



## **The Jefferson Parish Housing Authority Marrero, LA, Violated Federal Regulations**



Issue Date: July 30, 2012

Audit Report Number: 2012-AO-1002

TO: Cheryl J. Williams, Director, Office of Public Housing, 6HPH  
Craig Clemmensen, Director, Departmental Enforcement Center, CACB

//signed//

FROM: Nikita N. Irons, Deputy Regional Inspector General for Audit, Atlanta Region,  
4AGA

SUBJECT: The Jefferson Parish Housing Authority, Marrero, LA, Violated Federal  
Regulations

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), final results of our review of the Jefferson Parish Housing Authority procurement and expenditure activities.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at 504-671-3710.



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## The Jefferson Parish Housing Authority Violated Federal Regulations

# Highlights

Audit Report 2012-AO-1002

### What We Audited and Why

We audited the Jefferson Parish Housing Authority as part of our annual audit plan to review public housing programs. Our objective was to determine whether the Authority operated in accordance with the U.S. Department of Housing and Urban Development's (HUD) and other requirements. Specifically, we wanted to determine whether the Authority (1) complied with procurement requirements and (2) ensured that its expenditures were eligible and supported.

### What We Recommend

We recommend that the HUD's Director of Public Housing require the Authority to (1) repay \$202,114 in ineligible costs; (2) support or repay \$453,793; (3) develop and implement proper internal controls; (4) immediately stop using funds for prohibited costs; and (5) provide training to Authority employees. We also recommend that the Director of the Departmental Enforcement Center, in coordination with the Director of the Office of Public Housing, take appropriate administrative sanctions against the Authority's executive director and board members for violating HUD requirements.

### What We Found

The Authority did not always comply with Federal procurement regulations or ensure that its expenditures were eligible and supported. Specifically, it (1) did not always follow Federal procurement and other requirements for its accounting, legal, and auditing services; (2) could not support disbursements made for security services, a grant coordinator, and credit card purchases and paid for ineligible credit card purchases; (3) made ineligible payments to its commissioners; and (4) created a conflict of interest when it made payments to a State legislator's company. These conditions occurred because the Authority did not understand or follow Federal regulations or its procurement policy, did not have adequate procurement or accounting policies and procedures or proper internal controls, and disregarded HUD guidance. As a result, it (1) incurred \$202,114 in ineligible and \$453,793 in unsupported costs and (2) could not provide reasonable assurance that HUD funds were used effectively and efficiently or to fully benefit program participants and were protected from fraud, waste, and abuse.

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## **BACKGROUND AND OBJECTIVES**

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The Jefferson Parish Housing Authority was created by a resolution of the Police Jury of Jefferson Parish and established by State statute. The Authority is a public housing agency located at 1718 Betty Street, Marrero, LA, and manages 200 public housing units, 100 apartments, and 4,663 Section 8 vouchers. The mission of the Authority is to promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination. The Authority is governed by a nine-member board of commissioners appointed by council members from the representative Jefferson Parish districts. The executive director is responsible for providing oversight and administrative supervision of the Authority's daily activities. The current executive director was formerly the board chairman.

The Authority manages the low-income housing program under the provisions of a consolidated annual contributions contract. This contract between the Authority and the U.S. Department of Housing and Urban Development (HUD) requires the Authority to provide low-income housing to eligible residents. HUD provides funds for the operation and maintenance of its low-income program. The Authority has one project-based program, Jefferson Place Apartments, which consists of 16 units on Carmedelle Street. The Authority has a nonprofit component unit, Residential Housing Development Corporation, the board members of which are appointed by the Authority. The purpose of the Residential Housing Development Corporation is to acquire, develop, and foster the improvement of dwelling units for the benefit of certain qualified recipients.

For fiscal years 2009 through 2011, HUD allocated more than \$81.1 million in Section 8 voucher funding. In addition, in fiscal years 2009 through 2011, HUD authorized the Authority to receive more than \$1.8 million in operating subsidies and \$869,230 in Public Housing Capital Fund program funds.

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 assist public housing agencies in the operation and management, financing, modernization, and development of public housing.

Our objective was to determine whether the Authority operated in accordance with HUD's and other requirements. Specifically, we wanted to determine whether the Authority (1) complied with procurement requirements and (2) ensured that its expenditures were eligible and supported.

## RESULTS OF AUDIT

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### Finding 1: The Authority Did Not Always Follow Federal and Other Requirements for Its Accounting, Legal, and Auditing Services

The Authority did not always follow Federal and other requirements for its accounting, legal, and auditing services contracts. Specifically, it could not support the cost reasonableness of its accounting and legal services contracts, did not maintain adequate documentation to support disbursements to its legal services contractor, and did not (1) use the proper procurement method, (2) execute complete bid packages and contracts, (3) maintain required contract documentation, or (4) renew contracts before the expiration date. These conditions occurred because the Authority did not always understand or follow Federal requirements, follow its own procurement and accounting policies, and did not have adequate policies or proper internal controls. As a result, payments totaling \$176,827 were unsupported.

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#### Cost Reasonableness Was Not Supported

Of the three contracts reviewed, the Authority could not support the cost reasonableness for two. Specifically, it did not complete independent cost estimates, obtain adequate competition, receive HUD approval, and conduct adequate cost analyses. Federal procurement regulations<sup>1</sup> required the Authority to comply with Federal cost principles<sup>2</sup>, which state that a cost must be necessary and reasonable for the proper and efficient performance and administration of Federal awards. In addition, the Authority's procurement policy stated that it would comply with Federal procurement requirements<sup>3</sup>, including those that must be met to support cost reasonableness.

#### *Independent Cost Estimates Were Not Performed*

When procuring the three contracts executed with Paragon Accounting for accounting services, Wayne Mancuso for legal services, and Rebowe and Company for auditing services, the Authority did not perform independent cost estimates.<sup>4</sup> When asked, the executive director stated that an independent cost estimate was not applicable because there was adequate competition. This statement was not correct, as an independent cost estimate, which is designed to

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<sup>1</sup> 24 Code of Federal Regulations (CFR) 85.36(f)3

<sup>2</sup> 2 CFR Part 225

<sup>3</sup> 24 CFR 85.36

<sup>4</sup> Because there was adequate competition, this noncompliance did not affect the cost reasonableness of the Rebowe and Company auditing contract.

serve as a benchmark for evaluating the reasonableness of proposed costs, is required before receiving proposals for all procurements.<sup>5</sup>

### **Competition Was Not Adequate**

In addition to not performing independent costs estimates, the Authority did not have adequate competition before awarding the contracts to Paragon Accounting and Wayne Mancuso. Federal regulations<sup>6</sup> required the Authority to ensure that all of its procurement transactions were conducted with full and open competition.

Paragon Accounting: The Authority originally contracted with Paragon Accounting in 2000. Although the executive director denied having documentation for the procurement of the contract before 2006, our previous report<sup>7</sup> showed that the Authority neither (1) had files to show how it selected Paragon Accounting in 2000 nor (2) sought competition for the contract, thus executing a sole source contract.<sup>8</sup> The executive director, who was then the board chairman, was also directly involved in the awarding of Paragon Accounting's contract in 2000.

In 2006,<sup>9</sup> the Authority again advertised for accounting services. However, it received only one proposal from Paragon Accounting. When we asked the executive director for documentation related to other proposals received, he stated that he had only the documentation from the previous executive director and could not provide documentation to support that additional proposals were received and evaluated. As a result, the Authority again executed a sole source contract with Paragon Accounting.

Wayne Mancuso: The Authority received only two proposals, one from Wayne Mancuso and the other from Austin and Associates, when procuring for its legal services. The HUD Handbook<sup>10</sup> defines an adequate number of qualified sources as not fewer than three. Therefore, the Authority did not obtain adequate competition.

The executive director believed that there was adequate competition for all of the contracts. While this was true for its contract with Rebowe and Company, it was not true for the contracts with Paragon Accounting and Wayne Mancuso; therefore, the Authority could not support the cost reasonableness of the \$95,360 disbursed to Wayne Mancuso or the \$81,467 disbursed to Paragon Accounting.

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<sup>5</sup> 24 CFR 85.36(f)

<sup>6</sup> 24 CFR 85.36(e)(1)

<sup>7</sup> 2001-FW-1809

<sup>8</sup> According to the HUD Handbook 7460.8 Rev. 2, paragraph 8.2, a sole source contract is when the Authority solicits an offer from one source, or a "single source," the Authority solicits offers from multiple sources but receives only one, or the competition is determined inadequate.

<sup>9</sup> Although the 2010 contract fell within our audit scope, we reviewed the 2006 contract documentation as well since the 2010 contract was based on a renewal of the 2006 contract.

<sup>10</sup> 7460.8 Rev. 2, paragraph 5.3(A)

### **Required HUD Approval Was Not Obtained**

Not only did the Authority sole source the Paragon Accounting contract, it also contracted with Paragon Accounting for a period exceeding 5 years without HUD approval, a practice prohibited by the HUD Handbook<sup>11</sup>. It states that contracts cannot exceed a period of 5 years, including options for renewal or extension, and contracts that exceed 5 years are viewed as restrictive of competition and in violation of Federal competition requirements<sup>12</sup>. The 2006 contract was effective for 4 years, from August 16, 2006, to August 16, 2010. This contract also had an option to renew or extend for an additional 4 years. When the initial 4 years ended, the Authority renewed the contract for an additional 4 years beginning August 18, 2010, thereby making it an 8-year contract. While HUD may approve contracts that exceed 5 years, the executive director did not seek or obtain HUD approval for its contract with Paragon Accounting. Since the Authority exceeded the 5-year limit and did not obtain HUD approval, it violated HUD requirements and restricted competition.

The executive director also mistakenly believed that the Authority was exempt from all HUD reviews because the procurement was competitive and the Authority self-certified that its procurement policy complied with Federal regulations. However, as discussed above, the procurement of the contract was noncompetitive. Also, the self-certification exemption did not apply to the contract term limitation.

### **Adequate Cost Analyses Were Not Performed**

Although the executive director conducted cost analyses when procuring the Authority's contracts with Paragon Accounting and Wayne Mancuso, the analyses were not adequate. A cost analysis is required for inadequate price competition and sole source procurements,<sup>13</sup> and should include

- Verifying cost and price information;
- Evaluating the effect of a potential contractor's current practices on future costs;
- Comparing costs proposed by the potential contractor with (1) actual costs previously incurred by the same contractor, (2) previous cost estimates from the same contractor or other contractors for the same or similar items, (3) the methodology to be used to perform the work, and (4) the independent cost estimate;
- Verifying that the potential contractor's cost proposal complies with the appropriate cost principles; and
- Verifying that costs are allowable, allocable, and reasonable.<sup>14</sup>

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<sup>11</sup> 7460.8 Rev. 2, paragraph 10.8(C)(2)

<sup>12</sup> 24 CFR 85.36(c)

<sup>13</sup> 24 CFR 85.36(f)(1)

<sup>14</sup> HUD Handbook 7460.8 Rev. 2, appendix 12

Paragon Accounting: In 2006, the executive director completed a cost analysis for the Paragon Accounting contract but did not follow the basic steps outlined above. For example, although he compared the fees in fiscal year 2005 to those of the Shreveport and Monroe housing authorities' in-house accountants, the executive director did not document how he determined the fees. He also did not document the methodology for performing the work and the costs associated with the technical approach used. Further, the comparison of prices included the Section 8 and low-rent programs' costs for the other housing authorities, whereas Paragon Accounting's contract was only for the operating fund program and, therefore, should have been compared only to operating fund-related costs.

The Authority was also required to conduct a brief review of market prices to justify price reasonableness before exercising its option to renew the contract<sup>15</sup> in 2010. For the 2010 cost analysis, the executive director compared Paragon Accounting's fees to those of the Shreveport housing authority's in-house accountant and determined that the fees were comparable. However, the executive director's comparison and justification were not adequate since the Shreveport housing authority's in-house accountant provided services for all of its programs and Paragon Accounting provided services only for the Authority's operating fund. Again, costs should have only been compared to operating fund-related costs.

Wayne Mancuso: The cost analysis performed by the executive director in 2011 was not adequate. The cost analysis documented hourly rate quotes obtained from two law firms. However, the quotes were not from law firms of comparable size when compared to the firms of Wayne Mancuso and Austin and Associates. Specifically, the executive director obtained quotes from large law firms that had more than 50 employees each, whereas Wayne Mancuso and Austin and Associates were small firms with three or fewer attorneys. This difference made the quotes obtained from the larger firms substantially higher than the bids received from Wayne Mancuso and Austin and Associates. Therefore, it was not reasonable to use these quotes for cost analysis purposes. Additionally, the cost analysis did not document any of the steps for conducting a cost analysis outlined above.

## Disbursements Were Not Properly Supported

Not only could the Authority not support the cost reasonableness of its contracts with Wayne Mancuso, it also did not always properly support its disbursements. The Authority was required to maintain complete and accurate books of account and records in accordance with HUD requirements.<sup>16</sup> Additionally, the Authority is required to adequately document its costs.<sup>17</sup> Further, the Authority's

<sup>15</sup> HUD Handbook 7460.8 Rev. 2, paragraph 10.8(D)(3)

<sup>16</sup> Section 15(A) of the Authority's annual contributions contract

<sup>17</sup> 2 CFR Part 225 (c)(1)(j)

accounting policy required it to include a vendor invoice and ensure proper authorization, the validity of purchases, the receipt of goods or services, and the accuracy of amounts.

However, for the \$95,360 disbursed to Wayne Mancuso, the Authority did not obtain an invoice or billing statement to document the work performed or the number of hours worked. The support for the disbursements included only a copy of the check issued to Wayne Mancuso and an excerpt from the contract noting a monthly retainer fee of \$2,500.

### **The Executive Director Did Not Use the Proper Procurement Method**

The executive director did not have a clear understanding of procurement methods and, therefore, did not use the proper procurement method when procuring the Authority's contract with Paragon Accounting. Federal regulations<sup>18</sup> state that the technique of competitive proposals is normally conducted with more than one source submitting an offer. In addition, a competitive proposal is generally preferred when procuring professional services.<sup>19</sup>

Although the Authority received only one bid, the executive director claimed that the procurement was competitive. A review of the procurement file for Paragon Accounting determined that the procurement was noncompetitive, defined by Federal regulations<sup>20</sup> as a procurement through solicitation of a proposal of only one source or after solicitation of a number of sources, competition is determined inadequate. Because the executive director received only one offer, he executed a noncompetitive procurement and, therefore, did not have a clear understanding of procurement methods.

### **Bid Packages and Contracts Were Not Complete**

The Authority included neither the mandatory forms in its bid packages nor all required clauses in its contracts with Paragon Accounting, Wayne Mancuso, and Rebowe and Company. The Authority was required to identify all requirements for fulfillment and all other factors for evaluating bids or proposals in its bid package.<sup>21</sup> Additionally, the Authority was required to include with the bid package two mandatory HUD forms, HUD-5369-B and HUD-5369-C.<sup>22</sup>

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<sup>18</sup> 24 CFR 85.36(d)(3)

<sup>19</sup> HUD Handbook 7460.8 Rev. 2, paragraph 7.4(C)(3)

<sup>20</sup> 24 CFR 85.36(d)

<sup>21</sup> 24 CFR 85.36(c)(3)(ii)

<sup>22</sup> HUD Handbook 7460.8 Rev. 2, paragraph 7.2(B)

A review of the procurement files for Paragon Accounting, Wayne Mancuso, and Rebowe and Company determined that the Authority failed to include the forms with all of the bid packages. For each of the procurements, the executive director indicated that the advertisement was the solicitation package. However, the advertisements included only a general description of the scope of work and evaluation factors, but not the required forms.

Additionally, the Authority was required to include specific contract clauses.<sup>23</sup> However, Wayne Mancuso's contract did not include the termination for cause and access and retention requirements of records clause; Paragon Accounting's contract did not include the access and retention requirements of records clause; and Rebowe and Company's contract did not include the administrative remedies for breach, termination for cause, and mandatory standards and policies on energy efficiency clauses. The executive director stated that he did not know the clauses were required in the contracts.

### **Required Contract Documentation Was Not Maintained**

The Authority did not maintain documentation to support the procurement of its contracts with Paragon Accounting, Wayne Mancuso, and Rebowe and Company. The Authority was required to maintain records sufficient to detail the significant history of procurements.<sup>24</sup> The executive director stated that he followed procedures to ensure that unnecessary or duplicative services were not purchased. However, there was no documentation to support this claim as required by Federal regulations.<sup>25</sup>

In addition, the Authority did not document that it verified that contractors were licensed, eligible, and not debarred before executing a contract.<sup>26</sup> The executive director stated that he had checked the excluded party's list system Web site for each of the contractors but did not print a copy of the results if the contractor was not on the list. Lastly, for Wayne Mancuso's contract, the Authority did not document that profit was negotiated as a separate element of price.<sup>27</sup>

### **The Authority Renewed a Contract After It Expired**

The Authority renewed the Paragon Accounting contract after it expired. The HUD Handbook states that options may not be exercised after the contract

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<sup>23</sup> 24 CFR 85.36(i)

<sup>24</sup> 24 CFR 85.36 (b)9

<sup>25</sup> 24 CFR 85.36(b)(4)

<sup>26</sup> 24 CFR 941.205(d)

<sup>27</sup> 24 CFR 85.36(f)(2)

expiration date because there is no longer a legal and binding contract to extend.<sup>28</sup> However, after the Paragon Accounting contract term expired on August 16, 2010, the executive director authorized the renewal option, effective August 18, 2010, 2 days after the contract expiration date, violating the requirement.

### **The Authority Did Not Follow or Have Adequate Policies**

The Authority did not always (1) understand or follow Federal requirements or (2) follow its own procurement and accounting policies. In addition, it did not ensure that it had adequate policies and internal controls. Specifically, the Authority's procurement policy

- Did not establish appropriate controls over processes;
- Did not have a contract administration system to ensure that contractors performed according to the terms of their contracts;
- Did not address necessary affirmative steps to ensure that minority firms, women's business enterprises, and labor surplus area firms were used when possible; and
- Did not address processes for avoiding the purchase of unnecessary or duplicative items.

In addition, the Authority's accounting policy did not address a system of approvals, authorizations, and separation of duties to ensure that adequate supporting documentation existed for expenditures before making disbursements.

### **The Authority Took Action**

At the February 9, 2012, update meeting, the Authority stated that after it received our results, it canceled the 8-year Paragon Accounting contract. According to the Authority's February 2012 board meeting minutes, it replaced the contract with a month-to-month contract while it advertised for a new accounting contract.

### **Conclusion**

Because the Authority did not always understand or follow Federal regulations, disregarded its own policies, and did not have adequate policies, it did not complete independent cost estimates, obtain adequate competition, obtain HUD approval, conduct adequate cost analyses, or properly support disbursements. In addition, the Authority did not (1) use the proper procurement method, (2) execute complete bid packages and contracts, (3) maintain required contract

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<sup>28</sup> 7460.8 Rev. 2, paragraph 10.8(C)(3)(e)

documentation, or (4) renew contracts before expiration. Therefore, it was unable to support \$176,827 disbursed to contractors.

## Recommendations

We recommend that HUD's Director of Public Housing require the Authority to

- 1A. Support the cost reasonableness of the \$81,467 paid to Paragon Accounting or repay any unsupported amounts to its operating fund from non-Federal funds.
- 1B. Support the cost reasonableness of the \$95,360 paid to Wayne Mancuso under the contract or repay and provide support for the payments made. If unable to support, the amounts should be repaid to its operating fund from non-Federal funds.
- 1C. Revise its procurement policy and procedures and implement controls to ensure those policies are followed and procurements are in compliance with Federal regulations.
- 1D. Develop and implement accounting policies, including but not limited to assembling and maintaining the appropriate supporting documentation before disbursement.
- 1E. Obtain appropriate training for responsible Authority personnel to ensure a clear understanding of HUD procurement laws and regulations.

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## Finding 2: The Authority Used More Than \$280,000 in Federal Funds for Unsupported and Ineligible Costs

The Authority did not always ensure that its expenditures were eligible and supported. Specifically, it could not support disbursements from its operating fund made for security services, a grant coordinator, and credit card purchases. In addition, the Authority paid for ineligible credit card purchases from its operating fund. These conditions occurred because the Authority did not have an adequate accounting policy or internal controls to ensure that its disbursements were adequately supported and used for eligible activities. Also, the Authority's board and executive director did not maintain adequate internal controls to ensure that Authority funds were expended in accordance with HUD and other requirements. As a result, the Authority incurred \$276,966 in unsupported and \$4,090 in ineligible costs and could not provide reasonable assurance that HUD funds were used effectively and efficiently or to fully benefit program participants.

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### Files Lacked Supporting Documentation for Payments

The Authority's files did not always contain supporting documentation for its disbursements for security services, a grant coordinator, and credit card purchases. Federal regulations<sup>29</sup> required the Authority to maintain adequate supporting documentation for its expenditures. However, a review of more than 80 operating fund and related expenditures determined that the Authority did not always ensure that it adequately supported or had eligible expenditures as discussed below.

*The Authority Could Not Support \$240,635 Paid for Security Services:* The Authority had neither a written agreement nor adequate documentation to support disbursements totaling \$240,635 to four Jefferson Parish Sheriff's Office deputies between October 2008 and September 2011. Federal Regulations<sup>30</sup> required the Authority to procure and execute a written agreement, such as a contract or intergovernmental agreement, for these services. However, instead of procuring or executing a written agreement for the security services, the executive director paid the deputies directly. In addition, the Authority did not document the need for the security services by showing that the services exceeded the normal need, such as crime in its developments exceeding the city norm. Further, a review of the supporting documentation for the disbursement determined that although it included a sign-in sheet with the date, name of the officer, and time or hours worked, it did not include documentation showing what areas the deputies

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<sup>29</sup> 2 CFR Part 225(c)(1)(j)

<sup>30</sup> 24 CFR 85.36 (b)

patrolled and whether the patrols were during times of increased crime at the Authority's developments.

*The Authority Could Not Support \$34,418 Paid to Its Grant Coordinator:* The Authority could not support \$34,418 in disbursements to its grant coordinator, the Louisiana Housing Development Corporation. The Authority received two grant awards from HUD, which required the Authority to hire and maintain a grant coordinator, effective April 2010 through March 2012. A review of the disbursements to the Corporation determined that the Authority did not maintain adequate documentation, such as records showing the name of the grant coordinator or time and attendance records. The disbursement file included only a schedule of payments and a copy of the check to the Corporation. When asked, the executive director could not provide the time and attendance records for the grant coordinator but, rather, provided an explanation of the grant coordinator's job duties. The executive director further stated that the Authority could not require the Corporation's employees to sign in and out because the Corporation was a contractor and the Authority could not dictate how it accounted for employees. While the Authority may not have been able to control their contractor's employees, they could have required supporting documentation from the contractor to support its billings. The Authority also should have procured and executed an independent contract for these services, but did not.

*The Authority Could Not Support \$1,913 and Incurred \$4,090 in Ineligible Costs:* The executive director incurred questioned costs using the Authority's Capital One, Wal-Mart, and Lowe's credit cards, and in most cases, the questioned costs exceeded 51 percent of the total payment due to the vendors. The Authority did not maintain and could not provide documentation such as receipts, order confirmations, or other documentation to support \$1,913 in expenditures for various items such as cell phones, hotel stays, balance transfers, and various grocery items.<sup>31</sup> It also made \$4,090 in ineligible payments for various ineligible credit card purchases, including entertainment expenses, as shown in the table below (also see appendix D).

<b>Ineligible credit card expenditures</b>	
<b>Description</b>	<b>Amount paid</b>
Personal use items	\$721
Refrigerators	\$2,190
Meals and entertainment	\$1,173
Finance charges	\$6
<b>Total</b>	<b>\$4,090</b>

In addition to these expenditures being ineligible, they were not necessary and reasonable for the proper and efficient administration of the Authority's programs. Using the Wal-Mart credit card, the Authority purchased office snacks, energy drinks, over-the-counter medications, and soft drinks for personal use by its employees, a practice strictly prohibited by 2 CFR Part 225. In addition, the

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<sup>31</sup> The grocery items were for janitorial type products, which we considered reasonable.

Authority purchased six refrigerators from Lowe's for which it could not provide documentation showing which of its units received the new refrigerators, further violating 2 CFR Part 225, which required the Authority to adequately document costs. Further, the executive director used the Capital One credit card to purchase meals at various restaurants. When asked, the executive director stated that the charges were for meetings with the Authority's board members and contractors. However, these costs were entertainment expenses, which were not allowable under 2 CFR Part 225.

**The Authority Did Not Follow Requirements, Have an Adequate Accounting Policy, or Have Proper Internal Controls**

As discussed above, the Authority did not follow HUD's and other requirements. In addition, the Authority's accounting policy and related procedures were not adequate, and the Authority lacked proper internal controls. Specifically, the accounting policy and procedures

- Did not establish appropriate controls over processes. For example, the policy did not have specific documentation and procedures required for the processing and payment of expenditures. Specifically, it did not include procedures for processing credit card payments such as allowable and unallowable items and the specific supporting documentation required for payment.
- Did not address a system of approvals, authorizations, and separation of duties. For example, the accounting policy's detailed procedures did not designate signature authority for the board chairman or distinguish the levels at which a second signature was required for disbursements or always distinguish which staff member was responsible for which task.
- Was not consistently followed.
- Was not current and readily available to staff.

In addition, Authority staff members stated that they did not follow an accounting policy in performing their job duties and they developed their own policies and procedures during our previous audit<sup>32</sup> of the Authority. Further, the owner of Paragon Accounting stated that she did not have knowledge of the Authority's current accounting or accounts payable policies, but, rather, used policies from the prior two Authority executive directors, which may no longer have been applicable.

Lastly, the Authority's board and executive director did not maintain adequate internal controls over the Authority's funds and its disbursement process. Specifically,

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<sup>32</sup> 2011-AO-1007

- The executive director was directly involved in all Authority transactions and had blanket authority without proper oversight, as he was the contracting officer, and he executed contracts, reviewed invoices, approved disbursements, and signed the disbursement checks.
- The executive director authorized the payment of invoices without adequate supporting documentation.
- During our previous audit<sup>33</sup>, we learned that the executive director kept in his office the board chairman's signature stamp, which he used to sign checks for disbursements. Therefore, the board did not properly oversee the disbursement process, as it was not present during this process.
- While the executive director initialed the invoices reviewed and indicated the funding source, the date the invoices were approved was not included. Therefore, we were unable to determine whether invoices were approved before disbursement.
- The executive director circumvented the accounting policies by processing invoices and authorizing disbursements without documenting that the Authority had received items purchased.
- The executive director approved purchase orders without adequately including required information, such as a description of items purchased, unit price, or quantity of items purchased. Purchase orders also lacked approval before disbursement.
- The executive director was unable to provide information regarding which specific units had repair work performed requiring the use of items purchased with the Authority's credit card(s). The Authority also did not have procedures that required items purchased or used to be assigned to a specific project or unit.

## Conclusion

Because the Authority did not comply with Federal procurement regulations, HUD requirements, or its own procurement and accounting policies and procedures, it could not provide reasonable assurance that HUD operating funds were used effectively and efficiently or to benefit program participants and incurred \$276,966 in unsupported and \$4,090 in ineligible costs.

## Recommendations

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<sup>33</sup> This issue was reported in a minor deficiencies memorandum issued to HUD and the Authority.

We recommend that HUD's Director of Public Housing require the Authority to

- 2A. Provide supporting documentation which shows the need for security services while supporting the cost reasonableness of the \$240,635 disbursed to the four Jefferson Parish sheriff's deputies or repay to its operating fund from non-Federal funds any amounts that it cannot support.
- 2B. Immediately discontinue payments to the four Jefferson Parish sheriff's deputies and procure a contract for security services or enter into an intergovernmental agreement.
- 2C. Support payments of \$34,418 to the Louisiana Housing Development Corporation or repay to its operating fund from non-Federal funds any amounts that it cannot support.
- 2D. Support payments of \$1,913 for various credit card purchases or repay to its operating fund from non-Federal funds any amounts that it cannot support.
- 2E. Repay from non-Federal funds \$4,090 to its operating fund for ineligible credit card purchases that included the purchase of items for donations, personal use products, meals, unaccounted for refrigerators, and finance charges.
- 2F. Immediately stop using funds for prohibited items.
- 2G. Revise and implement accounting procedures and internal controls to include the use of Authority credit cards as well as disbursements, and require a certification of understanding of the procedures and internal controls to be signed by all Authority employees.
- 2H. Develop and implement an inventory control policy.

We also recommend that the Director of the Departmental Enforcement Center, in coordination with the Director of the Office of Public Housing,

- 2I. Take appropriate administrative sanctions against the executive director, including but not limited to debarment from HUD programs, for the disbursement of Federal funds prohibited by HUD requirements.

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### Finding 3: The Authority Violated Federal Law When It Paid More Than \$100,000 to Its Board Members

The Authority did not follow Federal law when it authorized payments to the members of its Board. Specifically, the executive director authorized monthly payments to the Authority's board members for serving on the Board totaling \$99,006, plus \$7,800 for board members to perform home inspections for the Authority's Section 901 home program. These conditions occurred because the Authority did not understand Federal regulations and disregarded HUD guidance. As a result, it incurred \$106,806 in ineligible costs and could not provide reasonable assurance that HUD funds were protected from waste and abuse.

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#### **The Authority Violated Federal Law**

The executive director authorized payments to board members from its Section 8 funds that were prohibited by Federal law. HUD regulations<sup>34</sup> restricted the use of funds under the Housing Choice Voucher program, including Section 8 and administrative reserve fee funds, for only activities related to the provision of Section 8 tenant-based rental assistance, including related development activities. In addition, HUD informed the Authority during an April 2011 meeting that these payments to board members were not allowed. However, the executive director and board members disregarded these regulations and instructions. Between October 2006 and September 2011, the Authority paid what it classified as "per diem" payments to 16 past and present board members from various HUD funds a total of \$106,806 (see Appendix E) for serving on the Board and performing inspections.

In February 2011, the executive director requested and obtained a legal opinion from the Authority's contracted attorney, Wayne Mancuso. Wayne Mancuso concluded that since the monthly per diem payments were made from the Authority's administrative reserve account accumulated before 2004, which were considered non-Federal funds, the payments were within Federal law and, therefore, allowable. However, Wayne Mancuso's legal opinion was incorrect as the monthly payments were not made from the Authority's reserve accounts, between October 2006 and February 2011, but rather from various other Federal fund accounts including the Section 8 funds (See Appendix E). The Authority did not begin paying the board members from the reserve account until March 2011. Regardless, the administrative reserve funds, as well as the Section 8 and other funds, could not be used to pay board members. The Authority has continued to make these ineligible monthly payments to its board members.

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<sup>34</sup> Section 11 of the annual contributions contract, HUD Public and Indian Housing (PIH) Notice 2004-7, paragraph 4, HUD PIH Notice 2007-14 paragraph 8, Section (4)(i) and (ii), and Public Law 108-199.

As related to the inspection payments, the Authority paid its board members to perform inspections of the homes in the Section 901 program. The executive director authorized payments to five board members in fiscal year 2009 totaling \$3,900 and payments to two board members in fiscal year 2010 totaling \$3,900 to perform the inspections. These payments were also ineligible under HUD regulations, as discussed above.

### **The Authority Did Not Always Issue Form 1099s to Board Members**

The Authority did not issue form 1099s<sup>35</sup> to the board members who received payments prior to 2010<sup>36</sup>. When asked, the executive director stated that the monthly board per diems were not taxable income because they were for reimbursable expenses incurred. However, the Authority paid the board members a set rate for attendance at the board meetings and to perform the inspections and did not maintain documentation, other than copies of the checks to the board members, to support the expenses incurred. The executive director stated that he noticed the board member monthly per diems were increasing due to construction inspections and was concerned these amounts may become taxable. Therefore, the Authority began issuing form 1099s in 2010.

### **Conclusion**

Because the executive director did not understand Federal requirements and ignored HUD guidance, the Authority made ineligible payments to its board members. As a result, it incurred \$106,806 in ineligible costs and was unable to provide reasonable assurance that HUD funds were used effectively and efficiently, fully benefited program participants, or were protected from waste and abuse.

### **Recommendations**

We recommend that HUD's Director of Public Housing require the Authority to

- 3A. Seek reimbursement from individual past and present board members and repay HUD \$106,806 in ineligible costs paid between October 2006 and September 2011.
- 3B. Immediately discontinue the practice of paying board members and seek reimbursements for any amounts paid since September 2011 until discontinued.

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<sup>35</sup> Form 1099 series is used to report various types of income other than wages, salaries, and tips.

<sup>36</sup> According to the executive director, this includes 2006, 2007, 2008, and 2009.

- 3C. Direct the Jefferson Parish president to evaluate the effectiveness of the board and remove and replace commissioners as appropriate.

We also recommend that the Director of the Departmental Enforcement Center, in coordination with the Director of the Office of Public Housing,

- 3D. Take appropriate administrative sanctions against the executive director and board members, up to and including debarment, for the disbursement of Federal funds prohibited by HUD requirements.

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## Finding 4: The Authority Created a Conflict of Interest When It Paid More Than \$90,000 to a State Legislator’s Company

The Authority created a conflict of interest when it paid for services provided by a State legislator’s company. Additionally, it violated Federal competition requirements and did not properly procure the services provided. These conditions occurred because the executive director disregarded HUD requirements and the Authority’s own procurement policy. As a result, the Authority incurred \$91,218 in ineligible costs and could not provide reasonable assurance that HUD funds were used effectively and efficiently or to fully benefit program participants.

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### The Authority Created a Conflict of Interest

The Authority paid Diversified Ventures, which was owned by a member of the Louisiana House of Representatives, for repair services, thereby creating a conflict of interest. The Authority’s annual contributions contract<sup>37</sup> prohibited the Authority from entering into a contract, subcontract, or arrangement in connection with a project with a State or local legislator. Over the course of approximately 8 months<sup>38</sup>, the Authority paid \$91,218 from its operating fund to Diversified Ventures for roof repairs, cleanup and restoration services, interior wall repairs, and other services, as shown in the table below (see Appendix C for more details regarding the payments disbursed to Diversified Ventures).

Services provided by Diversified Ventures	Amount paid
Roof repairs	\$62,223
Cleanup and restoration	20,720
Interior wall repairs	8,025
Other	250
<b>Total</b>	<b>\$91,218</b>

The executive director knew the company was owned by a State legislator because he identified him as the contact person for Diversified Ventures. Therefore, he disregarded HUD’s requirements by creating this conflict of interest.

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<sup>37</sup> Section 19(A)(1)(iii)

<sup>38</sup> January 9, 2009 – September 2, 2009

## The Executive Director Violated Procurement Requirements

Not only did the executive director create a conflict of interest, he also violated HUD procurement requirements when he did not competitively procure the services provided by Diversified Ventures. All procurement transactions must be conducted in a manner providing full and open competition,<sup>39</sup> including the procurements that exceeded the Authority's small purchase threshold of \$20,000. The HUD Handbook<sup>40</sup> further elaborates on the Federal competition requirements and prohibits bid splitting, which is the process of breaking down a purchase into multiple smaller transactions to avoid more stringent procurement threshold requirements.

Despite these requirements, the executive director split the services provided by Diversified Ventures to avoid competitively procuring the services. In one instance, within 1 month, the Authority paid Diversified Ventures \$62,223 for roof repairs, which was divided into seven separate payments. The payments were all under the Authority's \$20,000 small purchase threshold. In another instance, within 1½ months, the Authority also paid Diversified Ventures \$20,270 for cleanup and restoration services, which was divided into 46 separate payments. In yet another instance, within 1 week, the Authority paid Diversified Ventures more than \$8,025 for interior wall repairs, which was divided into eight separate payments (see Appendix C). Although the \$8,025 was under the Authority's \$20,000 small purchase threshold, the Authority's procurement policy also required it to obtain three quotes and select the lowest bidder for purchases between \$2,501 and \$10,000. Since each of the eight payments was under the \$2,501 threshold, the Authority circumvented this requirement.

When asked, the executive director stated that the services provided by Diversified Ventures were for emergency work; therefore, the Authority did not advertise for the services and used whichever contractor responded first. Although Federal regulations<sup>41</sup> allowed procurement by noncompetitive proposals in the case of the public exigency or emergencies, the HUD Handbook<sup>42</sup> required the Authority to maintain written documentation showing the justification for the noncompetitive procurement, specific information, and approval by the contracting officer. It also required the Authority to conduct a cost analysis. Further, in the case of a public emergency, the Authority's procurement policy required the executive director to certify the emergency in writing and notify the board. However, the executive director failed to follow any of these requirements.

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<sup>39</sup> 24 CFR 85.36(c)(1)

<sup>40</sup> 7460.8 Rev. 2, paragraph 5.3

<sup>41</sup> 24 CFR 85.36

<sup>42</sup> 7460.8 Rev. 2, paragraph 8.5(A)

## **The Authority Amended Its Procurement Policy**

In an attempt to circumvent the bid splitting issues identified, the Authority and its board amended the Authority's procurement policy to increase the Authority's small purchase threshold from \$20,000 to \$100,000.

## **Conclusion**

Because the executive director did not comply with HUD's and other requirements, the Authority entered into a conflict-of-interest transaction, engaged in bid splitting, and restricted full and open competition. Therefore, it incurred \$91,218 in ineligible costs and could not provide reasonable assurance that it used HUD funds effectively and efficiently or to fully benefit program participants.

## **Recommendations**

We recommend that HUD's Director of Public Housing require the Authority to

- 4A. Repay from non-Federal funds the \$91,218 paid to Diversified Ventures, which created a conflict of interest.
- 4B. Develop and implement controls to ensure that conflict of interest situations are avoided.
- 4C. Develop and implement controls to ensure that bid splitting is avoided and full and open competition is obtained when procuring goods and services.

We also recommend that the Director of the Departmental Enforcement Center, in coordination with the Director of the Office of Public Housing,

- 4D. Take appropriate administrative sanctions against the executive director, up to and including debarment, for the disbursement of Federal funds prohibited by HUD requirements.

## SCOPE AND METHODOLOGY

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We conducted our audit at the Authority's office in Marrero, LA, and the HUD Office of Inspector General's (OIG) office in New Orleans, LA. We performed our audit between October 2011 and May 2012.

To accomplish our objective, we

- Reviewed laws, regulations, and program guidance relevant to the Authority's housing programs.
- Interviewed HUD, Authority staff, and the Authority's contractors.
- Reviewed the Authority's audited financial statements.
- Reviewed the Authority's annual contributions contract amendment, annual statements, and 5-year plan.
- Reviewed the Authority's board meeting minutes.
- Reviewed the Authority's procurement and accounting policies.
- Reviewed the Authority's procurement and expenditure files.

During our audit scope and based upon its contract log, the Authority executed five contracts. We removed two contracts from the universe because they were funded with Section 8 administrative funds and were not subject to HUD procurement regulations. We used the 100 percent selection method to select the remaining three procurement files, with disbursements totaling at least \$266,250, and evaluated whether the Authority conducted the procurements in accordance with HUD requirements.

The Authority had 2,409 expenditures totaling more than \$2.3 million paid from its operating fund. We selected 83 operating fund expenditure files for review, totaling \$682,919. Of the 83, we reviewed 10 expenditure files for Paragon Accounting, totaling \$16,885. We chose the 10 files since we reviewed the related procurement file. The remaining 73 were expenditures for various vendors, including Wayne Mancuso, totaling \$666,034. We focused on expenditures to contractors, individuals, Authority personnel, and vendors; and selected those who received \$25,000 or more. We reviewed the 6 largest expenditures for each of the 8 identified, for a total of 48 expenditures reviewed totaling \$637,463. We reviewed an additional 25 files related to the 5 largest expenditures for 1 contractor and 4 credit card vendors totaling \$28,571. When warranted, we expanded our review beyond the 83 files selected for review for related expenditures, and reviewed a total of 134 expenditures. The results of our expenditure review apply only to the items selected and reviewed, and cannot be projected to the universe or population of expenditures. We reviewed the expenditures to determine whether the disbursements were eligible, supported, and paid in accordance with HUD and other requirements, as applicable. Through file reviews, we determined that the electronic disbursement data were generally reliable.

Our audit scope covered the period October 1, 2008, through September 30, 2011. We expanded the scope as needed to accomplish our audit objective. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

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

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

We assessed the relevant controls identified above.

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

## Significant Deficiencies

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

- The Authority lacked adequate controls to ensure that procurement activities complied with applicable laws and regulations (see findings 1 and 4).
- The Authority did not have controls in place to ensure that all disbursements were for eligible and supported activities (see findings 2, 3, and 4).
- The Authority did not have adequate written accounting policies and procedures (see findings 1 and 2).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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Recommendation number	Ineligible 1/	Unsupported 2/
1A		\$81,467
1B		95,360
2A		240,635
2C		34,418
2D		1,913
2E	\$4,090	
3A	106,806	
4A	91,218	
<b>Totals</b>	<b>\$202,114</b>	<b>\$453,793</b>

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

**HOUSING AUTHORITY OF JEFFERSON PARISH**



Barry Bordelon  
*Executive Director*

June 18, 2012

Nikita N. Irons  
Deputy Regional Inspector  
General for Audit  
500 Poydras Street, Room 1117  
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**Commissioners**  
David D. Duplantis  
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Hunley P. Dufour, Jr.  
*Vice-Chairman*  
  
Bill Boada  
Terrell Harris  
Jonathan Liberto  
Michael P. Mentz  
Patrick A. Pierson  
Simone Scnnio  
Mary Snowden

Dear Ms. Irons:

We write in response to your June 8, 2012 letter, which transmitted a draft audit of the Jefferson Parish Housing Authority (the "Authority") for our review. Our detailed analysis follows, but here are some pertinent observations to bear in mind throughout:

- The draft contains numerous mistakes of fact and law, which suggests a lack of due care on the part of the auditors. These errors are particularly distressing, considering that over the course of an eight-month audit, the Authority provided detailed explanations of issues addressed in the draft, which the auditors ignored.
- In other instances, the draft report engages in rank speculation and makes unsupported allegations that, we submit, have no place in a document of this kind.
- The audit improperly makes references to the findings of a prior audit (in which, the audit conspicuously fails to mention, the Authority was exonerated in a letter from HUD closing the matter and certifying that no funds were to be repaid) and recites other unnecessary facts for no purpose other than to invite unfounded suspicion. For example, in the very first paragraph, the draft incorrectly asserts that the executive director "is appointed by the Parish President, who is responsible for providing oversight and administrative supervision of the Authority's daily activities." Not only does the Parish President *not* appoint the executive director, the Parish President's role has no bearing on any of the findings in the audit. These editorial comments and asides are unhelpful and demonstrate a lack of care and professionalism in the conduct of the audit.
- The Authority is a relatively small housing authority with just 200 public housing units. Its annual conventional budget is approximately \$1.2 million. In many places, the draft treats the Authority as if it were a much larger entity and incorrectly faults the Authority based on this incorrect assumption.
- Finally, we cannot understand why the draft would make assertions that were already disproven, speculate as to irrelevant issues, and engage in innuendo and hyperbole, all at the Authority's expense. The presence of these conditions in the draft causes us to question the motivation of the persons responsible for drafting it.

**Comment 1**

**Comment 2**

**Comment 3**

**Comment 4**

**Comment 5**

**Comment 2**

Below we respond in detail to the errors in the draft report, beginning with Finding No. 3, which is perhaps the most clearly erroneous. For each finding, our response generally follows the order of presentation found in the draft. We will be happy to provide any further clarification rather than continue the auditors' careless reporting of the law and facts.

**Response to Finding 3:**

The Authority Complied with All Applicable Law When It Used Unrestricted, Pre-2004 Non-Federal Funds to Reimburse Board Members for Authority-Related Expenses through Per Diems

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The draft audit's most serious allegations are also the most incorrect; the draft applies the wrong law, misstates or misunderstands the facts, and employs unnecessary inflammatory language to suggest incorrect conclusions.

*The draft audit applies the wrong contract*

First, the draft audit applies the wrong contributions contract, as explained in the attached letter from attorney Thomas M. Flanagan.<sup>1</sup> The draft asserts that, "Section 14 of the Authority's annual contributions contract stated that no funds of any project could be used to pay compensation for services of the board." But the audit incorrectly references Section 14 of the Conventional Form ACC (Form HUD-53012A), which does not apply to the funds the Authority uses to pay per diems. Instead, the Authority uses unrestricted, non-federal funding from the pre-2004 Section 8 program, which is controlled by the Voucher Form ACC (Form HUD-52520 (12/97)). That voucher program ACC expressly *permits* the Authority to use excess funds in the administrative fee reserve "for other housing purposes." Moreover, HUD spokesperson Patricia Campbell explained that these excess administrative fees from the Section 8 program are "not considered to be HUD money and can be spent by a housing authority for any housing-related purpose."<sup>2</sup> Reimbursing board members for Authority-related expenses is clearly a "housing purpose." This was reiterated in a phone conference with HUD's June Burnes, who opined us that "per diems would be a permissible use" of the unrestricted funds.<sup>3</sup>

The draft compounds the legal error by incorrectly claiming—*without a citation to any source*—that, "according to HUD, the administrative reserve funds accumulated prior to 2004

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<sup>1</sup> Exhibit 1, June 15, 2012 opinion letter from attorney Thomas M. Flanagan.

<sup>2</sup> Exhibit 2, *The Times-Picayune*, "Housing Authority Rehabilitated," by Sandra Barbier, March 23, 2004.

<sup>3</sup> June 12, 2012 phone conference between the Authority and June Burnes, Division Director, South Team for Section 8 Housing.

**Comment 6**

were considered Federal funds and could not be used to pay board members.” Instead, HUD’s contract with the Authority states exactly the *opposite*:

b. The HA must use funds in the administrative fee reserve to pay administrative expenses in excess of program receipts. If any funds remain in the administrative fee reserve, the HA may use the administrative reserve funds for other housing purposes if permitted by State and local law.

c. If the HA is not adequately administering any Section 8 program in accordance with HUD requirements, HUD may:  
(1) Direct the HA to use the funds to improve administration of the Section 8 program or for reimbursement of ineligible expenses.  
(2) Prohibit HA use of administrative fee reserve funds.<sup>4</sup>

**Comment 6**

This same concept is repeated in the Section 8 HCV Administrative Plan, which clarifies that HUD may prohibit the use of funds only in cases of misuse in the Section 8 program.<sup>5</sup> There is obviously no misuse here—for the Section 8 program, the Authority’s “final SEMAP score for the fiscal year ended on 9/30/2011 is 100,” and the score was 97% for the year ending 9/30/10.<sup>6</sup>

**Comment 7**

Finally, the draft alleges that the Authority is in violation of state law by paying per diems, but it misses an obvious point: La. R.S. 40:540 states clearly that board members “shall be entitled to reimbursement for necessary expenses, including travel expenses, incurred in connection with the discharge of their duties.” Because the per diems are “reimbursements,” state law permits them. The Louisiana Attorney General agrees, issuing an opinion that held that similar lump-sum, per-diem reimbursements for another entity are in compliance with state law.<sup>7</sup> In addition to the state’s permission, the Jefferson Parish Council passed an ordinance that specifically authorizes the payments of per diems to Authority board members.<sup>8</sup> It is perplexing

<sup>4</sup> Exhibit 3, Form ACC (Form HUD-52520 (12/97) at § 12(b-c).

<sup>5</sup> Exhibit 4, Section 8 HCV Administrative Plan (10/1/09) at p. 16-2. (“If funds in the administrative fee reserve are not needed to cover PHA administrative expenses, the PHA may use these funds for other housing purposes permitted by Federal, State and local law. If the PHA has not adequately administered any Section 8 program, HUD may prohibit use of funds in the administrative fee reserve, and may direct the PHA to use funds in the reserve to improve administration of the program or to reimburse ineligible expenses.”).

<sup>6</sup> Exhibit 33, Letters from HUD’s Cheryl Williams to the Authority’s Barry Bordelon dated Dec. 16, 2011 and Nov. 30, 2010.

<sup>7</sup> Exhibit 6, Attorney General Opinion 91-346.

<sup>8</sup> Exhibit 5, Jefferson Parish Council Ordinance No. 16844, enacted April 2, 1986.

that the draft suggests the local government did not approve the per-diem reimbursements when, in fact, it did.<sup>9</sup>

**Comment 7**

If there were any doubt that state law permits per diems, La. R.S. § 40:531(F) removes it by stating most clearly:

**The local housing authority may permit a per diem to each member of the commission of the local housing authority in an amount of not less than seventy-five dollars for each day of his attendance at meetings of the commission from funds of the local housing authority.**

This provision unmistakably makes per-diem reimbursement for the attendance of board meetings permissible under state law. It is unfortunate that the draft audit omits any reference to this statute—despite the Authority’s bringing it to the auditors’ attention.

As a matter of providing accurate information to HUD and showing fairness to the Authority, it is imperative that the final audit correctly recite the law and properly cite to sources. The draft fails to do so in finding No. 3. In fact, the use of unrestricted, pre-2004 non-federal funds for the housing purpose of per-diem reimbursements for Authority board members complies with all applicable HUD policy and state law.

*The draft audit mischaracterizes per diems as compensation rather than reimbursement and makes other factual errors*

**Comment 8**

The draft audit’s conclusions rely on a number of material factual errors. First, the audit incorrectly describes the per-diem payments as “compensation” and uses quotation marks in an apparent attempt to cast suspicion on the term *per diem*. As was repeatedly demonstrated to the auditors, the per-diem payments were *not* “compensation for services,” as the draft incorrectly alleges. The board members were *not* paid compensation to attend meetings or perform inspections. Instead, the payments reimbursed board members for mileage, tolls, parking, meals, copies, cell-phone use, postage, and other expenses incurred by the board members for Authority-related work while attending meetings and performing inspections.<sup>10</sup> The records are clear that these costs to the board members for performing their duties were not reimbursed separate from or in addition to the per diems. As the audit acknowledges, such reimbursement is entirely permissible—board members under Louisiana law are “entitled to reimbursement for

**Comment 7**

<sup>9</sup> Draft audit, p. 20.

<sup>10</sup> There seems to be a mistaken assumption that travel expenses such as mileage, parking, and tolls can be reimbursed only for lengthy trips. There is no such requirement, and the draft audit cites to no authority for one. Besides, the board members accumulate significant mileage over the course of their Authority-related activities in a parish that spans the entire New Orleans metropolitan area on two sides of the Mississippi River.

**Comment 6**

necessary expenses, including travel expenses, incurred in connection with the discharge of their duties.”<sup>11</sup>

The audit also incorrectly alleges that HUD informed the Authority during an April 2011 meeting that per diems to board members were not allowed.<sup>12</sup> HUD made no such representation to the Authority, and the auditors cite no source for this assertion. Instead, at a meeting Authority officials requested in order to introduce themselves to a new HUD administrator in the local office, the topic of per diems arose, and a local HUD official asked for additional information about the per diems. The Authority provided an explanatory letter with supporting documentation in response. HUD never contacted the Authority about the per diems again and never gave the Authority any indication that they were impermissible. No doubt HUD would have responded to the Authority’s submission in writing if it had any concerns about the per-diem reimbursements. Contrary to the inflammatory accusations of the draft, the executive director and board members did not disregard any regulations or HUD instructions.<sup>13</sup>

**Comment 6**

Finally, while the draft states correctly that the per diems were not paid from a particular reserve account, the audit ignores that *the separate reserve account did not exist until February 2011*, which the auditors learned directly from the bank. Prior to that, the unrestricted, pre-2004, non-federal funds were located in other Authority accounts. More importantly, the audit incorrectly contradicts attorney Wayne Mancuso’s report and incorrectly implies that the funds used to pay per-diem amounts to reimburse board members were restricted funds “paid from various other Federal fund accounts.”<sup>14</sup> The Authority’s accounting records show that the funds used to pay per diems were unrestricted, pre-2004 non-federal funds that can be spent on any other housing purpose.

**Comment 6**

The audit provides a misleading Appendix E in a clumsy attempt to show that the Authority paid the per-diem reimbursements with the wrong funds. The appendix mislabels the accounts and generates confusion. For example, the Authority has no account labeled “Section 8” as shown in Appendix E. That account is actually entitled “Housing Voucher Program.” As was explained to the auditors, simply identifying the accounts from which per diems were paid—even if the identification was done properly—would not provide HUD with sufficient information to know what funds were used to pay the reimbursements. As is customary, the

<sup>11</sup> Draft audit, p. 20; *see also* Exhibit 6, Attorney General Opinion 91-346.

<sup>12</sup> Draft audit, p. 20.

<sup>13</sup> Instead of providing per diems, some housing authorities incur expenses directly by catering meals, etc. *See also* Exhibit 7, Chicago Housing Authority General Business Expense Policy, at no. 12: “The CHA’s Board of Commissioners holds regular meetings....Meals and/or refreshments costs associated with these meetings will be an allowable expenditure.” It is clear that funds may properly be spent to provide meals for board members conducting Authority business.

<sup>14</sup> Draft audit, p. 21.

**Comment 6**

Authority does not maintain separate accounts for every single type or source of funding. Instead, the Authority's money is held in a number of different accounts, and the Authority tracks income and expenses on its General Ledger to ensure the expenses are paid with funds from the appropriate source.

**Comment 6**

Thus, the draft's appendix should have referenced the general ledger entries, *not the accounts*, to show the per-diem reimbursements did, in fact, come from unrestricted, pre-2004 non-federal funds. The audit's reliance on the wrong data to support its conclusions is indicative of its inattention to detail. Paragon Accounting worked diligently to demonstrate to the auditors precisely how the reimbursements were made, and it is disappointing that the audit resorts to creating a misleading and ultimately irrelevant appendix that cannot support the audit's conclusion. It is impracticable to provide in these pages a written narrative of the accounting that supports the proper payment of reimbursements from the correct funds, but Paragon Accounting has created a short summary (attached) to provide HUD with helpful information.<sup>15</sup> This summary is accompanied by additional detail schedules, already provided to the auditors, in case additional information is desired.<sup>16</sup> Further, Paragon is willing to explain once again the accounting history and procedures that drew the per-diem reimbursements from the correct, unrestricted funds. At all times, the per diems were properly recorded and fully accounted for, and year-end reconciliations ensured that the per-diem payments were always made with unrestricted, pre-2004, non-federal funds.

***Conclusion***

**Comments 6,  
7, and 8**

The draft applies the wrong law to incorrect facts to conclude that per-diem reimbursements to board members, paid from unrestricted, pre-2004 non-federal funds, were impermissible. The Authority was in compliance at all times with (i) HUD regulations and policy and (ii) all applicable state and federal law in providing the reimbursements. The payments were meticulously recorded, accounted for, and properly used to reimburse the board members for their costs related to their Authority-related activity. The draft's conclusion in Finding No. 3 is without factual or legal basis, and the recommendations are unwarranted. The Authority objects to both, and we request that this finding be removed from the audit report in its entirety.

***Responses to Recommendations***

**Comment 9**

- 3A—The per-diem reimbursements are eligible expenses under both HUD regulations and state law. All of the disbursements were appropriate reimbursements of board members' expenses on official duty. None of the board members should be asked to repay these reimbursements.

<sup>15</sup> Exhibit 8, summary prepared by Paragon Accounting.

<sup>16</sup> Exhibit 9, detail schedules prepared by Paragon Accounting.

**Comment 9**

- 3B—The per-diem reimbursements remain eligible expenses under both HUD regulations and state law. Board members are entitled to reimbursement for expenses incurred in performing official duties. The per-diem reimbursements should be continued, and none of the board members should be asked to repay these reimbursements.

**Comment 10**

- 3C—The audit’s findings invent a spurious dispute over legal interpretation, and there is no cause for removal of any board members. Moreover, the audit is beyond its scope in asking the parish president to evaluate the “effectiveness” of the board in response to a false allegation. The board has acted appropriately, is entitled to reimbursement, and has been effective. There is no need for the parish president to investigate obviously false accusations based on the draft audit’s multiple errors of fact and law.

**Comment 10**

- 3D—As shown above, no federal funds were improperly disbursed. Board members are entitled to reimbursement for their expenses, and state and local law and HUD regulations fully support the payment of per-diem reimbursements from unrestricted, pre-2004, non-federal funds, as was done here. The executive director acted in compliance with the law at all times and should not be subjected to a burdensome investigation on the basis of unfounded conclusions based on numerous errors of fact and law. No administrative sanctions or disbarment is warranted.

**Response to Finding 1:**

The Authority Complied with All Applicable Law When It Entered into Small Contracts to Obtain Professional Services at Verifiably Reasonable Prices

**Comment 11**

Finding no. 1 in the draft addresses the Authority's compliance with procurement policies and regulations regarding contracts for legal, auditing, and accounting services. The draft alleges the Authority is unable to support the reasonableness of its procurement of these services. It, however, overlooks several important facts that ensured the reasonableness of the procurement and kept the Authority compliant with regulations and procedures. The finding also misstates the applicable law or fails to cite relevant provisions. In fact, in many instances, the draft directly contradicts HUD's "Quick Guide to Cost and Price Analysis for HUD Grantees and Funding Recipients."<sup>17</sup>

The Authority conducted research to ensure these relatively simple contracts for basic services were reasonable. For example, in the case of legal services, the monthly retainer fee has not increased since at least 1995. The Authority complied with all regulations, and it can support the cost reasonableness of all three small contracts for routine services.

**The Authority Supported Cost Reasonableness through the Methods Described in Applicable Regulations**

**Comment 12**

*The Authority performed proper independent cost estimates.*

The draft audit incorrectly asserts that the Authority did not perform cost estimates for the three contracts in question. But cost estimates were in fact performed. The HUD Procurement Handbook calls for independent cost estimates that are proportional to the complexity and size of the contracts. For contracts below the small purchase threshold, "documentation should be kept to a minimum," and for cost estimates even for larger contracts, "the level of detail will vary but should be commensurate with the size (i.e., dollar value), complexity, and commercial nature of the requirement."<sup>18</sup> Likewise, to the extent 24 CFR 85.36(f)(1) requires independent cost estimates for these contracts, "the method and degree of analysis is dependent on the facts surrounding the particular procurement situation."

The Authority conducted price estimates that were commensurate with the size and complexity of these contracts for basic services. A comparison to the price of the prior contract or to the prices on competing bids was more than sufficient, but the Authority in some instances went even further to investigate the fees paid by other nearby housing authorities.

<sup>17</sup> Exhibit 32, HUD's "Quick Guide to Cost and Price Analysis for HUD Grantees and Funding Recipients."

<sup>18</sup> Exhibit 10, Excerpt of HUD Procurement Handbook, §3.2(D)(2-3).

**Comment 13**

- In the Authority’s cost estimate for the legal services contract, the Authority found that the monthly retainer fee for legal services was identical to past contracts going back to at least 1995.<sup>19</sup> Additionally, the Authority was able to compare the price of a competing bid to ensure the accuracy of its cost estimate.

**Comment 14**

- The Authority also used prior contracts and examined the costs of other Louisiana housing authorities to estimate the cost of accounting services. That review was performed in July 2006 before the first contract with Paragon Accounting was signed in August 2006. The Authority later prepared written cost-reasonableness analyses that verified the estimate, showing Paragon worked at a rate of approximately \$67/hour, well below the market rate for an accountant with similar experience and well below the prices paid by other housing authorities for similar services. These analyses served as cost estimates when the contract was renewed and awarded again through a second competitive process.<sup>20</sup>

**Comment 15**

- The Authority used prior contracts and competing proposals to perform a cost estimate for auditing services, and there was adequate competition.

**Comment 16**

All three of these contracts were relatively small, simple contracts for routine services. Contrary to the draft’s suggestion, the Authority was not required to produce extensive, written cost estimates for these contracts. Instead, the Authority properly conducted simple, informal cost estimates for all three contracts using available information, including prior contracts.

*Competition for all three contracts was more than adequate.*

**Comment 17**

Again, the draft audit mistakenly reports that the Authority did not have adequate competition for the contracts. But all three contracts were advertised in the newspaper, which is sufficient under applicable regulations to ensure full and open competition.

**Comment 18**

The Authority advertised in *The Times-Picayune*, the local newspaper of record, that it was seeking vendors to provide the accounting, auditing, and legal services.<sup>21</sup> No contract was the result of a direct solicitation; instead, all vendors for these services were selected through an open request-for-proposal process. By definition under HUD regulations, this generated adequate competition and prevented any of the contracts from being non-competitive or a “sole-

<sup>19</sup> Exhibit 11, 1995 Legal Services Contract reflecting a \$2,500 per month retainer fee that is identical to the fee paid to current legal services provider Wayne Mancuso. If anything, the cost estimate suggests the price is unfair to Mr. Mancuso.

<sup>20</sup> Exhibit 12, Cost Estimate for Paragon Accounting and subsequent cost reasonableness analyses performed concerning the Paragon Accounting contracts.

<sup>21</sup> Exhibit 13, (i) 2006 *The Times-Picayune* advertisement of auditing contract and (ii) July and August 2009 advertisement of the legal services contract in *The Times-Picayune*.

source” contract.<sup>22</sup> In fact, HUD has previously stated to the Authority that advertisement of contracts “in a newspaper with wide circulation...afforded open and fair competition.”<sup>23</sup>

#### A. Paragon Accounting

Here, the draft drifts into an unfair and irrelevant discussion of the findings of a prior audit.<sup>24</sup> All concerns raised by that prior audit were resolved, and the Authority was fully exonerated.<sup>25</sup> Although the draft recounts the earlier debunked findings, it fails to record that the Authority was cleared in full. It also misstates that the current executive director “was also directly involved in the awarding of Paragon Accounting’s [original] contract in 2000” by virtue of his position on the board at the time. In truth, Paragon was selected by the former executive director, Pat Landry, and approved by a vote of the entire board. This entire paragraph should be removed from the report.

The draft engages in improper speculation in the very next paragraph, stating that it “appeared” that the Authority “again” executed a sole-source contract in 2006.<sup>26</sup> In fact, a request for proposals was advertised in the newspaper, meaning the process was competitive and could not, by definition, be a non-competitive or “sole-source” contract.<sup>27</sup> And further, the audit recounts that the Authority simply does not have records of the competing bids received in 2006. The loss of rejected bids for a contract executed six years ago under a different director does not give the “appearance” of a sole-source contract. In fact, if the audit wished to engage in such mere speculation, it should have noted that proposals for this contract were solicited in the aftermath of Hurricane Katrina when service providers were scarce and when HUD was pressuring local housing authorities to resume activities quickly to provide housing to those whose homes were destroyed in the storm. It is noteworthy, too, that the base rate for the accounting contract is only \$200 more per month than the same contract awarded more than a decade ago. This small contract for basic services was properly awarded at an appropriate price. This paragraph, too, should be removed from the report for its baseless speculation about a competitive contract that, by definition, cannot be a “sole-source” contract.

<sup>22</sup> 24 CFR 85.36.

<sup>23</sup> Exhibit 14, April 10, 2002 correspondence from Chester Drozdowski, Director, Office of Public Housing for the Louisiana-Mississippi HUD Office to Patricia Landry, the former executive director of the Jefferson Parish Housing Authority.

<sup>24</sup> Draft audit, p. 6.

<sup>25</sup> July 18, 2003 letter from Irving LaPoint, Acting Director of the Office of Public Housing.

<sup>26</sup> Draft audit, p. 6.

<sup>27</sup> 24 CFR 85.36.

Comment 19

Comment 20

**Comment 21**

**B. Wayne Mancuso**

The draft once again cites the wrong regulation to assert that three proposals were required to ensure fair competition. The draft cites the HUD Procurement Handbook at § 5.3(A), but this section concerns small purchase procedures that involve the direct solicitation of bids by phone. None of the contracts at issue were awarded through this process; all were advertised in the newspaper to the public at large. The regulation cited is inapplicable to these contracts. And even then, the draft overstates the wrong law it cited by claiming that the “HUD Handbook defines an adequate number of qualified sources as not fewer than three.”<sup>28</sup> Instead, the Handbook merely says that three sources are “generally” required.<sup>29</sup>

The correct regulations to apply to the contracts at issue are found in Chapter 7 of the HUD Handbook. That chapter makes clear that the Authority complied with procurement requirements by advertising its request for proposals in the newspaper. The regulations do not specify a minimum number of responses that must be received because the contract was advertised to the general public.<sup>30</sup> Relying on an inapplicable regulation, the draft is thus flatly wrong when it states that the Authority did not obtain adequate competition for Wayne Mancuso’s contract for legal services simply because the Authority received two proposals.

**C. Rebowe and Company**

The draft audit concedes that there was adequate competition for the auditing services contract awarded to Rebowe and Company.<sup>31</sup>

*The Authority terminated its contract with Paragon Accounting when it learned HUD had not approved the four-year renewal option.*

**Comment 22**

The draft audit again misstates that the Paragon Accounting contract was a sole-source contract when, in fact, the contract was advertised in newspapers and was not offered to Paragon alone. The draft further points out that Paragon’s 2006 contract was for a term of four years with a four-year option to renew, thus surpassing the five-year term threshold that requires HUD approval. The current executive director presumed that all the contracts in place when he became director were properly executed and approved, including the Paragon Accounting contract. When the oversight was brought to the Authority’s attention, the board immediately terminated the Paragon contract and advertised a request for proposals in the newspaper in a competitive process for a new contract. Both the 2006 and the 2012 contracts were advertised and were, therefore, competitive, contrary to the draft’s report.

**Comment 23**

<sup>28</sup> Draft audit, p. 6.

<sup>29</sup> Exhibit 15, Excerpt of HUD Procurement Handbook at §5.3(A) (emphasis added).

<sup>30</sup> Exhibit 16, HUD Handbook Chapter 7.

<sup>31</sup> Draft audit, p. 6.

**Comment 23**

*Adequate cost analyses were performed for all contracts*

The draft confirms that “the executive director conducted cost analyses when procuring the Authority’s contracts with Paragon Accounting and Wayne Mancuso” but incorrectly labels the analyses inadequate. The draft includes a list of criteria to be found in a cost analysis for “sole-source” procurements and in situations of inadequate competition.<sup>32</sup> As demonstrated above, however, neither instance is applicable to the three contracts in question. All contracts were advertised in the newspaper, meaning none can be classified as sole-source or non-competitive.<sup>33</sup> And requests for proposals advertised in the newspaper do not require any minimum number of responses—the draft again relies on the wrong regulations to reach its conclusions.

**Comment 24**

In fact, the Authority’s cost analyses were not required to contain the elements listed in the draft. Because all three contracts were publicly advertised with adequate competition, cost analyses were not required for these contracts under § 10.3(B) of the HUD Handbook (No. 7460.8 REV 2 2/2007). That section outlines “alternative methods of establishing price reasonableness without having to conduct a formal cost analysis.” In many cases, a simple comparison of the proposed prices received in a bidding process is sufficient: “A comparison of proposed prices received in response to the solicitation to each other is generally sufficient to establish price reasonableness.”<sup>34</sup> Additionally, the Handbook permits the comparison of proposed prices to prior proposed prices and contract prices as well as a comparison to catalogs or market prices.<sup>35</sup>

Moreover, the Handbook also makes clear that a cost analysis was not required for any of these contracts. The Handbook requires a cost analysis under § 10.3(C)(3) in a competitive bid process when a sufficient number of bids are not received “*and the PHA cannot establish price reasonableness through alternative means.*” For these small contracts, the Authority received sufficient bids *and* was able to establish price reasonableness through prior contracts and other proposals. In fact, with regard to audit services, the draft found that there was “*adequate competition*” that “*did not affect the cost reasonableness of the contract.*”<sup>36</sup>

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<sup>32</sup> Draft Audit, p. 7.

<sup>33</sup> 24 CFR 85.36 outlines the methods of procurement. The Authority publicly advertised its requests for proposals for all three contracts, fitting them under the definition of a competitive contract. None of the contracts involved the direct solicitation of bids, so none fall under the regulation’s definition of non-competitive contracts or any definition of a sole-source contract.

<sup>34</sup> Exhibit 17, Chapter 10 of the HUD Procurement Handbook.

<sup>35</sup> *Id.*

<sup>36</sup> Draft audit, footnote 1 (emphasis added).

**Comment 25**

**A. Paragon Accounting**

The draft audit raises concerns about the adequacy of the cost analysis performed by the former executive director in awarding the contract to Paragon in 2006. The draft incorrectly asserts that the former director violated regulations when he compared Paragon's prices to the accounting prices paid by housing authorities in Monroe and Shreveport. As shown above, the costs analysis requirements described in the draft do not apply to this competitive contract, and the audit invents new requirements when it complains that the director "did not document how he determined the [Shreveport/Monroe] fees." There is no such documentation requirement even in the criteria the draft improperly applies to this contract. Further, the draft complains that the analysis "does not document the methodology for performing the work," which is inapplicable to a contract for accounting services. For a relatively small and simple contract like the Paragon accounting contract, the cost analysis conducted using another authority's costs was more than sufficient.

The audit also finds fault with the Authority's 2010 analysis of market prices before exercising the option to renew the Paragon contract. But the draft again rests on incorrect facts. The draft mistakenly states that the executive director compared Paragon's contract for accounting services for low-rent housing programs to the prices paid for an in-house accountant to service all of the Shreveport programs. The draft makes this claim without citation to any authority, which explains why the draft is wrong. Instead, the director compared Paragon's prices to the work performed in Shreveport for low-rent housing programs and found that Paragon's \$18,000 price tag was significantly below the \$51,742 paid for directly comparable services in Shreveport.<sup>37</sup> In short, the cost analysis for the Paragon contract complied with all applicable regulations, was more than adequate, and shows that the Authority is obtaining the services at a bargain price.

**B. Wayne Mancuso**

The draft audit again resorts to baseless speculation and invents new rules when it complains that the cost analysis for legal services was insufficient because it did not compare law firms of comparable size.<sup>38</sup> Nothing in the regulations requires a cost analysis to compare firms of the same size, nor is there any support for the auditors' mistaken belief that smaller law firms charge less than larger firms. Tellingly, the audit does not cite any regulation, handbook provision, or guidance whatsoever to support its position. The Authority had prior contracts as well as competing proposals offered in response to a newspaper advertisement. Contrary to the speculation of the draft, this was more than sufficient under the regulations for a cost analysis of a competitive contract.

<sup>37</sup> Exhibit 18, Comparison of Shreveport, La. housing authority's accounting services expenses.

<sup>38</sup> Draft audit, p. 8.

**Comment 26**

**Comment 27**

*All payments to Wayne Mancuso under his contract were properly supported*

The draft audit suggests the Authority lacks sufficient documentation of the disbursements paid to Mr. Mancuso, but the audit seems to willfully ignore the obvious evidence that was presented to it.<sup>39</sup> Mr. Mancuso's contract entitles him to a monthly retainer of \$2,500; the monthly checks for this amount are for his contractual fee even though he does not submit invoices for those amounts. He does submit invoices for all additional costs, so every penny paid to Mr. Mancuso is clearly documented and accounted for. The Authority acknowledges that the auditors now prefer to see a report of the work performed by Mr. Mancuso. He has begun drafting such reports of his activities, even though he is paid a flat, monthly fee rather than according to the services performed each month.

**Comments 18,  
20, 21, 23,  
and 24**

*The executive director used the proper procurement methods at all times*

The draft audit again asserts that incorrect procurement methods were used to secure the contract with Paragon Accounting.<sup>40</sup> The Paragon contract was awarded through a competitive process advertised in the newspaper.<sup>41</sup> The draft cites 24 CFR 85.36(d) as evidence that this competitive bid process was insufficient because only one vendor responded to the public advertisement, but the regulation has no requirement for multiple proposals. The audit mistakenly applies the required number of *solicited* bids when there is no minimum requirement in a competitive proposal advertised in the newspaper. Here, the advertisement allowed for full and open competition, and the contract was awarded in full compliance with applicable law.

**Comment 28**

*The Authority did not send out bid packages, thus nothing was incomplete*

The draft audit asserts that these contracts for professional services did not include all of the proper forms in bid packages and lack mandatory contractual provisions. The Authority did not send out bid packages for these simple contracts—proposals were received based on the advertisements in the newspaper. Thus, it was impossible for the Authority to send out any particular forms with bid packages because no such packages ever existed, and it was impossible to provide the forms in a newspaper advertisement. The Authority's oversight in omitting certain contractual elements from the three service contracts will be corrected with a letter of compliance to be executed by all three vendors incorporating the missing contractual elements into their agreements with the Authority.

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<sup>39</sup> Draft audit, p. 9.

<sup>40</sup> Draft audit, p. 9.

<sup>41</sup> Exhibit 13, *The Times-Picayune* advertisement for request for proposals for accounting services.

**Comment 29**

*The Authority maintains adequate documentation of its contracts as required by applicable regulations*

The draft audit suggests the Authority did not retain sufficient documentation to support its contracts for professional services.<sup>42</sup> The draft incorrectly cites 24 CFR 85.36(b)(4) as a requirement that the Authority maintain documentation to ensure duplicative services are not purchased.<sup>43</sup> That regulation has no such documentation requirement. Similarly, the audit cites 24 CFR 941.204(d) for the proposition that the Authority must certify that professional services contractors are licensed, eligible, and not debarred.<sup>44</sup> But the Authority *did* verify that the four contractors are eligible, even if there was no formal writing to reflect the certification. Finally, the draft complains that the Authority did not document that profit was negotiated as a separate element of price for Wayne Mancuso's contract in accord with 24 CFR 85.36(f)(2).<sup>45</sup> But that regulation applies only in non-competitive contracts and in instances where cost estimates are required. Neither criterion applies to Mr. Mancuso's contract, so profit was not required to be negotiated separately. Additionally, legal-services contracts by their very nature do not lend themselves to distinguishing between profit and other costs.

Although the draft misstates and misapplies the law regarding the Authority's documentation, it also misses the larger point. The Authority does maintain a contract log, but there are only five professional-service vendors. The executive director and the board are well aware of what services have been contracted for and can be quite certain there is no overlap in work. Additionally, the executive director verifies all necessary licenses and bar memberships of contractors, even if a comprehensive file documenting that verification is not kept for the five service providers.

*The Paragon Accounting contract was renewed two days after its expiration due to the scheduling of board meetings*

The draft audit takes issue with the board's exercising the four-year option in the Paragon Accounting contract two days after the original term expired. This complaint is specious at best. The board meeting fell two days after the expiration date, so the matter was briefly deferred because both sides desired to continue the contract. As a practical matter, there was no negative impact, and any contractual defect was resolved by both sides' consenting to the renewal. Furthermore, it is perplexing that the audit would raise the renewal process as an issue when the audit previously complained that the renewal was not permitted in the first place for lack of HUD approval.

<sup>42</sup> Draft audit, pp. 10-11.

<sup>43</sup> Draft audit, p. 11 at fn. 25.

<sup>44</sup> Draft audit, p. 11 at fn. 26. The draft audit cites a regulation that does not exist. The correct citation is 24 CFR 941.205(d).

<sup>45</sup> Draft audit, p. 11.

**Comment 30**

**Comment 31**

*The Authority's contract log is complete*

The draft audit states that the Authority's contract log was incomplete, *but it also states that there is no requirement for the Authority to maintain a contract log.*<sup>46</sup> Going above the required documentation, then, the Authority maintains a contract log that lists all contracts with its five professional-service providers as well as a list of construction vendors. The contract log does not list all suppliers with whom the Authority does not have an ongoing contract. The auditors apparently misunderstood the director, then, when they erroneously understood that the contract log would include every vendor from which the Authority purchases any single good or service.<sup>47</sup> The contract log reflects ongoing business relationships; it is not a check registry. In any event, it is unclear why the audit would take issue with the level of detail found in a document the Authority is not even required to maintain in the first place.

**Comment 32**

*The Authority's procurement policies have been reviewed by HUD and the Authority's auditor*

The draft audit concludes that the Authority does not have adequate procurement policies or internal controls.<sup>48</sup> This is a subjective conclusion that is inconsistent with prior HUD statements. HUD publicly expressed its satisfaction with the Authority's procurement policy, and the Authority has sought comment from HUD about the adequacy of its policy on multiple occasions without receiving any negative response. For example, in an article published in February 2001, a HUD official praised the Authority's policy: "The (new procurement) policy reads real nice," said Chet Drozdowski, regional director of the Office of Public Housing for HUD.<sup>49</sup> Letters in December 2000 and January 2001 asked HUD to report any deficiencies in the Authority's procurement policy, and HUD offered no objections to the policy.<sup>50</sup>

Furthermore, independent auditor Carr, Ingram, & Riggs recently confirmed that their audits found that the Authority does have sufficient internal controls to ensure contracts are made (i) for reasonable prices and (ii) for necessary services.<sup>51</sup> The Authority strongly disagrees with the draft's conclusion, particularly when it is based on multitude of errors in fact and law.

**Comment 33**

*Conclusion*

All three professional services contracts were publicized in the newspaper and awarded through a competitive bidding process consistent with federal regulations and HUD regulations.

<sup>46</sup> Draft Audit, p. 11.

<sup>47</sup> Draft Audit, p. 11.

<sup>48</sup> Draft Audit, p. 12.

<sup>49</sup> Exhibit 19, *The Times-Picayune* article published Saturday, February 10, 2001 by Tara Young.

<sup>50</sup> Exhibit 20. Letters dated January 8, 2001 and December 14, 2000 to HUD's Chester J. Drozdowski.

<sup>51</sup> Exhibit 21, June 4, 2012 Letter from Carr, Ingram, & Riggs to Barry Bordelon.

**Comment 33**

The draft audit agrees that the price for the Rebowe and Company contract was reasonable, but the prices for Wayne Mancuso and Paragon Accounting were also reasonable based on prior contracts, other bids, and the market price ascertained by comparing other law firms and accounting costs paid for identical services by other authorities. The draft applies the wrong regulations to find those analyses insufficient, and it's clear that both contracts are for reasonable prices—Wayne Mancuso receives the same monthly retainer amount awarded nearly 20 years ago, and Paragon Accounting is significantly less expensive than both the Shreveport authority's in-house accountant and a local accounting firm. The Authority unmistakably contracted for services at very reasonable prices.

***Response to Recommendations***

**Comment 34**

- 1A—The cost reasonableness of the Paragon contract has been established. By comparison to previous contracts and the costs of another Louisiana housing authority for the same services, the Authority determined that the contract price was reasonable. The base monthly fee for this rate has risen just \$200 in more than ten years. No money should be repaid to operating funds.

**Comment 34**

- 1B—The cost reasonableness of the contract with Wayne Mancuso has been established. The Authority compared the contract price with prior contracts, with competing bids, and with other law firms. The contract's base monthly rate has remained the same since the contract for legal services was executed in 1995.

**Comment 34**

- 1C—The Authority's procurement policy has been praised by HUD officials and submitted to HUD for review without response. The Authority's independent auditor has approved the internal controls as well. Nonetheless, the Authority agrees to engage a consultant to review its procurement policies and procedures.

**Comment 34**

- 1D—The Authority believes it has properly documented its procurement of these three simple and small contracts. Nonetheless, the Authority will engage a consultant to review its procurement policies, including its procedures concerning the documentation of procurements.

**Comment 34**

- 1E—Authority personnel have been properly trained in relevant HUD procurement regulations. Nonetheless, the executive director agrees to attend additional HUD procurement training to ensure the Authority remains compliant with all applicable regulations on an ongoing basis.

Comment 35

**Response to Finding 2:**

**The Authority Can Support Its Disbursements of Federal Funds With Proper Documentation**

Finding no. 2 in the draft audit raises concerns that the Authority spent federal funds on unsupported or ineligible costs. The draft, however, overlooks the support for the costs or seems to misunderstand the nature of the costs. In fact, the draft suggests the cause for the alleged violations is that the Authority did not have adequate policy or internal controls to ensure compliance with federal regulations. However, the Authority's independent auditor—Carr, Riggs, & Ingram—noted in a June 4, 2012 letter that 24 CFR 85.20 describes the standards for financial management and includes requirements for accurate documentation and internal controls. The auditors reported, "During our audits, we have not noted any instances where the Housing Authority was in violation of this regulation."<sup>52</sup>

As shown below, the Authority has documentation to support the expenses or can correct the auditors' misunderstanding of relevant facts.

*The Authority has proper documentation to support its payments*

**A. Critical security services improved tenant safety and are fully documented with sign-in sheets, reports, and payment records.**

Comment 36

The draft audit raises concerns about \$240,635 spent to hire uniformed Jefferson Parish sheriff's deputies to patrol the streets on which the Authority's tenants reside. The additional services were necessary to protect the safety of the residents due to the high crime rate in the area. The draft asserts that the Authority did not properly document this need by showing the crime rate in the area "exceed[ed] the city norm." The draft does not cite any regulation that requires any such documentation requirement, and the Authority is not aware of any such requirement. In fact, Louisiana state law expressly encourages the Authority to take action to protect its tenants.<sup>53</sup> Even so, Jefferson Parish does not have a "city norm" against which to judge crime statistics, nor is the Authority aware of any crime data aggregated for the specific area in which its tenants reside.

But more importantly, the draft is incorrect to limit the Authority to protecting its tenants only up to the "city norm" and no further. The safety of the tenants and the protection of their

<sup>52</sup> Exhibit 21, June 4, 2012 Letter from Carr, Riggs, & Ingram to Barry Bordelon.

<sup>53</sup> Louisiana R.S. 40:456. "A local housing authority may: (1) Construct and operate facilities and programs to provide services of every kind and description, directly or by contract or agreement with others, for the maintenance of safety and security and the protection of persons and property at or near the authority's developments."

property is the Authority's highest priority, and any expenses that promote the safety and well-being of the tenants, particularly by reducing crime, are by definition "needed." To suggest the Authority must permit crime levels to rise above some unspecified average before it can properly take action to protect its tenants is absurd. Moreover, the crime rate in the area was well above that of surrounding areas, and the necessity of additional security was obvious and apparent.

Comment 36

The Authority determined that the additional security officers would need arresting power to adequately reduce the crime rate in the area, so the Authority arranged off-duty patrols through the Jefferson Parish Sheriff's Office detail coordinator, who assigned deputies and scheduled their shifts. The Authority kept meticulous documentation of the officers' work, and the audit correctly notes that the documentation includes sign-in sheets "with the date, name of the officer, and time or hours worked."<sup>54</sup> The audit—again without citing to any regulation requiring any further detail—complains that the sign-in sheets did not show the area the deputies patrolled or indicated whether the deputies worked at times of increased criminal activity. Even though this additional documentation was not necessary, the deputies' reports repeatedly indicate that the patrol times were randomized to prevent the criminal element from detecting a pattern to the patrols.<sup>55</sup> And the area patrolled?—the Authority's tenants reside in one subdivision on five streets in a very small footprint, negating the need for any further documentation.

Comment 36

The Authority can fully support its expenses for these critical services to protect its tenants. The Authority was originally not aware of the need to enter into a written agreement with the Sheriff's Office for these patrols but immediately executed a Cooperative Services Agreement when the matter was brought to its attention.<sup>56</sup> This contract actually *increased* the costs to the Authority as compared to the pre-agreement patrols.

The security services provided critical protection for the Authority's tenants, and the work performed by the deputies and the payments made to them were extensively documented for the auditor's review. The eligibility and appropriateness of these costs are beyond dispute.

**B. The Authority can support its expenses for a grant coordinator; no regulation requires the Authority to collect timesheets for another entity's employee.**

Comment 37

The draft audit alleges the Authority cannot support the \$34,418 paid to its grant coordinator, the Louisiana Housing Development Corporation ("LHDC"), to administer the FSS the program.<sup>57</sup> That assertion is wrong. The draft finds the supporting documentation lacking simply because the documents do not identify the name of the grant coordinator or include time

<sup>54</sup> Draft audit, pp. 14-15.

<sup>55</sup> Exhibit 22, Security detail activity reports.

<sup>56</sup> Exhibit 23, Cooperative Services Agreement executed 4/19/2012.

<sup>57</sup> Draft audit, p. 15.

records.<sup>58</sup> But these requirements are for the administration of the grant, which is performed by LHDC. The audit fails to explain that LHDC, not the Authority, pays the coordinator directly, supervises her work schedule, and handles her time sheets. In any case, the draft is also absolutely incorrect in reporting that the Authority did not know the coordinator's name. The Authority told the auditors that the coordinator's name is Kathy Barbier.<sup>59</sup>

**Comment 37**

In short, the audit raises false suspicions about irrelevant details while ignoring the key points—the Authority properly paid and then retained invoices from its contractor for services rendered and verified that the work was completed by observing Ms. Barbier meeting with tenants frequently. This support is in full compliance with the regulations. And while the draft suggests that the Authority should have procured a separate contract for Ms. Barbier, there is no legal requirement for separating that work into a different contract.

*The Authority can properly support costs and show their eligibility*

Given the Authority's \$1.2 million annual conventional budget, the audit reviewed approximately \$3.6 million in expenses over the course of three years. Over that time period, the audit raises questions about only \$6,000 of miscellaneous expenses as unsupported or ineligible. And each of the audit's questions can be answered fully—the Authority's expenses were properly supported, documented, and concerned eligible costs.

**Comment 38**

1. The draft audit incorrectly labels a \$100 donation as ineligible. This money was not federal funding. Instead, a private donor gave \$100 to the Authority to purchase Christmas toys for tenant children. The Authority, in turn, used the donor's money to purchase the gifts for the children. This expense is permitted. The draft cites 2 CFR 225.12 for the proposition that the Authority may not make donations with federal funds, but it has no application here because the Authority made no such donation. Instead, Bruce Cuccia Insurance Agency, Inc. donated the money, as evidenced by the attached check.<sup>60</sup> The Authority, in turn, used the third-party's funds to purchase and distribute toys to tenant children, remaining in compliance with federal regulations because the money expended was not federal funding.

**Comment 39**

2. The draft questions the eligibility of \$721 in "personal use items" over the course of three years. These purchases were drinks, snacks, over-the-counter medicines, and other supplies for use in the Authority's office. The draft baselessly suggests these purchases were for employees' personal use in violation of 2 CFR 225.20, but there is no factual support for that position. Regulations permit the Authority to purchase such supplies for

<sup>58</sup> Draft audit, p. 15.

<sup>59</sup> Exhibit 24, February 29, 2012 email from Barry Bordelon to OIG's Jared Tauzier.

<sup>60</sup> Exhibit 25, Check for \$100 from Bruce Cuccia Insurance Agency to the Authority to buy toys for tenant children.

office use, particularly since many of the supplies are used by tenants when visiting the Authority's office.<sup>61</sup>

**Comment 40**

3. The draft incorrectly marks as ineligible \$2,190 charged to Lowe's home improvement store for the purchase of replacement refrigerators installed in Authority housing for tenant use. These installations are documented in attached work orders, which include serial numbers for both the refrigerators that were installed and those that were discarded.<sup>62</sup> Under 24 CFR Part 85, the Authority may discard equipment with a current, per-unit, fair market value of less than \$5,000 with no further obligation to HUD. Accordingly, the Authority was free to dispose of the replaced refrigerators as explained in the March 20, 2012 email sent to OIG's Jared Tazier, and it is clear that the purchased refrigerators were properly purchased for tenant use.<sup>63</sup>

**Comment 41**

4. The draft quotes 2 CFR 225.14, indicating that costs for meals and entertainment are unallowable. The audit is misleading in listing unspecified "entertainment" costs—there were no expenses for entertainment in the audit period. The meal costs are eligible and supported. These expenses were working lunches, particularly during a period when the Authority undertook significant remodeling and building projects that required frequent consults with board members while the Authority lacked a proper office to accommodate such meetings. The meetings also concerned litigation matters and post-storm repairs. Not one of these meals took place at high-end restaurants, involved any alcohol, or involved any excessive expenses.<sup>64</sup> These business meals were documented, and the regulations permit such expenses.

**Comment 42**

5. The draft also takes issue with a \$6 finance charge on a credit card. The Authority incurred this \$6 charge for accidental late payment of a credit card on one occasion in the three audited years. The Authority regrets this \$6 oversight and pledges more vigilance to avoid another such charge in the future.

**Comment 43**

6. The draft also questions the support for \$1,913 in expenses for cell phones, hotel stays, balance transfers, and various grocery items, although the audit also approves the grocery items as janitorial supplies that are "reasonable."<sup>65</sup> The other expenses are reasonable as

<sup>61</sup> Exhibit 26, Wayne Mancuso opinion letter, December 6, 2010.

<sup>62</sup> Exhibit 27, Work orders for installing refrigerators.

<sup>63</sup> Exhibit 28, March 20, 2012 email from Barry Bordelon to OIG's Jared Tazier.

<sup>64</sup> Given the draft audit's inflammatory tone and overzealous attempts to raise false suspicions, the auditors would have undoubtedly recounted any excesses had the Authority paid for any. Instead, all working-meal expenses were appropriate and responsible.

<sup>65</sup> Draft audit, p. 15 at fn. 33.

well. The cell phones were part of an old cellular contract that had not yet expired. The Authority maintained the phones in the maintenance department for emergency use and paid the monthly bills to avoid severe cancellation fees until the contracts expired. The hotel stays were supported by receipts provided to the auditors and were used by the Authority's assistant director to attend a mandatory public housing management training seminar.<sup>66</sup> The balance transfer occurred when the credit card company changed the card from a Visa card to a Master Card and transferred the balance to the new card's account. The Authority did not request this change and had no choice in the matter. No costs were incurred in the transfer process.

*The Authority followed all requirements to ensure purchases were eligible and supported; an outside auditor has confirmed the Authority's internal controls are proper*

**Comment 44**

The draft audit suggests the Authority's accounting policy and internal controls are inadequate.<sup>67</sup> The draft's assessment is entirely subjective and does not ground its opinion in any cited regulation or HUD policy. In fact, the draft's findings actually show the Authority's policies and controls function properly. In the approximately \$3.6 million of budgeted conventional expenses over the three years that were audited, the audit questioned just \$6,000 in miscellaneous expenses, all of which are eligible and supported. If the Authority's policies and controls were inadequate, one would expect the draft to have questioned far more purchases.

Independent auditor Carr, Riggs, & Ingram issued a letter on June 4, 2012 confirmed that its audits have always found the Authority in compliance with 24 CFR 85.20, which requires accurate accounting records, documentation, and internal controls.<sup>68</sup>

*The draft audit's subjective findings about the Authority's internal spending controls are erroneous and based on numerous incorrect facts*

**Comment 45**

The draft audit contains a bullet list purporting to demonstrate that the Authority's executive director did not maintain sufficient control over disbursements, but the list is riddled with mistakes. First, the draft complains that the executive director "was directly involved in all Authority transactions" and "had blanket authority."<sup>69</sup> This is incorrect. All Authority checks require *two* signatures, meaning the director never has blanket authority to act without board approval. Moreover, in a relatively small Authority with just 200 public housing units and a small budget, it is entirely appropriate—if not inescapable—for the executive director to pay close attention to all expenses. Indeed, it is perplexing that the audit would find fault with the

<sup>66</sup> Exhibit 29, Various supporting documentation for charges discussed in paragraph 6.

<sup>67</sup> Draft audit, p. 16.

<sup>68</sup> Exhibit 21, June 4, 2012 Letter from Carr, Riggs, & Ingram.

<sup>69</sup> Draft audit, p. 17.

director for carefully overseeing the Authority's disbursements, particularly when the board simultaneously maintained proper oversight over the director.

**Comment 45**

It is also disappointing that the audit would mention findings from a previous audit that have no bearing upon the current audit period. Worse, the audit incorrectly recounts the stale facts by claiming that the former executive director stamped the board chairman's signature on checks.<sup>70</sup> In fact, only the board chairman used his stamp. But more importantly, the audit cannot show how this resolved issue has any bearing on the current practices because the stamp no longer exists. This irrelevant paragraph should be removed from the draft.

**Comment 45**

The draft continues presenting false information when it alleges the executive director processed invoices without documenting that purchased items were received. Not only is this inconsistent with the draft's prior finding that the director was too involved in purchasing matters, but the director does verify that purchases are received through consultation with the office manager and/or maintenance supervisor. All purchases are fully documented and supported according to all policies and regulations.

**Comment 40**

The draft also claims that the Authority was unable to verify which units received purchased goods and does not have a policy of assigning goods to a specific unit upon purchase. Assuming this is a reference to the purchased refrigerators, the Authority does have a record of which appliances were installed in which units (attached).<sup>71</sup> Moreover, the draft does not cite any regulation requiring that level of detailed documentation, and the draft's fictional requirement that purchases should be assigned to specific units at the time of acquisition is illogical. The Authority must be permitted to maintain an inventory of replacement appliances and materials so that it can respond promptly when tenants report maintenance problems.

#### ***Conclusion***

As demonstrated above, all approved purchases were eligible and properly documented, and both the independent auditor's report and the minimal amount of fully-explained purchases questioned by the audit reflects that the Authority's internal controls and accounting policies are sufficiently robust. The draft audit's subjective assault on the Authority's internal policies is unsupported by any reference to actual regulations and policies. It rings hollow when confronted with the actual facts.

#### ***Response to Recommendations***

**Comment 46**

- 2A—The Authority already provided the auditors with a full box of documents fully supporting the security patrols. To the extent the draft audit seeks unnecessary documentation not required by any regulation, the Authority should not have to provide

<sup>70</sup> Draft Audit, p. 17.

<sup>71</sup> Exhibit 27, work orders for the installation of refrigerators.

additional support. The Authority attaches to this report a copy of the deputies' reports, and the Authority will happily provide copies of sign-in sheets, checks, and other records that were already provided to auditors and are too voluminous to reproduce herein. The \$240,635 was a fully supported expense that provided critical safety services for tenants; the funds should not be repaid.

**Comment 47**

- 2B—The Authority has already entered into a cooperative services agreement with the Jefferson Parish Sheriff's Office and has attached the contract.<sup>72</sup>

**Comment 48**

- 2C—The payments to the Louisiana Housing Development Corporation are fully supported. To the extent the draft seeks unnecessary documentation not in the Authority's possession or required by regulation, the Authority should not have to provide additional support. The Authority received proper invoices and confirmed services were performed for tenants; it should not have to pay back \$34,418.

**Comment 49**

- 2D—The Authority can support all credit card purchases as demonstrated above. The Authority should not have to provide unnecessary documentation or support not required by regulation. The Authority further objects to the inaccuracy of Appendix D.

**Comment 50**

- 2E—The Authority's credit card purchases were all eligible, as shown above. The Authority should not be required to reimburse its operating fund from its non-federal funds for these eligible and supported expenses.

**Comment 51**

- 2F—The Authority remains in compliance with this recommendation and does not use funds for prohibited items.

**Comment 51**

- 2G—As shown above, the Authority's accounting procedures and internal controls are adequate and followed by the Authority's employees. Nonetheless, the Authority will engage a consultant to review its policies.

**Comment 52**

- 2H—The Authority will develop an inventory-control policy.
- As demonstrated, the executive director exercised appropriate oversight over Authority disbursements and at all times received board approval for expenses. Even if there were validity to the expenses questioned by the audit—which are all eligible and fully supported—all expenses were clearly for the Authority's benefit and reflect no inappropriate charges or mismanagement. There is absolutely no ground for imposing sanctions or debarring the executive director from HUD programs, particularly when the draft is incorrect in so many of its allegations. No federal funds were disbursed for expenses prohibited by HUD requirements, and the audit shows nothing to the contrary.

<sup>72</sup> Exhibit 23, Cooperative Services Agreement with Jefferson Parish Sheriff's Office.

**Response to Finding 4:**

**The Authority Had No Conflict of Interest in Contracting with a Company Owned by a State Legislator Who Exercised No Authority over the Housing Authority**

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**Comment 53**

The draft audit alleges that the Authority created a conflict of interest by paying \$91,218 to repair roofs and other damages to tenant housing in the wake of Hurricane Gustav because the vendor company was owned by a state legislator in violation of Section 19 of the Consolidated Annual Contributions Contract. This allegation, however, is not supported by the annual contributions contract, and the draft further engages in rank speculation in alleging bid-splitting that is not supported by the facts.

*The annual contribution contract permits contracts with companies owned by legislators who exercise no oversight over the Authority*

**Comment 53**

First, the draft misinterprets the contract provision, which limits the prohibition to any state legislator “who exercises functions or responsibilities with respect to the project(s) or the HA.”<sup>73</sup> In this case, Girod Jackson is a member of Diversified Ventures, LLC, which submitted a lower-cost bid than a competitor and then completed the work to preserve the tenant housing at a time when such labor was extremely scarce. Mr. Jackson exercised no responsibility in his official capacity with respect to the project or the Authority. Accordingly, there was no violation of Section 19 of the contract.

*The executive director should have certified to the board that the Diversified Ventures, LLC expenses were emergency costs; otherwise the services were properly procured*

**Comment 54**

The draft audit takes issue with the procurement of Diversified Ventures’ services, overlooking the context of the difficult situation following Hurricane Gustav when immediate repairs were necessary to preserve housing units and protect tenants and their property from the elements. Due to the extent of the damage, however, reliable contractors were scarce, and the Authority was required to act quickly. The executive director solicited two bids to create competition, and used the lower bidder to procure a series of distinct services as the projects arose. This was done in the context of an emergency. Normal purchasing regulations would have required that the request for bids be advertised over the course of 30 days, which would have been too long to leave the damages unrepaired. The executive director acknowledges that he should have made a formal certification to the board that these services were procured on an emergency basis. The board was well aware of this fact, but a formal process would have kept the Authority in better compliance with procurement regulations.

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<sup>73</sup> Exhibit 30, U.S. Department of Housing and Urban Development, “Terms and Conditions Constituting Part A of a Consolidated Annual Contributions Contract Between Housing Authority and the United States of America,” Section 19(A)(1)(iii).

**Comment 54**

*The Authority did not engage in bid splitting*

The draft audit suggests the Authority split bids to keep the procurements from Diversified Ventures under the Authority's \$20,000 small-purchase threshold.<sup>74</sup> This is speculation and is inconsistent with the audit's other findings. It is inconceivable that the Authority would pay meticulous attention to adhering to small-purchase thresholds through bid splitting while allegedly ignoring more fundamental procurement rules like seeking bids, advertising the contract, or declaring a formal emergency.

Moreover, the draft ignores the more reasonable and simpler explanation—Diversified was paid on a per-job basis, and the repair and clean-up tasks were identified over time as tenants and Authority staff inspected the property and determined what repairs and clean-up were necessary. Most of these supposedly split bids occurred within a one-month timeframe when the Authority was helping tenants recover from Hurricane Gustav. Subsequent rains after the storm revealed the need for additional repairs, resulting in a series of jobs over the course of the month. The Authority did not engage in bid splitting; it simply was not able in the chaotic aftermath of a hurricane to identify all of the work to be done and solicit a one-time bid for every task. Instead, the Authority asked Diversified to perform a growing laundry list of repairs, and Diversified invoiced the Authority for each job separately.

*The false allegation that the board attempted to circumvent the bid-splitting rules by raising its small-purchase threshold is unfounded and inflammatory*

**Comment 55**

The draft audit makes the outrageous allegation that the Authority raised its small purchase threshold from \$20,000 to \$100,000 “[i]n an apparent attempt to circumvent the bid splitting issues.”<sup>75</sup> There is no basis for this false claim, and the attack does not stand up to reason. First, the change was made in 2012—long after the alleged bid splitting. A change implemented years after the fact would have no impact of the legality of earlier conduct. Moreover, the Authority raised its spending threshold *at the suggestion of HUD*. A local HUD official specifically suggested the Authority raise its small-purchasing threshold to match the federal limit of \$100,000, and the Authority complied in 2012. The idea that the threshold was raised to cure prior conduct is misguided speculation; that notion should be removed entirely from the draft.

**Comment 56**

The draft also asserts—without a citation to any authority—that state law sets a \$25,000 small-purchase threshold.<sup>76</sup> That is an incorrect statement of state law as it applies to public

<sup>74</sup> Draft audit, p. 24.

<sup>75</sup> *Id.*, p. 25.

<sup>76</sup> The draft may be referring to Executive Order No. BJ 2010 – 16 of August 27, 2010 or perhaps a Louisiana Legislative Auditor's recommendation (*see* Exhibit 31, LLA Legal Division, “Legislative Auditor's Summary of the Public Bid Law,” at p. 25).

housing authorities.<sup>77</sup> Housing authorities are subject to the Louisiana Public Bid Law, which sets a \$150,000 small-purchase threshold for public-works contracts like repairs to Authority housing.<sup>78</sup> The Authority is aware of no other state law that would put a \$25,000 cap on the Authority's small-purchase threshold, meaning the Authority's \$100,000 threshold complies with state law and the HUD Handbook, contrary to the audit's incorrect assertions.

*Conclusion*

There was no conflict of interest in selecting Diversified Ventures to perform emergency work immediately following the storm because the state-legislator owner of the company exercised no authority over the project or the Authority. Moreover, the Authority did the best it could under difficult circumstances to repair and clean up tenants' housing as quickly as possible after the storm to protect their property and well-being. Although the executive director should have formally declared an emergency and followed emergency procedures, he nonetheless obtained a competing bid and made an effort to use the funds wisely for the benefit of the tenants. There is no question that the work was performed timely and that it was of great assistance to the tenants. The funds expensed were clearly necessary, and they should be found eligible. Additionally, the allegations of bid splitting and any kind of a post-hoc reconciliation of procurement policy are absurd and inconsistent with the audit's other findings. As damage was discovered and assessed, the unexpected storm work was requested piecemeal, performed piecemeal, and therefore invoiced and paid piecemeal. The increase in the small purchase threshold took place years later at the suggestion of HUD. Such speculation has no place in this draft audit.

*Responses to Recommendations*

- 4A—There was no conflict of interest with Diversified Ventures under applicable law because its owner exercised no oversight over the Authority. As a result, no funds should be repaid.
- 4B—The Authority maintains proper controls, as attested to by its independent auditor. Nonetheless, the Authority will engage a consultant to review its policies and will ask the consultant to review policy as it relates to conflicts of interest.

**Comment 53**

**Comment 57**

**Comment 58**

<sup>72</sup> Exhibit 31, Louisiana Legislative Auditor, "Summary of the Public Bid Law," Revised 09/21/2009 at p. 41. The report cites Attorney General Opinion No. 00-484 -- "Public housing authorities created pursuant to Louisiana law are not state agencies but rather are political subdivisions of the state or of local government bodies. Housing authorities are not subject to the Louisiana Procurement Code but are subject to the Louisiana Public Bid Law, R.S. 38:2211-2296."

<sup>73</sup> Louisiana Public Bid Law, La. R.S. 38:2212A(1)(d); Exhibit 31, Louisiana Legislative Auditor, "Summary of Louisiana Public Bid Law," Revised 09/21/2009 at p. 26. ("There are no statutes governing public work contracts that are less than \$150,000.")

**Comment 59**

- 4C—There was no bid splitting, and the Authority did its best to procure goods through proper competition during a time when resources were scarce but in high demand. The Authority has proper controls but will ask its consultant to review its procedures for procuring goods and services in an emergency situation.

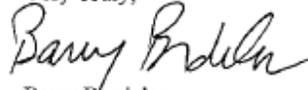
**Comment 56**

- 4D—The Authority's procurement policy is compliant with both the state and federal small purchase threshold. Under Louisiana law, the threshold is \$150,000 for housing authorities for public works contracts, meaning the Authority's \$100,000 limit is permissible. Even so, the Authority will ask its consultant to review its policies for compliance with this rule as well.

**Comment 60**

- 4-E—There is no cause for any administrative sanctions or debarment of the executive director. All federal funds were properly disbursed. The draft audit fails to cite or apply Louisiana law in reaching its faulty conclusion about Diversified Ventures. The company did not present a conflict of interest, and the allegations of bid splitting are illogical speculation. Finally, the supposed "cover-up" had nothing to do with bid splitting, was done at HUD's suggestion, and is compliant with all laws. The draft's call for sanctions and disbarment is unwarranted.

Very Truly,



Barry Bordelon

## OIG Evaluation of Auditee Comments

- Comment 1** We exercised both due care and due diligence in considering all of the detailed explanations provided by the Authority. We also developed our findings and conclusions based upon the requirements in the Authority's annual contribution contracts and documentation provided by the Authority. In most cases, the Authority could not provide documentation to support or substantiate its explanations. As discussed in comments 6, 38 and 56, we revised the report based upon the additional documentation provided by the Authority to support that (1) the annual contributions contract (ACC) HUD form 52520 applies to its use of funds under the Housing Choice Voucher program; (2) the \$100 donation was funded with private funds; and (3) it must follow the State bid law instead of State procurement law.
- Comment 2** All information presented in the report is supported by facts, the application of laws and regulations, and documentation provided by the Authority provided during the course of the audit. All audit staff involved in this audit are independent in fact, appearance, and free from personal, external, and organizational impairments to independence.
- Comment 3** While it is true that the recommendations were closed by HUD, this does not mean that the Authority was exonerated. The facts and conclusions in the prior report did not change and were supported. The reference to the findings in the prior report was used since the prior audit found similar and related issues.
- Comment 4** We agree that this sentence was somewhat confusing and revised the report accordingly.
- Comment 5** There are no statements in the report suggesting that the Authority is larger than what is shown in the background section of the report. Regardless of its size, the Authority and its board are still responsible for the proper administration and oversight of HUD's programs and funds.
- Comment 6** We agree that the ACC, HUD form 52520, dated December 1997 does apply to the use of funds under the Housing Choice Voucher program and revised the report accordingly. However, we disagree that the Authority used unrestricted, non-Federal funding, as the administrative reserve fees are, in fact, Federal funds. In addition, the Authority's accounting records show that it paid Board members from Section 8 and disaster housing funds from October 2006 through February 2011 (See Appendix E). It did not begin paying board members from the administrative reserve fees until March 2011.

As related to the administrative reserve fees, notices and regulations, issued after the December 1997 ACC and the March 23, 2004 article citing the HUD spokesperson, limited the use of these funds to only program related costs (See comment 7). Further, in other documentation submitted by the Authority, a HUD

representative specifically instructed the Authority to contact the local HUD field office regarding eligible uses of administrative fees. Regardless of the SEMAP score, the local HUD field office informed the Authority that it could not use HUD funds to pay board members, as shown in the report. During the exit conference, the local HUD field office confirmed this again and refuted the Authority's statement that it was not informed.

**Comment 7** We disagree. As discussed in comment 8, the board members were compensated rather than reimbursed. A review of the additional documentation provided by the Authority determined that:

- (1) The Jefferson Parish Council Ordinance dated April 2, 1986 allowed board members to receive a \$75 per diem from a portion of Council District number two's Federal Revenue Sharing allocation, until January 1, 1987 or until the enactment of appropriate legislation by the State of Louisiana providing funding for this per diem, whichever occurred first. This did not give the Authority permission to use HUD funds to compensate board members, the Authority did not use State funding, and the approval for this practice has expired;
- (2) The Louisiana Attorney General's opinion dated June 1991 was issued for board members of the Louisiana Regional Airport, not the Authority;
- (3) Louisiana Revised statute 40:540 applied to reimbursements of travel and stated that board members shall not receive compensation for their services; and
- (4) Louisiana Revised statute 40:531(F) applied to funds of the Authority and not HUD funds.

While the Authority claimed it used administrative funds accumulated prior to 2004 for other housing purposes permitted by State and local law, the local HUD field office informed the Authority, as discussed in Comment 6, that it could not use funds to compensate board members. In addition, upon the issuance of Public Law 108-199 in 2004, PIH notice 2004-7 (dated April 22, 2004) and 2007-14 (dated June 18, 2007), any excess administrative fees accumulated from Federal fiscal year 2004 funding forward subsequently moved into the administrative fee reserve account could no longer be used for "other housing purposes permitted by State and local law". The regulations also stated these funds could only be used for the provision of Section 8 rental assistance, including related development activities. Examples of related development activities include, but are not limited to, unit modification for accessibility purposes and development of project-based voucher units. This did not include compensation to board members.

Further, before March 2011, the Authority did not have a separate bank account for its administrative funds and commingled its administrative funds into bank accounts with its other Housing Choice Voucher program funds. Because the Authority destroyed records older than three years, it could not provide supporting documentation to show that it actually had funds remaining that were

accumulated prior to 2004 or that the funds moved into the separate bank account in March 2011 were actually administrative funds accumulated prior to 2004. Regardless, the Authority could not use these funds to compensate board members. However, the Authority continued to pay board members because it was not fully aware of HUD's requirements and ignored HUD's guidance (See comment 6). Therefore, we stand by our original conclusions.

**Comment 8** The Authority did not have any documentation, such as certified expense vouchers or receipts, supporting the expenses incurred by the board members or to substantiate the reasonableness of the lump sum amounts provided to board members. During the exit conference, the Authority also stated that it did not have a travel policy, but its board resolution number 1505, dated July 2006, included a policy, which outlined the requirements for reimbursement related to meals and mileage. However, the Authority did not follow this policy.

Based upon the Authority's independent audit reports and other documentation, it is clear that the board member payments were compensation, rather than reimbursements. The Authority's independent audit reports which are required every year and are based on information provided by the Authority, showed that the board members were compensated for serving on the board and even titled the section "Board of Commissioners Compensation", in the reports prior to fiscal year 2010. Beginning fiscal year 2010, the title changed to "Per Diem Paid to Board Members", but still showed that these funds were provided for serving on the Board and not reimbursements for travel, as reimbursement for travel would have no place in an audit report. In addition, in 2010 the Authority began issuing 1099 tax forms, which are used to report income and would not be issued in the case of reimbursements, to board members. In fact, one board member returned two months of payments to the Authority with a letter requesting that the Authority not to provide him with further payments, without further explanation.

**Comment 9** The Authority asserted that the per diem reimbursements were eligible under HUD and State law. We disagree as discussed in comments 6, 7, and 8. The Authority also asserted that these were reimbursements for expenses, to which we also disagree. As discussed in Comment 8, it is clear that the board member payments were compensation, rather than reimbursements. Therefore, the Authority's assertion that the disbursements were appropriate reimbursements of board member expenses on official duty is also incorrect. As a result, we stand by our original conclusions and recommendations.

**Comment 10** The Authority stated that board members are entitled to reimbursement, no Federal funds were improperly disbursed and it is beyond the OIG scope to request the Parish president to intervene. This is incorrect and contradicts Federal regulations as stated in the report. The report presents evidence in an unbiased manner and in the proper context to conclude that the executive director and board members failed to exercise proper oversight over the disbursement of Authority funds. The Authority's lack of knowledge of HUD regulations and

disregard for HUD guidance contributed to their lack of oversight over the disbursement of Authority funds. It is proper and within the scope of the OIG's purview to recommend that the Jefferson Parish president and HUD take appropriate actions that will correct the deficiencies and improve operations at the Authority. Therefore, we stand by our original recommendations.

**Comment 11** The Authority was unable to support the cost reasonableness of its procurement of accounting and legal services. Our findings and conclusions are supported by facts, the application of laws and regulations, and documentation provided by the Authority. Additionally, the Authority provided no examples of how the report contradicts the HUD guide. Although the Authority stated it conducted research to ensure cost reasonableness, comparing the current contract cost to the previous 1995 contract cost, is only part of the process for determining cost reasonableness according to the HUD Handbook 7460.8. Therefore, we determined the Authority did not follow all of the basic steps as outlined in the HUD handbook 7460.8 for determining cost reasonableness. As a result, we stand by our original conclusions and recommendations.

**Comment 12** The Authority did not perform independent cost estimates. When we requested copies of the independent cost estimates, the Authority stated that the estimates were not required when adequate competition existed. However, independent cost estimates are required for all procurements.

**Comment 13** The Authority is confusing an independent cost estimate with a cost analysis. Although the Authority references an independent cost estimate for the legal services contract, it only provided a copy of a 1995 legal services contract and did not provide an independent cost estimate. In addition, the Authority stated that it compared the price of a competing bid to ensure the accuracy of its cost estimate. However, one competing bid is not sufficient competition.

**Comment 14** Federal regulations required the Authority to complete the independent cost estimate prior to advertisement and not prior to the execution of the July 2006 contract. The advertisement provided by the Authority did not contain a date; therefore, we could not determine if the independent cost estimate was completed prior to the advertisement. Additionally, according to HUD, the Authority's low rent program is considered small, whereas, Shreveport Housing Authority's is considered medium, with over three times the number of low rent units; and the Monroe Housing Authority's is considered large with over seven times the number of low rent units; thus, not an adequate comparison.

**Comment 15** Competing proposals cannot be used to conduct an independent cost estimate, since the independent cost estimate must be performed prior to advertising for bids.

**Comment 16** While the Authority considered the contracts small and believed it was not required to produce extensive documentation, 24 CFR 85.36(b)(9) required it to

maintain records sufficient to detail the significant history of its procurement. The Authority did not provide documentation to support that independent cost estimates were performed prior to advertising for bids; therefore, it did not maintain sufficient records.

**Comment 17** The Authority did not have adequate competition for its accounting and legal services contract, as discussed in comments 18, 20, and 21 below.

**Comment 18** The Authority did not receive an adequate number of responses to support full and open competition. HUD Handbook 7460.8 Rev. 2 Chapter 1.9 defines a non-competitive procurement as "procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate." Therefore, just because the Authority attempted to solicit an adequate number of sources, this did not preclude the contract from being considered non-competitive. In addition, the Authority did not provide documentation to support the circumstances of the procurement referenced in the HUD letter. Without this documentation, it appears that the Authority uses HUD's quote from the letter out of context as the legal services procurement mentioned in the letter may have included extenuating circumstances, such as an adequate number of proposals which would justify the determination of open and fair competition.

**Comment 19** While the recommendations were closed by HUD, this does not mean that the Authority was exonerated. The facts and conclusions in the prior report did not change and were supported. The reference to the findings in the prior report was used since the prior audit found similar and related issues with the Authority's procurement process which the Authority is still experiencing. Additionally, the report does not misstate that the current executive director (previous board chairman) was directly involved in the awarding of Paragon Accounting's contract in 2000, as the prior report stated "chairman consistently performed the duties of a contracting officer, including soliciting proposals, awarding, and executing contracts."

**Comment 20** The Authority alleges that the report engages in improper speculation. We did not remove the paragraph stating that it "appeared" that the Authority executed a sole source contract in 2006. We removed "appeared" from the report for clarification purposes so as to not imply that any type of speculation occurred. Our review supports that the Authority executed a sole source contract in 2000 and again in 2006. Just because the Authority attempted to solicit a number of sources, this did not preclude the contract from being considered non-competitive, as discussed in comment 18. When asked, the Authority stated that it did not have documentation for the additional proposals. Further, the executive director's evaluation of proposals and ranking spreadsheet included an evaluation of only one respondent, Paragon Accounting; therefore, supporting that there were no additional proposals received and evaluated during the procurement of the 2006 contract. As a result, the Authority received only one proposal which it accepted

without adequate competition and improperly entered into a non-competitive contract.

- Comment 21** The Authority asserted that the report applies the wrong regulation in determining how many proposals are required to ensure fair competition. We disagree. The \$95,360 expended under the legal services contract still fell under the small purchase threshold of \$100,000. HUD Procurement Handbook 7460.8 Rev. 2 Section 5.3A refers to the competition requirements for small purchases that are above the micro purchase limit of \$2,000, but under the small purchase threshold of \$100,000. The small purchase procedures do not apply only to small purchases that involve the direct solicitation of bids by phone as the Authority suggests. The HUD Handbook states that an adequate number of qualified sources are generally defined as not less than three, except in the case of micro purchases; therefore, the regulation is not overstated as the Authority suggests.
- Comment 22** We acknowledge the Authority for taking action on the Paragon Accounting contract. However, it was the executive director's responsibility to ensure compliance with all HUD rules and regulations and that all existing contracts were in compliance instead of assuming that they were properly executed. We did not review documentation related to the 2012 accounting contract procurement and therefore, cannot comment on its execution. However, as discussed in the report and in comments 18 and 20 the 2006 Paragon contract was non-competitive.
- Comment 23** The Authority's assertion that we were incorrect in labeling the cost analyses of Paragon accounting and Wayne Mancuso inadequate is a misinterpretation of the information stated in the report. We only questioned the adequacy of the cost analyses related to two of the three contracts. As discussed in comments 18, 20 and 21, simply because the Authority attempted to solicit a number of sources, did not preclude the contract from being considered non-competitive or sole sourced. When inadequate competition or a sole source contract exists, the Authority must follow specific guidelines to perform a cost analysis. The Authority neither followed these requirements nor performed adequate cost analyses.
- Comment 24** Section 10.3 of the HUD Handbook applies to purchases above the Federal small purchase threshold. Both Paragon Accounting, \$81,467, and Wayne Mancuso, \$95,360, contracts, were under the small purchase threshold of \$100,000. Thus, the regulations quoted by the Authority do not apply to these contracts. We did not question the cost reasonableness for its auditing services because there were seven bids which were enough to establish adequate competition. The accounting and legal services contracts only received one and two proposals, respectively; therefore, it did not have sufficient bids to establish adequate competition. An independent cost estimate is required for all procurements.
- Comment 25** We did not state that the Authority violated regulations when it compared Paragon's prices to the in house accountants, but without documenting how the

fees were determined, the Authority could not support the accuracy or reasonableness of the fees used for comparison. As stated in the report, for the cost analysis, the Authority used prices for services performed by in house accountants for programs not included in Paragon Accounting's contract and, therefore, was not adequate. In addition, because adequate competition was not obtained, the Authority was required to perform a cost analysis in accordance with specific requirements.

**Comment 26** We disagree with the Authority's assertion that the report engages in speculation and invents new rules regarding the cost analysis of its legal services procurement. It is a logical conclusion to draw that smaller law firms charge less than larger firms based on the evidence in the procurement file. However, the more predominant issue is that the Authority did not comply with HUD's requirements for a cost analysis. The Authority merely documented two hourly rate quotes which did not comply with the cost analysis requirements and did not document the prior contracts as a part of its cost analysis. Additionally, the Authority did not have adequate competition with only two responses. Therefore, the Authority's cost analysis was not adequate.

**Comment 27** Without invoices detailing the work performed by Mr. Mancuso for the Authority, the Authority could not support that it received the services for the \$2,500 monthly retainer that it was paying to Wayne Mancuso. The Authority's actions that now require Mr. Mancuso to submit detailed monthly invoices, is a HUD requirement rather than an OIG preference.

**Comment 28** We disagree it is impossible to send out bid packages with newspaper advertisements. The advertisements should indicate how to obtain a bid package so the Authority can comply with HUD requirements by including the required forms.

**Comment 29** We disagree with the Authority's assertion that the draft report incorrectly cites 24 CFR 85.36 (b)(4) as a requirement that documentation be maintained to ensure duplicative services are not purchased. The report neither misstates nor misapplies the regulations regarding documentation. HUD required the Authority to maintain records sufficient to detail the significant history of its procurements as discussed in comment 16. The requirement does not limit the amounts of records to be maintained and while regulation 24 CFR 85.36(b)(4) does not specifically state what documentation is required, without adequate documentation the Authority could not support that this requirement was met.

We corrected the typographical error related to the requirement to reflect 24 CFR 941.205(d) rather than 24 CFR 941.204(d). In addition, while the Authority claims that it verified that contractors were licensed, eligible, and not debarred prior to contract execution, it did not provide supporting documentation. 24 CFR 85.36(f)(2) did apply, since the Authority executed a noncompetitive contract. Lastly, while the executive director and board may be aware of all its contracted

services, adequate documentation must be maintained to allow an adequate review of its procurement activities.

**Comment 30** Although the Authority considers the two day lapse baseless, HUD still required the renewal of the contract before its expiration. The Authority should ensure that it properly plans when it is expecting a contract to expire. Additionally, the report does not state a renewal is not permitted, but instead, states that a contract exceeding a term of five years is not permitted.

**Comment 31** We removed this section from the report as to not generate any confusion as to what is required by Federal regulations. However, even though it is not required, a complete contract log should be maintained to ensure that the procurement history is adequately documented and to avoid a duplication of services.

**Comment 32** We disagree with the Authority's assertion that HUD has not provided any negative response regarding the Authority's procurement policy as referenced in a 2001 media article. This article was written over a decade ago and the Authority should regularly update its policy to ensure compliance with HUD requirements. In fact, the article specifically quotes HUD's regional director for public housing as stating that 'it's the implementation of the policy that is the issue'. As stated in the report, the Authority's procurement policy did not (1) establish appropriate controls over processes, (2) have a contract administration system to ensure that contractors performed according to the terms of their contracts, (3) address necessary steps to ensure that minority firms, women's business enterprises and labor surplus firms were used when possible and (4) address processes for avoiding the purchase of unnecessary or duplicative items. Further the Authority's procurement policy stated that it would comply with Federal procurement requirements. However, the Authority did not obtain adequate competition, obtain HUD approval, conduct adequate cost analyses, or properly support its disbursements in accordance with Federal requirements.

As related to the review performed by Carr Riggs and Ingram, its review covered an audit of the annual financial statement and rendered opinions on the financial statements of the Authority and its controls over those financial statements. This did not include a review of the Authority's procurement policy or its controls over the processes to ensure compliance with procurement requirements.

**Comment 33** As discussed in the report, the contracts for accounting services and legal services were not competitively procured. Further, the Authority could not support the cost reasonableness because it did not complete independent cost estimates, obtain adequate competition, receive HUD approval, and conduct adequate cost analyses.

**Comment 34** We disagree that the Authority established cost reasonableness for its accounting and legal services contracts, as discussed in comments 10 through 18, and 20 through 26. Therefore, we stand by our original recommendations. Although the

Authority disagrees with our conclusions, we are encouraged with the Authority's decisions to (1) engage a consultant to review its policies and procedures and (2) obtain additional procurement training for the executive director.

- Comment 35** The reference to a June 4, 2012, letter from independent auditors Carr, Riggs and Ingram regarding the financial statement audit of the Authority is a misinterpretation of the scope of what the independent auditors work encompasses. As stated in the independent auditors' most recent audit report for fiscal year 2011, it conducted a financial statement audit of the Authority and did not express an opinion regarding the effectiveness of the Authority's internal control over financial reporting. Therefore, the comparison of our scope of audit work to that of the independent auditors is incorrect.
- Comment 36** While we agree that the protection of the Authority's tenants is important, the Authority still must ensure all costs are adequately documented as required by 2 CFR 225(c)(1)(j) and that it is a good steward of HUD funds. The Authority neither completed a procurement process to show the reasonableness of costs, executed a contract for these services nor provided adequate supporting documentation showing that these services were needed. Louisiana revised statute 40:546 does not justify the Authority's lack of compliance with HUD requirements. We did not take exception to the Authority using the Jefferson Parish Sheriff's office to perform these off duty patrols but rather questioned the lack of documentation to support the payments to the officers. While the Authority executed a cooperative services agreement, this does not support the \$240,635 of costs previously incurred by the Authority. We also did not perform a review of this new agreement. Therefore, we stand by our original conclusions.
- Comment 37** Our conclusion is based upon the Authority's inability to provide documentation that adequately supported disbursements to the Corporation. While the Corporation may have its own documentation procedures, it was the responsibility of the Authority to maintain adequate documentation to support its disbursement of HUD funds. During the audit, we specifically asked the executive director to provide specific documentation such as an invoice, time and attendance records, or other documentation to show that costs were supported or that the Authority received a benefit from the contract. The Authority only provided a schedule of payments which divided the total amount of the grant into 12 payments. When asked, the executive director only provided the name of the primary contact person for the ROSS grant program and not the actual ROSS grant coordinator who was to be hired in accordance with the ROSS grant requirements. Additionally, these were services provided under a different program and funded by separate funds and a separate contract should have been executed under 24 CFR 85.36.
- Comment 38** Based upon a review of additional documentation provided at the exit conference and since the toys were funded by a private source of funds, we agree that the \$100 is eligible and have revised the report accordingly.

**Comment 39** During the exit conference and in its written comments, the Authority admitted that the purchases of drinks, snacks, over the counter medications and other supplies were for use in the Authority's office for employees and tenants. As stated in the report, 2 CFR 225 Section 20 strictly prohibits the costs of goods or services for employees' personal use. Further, due to possible liability issues, the Authority should not be administering items such as over the counter medications to employees or tenants.

**Comment 40** We disagree with the Authority's claim that the refrigerators were accounted for. Even with the additional documentation, the Authority still could not account for the refrigerators. In addition to 2 CFR 225 (c)(1)(j), Federal regulation 24 CFR 85.20 required the Authority to maintain (1) effective control and accountability over its real and personal property and (2) records that adequately identify the application and use of funds. During the exit conference, the Authority claimed that the refrigerators only lasted three years and were subsequently disposed. The refrigerators were purchased July 16, 2009, and according to the new documentation provided during the exit conference, all were installed between August 17 and September 15, 2009. However, according to documentation provided during our previous Recovery Act audit,<sup>43</sup> all were replaced with new refrigerators purchased with Recovery Act funds within 6 ½ to 8 months and not after 3 years, as shown below:

Address	Date of Work Order/Completion	Replacement Date	Time Lapse
1600 Betty Street	August 21, 2009	March 31, 2010	7 months 10 days
1730 Julie Street	August 21, 2009	April 20, 2010	8 months 1 day
1905 Betty Street	August 24, 2009	March 31, 2010	7 months 6 days
6505 Second Zion	August 24, 2009	April 13, 2010	7 months 20 days
6509 Dale Street	September 9, 2009	March 24, 2010	6 months 15 days
1612 Betty Street	September 15, 2009	April 27, 2010	7 months 12 days

The executive director also stated during the previous audit that the refrigerators were donated instead of disposed. Meaning, the Authority has continued to provide conflicting information and documentation. Therefore, we stand by our original conclusions.

**Comment 41** Although the Authority asserted that the audit is misleading in listing the various meal expenses reviewed as entertainment costs, we disagree. The Authority has more than enough space to accommodate the 2 to 4 persons that the executive director claimed to have working lunches with, as we have conducted meetings with the executive director in his office with up to 7 persons. In addition, Authority business discussed with board members should have been discussed during regular board meetings with all board members. Further, the meal purchases were in excess of \$75 and we could not verify that any alcohol or excessive items were not purchased or that the meetings involved more than one

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<sup>43</sup> 2011-AO-1007

person, as the executive director did not provide the itemized receipts. Since the executive director could not show otherwise, these were considered prohibited costs and we stand by our original conclusions.

**Comment 42** We are encouraged by the Authority's promise to ensure more vigilance in the future to avoid ineligible finance charges.

**Comment 43** We did not question the reasonableness of the expenditures. However, the Authority still did not provide adequate supporting documentation for the costs.

**Comment 44** The Authority claimed that the audit's assessment of the Authority's accounting policy and internal controls are subjective since an outside auditor has confirmed that the Authority's controls are proper. We disagree. All information presented in the report is supported by facts, the application of laws and regulations, and documentation provided by the Authority during the course of the audit. While the Authority may have a \$3.6 million budget, we only reviewed a little over \$1 million of those funds and more than 46 percent is questioned throughout the report. Effective internal control is essential to provide reasonable assurance regarding the achievement of the Authority's mission, goals, and objectives. As noted in the report, our review determined the Authority's accounting policy and related procedures were not adequate and the Authority lacked proper internal controls. Again, the review performed by Carr Riggs and Ingram covered an audit of the annual financial statement and rendered opinions on the financial statements of the Authority and its controls over those financial statements. This did not include a review of the Authority's accounting policy or its controls over the processes to ensure compliance with expenditure requirements.

**Comment 45** The Authority claimed that the audit's findings regarding their internal controls and the reference to a prior audit which noted a lack of internal control are erroneous and has no bearing on the current period audited. We disagree. Based on our assessment of the Authority's internal controls which included a review of the Authority's policies and interviews with the Authority staff, controls were inadequate and the executive director was the contracting officer, executed contracts, reviewed invoices, approved disbursements and signed disbursement checks. Separation of duties is an essential component to maintaining adequate internal controls. The Board is responsible for ensuring that the Authority has adequate controls to detect and prevent conflicts of interest, fraud and abuse. The executive director is responsible for maintaining adequate controls over the Authority's disbursement process which should include adequate segregation of duties. In addition, during our previous audit, we determined that the executive director maintained a signature stamp of the board chairman which he used to sign checks for disbursement. The executive subsequently returned the stamp, but the period during which he maintained control over the stamp, was within our audit period. Further, 2 CFR 225 requires the Authority to maintain adequate documentation for their expenditures which includes documentation that the Authority received items purchased prior to authorizing payment of an invoice.

24 CFR 85.20 also requires that effective control and accountability be maintained over all Authority assets. As shown in the report, the Authority did not meet these guidelines.

- Comment 46** The Authority asserted that it already provided a box of documents fully supporting the security patrols. We disagree, based on comment 36. The security detail reports which included monthly data with the number of traffic stops made and the number of individuals arrested provided by the Authority during the exit conference were already reviewed during the audit and not adequate to support the costs. As stated in the report while the Authority was able to provide security detail reports that included sign in sheets with the date, name of the officer and time or hours worked, it did not include documentation showing what areas the deputies patrolled and whether the patrols were during times of increased criminal activity at the Authority's developments. Therefore, we stand by our original recommendation.
- Comment 47** During the exit conference, the Authority provided a copy of a new cooperative services agreement with the Jefferson Parish Sheriff's office. We recognize the Authority's proactive effort in executing a contract with the Jefferson Parish Sheriff's office; however, we did not perform a review to determine the adequacy or reasonableness of the contract since the contract was executed April 19, 2012, and it does not support the \$240,635 of unsupported costs previously incurred by the Authority. The Authority should provide its final supporting documentation to HUD's staff, which will assist the Authority with resolving recommendation 2B.
- Comment 48** The Authority asserted that the payments to the Corporation are fully supported. We disagree, based upon comment 37. Therefore, we stand by our original recommendation.
- Comment 49** As discussed in comment 43, we disagree that the Authority supported all of its credit card purchases. Therefore, we stand by our original recommendation.
- Comment 50** We have reduced the recommendation by the \$100 based upon the additional documentation provided by the Authority during the exit conference. However, the remaining costs are still ineligible, as discussed in comments 39 through 42; therefore, we stand by the revised recommendation.
- Comment 51** The Authority claimed that it only used funds on eligible items and that its accounting procedures and internal controls are adequate. We disagree, based upon comments 33, 44, and 45. Therefore, we stand by our original recommendation.
- Comment 52** The Authority ascertained that the executive director exercised appropriate oversight over the Authority's disbursements and all the expenses were for the Authority's benefit. We disagree. The audit report contains significant evidence

that the executive director failed to provide adequate oversight over the disbursement of HUD funds. As a result of the Authority not complying with Federal requirements, it could not ensure that funds fully benefited program participants. It is proper and within the scope of the OIG's purview to recommend that HUD take appropriate action to correct the deficiencies and improve operations at the Authority. Therefore, we stand by our original recommendation.

**Comment 53** We disagree with the Authority's claim that the owner of Diversified Ventures LLC exercised no responsibility in his official capacity as a State representative with respect to the Authority. The Louisiana State representative represented the district in which the Authority is located and therefore exercised functions and responsibility with respect to the Authority. As such, the Authority created a conflict of interest when it paid the company for services. Additionally, Diversified Ventures may have submitted a lower cost bid, but this is irrelevant since Federal regulations prohibited conflicts of interest. Therefore, we stand by our original conclusions.

**Comment 54** We disagree with the Authority's assertion that the services for various repairs were properly procured and that it did not engage in bid splitting. As discussed in the report, the Authority did not follow the proper procedures for obtaining the services, engaged in bid splitting, and should have competitively procured a contract. During the exit conference, the executive director admitted that the Authority staff performed an assessment of the damage from Hurricane Gustav and knew how many units needed repairs, as this was needed for the Authority's insurance claim. Therefore, there would be no reason to piecemeal the repairs and pay Diversified Ventures on a per job basis. In addition, Diversified Ventures did not submit its first invoice until more than 120 days after Hurricane Gustav. Meaning, the Authority had enough information and time to properly procure for the services. This was also reiterated to the Authority by HUD at the exit conference. In addition, while the Authority claims that the board was aware of these services, it was not documented in any of the board minutes. Further, if the Authority was not engaging in bid splitting, invoices that were processed for payment on the same date, should have been lumped into one check instead several checks (See Appendix C).

**Comment 55** We disagree with the Authority's claim that it raised its procurement threshold at the suggestion of HUD since the Authority was unable to provide any documentation to substantiate this claim. In fact, the Authority admitted that it raised the threshold to cure the bid splitting issue. On February 7, 2012, we provided the Authority with a document discussing issues identified during our review, which included the bid splitting. At the February 9, 2012, update meeting, the Authority stated that the board held a meeting on February 8, 2012, where it raised the small purchase threshold from \$20,000 to \$100,000 and that the bid splitting should no longer be an issue. In addition, the Authority did not

provide any documentation showing where HUD suggested that it raise its small purchase threshold. Therefore, we stand by our original conclusions.

**Comment 56** We agree with the Authority's conclusion that it was subject to Louisiana Public bid law which sets the small purchase threshold at \$150,000 for public works type contracts. We have revised the report and removed recommendation 4D.

**Comment 57** As discussed in comment 53, we disagree with the Authority's claim that there was no conflict of interest with Diversified Ventures LLC; therefore, we stand by our original recommendation.

**Comment 58** We disagree with the Authority that it maintained proper internal controls as attested to by its independent auditor. We do recognize the Authority for taking initiative to engage a consultant to review its policies. However, as discussed in the report, we stand by our original conclusions and recommendations.

**Comment 59** We disagree with the Authority's claims that it maintained proper internal controls and that there was no bid splitting regarding the various repair work performed. We do recognize the Authority for taking initiative to engage a consultant to review its procedures for procuring goods and services in emergency situations. However, as discussed in the report and in comment 54, we stand by our original conclusions and recommendations.

**Comment 60** The Authority claimed that all of its Federal funds were properly disbursed and that there is no cause for our recommendations of administrative sanctions or debarment of the executive director. We disagree. The audit report contains significant evidence that the executive director did not provide adequate oversight over the disbursement of HUD funds by engaging in bid splitting, creating a conflict of interest by executing contracts with a State legislator and violating HUD procurement regulations. The Authority's lack of knowledge of HUD rules prohibiting conflicts of interest and bid splitting prohibited the Authority from ensuring that funds fully benefited program participants. It is proper and within the scope of the OIG's purview to recommend that HUD take appropriate action to correct the deficiencies and improve operations at the Authority. Therefore, we stand by our original recommendation.

## Appendix C

### SUMMARY OF PAYMENTS TO DIVERSIFIED VENTURES

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Roof repairs			
Count	Date of disbursement	Amount	Total
1	January 9, 2009	\$8,823	
2	January 14, 2009	15,498	
3	January 14, 2009	6,310	
4	January 21, 2009	18,103	
5	January 21, 2009	4,665	
6	January 28, 2009	5,374	
7	January 28, 2009	3,450	
			<b>\$62,223</b>

Cleanup and restoration			
Count	Date of disbursement	Amount	Total
1	August 7, 2009	\$75	
2	August 7, 2009	1,700	
3	August 7, 2009	750	
4	August 7, 2009	500	
5	August 7, 2009	450	
6	August 7, 2009	450	
7	August 7, 2009	425	
8	August 7, 2009	400	
9	August 7, 2009	350	
10	August 7, 2009	350	
11	August 7, 2009	350	
12	August 7, 2009	300	
13	August 7, 2009	200	
14	August 7, 2009	200	
15	August 7, 2009	175	
16	August 7, 2009	100	
17	August 14, 2009	1,250	
18	August 14, 2009	975	
19	August 14, 2009	650	
20	August 14, 2009	650	
21	August 14, 2009	650	
22	August 14, 2009	550	
23	August 14, 2009	550	

<b>Cleanup and restoration (continued)</b>			
<b>Count</b>	<b>Date of disbursement</b>	<b>Amount</b>	<b>Total</b>
24	August 14, 2009	\$550	
25	August 14, 2009	475	
26	August 14, 2009	450	
27	August 14, 2009	350	
28	August 14, 2009	350	
29	August 14, 2009	350	
30	August 14, 2009	350	
31	August 14, 2009	300	
32	August 14, 2009	300	
33	August 14, 2009	300	
34	August 14, 2009	225	
35	August 14, 2009	150	
36	August 14, 2009	1,520	
37	September 16, 2009	300	
38	September 16, 2009	300	
39	September 16, 2009	300	
40	September 16, 2009	300	
41	September 16, 2009	300	
42	September 16, 2009	300	
43	September 16, 2009	300	
44	September 16, 2009	300	
45	September 16, 2009	300	
46	September 16, 2009	300	
			<b>\$20,720</b>

<b>Interior wall repairs</b>			
<b>Count</b>	<b>Date</b>	<b>Amount</b>	<b>Total</b>
1	August 27, 2009	1,400	
2	August 27, 2009	1,400	
3	August 27, 2009	1,300	
4	September 1, 2009	1,825	
5	September 2, 2009	1,575	
6	September 2, 2009	175	
7	September 2, 2009	175	
8	September 2, 2009	175	
<b>Total</b>			<b>\$8,025</b>

<b>Miscellaneous</b>			
<b>Count</b>	<b>Date</b>	<b>Amount</b>	<b>Total</b>
1	May 21, 2009	\$250	
			<b>\$250</b>
<b>Total payments for all services</b>			<b>\$91,218</b>

## Appendix D

### SUMMARY OF QUESTIONED COSTS

Check number-payee	Total payment	Unsupported	Ineligible	Percentage ineligible (ineligible + unsupported amount/total payment)	Description
15487 Wal-Mart	\$312	\$147	\$65	36 percent	No documentation of meeting (\$147); personal use items - coffee, bottled water, soft drinks (\$65).
14835 Wal-Mart	\$299	\$299	\$0	100 percent	No documentation (\$299)
14552 Wal-Mart	\$157	\$0	\$93	59 percent	Personal use items - snacks, coffee supplies, soft drinks (\$93)
14686 Wal-Mart	\$384	\$0	\$283	74 percent	Personal use items - snacks, coffee supplies, medicine, soft drinks (\$283)
14260 Wal-Mart	\$303	\$0	\$280	92 percent	Personal use items - office snacks, coffee supplies, water, energy drinks, soft drinks (\$280)
14479 Capital One	\$684	\$223	\$147	54 percent	No documentation for balance transfer (\$223); restaurant expenses on 2 occasions (\$147)
15187 Capital One	\$1,184	\$1,184	\$0	100 percent	Payments for cellular phone and hotel expenses (\$1,184)
14935 Capital One	\$1,113	\$0	\$248	22 percent	Restaurant expenses on 2 occasions (\$248)
14623 Capital One	\$876	\$60	\$390	51 percent	No documentation for purchase of caulking (\$60); restaurant expenses on 5 occasions (\$389); finance charge (\$1)
14268 Capital One	\$481	\$0	\$394	82 percent	Restaurant expenses on 5 occasions (\$389); finance charges (\$5)
15062 Lowe's	\$5,386	\$0	\$2,190	40 percent	Refrigerators unaccounted for
<b>Totals</b>	<b>\$11,179<sup>44</sup></b>	<b>\$1,913</b>	<b>\$4,090</b>		

<sup>44</sup> The remaining \$5,176 (\$11,179 - \$1,913 - \$4,090 = \$5,176) paid to these vendors was eligible and supported.

## Appendix E

### SUMMARY OF BOARD MEMBER PAYMENTS

Funding Sources Used For Board Member Payments		
Fiscal Year	Dates	Source of Funds
2007	October 2006-September 2007	Section 8
2008	October 2007-September 2008	Section 8
2009	October 2008-September 2009	Section 8
2010	October 2009-September 2010	Section 8 and/or Disaster
2011	October 2010-February 2011	Disaster, Section 8, and/or Disaster- Non Federal
2011	March 2011-September 2011	Section 8 Administrative Reserve Funds

Board Member Payments			
Count	Board Member Position	Dates of Service on Board	Amount Paid
1	Vice Chairman	October 2008-May 2009	\$6,448
2	Board Member	October 2008-June 2009	\$3,150
3	Board Member	October 2008-August 2010	\$6,000
4	Chairman	October 2008-September 2011	\$14,483
5	Board Member	October 2008- September 2011	\$11,225
6	Board Member	October 2008-December 2010	\$4,275
7	Board Member	October 2008- September 2011	\$6,675
8	Board Member	October 2008-November 2008	\$2,250
9	Vice Chairman	May 2009-August 2011	\$12,150
10	Board Member	November 2008- September 2011	\$4,600
11	Board Member	April 2009- September 2011	\$3,225
12	Board Member	August 2010- September 2011	\$2,175
13	Vice Chairman	September 2011- September 2011	\$2,925
14	Board Member	July 2011- September 2011	\$300
15	Board Member	August 2011- September 2011	\$5,775
16	Board Member	October 2006-September 2007	\$1,950
	N/A	Fiscal Year 2008 <sup>45</sup>	\$19,200
	<b>TOTAL</b>		<b>\$106,806</b>

<sup>45</sup> We were unable to obtain the names of the Board members who received payments during this fiscal year.