	106948	04/09/2008	875	
Firm A	106949	04/15/2008	6,000	
Firm A	106993	04/30/2008	9,199	
Firm A	107148	05/14/2008	8,582	
Firm A	107173	05/29/2008	10,941	
Firm A	107385	07/01/2008	14,689	
Firm A	107603	08/01/2008	16,145	
Firm A	107819	09/01/2008	27,170	
Firm A	107989	09/18/2008	20,069	
Firm A	107990	09/19/2008	24,310	
Firm A	108038	10/01/2008	265	
Firm A	108223	10/21/2008	50,132	
Firm A	108261	11/01/2008	17,568	
Firm A	108431	11/17/2008	57,405	
Firm A	108430	11/17/2008	1,895	
Firm A	108483	12/01/2008	3,591	
Firm A	108482	12/01/2008	3,260	
Firm A	108683	12/16/2008	40,236	
Firm A	108682	12/16/2008	9,776	
Firm A	108736	01/01/2009	35,636	
Firm A	108735	01/01/2009	650	
Firm A	108970	01/23/2009	39,755	
Firm A	108969	01/23/2009	4,480	
Firm A	109164	02/04/2009	17,500	
Firm A	109163	02/04/2009	9,339	
Firm A	109212	02/18/2009	8,006	
Firm A	109211	02/18/2009	7,727	
Firm A	109496	04/01/2009	3,742	
Firm A	109679	04/24/2009	17,594	
Firm A	109728	05/04/2009	17,436	
Firm A	110073	06/01/2009	10,085	

Description	**Check or reference no.**	**Payment date**	**Amount**	**Total**
Firm A	110079	06/11/2009	20,069	
Firm A	110111	06/16/2009	31,381	
Firm A	110110	06/16/2009	1,632	
Firm A	110148	07/01/2009	38,081	
	110855	10/28/2009	11,024	
Firm A total				**$ 646,557**
Firm B total (architect - see appendix F, note a.)				**$ 383,673**
Firm C	108433	11/20/2008	40,782	
	108648	12/16/2008	33,075	
	108697	01/01/2009	14,775	
	108931	01/23/2009	16,661	
Firm C total				**$ 105,293**
Totals				**$ 1,135,523**

Appendix H

SCHEDULE OF SECTION 8 HOUSING ASSISTANCE PAYMENTS NOT ACCRUED

Reference no.	Tenant no.	Payment posting date	Check no.	Amount	Total
AP00000044	12983	12/01/2009	509471	$ 573	
APA0001684	12596	12/03/2009	509313	766	
APA0001705	12770	12/03/2009	509452	591	
APA0001764	12978	12/03/2009	509463	775	
APA0001822	12551	12/03/2009	509476	532	
APA0001825	12587	12/03/2009	509476	799	
APA0001831	12979	12/03/2009	509476	599	
APA0001921	12587	12/03/2009	509326	108	
APA0001931	12978	12/03/2009	509351	37	
APA0001944	12979	12/03/2009	509474	49	
December 2009					**$ 4,829**
AP00000053	13192	01/01/2010	509775	557	
AP00000054	13113	01/01/2010	509758	348	
AP00000055	13191	01/01/2010	509751	616	
AP00000056	11156	01/15/2010	509784	371	
APA0002217	12596	01/01/2010	509567	766	
APA0002323	13189	01/01/2010	509663	578	
APA0003136	12481	03/01/2010	510483	695	
January 2010					**$ 3,931**
AP00000062	13193	02/12/2010	510269	177	
AP00000063	13276	02/17/2010	510239	216	
APA0002812	12596	02/02/2010	509804	594	
APA0002920	13189	02/02/2010	509897	578	
APA0003009	11156	02/02/2010	509936	655	
APA0003187	12481	02/10/2010	509941	695	
APA0003186	Not on roster	02/10/2010	509943	19	
APA0003198	Not on roster	02/12/2010	510009	642	
APA0003373	Not on roster	02/23/2010	510114	562	
February 2010					**$ 4,138**
APA0003914	Not on roster	03/30/2010	510185	335	
APA0003530	12596	030/4/2010	510036	594	
APA0003636	13189	03/04/2010	510126	578	
APA0003707	12550	03/04/2010	510160	549	
APA0003798	Not on roster	03/09/2010	510173	948	
APA0003802	Not on roster	03/17/2010	510173	948	
APA0003803	Not on roster	03/17/2010	510177	461	
APA0003896	13193	03/30/2010	510183	492	
March 2010					**$ 4,905**
Total payments not accrued					**$ 17,803**