



Issue Date	June 1, 2012
Audit Report Number	2012-FW-1008

TO: Donald J. Lavoy, Deputy Assistant Secretary for Field Operations, PQ  
Dan Rodriguez, Director, Office of Public Housing, 6EPH  
Judith Garza, Director, Program Support Division, PE  
Craig Clemmensen, Director, Departmental Enforcement Center, CACB

//signed//

FROM: Gerald R. Kirkland  
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The Management and Board of Commissioners of the Housing Authority of the City of Port Arthur, TX, Failed To Exercise Their Fiduciary Responsibilities

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the financial and procurement operations of the Housing Authority of the City of Port Arthur, TX. We conducted this audit due to deficiencies identified in a prior audit.<sup>1</sup> Our objectives were to determine whether the Authority had sufficient financial and procurement controls to ensure it used U. S. Department of Housing and Urban Development (HUD) funds in accordance with laws, regulations, and policies. This review included assessing whether the internal control environment was designed to provide reasonable assurance about the achievement of the Authority's mission, goals, and objectives. Also, as part of the assessment of financial controls, we reviewed the Authority's capital funds to determine whether the Authority complied with its consolidated annual contributions contract.

<sup>1</sup> Audit Report 2011-FW-1005, The Housing Authority of the City of Port Arthur, TX, Mismanaged Its Recovery Act Funding, issued January 25, 2011

## What We Found

The Authority's management and board of commissioners failed to establish a control environment designed to provide reasonable assurance about the achievement of its mission, goals, and objectives. They failed to enact policies and procedures to ensure the integrity of financial operations and compliance with procurement requirements, even after repeated findings regarding financial and procurement weaknesses. Instead, they abused the Authority's charge card accounts and received ineligible and unsupported compensation. Also, the Authority's resident commissioner was not eligible according to HUD and State rules. These conditions occurred because the Authority's management and board failed to exercise their fiduciary responsibilities.

The Authority also improperly administered its public housing Capital Fund program and drew down \$469,359 in unused funds that it had not expended. These conditions occurred because management had no clear plan for how it would spend its capital funds. In addition, management and the Authority's attorneys imposed a scope limitation on the audit, which limited our ability to completely assess the Authority's operations.

As a result of these conditions, the Authority incurred questioned costs of more than \$5.9 million and was in violation of its annual contributions contract. Also, the Authority's lack of controls put it at substantial risk for fraud, errors, and financial misstatements.

## What We Recommend

We recommend that HUD determine if the Authority was in substantial default of its annual contributions contract and take appropriate administrative actions against its executive director and commissioners. We also recommend that HUD require the Authority to adopt and implement policies and procedures to control its financial and procurement operations, repay \$462,274 in ineligible costs, and support or repay almost \$5 million in unsupported costs to HUD. We further recommend that HUD recapture \$469,359 in capital funds.

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

## **Auditee's Response**

We issued a draft report to the Authority and HUD on April 19, 2012. We held an exit conference with the Authority on May 3, 2012, and requested written comments by May 7, 2012. At the Authority's request, we extended the date to provide comments until May 14, 2012. In its May 14, 2012 response, the Authority generally disagreed with the report. We made some revisions to the report language based on the Authority's comments, but did not revise the overall conclusions and recommendations. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

## TABLE OF CONTENTS

---

Background and Objectives	5
Results of Audit	
Finding 1: The Authority’s Management and Board of Commissioners Failed To Exercise Their Fiduciary Responsibilities	7
Finding 2: The Authority’s Management Failed To Enact Financial Controls	17
Finding 3: The Authority Failed To Comply With Procurement Requirements	24
Finding 4: The Authority Improperly Administered Its Capital Funds	31
Scope and Methodology	34
Follow-up on Prior Audits	37
Appendixes	
A. Schedule of Questioned Costs and Funds To Be Put to Better Use	38
B. Auditee Comments and OIG’s Evaluation	39

## BACKGROUND AND OBJECTIVES

---

The Housing Authority of the City of Port Arthur is a public body established pursuant to the laws of the State of Texas for the purpose of engaging in the development, acquisition, and administration of a low-income housing program. The policy-making body of the Authority is its board of commissioners. It selects and employs the executive director, who is responsible for the efficient day-to-day operations of the Authority. The Authority is fiscally independent of the City of Port Arthur and is not considered a component unit of the City; however, the mayor of Port Arthur appoints the Authority's five-member board of commissioners. At least one of the commissioners must be a resident who is directly assisted by the Authority.<sup>2</sup>

The Authority receives capital funds annually via a formula grant from the U. S. Department of Housing and Urban Development (HUD). The Authority may use its capital funds for development, financing, modernization, and management improvements for its public housing developments. It received \$582,663 and \$569,582 in formula capital funds in fiscal years 2009 and 2010,<sup>3</sup> respectively. It also received a \$725,546 public housing Capital Fund grant under the American Recovery and Reinvestment Act of 2009 and a \$230,865 Replacement Housing Factor grant in fiscal year 2010. It received HUD public housing operating subsidies of \$1.26 million in 2009 and \$1.8 million in 2010. The Authority was required to administer its public housing program pursuant to its consolidated annual contributions contract. The annual contributions contract is a contract between HUD and the Authority containing the terms and conditions under which HUD assists the Authority in providing decent, safe, and sanitary housing for low-income families.

Hurricane Rita damaged the Authority's public housing developments in 2005. The Authority later demolished its 152-unit Gulf Breeze public housing development and rebuilt 86 public housing units on the same site using Community Development Block Grant (CDBG) Disaster Recovery funds provided through the State of Texas. The new development, Lakeview Palms, opened for occupancy in 2010. The Authority has a second public housing development, Carver Terrace, with 204 units that it plans to demolish and rebuild on an alternate site. It also has 12 single-family homes that are scattered-site public housing units.

The Authority administered 2,620 housing choice vouchers with annual contributions from HUD in excess of \$13 million. It also administered 82 vouchers under the Disaster Housing Assistance Program (DHAP) and 1,118 under DHAP Ike during the audit period. Both DHAP programs were funded through the Federal Emergency Management Agency (FEMA) and overseen by HUD. The DHAP programs provided monthly rental assistance, case management services, and security deposit and utility deposit assistance for certain families displaced from their homes by Hurricanes Katrina, Rita, Ike, or Gustav.

---

<sup>2</sup> 24 CFR (Code of Federal Regulations) Part 964, Tenant Participation and Tenant Opportunities in Public Housing

<sup>3</sup> The Authority's fiscal year is October 1 through September 30.

In addition to its HUD-funded public housing and voucher programs, the Authority's financial statements reflected multiple related entities:

- The Port Arthur Affordable Housing Corporation was formed to promote economic development and provide decent and affordable housing for low- and moderate-income residents. It owned 100 percent of three limited liability corporations that served as general partners in three limited partnerships that operated separate low-income housing tax credit projects in Port Arthur. For its participation, the Authority received at least \$222,160 in developer fees during 2009 and 2010.
- The Port Arthur Housing Opportunities Corporation was organized as an instrumentality of the Authority with the same general purpose as Port Arthur Affordable Housing. It owned more than 99 percent of a limited partnership that owned and operated a multifamily project in Port Arthur. The project was funded with CDBG Disaster Recovery funds. During 2009 and 2010, the Authority received \$278,000 for developer fees.
- O.W. Collins GP, LLC, a for-profit entity, operated a low-income housing tax credit project.
- Villa Main Housing Associates GP, LLC, a for-profit entity, was the general partner of a partnership that owned and operated a 140-unit low-income housing tax credit project that had a project-based Section 8 contract with HUD.

Additionally, the Authority owned a multifamily project, Valley View Estates (formerly known as Gulf Breeze II Estates), a mixed-income development that received no Federal subsidies. The Authority developed the project using CDBG Disaster Recovery funds.

In addition to the developer fees reflected above, the Authority received \$894,460 in developer fees for Gulf Breeze I and II. Therefore, it received more than \$1.39 million in developer fees during 2009 and 2010.<sup>4</sup> Developer fees received for the projects under Port Arthur Affordable Housing were posted to a general ledger account called PAAH (Port Arthur Affordable Housing). The developer fees received for the project under the Port Arthur Housing Opportunities Corporation and for Gulf Breeze I and II were posted to a general ledger account called Housing Opportunities Fund.

The missions of the Authority and its related entities were to promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination for Port Arthur residents.

Our audit objectives were to determine whether the Authority had sufficient financial and procurement controls to ensure it used HUD funds in accordance with laws, regulations, and policies. Also, as part of the assessment of financial controls, we reviewed the Authority's capital funds to determine whether the Authority complied with its annual contributions contract.

---

<sup>4</sup> Total developer fees:  $\$222,160 + 278,000 + 894,460 = \$1,394,620$

## RESULTS OF AUDIT

---

### Finding 1: The Authority's Management and Board of Commissioners Failed To Exercise Their Fiduciary Responsibilities

The Authority's management and board of commissioners failed to establish a control environment designed to provide reasonable assurance about the achievement of its mission, goals, and objectives. They failed to enact policies and procedures to ensure the integrity of financial operations (finding 2) and compliance with procurement requirements (finding 3), even after repeated audit findings regarding financial and procurement weaknesses. Instead, they abused the Authority's charge card accounts and received ineligible and unsupported compensation. Further, management failed to adequately plan and carry out capital improvement activities (finding 4). These conditions existed because the Authority's management and board failed to exercise their fiduciary responsibilities. Also, by restricting access to records, facilities, and personnel, management and the Authority's attorneys imposed a scope limitation on the audit. As a result of their actions, the Authority incurred questioned costs of more than \$5.9 million and was in violation of its annual contributions contract. In addition, the Authority's lack of controls put it at substantial risk for fraud, errors, and improper payments.

---

#### **Management Failed To Establish a Proper Control Environment**

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

Contrary to these requirements, Authority management failed to establish formal controls, including written policies and procedures, over its operations. Management also failed to establish a control environment to instill integrity and ethics in achieving its mission. Further, the Authority's board did not hold management accountable for these standards, and the commissioners failed to hold themselves to a high standard of integrity and fiduciary responsibility.

## Management and the Board Abused the Authority's Charge Cards

The Authority did not properly safeguard or restrict access to its charge cards; incurred unreasonable, unnecessary, and imprudent charges; and charged excessive and unsupported travel costs. Contrary to its own procurement policy and HUD's procurement handbook,<sup>5</sup> the Authority did not have controls and procedures in place to safeguard its charge cards. It was required to adopt reasonable safeguards and procedures to ensure charge cards were used only for intended purposes. Additionally, it should have limited the types and amounts of purchases that were permitted with the cards. Also, it should have had guidelines for selecting merchants and vendors, tracking purchases, and card payment and settlement procedures. The Authority charged in excess of \$199,000 to its American Express charge card account, \$23,205 to its gasoline charge card account, and \$5,352 to its Lowe's charge card account during the audit period.

### *The Authority Did Not Safeguard or Restrict Access to Its Charge Cards*

The Authority did not maintain control of its charge cards to ensure that only authorized personnel used the cards. The executive director acknowledged allowing five employees and a contractor to use his Authority-issued American Express card. Documentation also reflected that unauthorized personnel used the Authority's gasoline charge cards. The director of finance stated that he had difficulty obtaining receipts to support charges to the Authority's charge cards and preferred to limit the number of cards rather than trying to get receipts from individuals for many cards. However, allowing multiple users of the same card not only violated the Authority's cardholder agreement,<sup>6</sup> it prevented the Authority from holding specific cardholders accountable for their charges.

### *The Authority Permitted Unreasonable, Unnecessary, and Unsupported Charge Card Transactions*

Many of the American Express charges did not appear to fulfill a housing authority mission or business purpose, and the Authority did not always maintain or provide support for the charges. Instead, the charges appeared to benefit the Authority's commissioners, management, employees, and contractors. In addition, management did not consistently approve or indicate review of the charges on the card.

Federal regulations provide grantees with guidance regarding allowable costs. To be allowable, costs must be necessary and reasonable. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important

---

<sup>5</sup> HUD Handbook 7460.8, REV- 2, Procurement Handbook for Public Housing Agencies

<sup>6</sup> Its American Express card-holder agreement

when governmental units or components are predominately federally funded. Further, it must be determined whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.

Table 1 contains selected egregious items charged to the Authority’s American Express charge card. These charges were not necessarily all paid with Federal funds, however, they are examples of the types of charges on its charge card.

**Table 1: Selected charges from the American Express charge card**

Charge	Date(s)	Amount	Explanation (if any)
Amazon.com	Various	\$2,943	
CASA	04/07/2009 03/22/2010	500 500	Charitable contribution
Enterprise Rent a Car	11/10/2010	1,987	Rental car for resident commissioner
Greater Port Arthur Membership	01/26/2009 01/19/2010	1,000 750	\$750 for “Chairman’s Table”
Holiday Inn Port Arthur	01/28/2009	1,493	Handwritten note stated, “Christmas.” American Express statement reflected, “arrive 12/12/2008 depart 01/27/2009.”
	12/22/2009	2,694	Handwritten note indicated, “Christmas Party.” American Express statement reflected, “arrive 12/21/2009 depart 12/21/2009.”
Jason’s Deli	Various	2,250	
Lezet Catering	Various	2,903	
Various florists and Edible Arrangements	Various	827	
Walmart	Various	14,624	
Woodlands Conference Center	09/09/2010	4,135	
<b>Total</b>		<b>\$36,752</b>	

In addition, the American Express charge card statements reflected thousands of dollars spent on items such as groceries, grilling supplies, party supplies, local restaurant charges, and gasoline. The Authority incurred \$8,410 in ineligible and \$47,916 in unsupported charges that it allocated to its HUD programs and at least \$9,595 in travel costs incurred by the commissioners that it charged to its non-HUD programs.<sup>7</sup> Further, the Authority failed to provide receipts for Lowe’s card charges of \$1,300 and gasoline card charges of \$6,770. Not only were these charges unreasonable, they did not appear to support the Authority’s or its related entities’ missions.

*Travel Charged to American Express Was Excessive and Unsupported*

The Authority charged an excessive amount of travel to its American Express charge card, which it could not support. Its statements reflected at least \$66,000 in travel charges for its commissioners, management, employees, and contractors. Despite repeated requests, the Authority did not provide sufficient documentation to support the purpose of the travel. The limited documentation the Authority provided

<sup>7</sup> Includes \$5,168 for the resident commissioner, \$1,987 of which was for the rental car in table 1

included various course flyers, class agendas, and recent printouts from the Internet regarding training classes offered by housing-related entities. General information about course offerings did not support the purpose of individual trips, nor did it document that anyone from the Authority attended any training.

In response to questions regarding travel, the board chairman admitted that Authority staff had received an inordinate amount of training; however, he also stated that staff should be very knowledgeable in program and record-keeping requirements. Yet, Authority staff failed to exhibit this knowledge during the audit.

In addition to excessive and unsupported travel, the charges reflected other questionable travel transactions. For example, in 2009 the Authority paid \$688 in “cancellation” and “no show” fees for luxury hotel rooms for the executive director and the board chairman. The documentation did not provide an explanation for not cancelling the reservations in a timely manner. While the amounts were not necessarily material, they showed the board’s and management’s lack of regard for responsible fiscal administration and their disregard for their fiduciary duties.

HUD should require the Authority to repay \$8,410 in ineligible charges and support or repay \$55,986 in unsupported charges identified. HUD should also require the Authority to implement controls over its charge cards, including a policy which emphasizes that only the authorized cardholder may use an Authority charge card; limits the types and amounts of purchases permitted with the cards; and provides guidelines for selecting merchants and vendors, tracking purchases, and card payment and settlement procedures.

### **The Authority Paid the Executive Director for Unused Leave in Violation of Its Personnel Policy**

In violation of its own personnel policy, the Authority paid the executive director \$51,821<sup>8</sup> for accrued sick leave from August 2010 through December 2011. As shown in table 2, this amount included \$33,984<sup>9</sup> paid on October 15, 2010, which the Authority’s attorney asserted was for unused sick leave. However, payroll documents did not show the payment as sick leave, and the Authority did not reduce the executive director’s accrued leave balances. The Authority’s leave policy prohibited paying employees for unused sick leave. Thus, this compensation was unsupported.

---

<sup>8</sup> The \$51,821 was gross pay to the executive director. The amounts in table 2 include the Authority’s total payroll expenses, which included the employer’s portion of payroll taxes.

<sup>9</sup> Ibid

**Table 2: Allocation of executive director's leave payments**

Date	General fund	Housing Choice Voucher	Capital Fund	Housing opportunities	HUD total	Other programs total	Grand total
12/7/2011	\$1,058	\$2,925	\$622	\$1,214	\$5,819	\$405	\$6,224
2/10/2011	1,123	3,104	660	1,288	6,175	429	6,604
10/15/2010	5,861	16,204	3,448	6,723	32,236	2,241	34,477
8/19/2010	1,019	2,816	599	1,168	5,603	390	5,993
<b>Totals</b>	<b>\$9,061</b>	<b>\$25,049</b>	<b>\$5,329</b>	<b>\$10,394</b>	<b>\$49,833</b>	<b>\$3,465</b>	<b>\$53,298</b>

In September 2008,<sup>10</sup> the former board chairman executed an employment contract with the executive director that provided a salary of \$144,733 plus benefits as well as the right to be paid at his discretion for unused annual and sick leave. Two years later, in September 2010, the incumbent board chairman executed a new employment agreement that increased the executive director's salary to \$154,865 and increased the number of annual and sick leave hours he accrued and could cash out.

HUD should determine whether the payments to the executive director for unused sick leave were allowable and properly accounted for and if indicated, require the Authority to reimburse HUD for the \$49,833 allocated to its programs.

### **The Resident Commissioner Was Ineligible, and the Commissioners Received Prohibited Compensation**

In violation of both HUD and State requirements, the Authority allowed an ineligible person to serve as its resident commissioner and improperly compensated its commissioners. HUD required the Authority to have at least one resident commissioner on its board. The resident commissioner had to be directly assisted, meaning being a public housing resident or a recipient of housing assistance in the voucher program.<sup>11</sup> State law also required that at least one commissioner be a tenant of a public housing project over which the Authority had jurisdiction. Further, State law states that a commissioner of a housing authority may not receive compensation for service as a commissioner.<sup>12</sup>

<sup>10</sup> Although he had worked at the Authority as executive director since July 2003, he did not have an employment contract before September 2008.

<sup>11</sup> Direct assistance does not include State-financed housing assistance or Section 8 project-based assistance. The Authority said its resident commissioner lived in one of its non-HUD properties.

<sup>12</sup> A commissioner is entitled to receive reimbursement for the necessary expense, including traveling expenses, incurred in the discharge of duties as a commissioner.

*The Resident Commissioner Was Ineligible*

The resident commissioner was not eligible under Federal and State requirements. The Authority's resident commissioner was not directly assisted and was, therefore, ineligible. The executive director stated that the board chairman identified the resident commissioner and recommended the mayor appoint that individual. The resident commissioner had previously been a public housing tenant but moved out without notice in August 2004 while owing the Authority \$1,692, which remained unpaid as of December 2011.

*The Authority Improperly Compensated the Commissioners*

The Authority improperly compensated its commissioners with both cash and noncash items. It paid the resident commissioner a monthly stipend of \$200 from April through November 2010 in violation of State law. During the audit period, the Authority also provided its commissioners with noncash compensation in the form of mobile phones, wireless aircards, laptop computers, netbook computers, wireless printers, software, and various peripheral devices costing more than \$36,000. The Authority's board had five commissioners at any given time; however, only the resident commissioner position became vacant and was later filled during the audit period. Yet, the Authority purchased 14 laptop computers and 5 netbook computers during the review period that it designated for commissioners. The Authority's attorney asserted that rather than requiring departing commissioners to return the equipment, the Authority allowed the commissioners to keep the equipment. The attorney indicated that the Authority considered this equipment virtually worthless when the commissioners left. This rationale did not explain the purchase of 14 laptop computers for 6 individual commissioners during a 2-year period.

The Authority also paid \$1,050 in HUD funds to a local charter school during the audit period. It recorded the expenditures as "Other Sundry Expense-Mgmt" in its general fund. Public records showed the board chairman was on the board of the charter school. No clear program-related purpose existed for the payments. Such gifts of noncash compensation and the apparent conflict of interest created the risk that commissioners would not act impartially or in the Authority's best interest.

The Authority should cease all payments to the commissioners and on their behalf except for necessary expenses incurred in the discharge of their duties as commissioners. In addition, HUD should encourage the Authority to recover the equipment the Authority provided to the commissioners. Further, HUD should direct the mayor to appoint an eligible resident commissioner to the Authority's board and encourage the mayor to evaluate the effectiveness of the board and remove and replace commissioners as appropriate.

## **The Authority Did Not Properly Administer Fees Earned from its CDBG and Tax Credit Development Projects**

The Authority did not properly administer fees earned from its CDBG and tax credit development projects. It had multiple projects developed under the CDBG Disaster Recovery and low-income housing tax credit programs. The Authority received a significant amount of funds from these projects,<sup>13</sup> as reflected in its general ledger and financial statements. The Authority indicated that it considered these funds to be “non-Federal” and outside the scope of Federal audits.

Both the CDBG and tax credit programs were intended to benefit lower income households. The tax credit program allocates billions of dollars to State and local agencies to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower income households. The CDBG Disaster Recovery grants were intended to benefit primarily low-income residents in and around communities that had experienced a natural disaster. The funds were intended for recovery efforts that involved housing, economic development, infrastructure, and prevention of further damage to affected areas. In addition, Federal guidance defines amounts earned on CDBG disaster grants as program income that may only be used for additional disaster recovery activities.<sup>14</sup> Further, the mission of the Authority is to promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination.

Contrary to the intended purposes of the programs and the Authority’s own mission, the funds appeared to have been used for expenses that benefited the Authority’s commissioners, management, and employees. Specific items noted during the audit included thousands of dollars spent on unnecessary equipment for commissioners, parties, excessive travel, local restaurant charges, and gifts. The Authority has a fiduciary responsibility to its residents, the public, and the Federal Government to administer its programs and funding in a manner that promotes its missions.

---

<sup>13</sup> It appeared the Authority received these funds in the form of “codeveloper” fees.

<sup>14</sup> Federal Register Notice Vol. 71, No. 147 issued Tuesday, August 1, 2006, Waivers Granted to and Alternative Requirements for the State of Texas’ CDBG Disaster Recovery Grant Under the Department of Defense Emergency Supplemental Appropriations To Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006

## **Management and the Board Were Aware of Problems**

The Authority's financial statement audits repeatedly contained findings regarding financial and procurement problems, including the Authority's charge cards. Therefore, both the Authority's management and its board were aware of the problems. Although management submitted corrective action plans to address the deficiencies, the repeated findings indicated that management failed to take corrective action and the board did not ensure that management enacted the needed controls.

## **Authority Management and its Attorneys Imposed a Scope Limitation**

The Authority imposed scope limitations that impaired the audit in two ways. First, the Authority limited auditor access to staff, records, and data. Second, the Authority provided incomplete records, particularly for procurement. Both situations limited auditors' ability to understand the control environment and the substance of the Authority's financial and procurement activities. Auditors made specific requests to meet with staff and observe the retrieval of procurement documents for review, which the Authority disregarded. The Authority did not provide all of the documentation requested, even after requests for status updates, and refused to provide employee data on the advice of its attorney. Because of the Authority's lack of cooperation, we issued an OIG administrative subpoena and then a demand letter to obtain materials necessary to conduct the audit. The Authority did not fully comply with either requirement that it produce data and records. Further, when it allowed auditors to interview staff, it ensured that a representative of management or its attorney was present. It also provided documentation and answers to auditors' inquiries through its attorneys in outside law firms.

Because of the scope limitation, auditors were unable to complete planned audit work or draw conclusions about the eligibility of all expenses charged to HUD programs. Auditors disclosed in the body of the findings what data or information the Authority failed to provide and how it impacted the resulting conclusions and recommendations. In most cases, this limitation resulted in program costs being deemed unsupported. The Authority's failure to provide full and free access to its offices, facilities, books, documents, and records was a violation of its annual contributions contract.

## Conclusion

The Authority's management and board failed to establish a control environment that instilled responsibility and accountability. They failed to ensure that basic controls were in place over the Authority's financial operations (finding 2), ensure compliance with procurement requirements (finding 3), and adequately plan and undertake capital improvements (finding 4). Meanwhile, they spent lavishly on items that benefited them personally. As a result of their actions, the Authority incurred questioned costs of more than \$5.9 million and was in violation of its annual contributions contract. In addition, the Authority's lack of controls put it at substantial risk for fraud, errors, and improper payments.

HUD should determine if the Authority was in substantial default of its annual contributions contract and take appropriate administrative action against the executive director and commissioners.

## Recommendations

We recommend that the Deputy Assistant Secretary for Field Operations

- 1A. Coordinate with the Field Office to provide information to the Departmental Enforcement Center to enable it to make a determination whether the Authority was in substantial default of its annual contributions contract.

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

- 1B. Require the Authority to repay from non-Federal funds \$8,410 in ineligible charge card charges. Repayment should be made to its appropriate program(s), or if a determination can't be made as to which program(s) should be repaid, the funds should be repaid to HUD.
- 1C. Require the Authority to support or repay \$55,986 in unsupported charge card charges. Any repayments should be made from non-Federal funds and made to the Authority's appropriate program(s), or if a determination can't be made as to which program(s) should be repaid, the funds should be repaid to HUD.
- 1D. Require the Authority to implement controls over its charge cards, including a policy which emphasizes that only the authorized cardholder may use an Authority charge card; limits the types of purchases or the amount of purchases permitted with the cards; and provides guidelines for selecting merchants and vendors, tracking purchases, and card payment and settlement procedures.

- 1E. Determine whether the clause in the executive director's contract permitting payment for unused leave is allowable and if not, require the Authority to reimburse \$49,833 to its programs (general fund \$9,061, Housing Choice Voucher program \$25,049, Capital Fund program \$5,329, and \$10,394 Housing Opportunities). Further, the Authority should be required to support that the executive director's leave balances were decreased for any leave for which he was paid.
  
- 1F. If HUD does not take control of the Authority pursuant to recommendation 1A, direct the mayor of Port Arthur to appoint an eligible resident commissioner to the Authority's board and encourage the mayor to evaluate the effectiveness of the board and remove and replace commissioners as appropriate.
  
- 1G. Encourage the Authority to recover the various equipment given to the commissioners.

We recommend that the Director, Departmental Enforcement Center

- 1H. Take appropriate administrative action, including possible debarment, against the executive director and commissioners.

## Finding 2: The Authority's Management Failed To Enact Financial Controls

The Authority's financial management system failed to meet Federal standards. This deficiency occurred because management failed to establish formal controls, including written policies and procedures, over its financial operations. Management also failed to establish a control environment to instill integrity and ethics in achieving its mission. Further, the board did not hold management accountable for these standards, and the commissioners failed to hold themselves to a high standard of integrity and fiduciary responsibility. As a result, the Authority failed to properly allocate costs and process invoices. In addition, it failed to provide requested payroll data, resulting in \$2.9 million in unsupported payroll expenses. Further, the Authority's lack of financial controls put it at substantial risk for fraud, errors, and improper payments.

---

### **The Authority's Financial Management System Failed To Meet Federal Standards**

The Authority's financial management system failed to meet Federal standards, resulting in substantial risk to HUD programs and funding. Federal regulations require grantees to have controls sufficient to safeguard assets and ensure effective and efficient use and accurate reporting of funds.<sup>15</sup>

Contrary to these requirements, Authority management failed to establish formal controls, including written policies and procedures, over its financial management system. As a result, it did not (1) properly allocate costs, (2) properly process invoices, and (3) support or properly allocate its payroll. Because of these significant internal control deficiencies, the costs recorded in the Authority's general ledger were unreliable, which would also have an impact on the reliability of the Authority's financial statements.

### **The Authority Improperly Allocated Costs**

The Authority's cost allocation plan was deficient. The Authority was required to prepare and certify an indirect cost allocation plan.<sup>16</sup> Indirect costs are those that have been incurred for common or joint purposes. Such costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. However, the Authority's cost allocation plan covered only the allocation of administrative

---

<sup>15</sup> 24 CFR 85.20

<sup>16</sup> 2 CFR 225

salaries and did not contain the required certification.<sup>17</sup> It did not include provisions for allocating other indirect costs among its programs. As a result, the Authority improperly allocated costs to its programs.

*The Authority Improperly Allocated Costs Solely to the Voucher Program*

The Authority charged all expenses for its administration building to its Housing Choice Voucher program. However, one floor of the three-story building was dedicated to nonvoucher activities, including the executive office, public housing management, finance, procurement, its component units, and related entities. It also stored its vehicles on the property. It was, therefore, not reasonable to allocate all expenses for the administration building to the voucher program. For example, the Authority charged the voucher program for \$76,707 in telephone expenses that it should have allocated among the programs that the building served. As a result, the Authority overreported its voucher program administrative expenses to HUD.

*The Authority Improperly Allocated Costs to Other Programs*

The Authority allocated the full cost of its information technology contracts totaling \$32,840 and photocopier leases totaling \$64,038 to its HUD programs rather than apportioning the costs among the programs that benefited. In another example, the Authority commissioned an overall assessment of the Authority's organizational design, but it expensed 42 percent of the \$118,352 cost to the temporary DHAP Ike program. Since it did not have a proper allocation method, the Authority either underreported or overreported costs for its various programs.

To prevent the future improper allocation of costs, the Authority should adopt and implement a cost allocation plan that includes procedures to ensure it reasonably allocates costs to the programs that benefit from them. HUD should also require the Authority to support or repay the \$173,584 in improperly allocated costs identified during the audit.<sup>18</sup>

### **The Authority Did Not Properly Process Invoices**

Contrary to sound business practices, Authority management did not have procedures to ensure the timely payment, proper authorization, and proper accounting for vendor invoices. Regulations and HUD guidance require the Authority to maintain an effective system of internal control and financial management including timely payment of invoices, supervisory review and approval of documents, and proper allocation of expenses.

---

<sup>17</sup> The Authority's 2010 financial statement audit found that its salary allocation did not meet HUD requirements.

<sup>18</sup> The amount does not include the \$118,352 in DHAP Ike costs, as those costs are questioned in the procurement section of this report.

*The Authority Did Not Always Pay Vendor Invoices in a Timely Manner*

The Authority did not always pay vendor invoices in a timely manner. As shown in table 3, a review of 185 invoices for 5 vendors revealed 22 invoices that the Authority paid late. In addition, 20 invoices did not contain an invoice date or date received, making it impossible to determine whether the Authority paid them in a timely manner.

**Table 3: Schedule of vendor payments**

Vendor	Total invoices	0-30 days	31-60 days	61 + days	Unable to determine	Percentage of late payments
DHAP Ike case management	24	5			19	Unknown
Organizational review <sup>19</sup>	5	2	2	1		60 percent
Architect	34	26	5	3		24 percent
Construction	7	0	4	3		100 percent
Information technology provider	115	110	2	2	1	3 percent
<b>Totals</b>	<b>185</b>	<b>143</b>	<b>13</b>	<b>9</b>	<b>20</b>	

Authority management also did not ensure the timely payment of its American Express and utility bills, resulting in unnecessary and avoidable interest and late fees. Further, when it failed to pay the entire balance, it did not properly accrue the expenses and resulting liabilities in the general ledger.

*The Authority Did Not Always Properly Authorize Invoice Payments*

Authority management did not ensure that the Authority properly authorized or approved vendor invoices before payment. Of the 185 invoices reviewed, only 38 contained an indication that management authorized or approved payment of the invoice. Without control procedures governing the approval or authorization of invoices before payment, Authority management failed to mitigate the risk that it would make improper payments for (1) unauthorized purchases, (2) services not received, or (3) invoice errors not detected. For example, the executive director's assistant purchased more than \$26,000 in computer equipment, but there was no documentation to show that the assistant was authorized to make the purchases, nor was there evidence of approval on the resulting invoices.

Of the 38 invoices that contained evidence of approval, 6 bore the executive director's initials in the form of a stamp. Testing of the Authority's controls to safeguard signature stamps found that the assistant had access to the executive director's stamps and used them to approve invoices. Given the previous example of the assistant's ordering equipment with no apparent authority, this lack of control over the executive director's signature stamp represented a significant risk for abuse.

<sup>19</sup> Two of the invoices reviewed were for services not related to the organizational review.

*The Authority Did Not Always Charge the Correct Fund or Program*

For the 34 architect invoices, the Authority incurred \$14,253 in architect fees for property inspections at developments associated with its Housing Opportunities Fund, but it expensed the costs to Port Arthur Affordable Housing. This improper charging represented 49 percent of the architect’s billings during the review period. The Authority posted the expenses to its general ledger as “contract costs” and “office contracts,” rather than as expenses of the corresponding projects. The Authority considered the funds in Port Arthur Affordable Housing to be non-Federal funds. However, regardless of restrictions on available funds, the Authority should ensure it charges costs to the appropriate projects and programs.

*The Authority Failed To Support the Charges Reflected on the DHAP Ike Invoices*

Despite an Office of Inspector General (OIG) administrative subpoena demanding the information, the Authority failed to provide support for the charges reflected on the 24 contractor’s invoices for DHAP Ike case management services. Under the contract, the Authority was to pay the contractor a fee per family based on the total number of families under a DHAP Ike subsidy contract during the month. While the invoices reflected the total number of families served, the Authority did not provide support showing that families were served. Therefore, HUD should require the Authority to either support or repay more than \$1.39 million in unsupported case management services.

HUD should require the Authority to adopt and implement controls, including written policies and procedures, over the receipt, review, approval, and payment of vendor invoices.<sup>20</sup> These controls should include a system of procedures for logging incoming invoices, stamping them with the date received, and routing them for appropriate review and approval before payment. The system should allow the Authority to identify invoices it has received but not paid so it can ensure it pays its obligations as agreed upon and avoid unnecessary late fees and interest. Further, HUD should require the Authority to restrict access to signature stamps, including adopting and enforcing policies for their appropriate use.

**The Authority Did Not Support or Properly Allocate Certain Payroll Expenses**

The Authority did not provide payroll information and did not properly allocate certain payroll expenses. Federal regulations as well as the annual contributions contract required the Authority to maintain complete and accurate books and records. Further, the Authority was required to furnish those books and records for

---

<sup>20</sup> See also Audit Report 2011-FW-1005, The Housing Authority of the City of Port Arthur, TX, Mismanaged Its Recovery Act Funding, issued January 25, 2011, recommendation 1C.

audit and accurately report its expenses to ensure consistency in reporting to HUD the source and application of its funds.<sup>21</sup>

*The Authority Failed To Support Its Payroll*

Despite repeated requests, including a demand letter, the Authority did not provide supporting data for its payroll. It provided only printed payroll records for the last pay period of 2010. As a result of this scope limitation, detailed testing could not be performed to identify potential irregularities and determine whether the Authority’s payroll expenses were reasonable, supported, and properly allocated during the review period. Therefore, the Authority failed to support its payroll expenditures during the audit period. As shown in table 4, the Authority charged more than \$2.9 million in payroll expenses to HUD-funded programs.<sup>22</sup>

**Table 4: Payroll expense by fund**

<b>Fund</b>	<b>Amount</b>
General fund	\$342,975
Carver Terrace	450,082
Gulf Breeze & scattered sites	17,939
Section 8 vouchers	1,655,667
Capital Fund	336,493
Housing Opportunities Fund	149,481
<b>HUD total</b>	<b>\$2,952,637</b>
Home ownership	35,435
Port Arthur Affordable Housing	61,803
<b>Other total</b>	<b>\$97,238</b>
<b>Grand total</b>	<b>\$3,049,875</b>

The Authority posted its payroll transactions in summary to its general ledger.<sup>23</sup> The finance staff stated this procedure prevented personnel who had access to the general ledger from viewing others’ payroll information. Since the Authority did not provide the requested detailed data, a review of the summary payroll transactions was performed. Testing showed nine irregular payroll transactions totaling \$102,485. For example, on September 3, 2009, the day before a regular pay date, the Authority recorded 23 payments totaling \$39,631 charged to the DHAP Ike program. The Authority processed payroll, including DHAP salaries, the next day. This off-cycle payment was unusual because the salary amounts were at least six times more than the usual DHAP Ike salaries. In another off-cycle payment, on September 22, 2010, the Authority issued 22 payroll checks for \$36,718 in payroll expenses allocated among its programs.

The Authority implemented a new timecard system during the review period. The finance staff’s description of the system indicated that a nonsupervisory person could make unauthorized manual changes to employee timecard swipes and printed

<sup>21</sup> HUD Handbook 7510.1, Low Rent Technical Accounting Guide

<sup>22</sup> Includes \$463,509 allocated to the DHAP and DHAP Ike programs

<sup>23</sup> The entries reflected total amounts for each category of expense and did not identify individual payees.

timecards would not identify that these changes had occurred. Further, finance staff indicated supervisors did not always identify and correct errors. The payroll clerk could generate a report to identify manual changes but did not always do so. Because the Authority had no written procedures for payroll processing, it risked improper changes to timekeeping records, which could result in improper payments or payment errors.

*The Authority Failed To Properly Allocate Certain Payroll Expenses*

The Authority did not properly allocate payroll expenses for security guards and a social services coordinator. It charged those expenses as management improvements. However, HUD required salary expenses for security guards to be charged as protective services labor and salaries for social services coordinators to be charged as tenant services salaries.<sup>24</sup> The Authority incorrectly charged \$288,613 for security guards and \$46,140 for its social services coordinator during the audit period, overreporting its costs for management improvements by \$334,753.

HUD should require the Authority to support or repay \$2.9 million in HUD-funded portions of its payroll expenses during the review period, including the \$102,485 in irregular payroll transactions. HUD should also require the Authority to reclassify the improperly classified payroll expenses, revise any reports that were in error as a result, and record the payroll expenses in the appropriate categories in the future. Further, HUD should direct the Authority to adopt and implement procedures for processing payroll designed to prevent, detect, and correct unauthorized changes to timekeeping records.

## Conclusion

The Authority's financial management system failed to meet Federal standards. Although management and its board were aware that the Authority had no formal policies and procedures for its financial operations, they failed to take action to mitigate the risks of fraud, errors, and improper payments. As a result, the Authority failed to properly allocate costs and process invoices. In addition, it failed to provide requested payroll data, resulting in \$2.9 million in unsupported payroll expenses. HUD should require the Authority to adopt and implement internal controls over its financial operations to safeguard assets and ensure the accuracy of its financial reporting.

---

<sup>24</sup> HUD Guidebook 7510.1, Public and Indian Housing Low-Rent Technical Accounting Guide

## Recommendations

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

- 2A. Adopt and implement a cost allocation plan that includes procedures to ensure it reasonably allocates both direct and indirect costs to the programs that benefit from them.
- 2B. Support or repay from non-Federal funds \$173,584 in improperly allocated costs to its various HUD programs.
- 2C. Adopt and implement controls, including written policies and procedures, for the receipt, review, approval, and payment of vendor invoices and procedures for processing payroll designed to prevent, detect, and correct unauthorized changes to timekeeping records.
- 2D. Implement access controls over signature stamps, including adopting and enforcing policies for their appropriate use.
- 2E. Support or repay \$1,278,151<sup>25</sup> (general fund \$336,095, public housing program \$468,021, Capital Fund program \$332,446, and \$141,589 Housing Opportunities) in HUD-funded portions of its payroll expenses during the review period, including the \$102,485 in irregular payroll transactions.
- 2F. Reclassify the improperly classified payroll expenses, revise any reports that were in error as a result, and record the payroll expenses in the appropriate categories in the future.

We also recommend the Director, Office of Public Housing, Houston, TX

- 2G. Reduce or offset future Housing Choice Voucher administrative fees by \$1,636,647<sup>26</sup> for unsupported payroll amounts, unless the Authority can provide support.

---

<sup>25</sup> Excludes \$18,819 in payments to the executive director for unused leave that occurred in 2010

<sup>26</sup> Excludes \$19,020 in payments to the executive director for unused leave that occurred in 2010

## Finding 3: The Authority Failed To Comply With Procurement Requirements

The Authority failed to follow Federal regulations and its own procurement policy in its procurement and contracting for goods and services. Also, contrary to Federal requirements, the Authority lacked a contract monitoring or administration system and failed to maintain procurement or contract files. Therefore, it was unable to provide records sufficient to detail the significant history of its procurements, including independent cost estimates, evidence of adequate competition when required,<sup>27</sup> and clearly written contracts. It also failed to ensure that contract payments were within contract terms. Further, the Authority purchased computer equipment from a contractor without following proper procurement requirements and determining the reasonableness of the equipment's cost. These conditions occurred because the Authority's management failed to enact procedures to ensure compliance with procurement requirements. As a result, the Authority incurred \$453,864 in ineligible costs and could not support almost \$1.8 million in procurement and contracting costs.

---

### **The Authority Lacked a Contract Administration System**

The Authority was required to implement and maintain a contract administration system sufficient to detail the significant history of its procurements.<sup>28</sup> Federal regulations required the Authority to maintain records including but not limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. It was also required to administer its programs efficiently and effectively through the administration of sound management practices. In addition, the Authority's own procurement policy required it to "provide safeguards in maintaining a procurement system of quality and integrity and assure that the Authority's purchases were in full compliance with applicable Federal standards, HUD regulations, and State and local laws."

### **The Authority Could Not Identify Its Contracts**

In response to a request for a contract register or log, the Authority provided a "contract list" containing the names of 37 entities; the list contained no additional information. The executive director stated that the Authority generated the list only to fulfill the audit request and he could only determine who the Authority had contracts with by looking at its payments. Thus, management lacked an

---

<sup>27</sup> According to the Authority's procurement policy and State law, procurements over \$50,000 required competition.

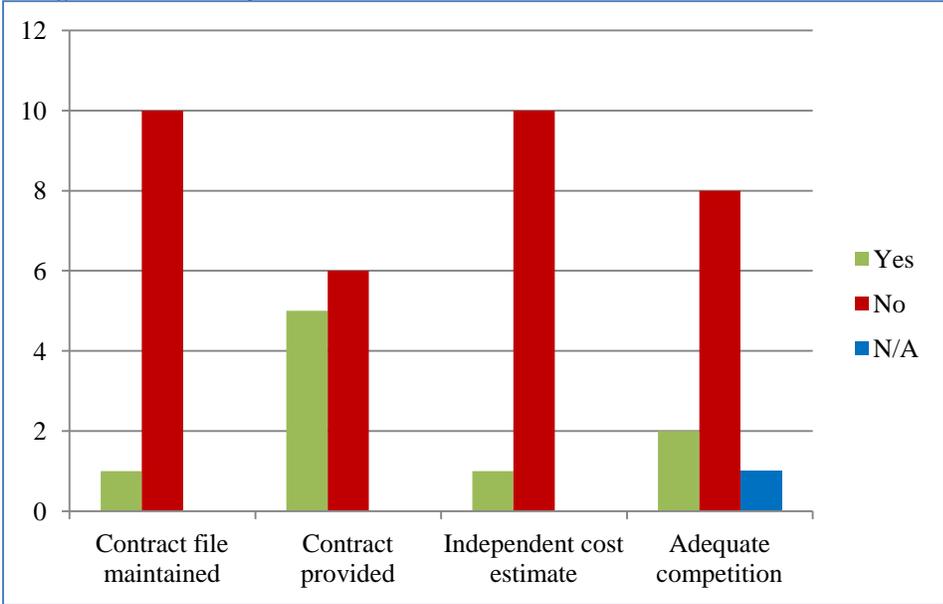
<sup>28</sup> 24 CFR 85.36

effective tool for monitoring its procurement activities and contract performance. Further, analysis of the Authority’s general ledger reflected that the contract list it provided was incomplete. For example, the Authority did not disclose its contracts with its independent auditor, an office supply company, and a plumbing company, all of which it paid more than \$100,000 during the review period.

**The Authority Did Not Maintain Procurement or Contract Documentation**

The Authority did not maintain procurement or contract files for the contracts it disclosed. It had difficulty locating and providing documentation for the selected sample of 11 contracts.<sup>29</sup> Further, the Authority disregarded auditors’ repeated requests to accompany Authority personnel while they retrieved contract files.<sup>30</sup> When it did provide documentation, the material was unorganized and incomplete, and it appeared that the Authority had assembled the documents to only fulfill the audit request. Of the 11 contracts selected, the Authority provided only 1 file, which was incomplete and was not an official procurement file but, rather, a file the director of property services maintained for his own reference. As shown in figure 1, the Authority failed to maintain required documentation for the 11 sample procurements and contracts reviewed.

**Figure 1: Results of procurement review**



In addition, the Authority did not have a contract for 6 of the 11 procurements reviewed. For four of the six, the Authority provided contracts executed in 2011,

<sup>29</sup> The Scope and Methodology section describes the sampling methodology for procurement.  
<sup>30</sup> The annual contributions contract required the Authority to maintain complete books and records and provide them for audit. It further stated HUD should have full and free access to all of its offices and facilities and to all books, documents, and records relevant to the administration of the projects under the contract, including the right to audit and make copies.

which was after the audit period end date of December 31, 2010. Therefore, it failed to provide contracts covering its purchases during the audit period. It provided no contract document for the remaining two procurements.

### **The Authority Did Not Prepare Independent Cost Estimates**

The Authority did not perform required independent cost estimates for 10 of 11 procurements reviewed. In addition, the Authority's architect prepared the one cost estimate provided.<sup>31</sup> According to HUD's and its own requirements, the Authority was required to make an independent estimate before receiving bids or proposals.<sup>32</sup>

### **The Authority Did Not Ensure Adequate Competition**

The Authority did not ensure adequate competition before awarding contracts. It did not document adequate competition for 8 of the 11 contracts reviewed. For five of the eight, the Authority provided no documentation. For the remaining three, it provided documentation; however, it did not follow competitive procurement requirements.

- The Authority improperly sole sourced its \$1.5 million DHAP Ike case management contract. It did not solicit bids. Although it requested an exemption from HUD to forgo the competitive procurement requirements, it did not supply evidence that HUD granted an exemption.
- The Authority improperly procured its home ownership coordinator's contract. The Authority stated it received only one bid, and it did not take the additional required steps to justify the noncompetitive procurement.
- The Authority improperly procured its contract for an organizational assessment. The Authority stated it received only one bid, and it did not take the additional required steps to justify the noncompetitive procurement.

---

<sup>31</sup> We issued an administrative subpoena for the Authority's contract with the architect; however, the Authority failed to provide it.

<sup>32</sup> 24 CFR 85.36(f)(1)

### **The Authority's Contracts Were Vague and Did Not Always Match Proposals**

Three of the five contracts provided for review were vague and did not always match the proposals submitted by contractors.

- The Authority's contract with its DHAP Ike case management contractor did not make it clear how the contractor's fee would be calculated. Review of the invoices submitted by the contractor did not clarify the issue.
- The Authority's contract with its information technology provider conflicted with the proposal. The proposal reflected that the plan the Authority selected was all inclusive and only computer parts would be billed separately. However, in addition to the all inclusive plan, the Authority paid the provider \$42,600 for "block" time, which was for special projects, such as server installation. The block time appeared to be charges for onsite maintenance performed by the provider, which conflicted with the proposal, which stated specifically that all labor was included in the monthly fee of \$3,574. Although the Authority paid the contractor for 500 block hours during the audit period, the invoices reflected only 18.75 block hours charged.
- The Authority's contract for remodeling scattered-site public housing units contained conflicting provisions regarding the schedule of payments and did not include the required contract clauses.

### **The Authority Paid Contractors Outside the Scope of the Contract**

The Authority made contract payments that were not limited to contract services. It did not have a system of controls in place to ensure that contract payments were limited to services covered by the contract.

- The Authority paid \$103,984 for work outside the scope of its contract to remodel its scattered-site public housing units, an increase of 49 percent over the original contract amount of \$211,449. In response to a subpoena for documents, the Authority responded that it had no executed change orders with the contractor.
- The Authority improperly paid its DHAP Ike case management contractor before it executed its contract and for 6 months after the contract expired.

It paid \$50,320 before contract execution and \$270,483 after the contract expired.

- The Authority paid for equipment, furniture, and other supplies for the DHAP Ike case management contractor. However, the contract specifically stated that these types of items were to be included in the cost per family charged by the contractor, not paid in addition to the cost per family.
- The Authority improperly paid \$44,760 in duplicated salary costs, including bonuses for its DHAP Ike contract.
- The Authority also paid its DHAP Ike contractor \$96,500<sup>33</sup> for a home ownership program coordinator that was not included in the contract and did not appear related to DHAP Ike case management services. In doing so, it circumvented State law that required it to procure the services competitively.

### **The Authority Improperly Purchased Computer Equipment**

The Authority improperly purchased computer equipment. In addition to the contract payments to its information technology provider, the Authority's records showed that it purchased in excess of \$120,000<sup>34</sup> in computer equipment from the contractor without obtaining quotes from other sources or taking steps to determine the reasonableness of the price. The Authority ordered a variety of computer equipment from the contractor during the audit period, but it only had invoices to support the purchases. In response to a request for documentation on effort taken by the Authority to ensure the prices were the best available, the Authority's attorney responded:

This equipment was not purchased in a single instance. The Authority has a long-term relationship with [its contractor]. Additionally, [its contractor] maintains the Authority's system. The Authority has informally checked some of [the contractor's] bids against other vendors. The Authority has found [contractor's] bids to be competitive with other vendors for the same or similar equipment, especially given the fact of [its contractor's] maintenance of the equipment.

However, the Authority had no bids or other evidence that it ensured the prices were reasonable. It had a responsibility to administer its procurement in

---

<sup>33</sup> The Authority paid the expenses with non-Federal funds it received as developer fees from its tax credit properties.

<sup>34</sup> Includes the \$26,000 ordered by the executive director's assistant

accordance with Federal regulations and its own procurement policy, regardless of whether it purchased from a known vendor. Further, the Authority's long-term relationship with the contractor did not release it from its responsibility to maintain documentation supporting the cost reasonableness of its purchases.

### **Management and the Board Were Aware of Procurement Problems**

The Authority's financial statement audits repeatedly contained findings regarding procurement problems.<sup>35</sup> Both the Authority's management and its board were aware of the procurement problems. However, despite the Authority's repeated responses that corrective action had been taken, management did not take sufficient steps to correct the issues, and the problems remained. The Authority did hire a procurement officer and began using an e-procurement program; however, it had not adopted or implemented procedures to ensure it complied with its procurement policy or adopted a required contract administration system.

### **Conclusion**

Because the Authority did not have the necessary procurement controls, it paid a total of \$453,864 in ineligible and almost \$1.8 million in unsupported procurement and contracting costs. HUD should require the Authority to repay or support these questioned costs. Further, HUD should require the Authority to implement procurement and contracting procedures to ensure it meets HUD requirements, including a contract administration system that allows it to identify and monitor its contracts. HUD should also require the Authority to perform a detailed inventory of its information technology equipment that identifies all equipment owned by the Authority and who is in possession of the equipment.

### **Recommendations**

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

- 3A. Repay HUD from non-Federal funds \$103,984 in ineligible contract costs charged to its public housing Capital Fund program.
- 3B. Support or repay the appropriate programs from non-Federal funds \$447,168 in unsupported procurement and contracting costs (general fund \$50,212, public housing \$208,362, DHAP Ike \$84,659, Housing Opportunities Fund \$34,591, and Capital Fund program \$69,344).

---

<sup>35</sup> The 2008, 2009, and 2010 audit reports all contained procurement-related findings.

- 3C. Implement procurement and contracting procedures, including a contract administration system that ensures it meets HUD requirements and allows it to identify and monitor its contracts.
- 3D. Perform a detailed inventory of its information technology equipment that identifies all equipment owned by the Authority and who is in possession of the equipment.

We also recommend the Director, Office of Public Housing, Houston, TX

- 3E. Reduce or offset future Housing Choice Voucher administrative fees by \$254,709 for unsupported procurement and contracting costs, unless the Authority can provide support.

We recommend that the Director, Program Support Division, require the Authority to

- 3F. Support or repay to HUD or FEMA, as appropriate, from non-Federal funds \$1,093,220 for unsupported case management services under its DHAP Ike contract.
- 3G. Repay to HUD or FEMA as appropriate, from non-Federal funds \$349,880 in ineligible expenses not included in its contract for DHAP Ike case management services.

## Finding 4: The Authority Improperly Administered Its Capital Funds

The Authority's management failed to properly administer its Capital Fund program. This occurred because it failed to follow HUD regulations regarding planning Capital Fund activities, obligating and expending funds, and carrying out physical and management improvements. It also had no clear plan for how it would spend the funds in its replacement reserve. Further, it appeared the Authority drew the funds in its replacement reserve only to avoid recapture of unobligated capital funds. As a result, it was in violation of its annual contributions contract with HUD.

---

### **The Authority Did Not Properly Plan Its Capital Activities**

The Authority was required to prepare annual and 5-year plans for its capital funds, detailing the physical and management improvement needs for the Authority as a whole and all of its developments, including preliminary estimates of the total cost of the improvements and a plan to carry them out.<sup>36</sup> The Authority did not prepare its annual or 5-year plans in accordance with regulations. Management failed to use the plans as tools to identify and address physical and management improvement needs. It submitted plans to HUD that were general in nature and did not describe the projects it would undertake with its capital funds. In its 2009 and 2010 plans, the Authority reported that it planned to submit a demolition application to HUD for its Carver Terrace development by February 2010. However, as of January 2012, the Authority had not submitted an application or proceeded with land acquisition. This deficiency demonstrated the Authority's failure to carry out its generalized plans for its Capital Fund activities.

### **The Authority Failed To Spend Available Capital Funds**

The Authority was required to obligate its capital funds within 24 months from the date the funds became available or it accumulated adequate funds to undertake modernization, substantial rehabilitation, or new construction.<sup>37</sup> It did not spend its available capital funds within the required time limit, and it had not documented that it was accumulating funds to undertake a specific project. HUD granted an initial 2-year extension of the obligation deadline for the Authority's Capital Fund grants because of hurricane damage, but the Authority still had not undertaken activities to use the funds.

---

<sup>36</sup> 24 CFR 968.315(e)

<sup>37</sup> 24 CFR 905.120(a)

In October 2009, the Authority drew down \$469,359 in unobligated capital funds from its 2006 and 2007 grants and placed the funds into replacement reserve accounts. It also budgeted \$59,191 of its 2008 Capital Fund grant for replacement reserve, but it had not yet drawn down the funds. In total, the Authority had \$528,550 in unused capital funds set aside as replacement reserve. HUD allowed the Authority to draw the funds with the understanding that it would use the funds to rebuild Carver Terrace. However, in its plans for the year beginning October 2009, the Authority budgeted the replacement reserves for Gulf Breeze and its administrative office rather than Carver Terrace.

Since it had no clear plan for how it would spend the funds in its replacement reserves and had not submitted an application for demolition, it appeared the Authority drew the funds only to avoid recapture of unobligated capital funds. Regulations allowed the Authority to delay obligation until it had accumulated adequate funds to undertake a project. However, the regulations did not authorize the Authority to draw down unobligated funds and place them in bank accounts that were not under HUD's control. Therefore, HUD should recapture the \$469,359 the Authority drew as replacement reserves from its 2006 and 2007 grants and revise the budget authority for the undrawn replacement reserves of \$59,191 from its 2008 grant. Further, HUD should decide whether to permit the Authority additional time to obligate the funds in accordance with the provision for accumulating adequate funds.

### **The Authority Delayed Carrying Out Physical Improvements**

It appeared the Authority delayed the modernization or replacement of Carver Terrace in an attempt to accumulate additional funds from other sources. For example, in 2009, the Authority planned to use its \$725,546 Recovery Act<sup>38</sup> Capital Fund grant in conjunction with disaster funds it expected to receive from the regional planning commission to demolish and rebuild Carver Terrace. When it became clear that the disaster funds would not become available, the Authority instead decided to use the Recovery Act grant to build a learning center at its new Gulf Breeze development. The Authority hastily entered into an agreement for the learning center that violated procurement requirements and proceeded with the project without environmental clearance.<sup>39</sup> As a result, HUD recaptured \$657,906 of the grant.

In another example, when asked about the delay in submitting a demolition application for Carver Terrace, the director of property services stated the Authority anticipated it would receive funding from the U. S. Environmental

---

<sup>38</sup> American Recovery and Reinvestment Act of 2009

<sup>39</sup> Audit Report 2011-FW-1005, The Housing Authority of the City of Port Arthur, TX, Mismanaged Its Recovery Act Funding, issued January 25, 2011

Protection Agency as a result of the agency's investigation of environmental issues at Carver Terrace in 2011. Apparently, the Authority had concerns that the agency would not provide additional funding to cure environmental concerns at the development if the Authority proceeded with demolition. Further, the director stated the Authority was not using capital funds to modernize Carver Terrace because making major capital improvements would be contrary to its plans for demolition. The Authority's actions with respect to Carver Terrace demonstrated that it had not adequately administered its Capital Fund grants. Instead, the Authority accumulated funds and pursued additional funding but took no action to modernize or replace the project. At the same time it was delaying modernizing or replacing the Carver Terrace project, the Authority built four mixed-finance projects and made millions of dollars in developer fees.

Because the Authority failed to properly administer its Capital Fund activities, it was in violation of its annual contributions contract. HUD should determine if the Authority was in substantial default of its annual contributions contract, take appropriate administrative action to cure the default, and direct the Authority to take corrective action, including preparing a detailed plan for the use of its capital funds that includes the modernization or demolition and replacement of Carver Terrace.

## Recommendations

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

- 4A. Recapture the \$469,359 the Authority drew as replacement reserves from its 2006 and 2007 Capital Fund grants.
- 4B. Revise the budget authority for the undrawn replacement reserves of \$59,191 from its 2008 Capital Fund grant.
- 4C. Require the Authority to prepare a detailed plan for the use of its capital funds that includes the modernization or demolition and replacement of Carver Terrace.

## SCOPE AND METHODOLOGY

---

The scope of the audit covered the Authority's financial and procurement operations for the period January 1, 2009, through December 31, 2010. We expanded the scope as necessary to meet the review objectives. We conducted the audit at the Authority's administrative offices in Port Arthur, TX, the HUD field office in Houston, TX, and our offices in Fort Worth, TX, from March 2011 through January 2012.

To accomplish our objectives, we performed the following:

- Reviewed relevant laws, regulations, contracts, and other HUD requirements and guidance.
- Reviewed the Authority's procurement and travel policies and an excerpt of its personnel policy regarding leave.
- Reviewed the Authority's audited financial statements for its fiscal years 2008 through 2010.
- Obtained, tested, and analyzed data representing the transactions in the Authority's general ledger for the audit period.
- Obtained and tested a list of the Authority's contracts.
- Selected a sample of contracts for procurement review based on the Authority's contract list.
- Obtained and reviewed procurement records, which were incomplete.
- Obtained and reviewed copies of checks and supporting invoices related to selected contracts.
- Reviewed transactions and supporting documentation for purchases on the Authority's charge cards.
- Reviewed the Authority's cost allocation plan.
- Issued an OIG administrative subpoena and demand letter for data and documents.
- Performed walk-throughs of the Authority's procurement, accounts payable, and payroll functions.
- Reviewed the Authority's annual and 5-year plans covering the review period.
- Interviewed Authority staff, its attorneys, its board chairman, and HUD staff in Houston and Fort Worth, TX, and Washington, DC.

### Data Reliability Assessments

The Authority's general ledger data appeared to be complete and provided an accurate picture of entries made by Authority personnel. The data were sufficiently reliable for the planned use. Data were limited in that the Authority posted payroll and credit card transactions in summary, while it posted its other transactions in detail. This limitation did not lead to an incorrect or unintentional message or conclusion of the general ledger data because audit work in those areas relied on other data and supporting documentation, if provided. We used the data to identify Authority expenditures and payees for later review. We analyzed the data to determine amounts paid to individual payees, allocated as expenses of particular individuals or projects, and charged to the Authority's different funds. The data were not the sole basis to form audit conclusions but

were corroborated by supporting documentation, if provided. In cases in which the Authority failed to provide supporting documentation, we classified the transactions as unsupported.

To test the reliability of the Authority's contract list, we summarized data in the general ledger by payee to identify totals it paid to each. We isolated the payees with payments that exceeded the small purchase threshold and compared the resulting list to that provided by the Authority. We noted the Authority's contract list was incomplete compared to its general ledger and was, therefore, not reliable.

### Sampling Methodology

Based on review of the contract list provided by the Authority and the Authority's general ledger, we selected five contracts to review for the survey. The total amount paid to all contractors identified by the Authority was more than \$3.3 million. The total of the five contracts included in the survey sample was more than \$2.4 million, representing 73 percent of the total amount paid to all contractors identified by the Authority. We determined that a nonrepresentative sample of contracts was appropriate as auditors knew enough about the population to identify a relatively small number of items of interest because they were likely to be misstated or otherwise had a high risk. Since there were only 34 paid contractors identified by the Authority and since the sample covered 73 percent of the total amount paid to contractors, the survey sample was sufficient to determine whether further audit work was warranted.

For audit purposes, an additional five contracts were selected from the Authority's contract list. The additional contracts selected for the audit phase totaled \$489,677, or 15 percent of the total amount paid to all contractors identified by the Authority. Therefore, between the survey and audit phases, auditors reviewed 88 percent of the contracts identified by the Authority. During the audit phase, an additional contract was selected for review based on information gathered during the audit. This contract was not on the list provided by the Authority.

### Scope limitations

The Authority imposed scope limitations that impaired the audit in two ways. First, the Authority limited auditor access to staff, records, and data.<sup>40</sup> Second, the Authority provided incomplete records, particularly for procurement. Both situations limited auditors' ability to understand the control environment and the substance of the Authority's financial and procurement activities. Auditors made specific requests to meet with staff and observe the retrieval of procurement documents for review, which the Authority disregarded. The Authority did not provide all of the documentation requested, even after requests for status updates, and refused to provide employee data on the advice of its attorney. Because of the Authority's lack of cooperation, we issued an OIG administrative subpoena and then a demand letter to obtain materials necessary to conduct the audit. The Authority did not fully comply with either requirement that it produce data and records. Further, when it allowed auditors to interview staff, it ensured that a representative of management or its attorney was present. It also provided documentation and answers to auditors' inquiries through its attorneys in outside law firms.

Because of the scope limitations, auditors were unable to complete planned audit work or draw conclusions about the eligibility of all expenses charged to HUD programs. Auditors disclosed

---

<sup>40</sup> Restricting access to records violated the Authority's annual contributions contract with HUD.

in the body of the findings what data or information the Authority failed to provide and how it impacted the resulting conclusions and recommendations. In most cases, this limitation resulted in program costs being deemed unsupported. Despite the scope limitation, we conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Because we disclosed how the Authority's failure to provide data and information impacted our conclusions and recommendations, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## FOLLOW-UP ON PRIOR AUDITS

---

### **The Housing Authority of the City of Port Arthur, TX, Mismanaged Its Recovery Act Funding, 2011-FW-1005**

We issued an audit report on the Authority's Recovery Act funding in January 2011 with the following recommendations:

- Rescind the Authority's \$725,546 Recovery Act grant and return the funds to the U. S. Treasury in accordance with the Recovery Act, as amended, for the sole purpose of deficit reduction. This amount includes the \$67,640 already expended and the balance of \$657,906.
- Require the Authority to implement procedures to ensure it complies with all relevant procurement requirements. This process may include the provision of technical assistance on HUD's part.
- Require the Authority to adopt and implement financial controls to ensure the proper routing and approval of invoices and adequate separation of duties between those requesting goods and services and those approving payments.
- Provide the Authority with or require it to obtain training on environmental review requirements.
- Prohibit the Authority from conducting further activity on the site of the proposed learning center until it receives environmental clearance to do so, regardless of the funding source.

Based on this audit, HUD recaptured \$657,906, which was the unexpended balance of the grant. HUD's Assistant Secretary for Public and Indian Housing granted the Authority an exception to Recovery Act procurement procedures for the \$67,640 already expended. HUD also ensured the Authority received environmental review training and prohibited it from conducting further activity on the site.

For the second recommendation the Authority took some steps to improve its procurement function, but it had not adopted or implemented procedures to ensure it complied with its procurement policy or adopted a required contract administration system. For the third recommendation, the Authority had not implemented the needed control procedures for its finance operations.

## APPENDIXES

### Appendix A

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

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>	Funds to be put to better use <u>3/</u>
1B	\$8,410		
1C		\$55,986	
1E		49,833	
2B		173,584	
2E		1,278,151	
2G		1,636,647	
3A	103,984		
3B		447,168	
3E		254,709	
3F		1,093,220	
3G	349,880		
4A		469,359	
4B			\$59,191
Totals	<u>\$462,274</u>	<u>\$5,458,657</u>	<u>\$59,191</u>

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

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified.

## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments



**EXECUTIVE DIRECTOR**  
CELE QUESADA

**COMMISSIONERS**  
REV. RONNIE LINDEN, CHAIRMAN  
DESIREE EDWARDS, VICE-CHAIRMAN  
CLONIE AMBROISE  
BART BRAGG  
FARHANA SWATI

May 14, 2012

Mr. Gerald R. Kirkland  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General, Region VI  
819 Taylor Street, Suite 13A09  
Forth Worth, Texas 76102

**Re: Draft Audit Report of the Housing Authority of the City of Port Arthur**

Dear Mr. Kirkland:

The Housing Authority of the City of Port Arthur (the "**Authority**") is in receipt of the draft audit report, entitled *The Management and Board of Commissioners of the Housing Authority of the City of Port Arthur, TX, Failed To Exercise Their Fiduciary Responsibilities* (the "**Draft Report**"). The Draft Report was prepared by the U.S. Department of Housing and Urban Development's ("**HUD**") Office of Inspector General ("**OIG**") following its recent audit of the Authority (the "**2011 Audit**"). The Authority appreciates the opportunity to review the Draft Report and to provide you with our perspective on the matters described therein.

#### **I. SUMMARY ANALYSIS**

##### **A. *The 2011 Audit Makes Recommendations Based On Stale Data.***

The OIG first audited the Authority ("**Recovery Act Audit**") with regard to the Authority's management of funds received under the American Recovery and Reinvestment Act of 2009 (the "**Recovery Act**"). That audit generally covered the time period from March 2009 through November 2010. The OIG found that the Authority was not properly following HUD's required procurement practices in order to ensure full and open competition and did not practice sound financial controls. While the Authority does not accept all of the OIG's findings in the Recovery Act Audit, it does recognize and accept the fact that during that timeframe in question there was room for improvement.

The Draft Report covers essentially the same ground as the prior Recovery Act Audit. In fact, for the most part, the Draft Report reflects virtually the same findings over the same time period as the Recovery Act

**Comment 1**

**HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR**  
920 DeQueen Blvd. • P. O. Box 2295 • Port Arthur, TX 77643  
Phone: (409) 982-6442 • 1(800) 590-6442 • FAX: (409) 983-7803

Audit, i.e., 2009 and 2010. This is not surprising since the mistakes, which HUD previously reported were not corrected until after they were pointed out during the Recovery Act Audit.

In fact, the Authority has made great strides in improvement since the Recovery Act Audit— strides that HUD has recognized. HUD has since reviewed the Authority’s public housing program and received a “Standard Performer” score of 70 this past year. HUD also reviewed the Authority’s Section 8 program, which received a “High Performer” score of 96 this past year. These scores reflect the current state of the Authority.

**B. *The 2011 Audit Fails to Consider Improvements in the Authority's Operations Since the Recovery Act Audit.***

**Comment 2  
Comment 4**

In response to the Recovery Act Audit, the Authority, among other things: (i) engaged an outside consultant and adopted new procurement policies and procedures; (ii) provided extensive and mandatory training to its employees, as well as the members of its Board of Commissioners (the "**Commissioners**") in order to correct the procurement practices, which the OIG had determined were inadequate; and (iii) hired a procurement officer with more than twelve (12) years of experience handling procurements for a neighboring Texas county.

**Comment 3**

The OIG did not review those initiatives. Instead, the OIG simply covered the same ground in a different guise. By focusing on different programs, it was able to make "new" findings. The result is that the findings in the Draft Report are stale, prejudicial, misleading and, if acted upon, harmful to the mission of the Authority. Because the OIG relied on information available during the 2009-2010 period prior to the implementation of the foregoing procurement improvements, the findings in the Draft Report are not current and, therefore, should be wholly disregarded.

**Comment 4**

Moreover, the Authority has made progress since 2009-2010, which the OIG fails to consider. First, the Authority in the process of securing a third party consultant to develop and implement specific, written policies governing all manner of operational areas including, but not necessarily limited to, travel, credit card usage, investment and asset management policies. In addition, new Commissioners and staff, including a new procurement officer, have joined the Authority who are cognizant of the Recovery Act Audit findings and are working on improvements in the Authority’s operations on a going forward basis.

Although interviews were purportedly part of the audit process, the OIG failed to interview a single Commissioner to confirm, clarify or otherwise seek an explanation of their involvement or input with respect to any of its findings— opting instead to recommend general debarment or removal of the Commissioners without any exploration of their involvement or accountability for operational performance during the audit review period. Had the OIG interviewed the Commissioners, it would have learned the nature and scope of the progress that has been made to date.

**Comment 2**

In the last year, the Authority has taken significant steps to improve its internal financial controls and processes. There has been significant turnover among the Commissioners and staff. HUD should weigh the OIG’s findings against the Authority’s operational improvements and recognize the Draft Report for what it is— a view of the past.

**C. *The OIG's Baseless Assumptions, Errors and Overreaching Should Not Influence HUD's Assessment of the 2011 Audit Findings in the Draft Report.***

**HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR**  
920 DeQueen Blvd. • P. O. Box 2295 • Port Arthur, TX 77643  
Phone: (409) 982-6442 • 1(800) 590-6442 • FAX: (409) 983-7803

**Comment 5**

The Authority is disappointed in the manner in which the most recent audit was conducted and the inflammatory statements set forth in the Draft Report. This is especially true because the OIG improperly suggests that HUD takeover or remove Authority management and/or its Commissioners in the Draft Report despite the fact that nowhere in the Draft Report has the OIG concluded that the Authority actually acted with improper intent. Rather than reflect specific and appropriate findings, the Draft Report instead is comprised of unsupported accusations and innuendo including, but not limited to, the following findings and recommendations:

**Comment 6**

- Despite the fact that Authority produced hundreds of documents spanning dozens of document requests – sometimes repeatedly due to the OIG's poor record keeping and erroneous claims that the Authority failed to produce certain documents and the Authority's cooperation in facilitating the interviews of its staff in addition to its five (5) commissioners—none of whom the OIG bothered to interview—the OIG claims that it had limited access to information necessary to conduct the 2011 Audit. (Draft Report, p. 13)

**Comment 7  
Comment 8**

- The OIG improperly attempts to steer HUD to a specific outcome through unnecessary and suggestive language regarding HUD's potential "take over" of the Authority or removal of the Executive Director and/or the Authority's Commissioners. Such a recommendation is not only improper, but also unsupported by the facts. It assumes that the same Commissioners that served during the audit review period, i.e., 2009-2010, are with the board today when, in fact, the majority, i.e., 3 out of 5, of the Commissioners joined the board in September of 2010 of this review period and, therefore, had virtually no involvement whatsoever in the findings reflected in the Draft Report. Yet, the OIG does not consider the fact that the board during the review audit is not the same board in place today. The board and the Executive Director in place now are responsible for the progress and improvements in the Authority's operations since 2009-2010. Accordingly, OIG's sweeping suggestion for removal and replacement is unjustified and improper. (Draft Report, pp. 14-15 (Recommendations 1F and 1H))

**Comment 9**

- The OIG improperly incorporates findings outside the scope of its purview, i.e., findings related to the Authority's management and use of *non-federal* funds, in a deliberate attempt to buttress its other findings and to unnecessarily cast a negative impression of the Authority as a whole. In fact, the OIG's initial draft admitted that "HUD does not have regulatory authority over how the Authority spends these funds" – however, the OIG's acknowledgement was deleted for purposes of the final draft. (Draft Report, p. 12)

**Comment 10  
Comment 11**

- The OIG recommends that the Authority repay millions of dollars based on purportedly unsupported payroll expenses, claiming that the Authority improperly limited its production of payroll data in the wake of clear written correspondence reflecting the Authority's compliance with the scope of the OIG's document request, i.e., for payroll data limited to the last pay period of 2010. Although the Authority maintains backup data to support payroll expenses throughout 2009-2010, the OIG did not request such data in conjunction with the audit and, therefore, the Authority should not be accused of withholding such information. (Draft Report, p. 22 (Recommendation 2E))

**Comment 11**

- The OIG recommends that the Authority repay to HUD thousands of dollars for allegedly improper classification of expenses. Such a measure, however, is drastic in the absence of a determination that the expenses were improperly incurred. The appropriate remedy is to correct any errors in allocation reporting now and in the future not to repay HUD for errors in allocation reporting. (Draft Report, p. 22 (2B))

- **HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR**
- 920 DeQueen Blvd. • P. O. Box 2295 • Port Arthur, TX 77643
- Phone: (409) 982-6442 • 1(800) 590-6442 • FAX: (409) 983-7803

**Comment 12**

- The Recovery Act Audit required Commissioners to undergo training and education. The Draft Report criticizes the Authority for incurring purportedly unsupported expenses to provide such training and education without furnishing sufficient information regarding the nature and scope of the allegedly questionable charges. (Draft Report, p. 8)

**Comment 13**

- Rather than review the Executive Director's employment agreement for compliance, the OIG instead substitutes its own opinion for that of the Commissioners and recommends that certain provisions of the Executive Director's be voided something HUD has absolutely no legal authority to do. (Draft Report, p. 14 (Recommendation 1E)) In addition, the Draft Report states that the Executive Director is "one of the highest paid in the State" without establishing any contextual framework whatsoever regarding either the relevance or the accuracy of this statement, which is clearly intended to arouse suspicion or to challenge the value of the services that the Executive Director provides. (Draft Report, p. 10)

**Comment 2  
Comment 14**

- The OIG erroneously claims in its "Follow-Up On Prior Audits" section of the Draft Report that the Authority failed to implement procedures to comply with procurement requirements and adopt and implement financial controls. Nothing could be further from the truth. Not only has the Authority adopted specific procurement controls pursuant to the Recovery Act Audit findings, but it has also adopted and implement financial controls to ensure the proper routing and approval of invoices and adequate separation of duties between those requesting goods and services and those approving payments.

The recommendations in the Draft Report are inappropriate for the reasons set forth below.

**II. RESPONSE TO THE OIG'S FINDINGS AND RECOMMENDATIONS**

The following are the Authority's comments to each finding and recommendation:

**FINDING 1: *The Authority's Management and Board of Commissioners Failed to Exercise Their Fiduciary Responsibilities.***

**Comment 15  
Comment 16**

The OIG's allegation that the Authority's management and Commissioners effectively breached their fiduciary responsibilities is unsupported by the record and, therefore, should be disregarded along with the corresponding recommendations. After a two year investigation into the Authority's operations, the OIG failed to uncover facts supporting actual abuse or fiduciary breaches. As set forth in detail in the responses to the OIG's recommendations, the OIG has also failed to establish fiduciary breaches in the wake of the following facts:

**Comment 17**

(i) The OIG— despite two years of searching — has been unable to identify how, if at all, the Authority's annual contribution contract (the "ACC") has been breached. Instead, the OIG defers to the Field Office to furnish information so that someone else can evaluate whether a breach has occurred;

**Comment 8**

(ii) The OIG failed to recognize that the board in 2009-2010 is not the same board serving the Authority today. Today's board reviewed and approved operational changes to improve procurement and other financial controls and, therefore, could not have been found to breach any fiduciary duties. Moreover, the resident Commissioner was appointed by the Mayor based on a good faith belief that she met the eligibility requirements;

- **HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR**
- 920 DeQueen Blvd. • P. O. Box 2295 • Port Arthur, TX 77643
- Phone: (409) 982-6442 • 1(800) 590-6442 • FAX: (409) 983-7803

**Comment 18**

(iii) The OIG has failed to sufficiently support its finding that the Authority made ineligible or unsupported purchases using the American Express and other charge cards. Notwithstanding the OIG's failure to furnish sufficient information about the vast majority of purportedly questionable charges, even the specific examples of "egregious" items are mischaracterized as such- the purchases served a reasonable and necessary purpose. Moreover, the charges were paid for with non-federal funds – as the documents produced to the OIG clearly indicate – and, therefore, HUD has no jurisdiction to scrutinize them;<sup>1</sup>

**Comment 13**

(iv) Without performing a comparative analysis of compensation/benefits of executive directors statewide, the OIG has not and cannot claim that the Executive Director's package is excessive, which it unfairly attempts to claim by noting that he is "one of the highest paid in the State";

**Comment 19**

(v) The OIG has mischaracterized the computer and other technological equipment that the Authority purchased for board use as a form of non-cash "compensation." This is untrue. All equipment belongs to the Authority and must be returned following the conclusion of service. To the extent that former Commissioners still possess Authority equipment, the Authority is expending reasonable efforts to recover all Authority property;

**Comment 2  
Comment 14**

(vi) The OIG fails to recognize that since the Recovery Act Audit, the Authority's management and Commissioners have developed and implemented a new procurement policy, hired a new procurement officer, changed several Commissioners, and is in the process of developing and implementing more formal, written policies governing financial controls. Because the Draft Report covered only the 2009-2010 period, the Draft Report does not consider any of the foregoing changes and improvements and is, therefore, fundamentally flawed.

The foregoing points are described in further detail below.

**Recommendation 1A. Coordinate with the Field Office to provide information to the Departmental Enforcement Center to enable it to make a determination whether the Authority was in substantial default of its annual contributions contract.**

**Comment 17**

There has been no evidence to support a finding that the Authority is in substantial default of its ACC. The OIG spent one full year auditing the Authority and its use of Recovery Act funds. Before the final report was ever issued, the OIG returned to spend another year auditing all of the Authority's practices.

If, as alleged by the OIG, the Authority was in default of the ACC, one would assume that the OIG could have found some evidence over two years of auditing. The fact is that after spending two years and vast sums of taxpayer funds, the OIG has not found that the Authority is in default of its ACC. The OIG did not make that finding because no such default exists.

**Comment 15  
Comment 20**

The Draft Report makes a bold allegation that the Authority's management and Commissioners failed to exercise their fiduciary responsibilities. The role of a commissioner is to discharge his/her duties in good faith, with the care an ordinary prudent person in a like position would exercise under similar circumstances and in a manner the commissioners reasonably believe to be in the best interest of the authority. See Tex. Bus. Orgs. Code Ann. § 22.221 (Vernon 2011)

<sup>1</sup> While the Draft Report admitted that "while HUD does not have regulatory authority over how the Authority spends these funds," i.e., non-federal funds, the OIG stated during a conference call of the parties that it intended to delete this admission for purposes of its final report.

▪ HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR  
▪ 920 DeQueen Blvd. • P. O. Box 2295 • Port Arthur, TX 77643  
▪ Phone: (409) 982-6442 • 1(800) 590-6442 • FAX: (409) 983-7803

**Comment 20**

A commissioner can fulfill his/her fiduciary duty by paying attention, acting diligently and reasonably. To act as an ordinary prudent person requires the commissioner to use common sense, practical wisdom and informed judgment. If a commissioner reasonably believes that his or her decision is in the best interest of the Authority, his/her duty of care is satisfied.

**Comment 20**

Thus, a commissioner's fiduciary duty is satisfied by regularly attending meetings, reviewing the agenda, reports and information necessary to make an informed decision. Commissioners are entitled to rely on information, reports, opinions, and statements from officers, employees, counsel and others. Moreover, the business judgment rule states that: "a commissioner is permitted to make a poor decision so long as he/she followed the duty of reasonable care".

**Comment 2  
Comment 4**

Moreover, following the issuance of the Recovery Act Audit, the Authority promptly engaged outside consultants to (a) assist it in adopting new policies and procedures and (b) train staff and Commissioners. Additionally the Authority hired a new procurement officer. Thus, the Authority – both through the Executive Director and Commissioners – acted promptly and prudently. To take action now two years after the issues raised and after the foregoing changes lacks logical merit.

**Comment 6**

In addition, contrary to the statements in the Draft Report, the Authority fully cooperated during the audit and, therefore, there was no breach of the ACC based on the Authority's purported limitation of access to documents, staff, or other data sources.

**Comment 1  
Comment 3**

On April 15, 2011, the Authority received a letter from Gerald Kirkland, the Regional Inspector General for Audit with the OIG. That letter informed the Authority that the OIG would be conducting an audit to evaluate the Authority's internal controls over its financial and procurement departments during the period of January 1, 2009 through December 31, 2010. Please note that the audit was coming directly on the heels of Recovery Act Audit and covers the same timeframe and the same departments in an effort to find similar problems with the Authority.

On April 29, 2011, the Authority, through its executive director, welcomed the audit, confirmed details of the visit and asked for an itemized list of information that the OIG might like so the Authority could gather the materials in advance.

**Comment 6**

The Authority proceeded to work cooperatively with the OIG. It provided to the OIG all of the information requested in the April 15, 2011 request. It also began to provide all the additional information requested by the OIG. As of June 17, 2011, the Authority had produced a plethora of information including all of the items shown on Exhibit A. In fact, at that time, the only item requested by the OIG which had not been turned over was a listing of all Authority employees from 2009 to present. That request was for the name, home address and social security numbers of all employees. In an attempt to preserve the employees' rights of privacy, the Authority did not disclose the social security numbers, but instead offered to provide the last 4 digits of the social security numbers of each employee.

**Comment 16**

Rather than discuss this matter with the Authority and come to a reasonable solution, the OIG instead issued a subpoena received by the Authority on August 1, 2011. The subpoena demanded the production of numerous items not previously requested. In fact, no fewer than 22 categories of documents were requested. By letter dated August 11, 2011, the Authority, responded to the subpoena and pointed out that many of the documents requested were already delivered to the OIG, and, as to the social security numbers, beyond the scope of the investigation and OIG's authority.

- HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR
- 920 DeQueen Blvd. • P. O. Box 2295 • Port Arthur, TX 77643
- Phone: (409) 982-6442 • 1(800) 590-6442 • FAX: (409) 983-7803

Subsequently, the Authority spoke with Mr. Kirkland of the OIG in an effort to resolve the issues set forth in the subpoena. These discussions occurred on August 17 and 18, 2011. Following these conversations, Mr. Kirkland sent a letter to the Authority dated August 18, 2011. That letter clearly summarized the agreements reached. Specifically, the Authority agreed:

- a. To provide social security information in an alternate format due to privacy concerns;
- b. Provide all remaining items in the subpoena on or before September 9, 2011; and
- c. Advise the OIG of when it has completed its submission of each item requested in the subpoena so that both parties would know when an item was complete.

By letter dated August 22, 2011, the Authority confirmed the agreement with the OIG making clear that all interviews would take place with counsel present. Ultimately, the parties came to a reasonable agreement and the Authority had local counsel participate in these interviews. As set forth clearly in the correspondence from the Authority, counsel represents the Authority, not individual Authority staff members or management. It is necessary for counsel to attend the interviews in order to observe and assess what, if any, issues exist in the Authority's procurement/payment practices or policies, if any staff member may be involved in improper activities and whether the interviewee is furnishing statements which are credible and supportable. Counsel is not present to hinder or in any way interfere with the OIG's investigation, nor has counsel done so.

**Comment 16**

The Authority continued to provide all of the information requested by the OIG. By e-mail dated August 26, 2011, a copy of which is attached as Exhibit B, the Authority provided its updated list of the information provided. On September 9, 2011 – the date agreed upon by the OIG – the Authority provided the spreadsheet attached as Exhibit C and forwarded it to the OIG. This set forth clearly all of the information which had been requested and its status.

**Comment 2**  
**Comment 6**  
**Comment 10**  
**Comment 12**  
**Comment 14**

On October 15, 2011, the Authority once more responded to the OIG to clarify that all of the documents that had been requested had been provided. This response clearly set forth that the Authority has responded to each and every request.

The OIG's requests continued and the Authority continued sending information as requested. The Authority provided additional information on October 21, 2011 and November 3, 2011. An additional request was delivered on November 9, 2011. On November 14, 2011, the Authority responded.

On November the 18, 2011, the Authority responded to a request made on November 14, 2011. This request was for water bills, lease amendments and similar information. Then on November 23 and November 29, 2011, the Authority responded to additional requests from the OIG.

The final requests from the OIG came by e-mail on December 7, 2011. These questioned the executive director's employment. The documents requested were all provided on December 13, 2011.

In sum, the Authority responded to dozens of requests supplying all information in a timely manner.

The fact is there was no breach of fiduciary duty. There was no breach of the ACC.

**Comment 18**

**Recommendation 1B. Require the Authority to repay from non-federal funds \$8,410 in ineligible charge card charges. Repayment should be made to its appropriate program(s), or if a determination can't be made as to which program(s) should be repaid, the funds should be repaid to HUD.**

- **HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR**
- 920 DeQueen Blvd. • P. O. Box 2295 • Port Arthur, TX 77643
- Phone: (409) 982-6442 • 1(800) 590-6442 • FAX: (409) 983-7803

**Comment 18**

The OIG has failed to furnish sufficient descriptive information pertaining to the alleged subject credit card charges, i.e., date of purchase, store/vendor, description of the purchase, in order for the Authority to review the nature and purpose of the charges including, but not limited to, whether and to what extent any portion of the charges were paid using federal monies. Accordingly, the OIG has failed to provide sufficient information to support Recommendation 1B.

**Recommendation 1C. Require the Authority to support or repay \$55,986 in unsupported charge card charges. Any repayments should be made from non-federal funds and made to the Authority's appropriate program(s), or if a determination can't be made as to which program(s) should be repaid, the funds should be repaid to HUD.**

The OIG has failed to furnish sufficient descriptive information pertaining to the alleged subject credit card charges, i.e., date of purchase, store/vendor, description of the purchase, in order for the Authority to review the nature and purpose of the charges including, but not limited to, whether and to what extent any portion of the charges were paid using federal monies. For example, the so-called "egregious items" reflected in Table 1 on page 8 of the Draft Report refer to "various" dates of purportedly questionable purchases on Amazon.com, Jason's Deli, Lezet Catering, Various florists and Edible Arrangements, and Walmart without reference the nature of each purchase. Accordingly, the OIG has failed to provide sufficient information to support the instant recommendation.

The mere fact that the Authority purchased goods or services in and of itself is not dispositive evidence that such purchases were unreasonable or unnecessary. By referencing the foregoing charges as "egregious" items, however, the OIG has made a baseless assumption about the nature of the purchases as well as the source of the funding for the purchases. The Authority should not be required to repay these amounts to HUD in the absence of further discussion to determine whether repayment is desirable and/or necessary and only after the OIG furnishes the following information to support its recommendation: i) the specific date(s) of purchase for each of the subject charges and ii) a description of each of the purportedly "unsupported" charges. The foregoing analysis is also critical because the OIG has identified American Express charges in Table 1 on page 8 of the Draft Report, which have been erroneously and improperly labeled as "egregious" charges supporting repayment to HUD when these purchases were paid with *non-federal funds*<sup>2</sup> – completely outside the scope of HUD's jurisdiction. There is no basis whatsoever for repayment of the following purchases reflected in Table 1 of the Draft Report as the explanation set forth below makes clear:

<i>Charge</i>	<i>Date(s)</i>	<i>Explanation</i>
CASA  \$500 and \$500	4/7/09 and 3/22/09	The Authority's purchases relate to its community involvement in CASA of Southeast Texas, which provides court appointed special advocates for children. No repayment to HUD is warranted. Payment for the charges were not made using federal funds, but rather, using funds from the Port Arthur Affordable Housing program

<sup>2</sup> The Authority has reviewed the \$1,987 Enterprise Rent A Car charge and has determined that it was a personal purchase inadvertently applied to the American Express card by the rental company with whom the Authority has a corporate account. The Authority welcomes the opportunity to discuss with the HUD Field office repayment options.

- **HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR**
- 920 DeQueen Blvd. • P. O. Box 2295 • Port Arthur, TX 77643
- Phone: (409) 982-6442 • 1(800) 590-6442 • FAX: (409) 983-7803

<i>Charge</i>	<i>Date(s)</i>	<i>Explanation</i>
		as reflected by the statement furnished to the OIG and the corresponding check details.
Greater Port Arthur Membership  \$1,000 and \$750	1/26/09 and 1/19/10	No repayment to HUD is warranted. Payment for the charges were not made using federal funds, but rather, using funds from the Port Arthur Affording Housing program as reflected by the statement furnished to the OIG and the corresponding check details.
Holiday Inn Port Arthur  \$1,493 and \$2,694	1/28/09 and 12/22/09	No repayment to HUD is warranted. Payment for the charges were not made using federal funds, but rather, using funds from the Port Arthur Affording Housing program as reflected by the statement furnished to the OIG and the corresponding check details. The purchases relate to the Authority's staff holiday parties for team building and morale. The "arrive 12/12/2008 and depart 1/27/2009" description for the charges is inaccurate. Accordingly to the Authority, Holiday Inn did not bill the Authority for the party until January of 2009 for a party that occurred in December of 2008 which explains the bill reference.
Woodlands Conference Center  \$4,135	9/9/10	No repayment to HUD is warranted. Payment for the charges were not made using federal funds, but rather, using funds from the Port Arthur Affording Housing program as reflected by the statement furnished to the OIG and the corresponding check details. The charges relate to a board retreat and workshop to discuss operations, policies and affiliate programs.

- **HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR**
- 920 DeQueen Blvd. • P. O. Box 2295 • Port Arthur, TX 77643
- Phone: (409) 982-6442 • 1(800) 590-6442 • FAX: (409) 983-7803

Moreover, the Authority furnished documents reflecting that the foregoing charges were invoiced to non-HUD programs. Had the OIG interviewed the Authority staff/personnel regarding the American Express statements and supporting detail produced, the Authority would have directed the OIG to the documents reflecting the allocation of payments to the various programs. In effect, the OIG has unfairly assumed that thousands of dollars in American Express charges were paid with federal monies despite documentation produced evidencing the contrary— and that the charges themselves were "egregious" without a reasonable investigation of the nature of the charges. Accordingly, the Authority should not be required to repay HUD any monies until the nature of each so-called questionable charge that the OIG references in the Draft Report is examined as well as the source of the funding to pay for such charges.

**Comment 21**

**Recommendation 1D. Require the Authority to implement controls over its charge cards, including a policy which emphasizes that only the authorized cardholder may use an Authority charge card; limits the types of purchases or the amount of purchases permitted with the cards; and provides guidelines for selecting merchants and vendors, tracking purchases, and card payment and settlement procedures.**

The Authority is in the process of developing formal, written policies and procedures governing credit card usage that follows the guidelines the OIG has recommended. Accordingly, Recommendation 1D is moot. In the meantime, the Authority has restricted access and use of the American Express and other cards to specific staff who must obtain pre-approval from the Executive Director or the Authority's procurement officer to make purchases. Moreover, the Authority requires travel voucher requests and purchase orders are to be submitted to the procurement officer in order to track purchases made on behalf of the Authority.

**Comment 13**

**Recommendation 1E. Determine whether the clause in the executive director's contract permitting payment for unused sick leave is allowable and if not, declare this section of the employment agreement void and require the Authority to reimburse \$49,833 to its programs (general fund \$9,061, Housing Choice Voucher program \$25,049, Capital Fund program \$5,329, and \$10,394 Housing Opportunities). Further, the Authority should be required to support that the executive director's leave balances were decreased for any leave for which he was paid.**

As an initial matter, the Draft Report's assertion that the Executive Director is "one of the highest paid in the State" without establishing any contextual framework whatsoever regarding either the relevance or accuracy of the statement is extraneous, inflammatory and clearly intended to arouse suspicion or criticism and nothing more. Accordingly, it should be disregarded in its entirety. Furthermore, the OIG's claim that the Executive Director's compensation terms and conditions violate the Authority's personnel policy is wholly inaccurate. That personnel policy applies only to the non-exempt employees. The Executive Director, on the other hand, has a fully negotiated and agreed upon written contract, the terms of which allow the Executive Director to be paid for unused annual and sick leave. The contract was agreed upon by the Commissioners and the Executive Director in good faith in an effort to properly administer the Authority. HUD has no legal authority to attempt to undo or otherwise modify this contract. Accordingly, this recommendation should be rejected as unenforceable.

**Comment 8**

**Recommendation 1F. If HUD does not take control of the Authority, direct the mayor of Port Arthur to appoint an eligible resident member to the Authority's board and encourage the mayor to evaluate the effectiveness of the board and remove and replace commissioners as appropriate.**

Recommendation 1F is baseless and should be stricken. As an initial matter, the statement "[i]f HUD does not take control of the Authority," is extraneous, inflammatory and inappropriate and, therefore, should be stricken or disregarded. There has been no finding whatsoever that the Commissioners have engaged in any intentional wrongdoing to warrant the drastic outcome of a HUD takeover. Second, nothing in the Draft Report supports the recommendation to "evaluate the effectiveness of the board" or to "remove and replace" any of the

- HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR
- 920 DeQueen Blvd. • P. O. Box 2295 • Port Arthur, TX 77643
- Phone: (409) 982-6442 • 1(800) 590-6442 • FAX: (409) 983-7803

**Comment 2**

current Commissioners for purported actions or omissions in the 2009-2010 period. In fact, three out of the five current Commissioners were not even on the board during the vast majority of the subject audit review period and, therefore, should not be held accountable for the decisions of the board made during that period. Moreover, it is simply not HUD's role to direct, influence or otherwise control mayoral appointments. Removal of a Commissioner requires an independent examination pursuant to local laws and procedures. Tex. Loc. Gov't Code Ann. § 392.041(a) (Vernon 2011). Because the OIG failed to interview *any* of the Commissioners to determine their respective involvement in any of the actions giving rise to the OIG's findings in the Draft Report, HUD should not adopt the OIG's sweeping recommendation without first examining whether and to what extent the OIG's underlying findings are supported at all and what improvements the Authority has made since the 2009-2010 audit review period. In addition, no action should be taken against the current Commissioners, in whole or in part, because (i) the current board is simply not accountable for the vast majority of decisions made during the 2009-2010 period and (ii) has been involved in the review, development and implementation of internal financial controls at the Authority in effort to improve its operations.

**Comment 22**

With respect to the resident Commissioner, ██████████ has received assistance from the Authority through one of its tax credit properties. It is true that ██████████ is not a public housing resident or a recipient in the voucher program. At the time of her appointment, however, she was selected by the Mayor to serve based on a good faith belief that she met the eligibility requirements. To the extent that HUD determines that ██████████ does not fulfill the resident Commissioner requirements, HUD's only role should be to present its findings to the Mayor, who has the authority to determine the appropriate remedy based on a review of the facts. In addition, the Authority acknowledges that it paid the resident Commissioner a monthly stipend in the amount of \$200 since April of 2010, however, such payments stopped in November of 2010. In the meantime, the Authority will consider candidates to serve as a resident Commissioner.

**Comment 19**  
**Comment 20**

**Recommendation 1G. Encourage the Authority to recover the various equipment given to the commissioners.**

The OIG claims that the non-cash compensation in the form of mobile phones, wireless air cards, laptops computers, net book computers, wireless printers, software and various "peripheral devices" were given to the Commissioners. The OIG's recommendation that the Authority recover the foregoing items, however, is flawed. First, the Authority challenges the assertion that the foregoing items constitute "compensation" to the extent that these items are reasonable and necessary business expenses that allow the Commissioners to satisfy their duties. Second, the OIG has failed to support its assertion that the foregoing items were "given" to the Commissioners – let alone identify which Commissioner received what item rather than purchased on behalf of the Authority for the Commissioners to use in conjunction with their service on the board. Accordingly, recovery would be impossible without further information confirming the identity of the Commissioner and which items they received. Third, even assuming *arguendo* that the foregoing items were given to the Commissioners, any current, active Commissioners should not be required to return the items until their respective terms of service conclude and/or their service terminates so long as they use the equipment to perform board service. As for Commissioners who no longer serve the Authority, the Authority acknowledges that certain Commissioners may have in their possession laptop equipment belonging to the Authority and will expend reasonable efforts to track down the former Commissioners and recover any laptops that may be in their possession.

**Comment 23**

**Recommendation 1H. Take appropriate administrative action, including possible debarment, against the executive director and commissioners.**

This recommendation is completely unjustified for the reasons set forth in Recommendation 1A and 1F.

- **HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR**
- 920 DeQueen Blvd. • P. O. Box 2295 • Port Arthur, TX 77643
- Phone: (409) 982-6442 • 1(800) 590-6442 • FAX: (409) 983-7803

**FINDING 2:**        *The Authority's Management Failed To Enact Financial Controls*

**Comment 1**  
**Comment 2**  
**Comment 4**  
**Comment 14**

The OIG claims that the Authority's management failed to enact financial controls. During the audit review period – which dovetails the Recovery Act Audit period – the Authority did not operate under a detailed procurement policy. Since that time, however, the Authority has (i) hired a new procurement officer with more than twelve (12) years of procurement experience serving Jefferson County; (ii) reviewed its procurement practices and developed and implemented a new written procurement policy; (iii) encouraged extensive training to improve board governance; and (iv) is in the process of developing and implementing a whole array of other detailed financial controls governing, among other things, asset management, travel, credit card usage, and cost allocation. The Authority's management and board are committed to tightening up the financial controls and are diligently working to do so. Unfortunately, the Draft Report considers only historical data gathered from the 2009-2010 period and, therefore, discounts any and all improvements and changes since that time, which is inequitable and unjust given that the year long audit process failed to yield any finding whatsoever that the Authority engaged in intentional wrongdoing.

**Comment 5**

**Comment 24**  
**Comment 11**

Moreover, the Authority is confounded by the OIG's specific findings recommending the possible repayment of millions of dollars to HUD for allegedly "unsupported" expenditures in the absence of any information whatsoever to explain its methodology for review along with identifying information about the dates, description, and nature of the subject expenditures. Even more perplexing is the OIG's recommendation that the Authority repay thousands of dollars to HUD for improperly classified expenditures when the clear remedy for a classification error is correction and correct reporting in the future. Finally, the OIG's recommendation that the Authority repay nearly \$3 million in allegedly "unsupported" payroll expenses to HUD is outrageous in the wake of clear evidence establishing that the OIG failed to request the detailed payroll data that it claims the Authority deliberately refused to produce for the reasons more fully explained below. For all of the foregoing reasons, which are set forth in detail below, HUD should not require that the Authority repay millions of dollars to the detriment of those it serves.

**Comment 10**

**Comment 21**

**Recommendation 2A.** **Adopt and implement a cost allocation plan that includes procedures to ensure it reasonably allocates both direct and indirect costs to the programs that benefit from them.**

**Comment 25**

The Authority has allocated costs to programs on a proportionate basis. The Authority is in the process of developing formal, written policies and procedures governing cost allocation that follows the guidelines that the OIG has recommended. Accordingly, Recommendation 2A is moot.

**Comment 11**

**Recommendation 2B.** **Support or repay from non-federal funds \$173,584 in improperly allocated costs to its various HUD programs.**

In the absence of further information identifying the nature of the expenditures comprising this amount or an explanation to support the finding that these amounts were improperly allocated, the Authority is unable to furnish a meaningful response to this recommendation. Nevertheless, the Authority welcomes the opportunity to review the purportedly improperly allocated costs with the HUD Field Office to determine whether these costs were improper.

**Comment 21**

**Recommendation 2C.** **Adopt and implement controls, including written policies and procedures, for the receipt, review, approval, and payment of vendor invoices and procedures for processing payroll designed to prevent, detect, and correct unauthorized changes to timekeeping records.**

- **HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR**
- 920 DeQueen Blvd. • P. O. Box 2295 • Port Arthur, TX 77643
- Phone: (409) 982-6442 • 1(800) 590-6442 • FAX: (409) 983-7803

The Authority is in the process of developing formal, written policies and procedures governing payment of invoices and payroll processing that follows the guidelines that the OIG has recommended. Accordingly, Recommendation 2C is moot.

**Comment 21**

**Recommendation 2D. Implement access controls over signature stamps, including adopting and enforcing policies for their appropriate use.**

The Authority is in the process of developing formal, written policies and procedures governing access controls that follows the guidelines that the OIG has recommended. Accordingly, Recommendation 2D is moot.

**Comment 10**

**Recommendation 2E. Support or repay \$1,278,151 (general fund \$336,095, public housing program \$468,021, Capital Fund program \$332,446, and \$141,589 Housing Opportunities) in HUD-funded portions of its payroll expenses during the review period, including the \$102,485 in irregular payroll transactions.**

This recommendation is wholly unjustified. A string of communications reveals that the Authority fully complied with the OIG's request for payroll data. According to written correspondence between the parties, the OIG had requested – and the Authority provided – payroll information for the last pay period of 2010. To the extent that the information was in any way deficient, the Authority was not made aware of the deficiencies nor were further demands for additional information made to the Authority during the course of the 2011 Audit. Indeed, in response to an October 7, 2011 letter from the OIG requesting "[p]ayroll data for the review period as discussed with the Director of Finance on September 23, 2010," the Authority believed and, therefore, responded that it had sent the requested information – the December 24, 2010 payroll data – to the OIG via Federal Express on October 21, 2011, as per its written response to the OIG's request. To the extent that the Authority's production failed to accurately reflect the documents requested in the OIG's discussion with the Director of Finance, the OIG failed to bring it to the Authority's attention until the Draft Report. A miscommunication – rather than intentional obstruction or neglect – likely explains any purported deficiencies in the production of payroll data. The Authority has detailed supporting documentation reflecting its payroll transactions in 2009 and 2010. Accordingly, HUD should not require repayment. The Authority should be given the opportunity to furnish payroll documents to support its payroll transactions in 2009 and 2010. The Authority welcomes the opportunity to review these expenses with the HUD Field Office.

**Comment 11**

With respect to the purported \$102,485 in so-called "irregular payroll transactions," a certain percentage of the foregoing amount may have constituted annual staff bonuses that were paid in accordance with board approval. Had the OIG interviewed the proper Authority personnel regarding these payments, the Authority could have explained and provided the board minutes approving the payment of these staff bonuses along with other information to further identify the source of the so-called "irregular payroll transactions."

**Comment 21**

**Recommendation 2F. Reclassify the improperly classified payroll expenses, revise any reports that were in error as a result, and record the payroll expenses in the appropriate categories in the future.**

The Authority intends to review and implement the instant recommendation.

**Recommendation 2G. Reduce or offset future Housing Choice Voucher administrative fees by \$1,636,647 for unsupported payroll amounts, unless the Authority can provide support.**

See Response to Recommendation 2E.

**FINDING 3: *The Authority Failed To Comply With Procurement Requirements***

- HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR
- 920 DeQueen Blvd. • P. O. Box 2295 • Port Arthur, TX 77643
- Phone: (409) 982-6442 • 1(800) 590-6442 • FAX: (409) 983-7803

The OIG's finding that the Authority failed to comply with procurement requirements echoes the theme of Finding 2– that the Authority's lack of financial controls resulted in its purported failure to maintain procurement or contract files– and, therefore , the Authority repeats its response to Finding 2 outlining the changes and improvements to the Authority since the Recovery Act Audit.

Having said that, however, the recommendations corresponding to Finding 3 are unsupported. Not only do the recommendations fail to relate back to specific findings in that section of the Draft Report, but the OIG has also failed to furnish sufficient information for the Authority to review its claims and prepare a meaningful response. As a result, HUD should take no action based on these recommendations.

**Comment 24** **Recommendation 3A.** **Repay HUD from non-federal funds \$103,984 in ineligible contract costs charged to its public housing Capital Fund program.**

In the absence of further information identifying the methodology used to determine this specific amount, the Authority is unable to furnish a meaningful response to this recommendation, let alone confirm or deny the accuracy of the OIG's calculation. This amount is not tied to a specific finding in the Draft Report that sets forth the foundation for this recommendation. Accordingly, HUD should not follow this recommendation. The Authority welcomes the opportunity to review these expenses with the HUD Field Office.

**Comment 24** **Recommendation 3B.** **To support or repay the appropriate programs from non-federal funds \$447,168 in unsupported procurement and contracting costs (general fund \$50,212, public housing \$208,362, DHAP Ike \$84,659, Housing Opportunities Fund \$34,591, and Capital Fund program \$69,344).**

In the absence of further information identifying the methodology used to determine these specific amounts, the Authority is unable to furnish a meaningful response to this recommendation, let alone confirm or deny the accuracy of the OIG's calculation. This amount is not tied to a specific finding in the Draft Report that sets forth the foundation for this recommendation. Accordingly, HUD should not follow this recommendation. The Authority welcomes the opportunity to review these expenses with the HUD Field Office.

**Comment 21** **Recommendation 3C.** **Implement procurement and contracting policies and procedures, including a contract administration system that ensures it meets HUD requirements and allows it to identify and monitor its contracts.**

The Authority has a detailed procurement policy, which was adopted in May of 2011 in conjunction with a third party consultant in response to the OIG's Recovery Act Audit and has been followed to date. In addition, the Commissioners and staff have undergone training from third party consultants regarding procurement, among other topics. Moreover, the Authority is in the process of developing formal, written policies and procedures governing contract administration that follows the guidelines that the OIG has recommended. Accordingly, Recommendation 3C is moot.

**Comment 21** **Recommendation 3D.** **Perform a detailed inventory of its information technology equipment that identifies all equipment owned by the Authority and who is in possession of the equipment.**

The Authority is in the process of complying with the OIG's recommendation and, therefore, Recommendation 3D is moot.

**Comment 24** **Recommendation 3E.** **Reduce or offset future Housing Choice Voucher administrative fees by \$254,709 for unsupported procurement and contracting costs, unless the Authority can provide support.**

- **HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR**
- 920 DeQueen Blvd. • P. O. Box 2295 • Port Arthur, TX 77643
- Phone: (409) 982-6442 • 1(800) 590-6442 • FAX: (409) 983-7803

In the absence of further information identifying the methodology used to determine these specific amounts, the Authority is unable to furnish a meaningful response to this recommendation, let alone confirm or deny the accuracy of the OIG's calculation. This amount is not tied to a specific finding in the Draft Report that sets forth the foundation for this recommendation. Accordingly, HUD should not follow this recommendation. The Authority welcomes the opportunity to review these expenses with the HUD Field Office.

**Comment 6**

**Recommendation 3E. Support or repay to HUD or FEMA, as appropriate, from non-federal funds \$1,093,220 for unsupported case management services under its DHAP Ike contract.**

In the absence of further information identifying the methodology used to determine this specific amount, the Authority is unable to furnish a meaningful response to this recommendation, let alone confirm or deny the accuracy of the OIG's calculation. This amount is not tied to a specific finding in the Draft Report that sets forth the foundation for this recommendation. Accordingly, HUD should not follow this recommendation. The Authority welcomes the opportunity to review these expenses with the HUD Field Office.

**Comment 24**

**Recommendation 3G. Repay to HUD or FEMA as appropriate, from non-federal funds \$349,880 in ineligible expenses not included in its contract for DHAP Ike case management services.**

In the absence of further information identifying the methodology used to determine this specific amount, the Authority is unable to furnish a meaningful response to this recommendation, let alone confirm or deny the accuracy of the OIG's calculation. This amount is not tied to a specific finding in the Draft Report that sets forth the foundation for this recommendation. Accordingly, HUD should not follow this recommendation. The Authority welcomes the opportunity to review these expenses with the HUD Field Office.

**FINDING 4: *The Authority Improperly Administered Its Capital Funds***

The Authority challenges the OIG's finding that it improperly administered its capital funds for the reasons set forth in detail below.

**Comment 26**

**Recommendation 4A. Recapture the \$469,359 the Authority drew as replacement reserves from its 2006 and 2007 Capital Fund grants.**

The OIG fails to clearly explain and, therefore, support the basis for the recapture of these amounts. The Authority acknowledges that approximately \$470,000 was drawn down as replacement reserves in October of 2009. The replacement reserves, however, have not been spent on Gulf Breeze or the administrative office contrary to the OIG's assertions or suggestions otherwise. Indeed, the Authority has earmarked the replacement reserves for Carver Terrace in accordance with the original intent for the use of these funds and a developer has been selected for this purpose. An amended agency plan will be submitted to outline the need for and use of the replacement reserves, which are needed to carry out the Authority's mission and objectives. The Authority welcomes the opportunity to review its amended agency plan with the HUD Field Office. .

**Comment 21**

**Recommendation 4B. Revise the budget authority for the undrawn replacement reserves of \$59,191 from its 2008 Capital Fund grant.**

An amended agency plan will be submitted to outline the need for and use of the replacement reserves, which are needed to carry out the Authority's mission and objectives. The Authority welcomes the opportunity to review its amended agency plan with the HUD Field Office. Moreover, the Authority intends to revise the budget pursuant to Recommendation 4B and expenditures will be made on approved capital improvements by the deadline, which is June 12, 2012.

- HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR
- 920 DeQueen Blvd. • P. O. Box 2295 • Port Arthur, TX 77643
- Phone: (409) 982-6442 • 1(800) 590-6442 • FAX: (409) 983-7803

**Recommendation 4C. Require the Authority to prepare a detailed plan for the use of its capital funds that includes the modernization or demolition and replacement of Carver Terrace.**

**Comment 21**

The Authority is in the process of working on detailed plain for the use of all of its capital funds including its plans for Carver Terrace. Accordingly, Recommendation 4C is moot.

**Comment 27**

Moreover, the OIG's assertion that the Authority developed mixed-income finance projects at the expense of Carver Terrace is completely inaccurate and misleading. The mixed-income finance projects were paid for with non-public housing funds and, therefore, the Authority's involvement in those projects is completely independent of its plans for Carver Terrace.

**Comment 28**

By way of further response, the Authority disputes the OIG's contention that it failed to prepare 5-year plans for its capital funds in the absence of any explanation or reference to regulatory provisions reflecting the Authority's purported deficiencies, failures or omissions. In addition, the Authority is currently in compliance with its expenditure deadlines. Although the Draft Report claims that the Authority failed to meet its expenditure deadlines and references the 2006 through 2008 Capital Fund grants, the OIG has failed to delineate which grants the Authority to comply with and fails to identify the factual underpinnings supporting its claim. Further information is needed in order to review the nature and scope of the Authority's obligations vis-à-vis the specific grants in question.

**III. CONCLUSION**

**Comment 1  
Comment 2**

In the wake of incontrovertible evidence undermining the OIG's findings and recommendations, HUD should not act on the OIG's recommendations and, in particular, the recommendations to repay millions of dollars to HUD, based on undisclosed, unsupported facts and review methodologies. The 2011 Audit retraces old ground covered by the Recovery Act Audit. As a result, the Draft Report wholly fails to consider the various improvements and changes embodied in the Authority's current operations including, but not necessarily limited to, changes in staff, the board, policies, and procedures as well as continuing improvements in the Authority's financial controls. Accordingly, HUD should not make any determinations based on the stale data contained therein.

If you have any questions or comments, please contact me.

Sincerely,

Housing Authority of the City of Port Arthur

/s/ Seledonio Quesada

By: Seledonio Quesada  
Executive Director

Enclosures

cc: Reverend Ronnie Linden (PDF copy via email)  
Donald J. Lavoy, Deputy Assistant Secretary for Field Operations (PDF copy via email)  
Daniel Rodriguez, Jr., Director, Public Housing (PDF copy via email)  
Judith Garza, Director, Program Support Division (PDF copy via email)  
Craig Clemmensen, Director, Departmental Enforcement Center (PDF copy via email)

▪ **HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR**  
▪ 920 DeQueen Blvd. • P. O. Box 2295 • Port Arthur, TX 77643  
▪ Phone: (409) 982-6442 • 1(800) 590-6442 • FAX: (409) 983-7803

## OIG Evaluation of Auditee Comments

- Comment 1** While the scope of this audit overlaps the scope of the Recovery Act audit, the objectives were different. The objectives of this audit were to determine whether the Authority had sufficient financial and procurement controls to ensure it used HUD funds in accordance with laws, regulations, and policies. The prior audit was limited to only the funds received under the Recovery Act. This audit was performed due to the significant lack of controls identified in the prior audit.
- Comment 2** We made minor changes to the report to recognize that the Authority had made some improvements. However, the Authority provided no documentation to show that it had taken any steps to implement an overall contract administration system as required by regulations and its own procurement policy. In addition, it did not appear that the Authority had taken any steps to determine what contracts were in place at the beginning of the audit. The contract list it provided was generated only to fulfill the OIG request for a contract register. Further, OIG requested and the Authority provided a procurement policy during the audit. However, that policy was not new and the board meeting minutes provided reflected the policy was adopted in March 2009. Therefore, the Authority provided no evidence to show it was in the process of implementing a new procurement policy or procedures.
- Comment 3** Generally, audits cover a period of time in the past in order to evaluate performance. Our audit began on March 31, 2011, and the scope covered January 1, 2009, through December 31, 2010, which was appropriate. We also assessed current financial and procurement procedures, which were not in writing. However, staff explained the unofficial procedures they followed in carrying out their duties.
- Comment 4** The Authority should have had policies and procedures in place to ensure the efficient and effective use of its Federal funding. The Authority's procurement policy contained specific requirements for travel and credit card usage. However, Authority management did not ensure the policies were enforced or adhered to. Authority management should have procedures to ensure policies currently in place are followed, which cannot be cured by having consultants develop new policies.
- Comment 5** Intent is not required to support audit findings that the Authority mismanaged its financial and procurement operations.
- Comment 6** In numerous instances the Authority failed to provide requested documentation. For example, the Authority failed to provide support for the clients served under its contract for DHAP Ike case management services. The Authority did not provide the subpoenaed records, even though in its September 9, 2011 memorandum, cited in its auditee comments, it asserted that it considered production of the subpoena demand complete. In addition, the Authority failed to provide its payroll data for

the review period even though these items were included in a demand letter issued to the Authority. Instead, the Authority provided the data for only the last pay period of 2010, which it indicated was responsive to OIG's request. It was the Authority's responsibility to provide material responsive to the subpoena and demand letter, and OIG had no duty to continually request information for which the Authority considered its production complete.

**Comment 7** The report presents evidence in an unbiased manner and in the proper context to conclude that the Authority violated its annual contributions contract. We worded our recommendation that HUD declare the Authority in substantial default in the manner administratively acceptable to HUD.

**Comment 8** Despite the fact that the board of commissioners has experienced turnover, it is appropriate to recommend that the mayor evaluate the past and current commissioners in order to determine if the problems identified during the audit period are still occurring.

**Comment 9** It is within the scope of the OIG's purview to comment on issues pertaining to the lack of controls and effective management of the organization as a whole. The OIG report addresses the Authority's use of developer fees paid to the Authority by both the CDBG disaster program and the low income housing tax credit program. During the audit it was noted that the Authority's use of these funds did not promote its mission or the missions of the programs. Further, during the audit the Authority indicated that it considered all developer fees to be non federal funds. However, developer fees earned on the CDBG disaster program are considered program income and are within the purview of the OIG. Also, the Authority's use of the funds further demonstrated management's and the board's failure to exercise their fiduciary responsibility and disregard for proper stewardship of public funds.

**Comment 10** The Authority claimed that OIG only requested payroll data for the last pay period of 2010. This is not factual. The OIG requested, and included in its October 7, 2011 demand letter, the Authority's payroll data for the review period which was January 1, 2009, through December 31, 2010. At no time during the audit did the OIG request or agree to accept only one pay period of data. Further, the Authority provided only printed payroll reports not the requested electronic data.

**Comment 11** The Authority misunderstands the concept of unsupported amounts. During the audit resolution process the Authority will have an opportunity to provide HUD with support for expenditures reported as unsupported. This process was explained during the exit conference. See footnote 2 in Appendix A for a definition of unsupported costs.

**Comment 12** The report discusses the lack of documentation provided for travel costs reflected in the Authority's American Express statements. During the audit, the Authority contended that the majority of the travel was for training. OIG requested

documentation supporting the training and the travel associated with the training. However, the Authority did not provide any documentation verifying that anyone from the Authority attended training. As stated in the report, the Authority provided various course flyers, class agendas, and recent printouts from the Internet regarding training classes offered by housing-related entities. This type of documentation did not support attendance by anyone at the Authority nor did it support the travel charged on the American Express was for training purposes. Further, the Authority's comments indicate that the training taken was based on the previous audit report. However, the previous audit report was issued in 2011 which was after the audit period.

**Comment 13** The Authority asserted its personnel policy applied to only non-exempt employees; however, the policies it provided OIG at the exit conference did not contain that restriction. Therefore, the executive director's contract did not comply with the Authority's personnel policy, and was therefore unallowable. We removed the phrase in the recommendation concerning HUD voiding the ineligible section of the contract. We removed the sentence concerning HUD's statement that the executive director was one of the highest-paid in the State.

**Comment 14** OIG specifically requested financial and procurement policies and procedures. Authority staff responded that there were no financial policies and procedures in place. It was further stated that the only policy that was even being considered by the board at the time was an accounts payable policy that had not been approved by the board. OIG requested a copy of the draft policy; however, it was never provided. At the beginning of the audit, the Authority provided a procurement policy; however, the policy was not new, it was the policy that was in effect during 2009. It had no procedures designed to ensure it complied with its policy.

**Comment 15** The audit report contains significant evidence that the Authority management and the board failed to exercise their fiduciary responsibility. The lack of controls, policies, procedures, and documentation reflects an overall indifference to their responsibility to its residents, the public, and the Federal Government. Management and the board knew of the deficiencies because of previous financial statement and OIG audit findings. Yet, they failed to take sufficient corrective action.

**Comment 16** The Authority mischaracterized the audit as an investigation. It was not an investigation but an audit conducted in accordance with generally accepted government auditing standards.

**Comment 17** The report unequivocally concluded that the Authority violated its annual contributions contract. We worded our recommendation that HUD declare the Authority in substantial default in the manner administratively acceptable to HUD because only HUD has the authority to make such a declaration. Also see comment 15.

**Comment 18** In keeping with our general practice, we will provide detail information to HUD on the ineligible and unsupported amounts. The items included in the \$36,752 of egregious charges were intended as an example of the types of items charged to the Authority's American Express card. The Authority paid for some of the items with Federal funds and some with funds from Port Arthur Affordable Housing, and it failed to document the source of funds for some of the charges. In reviewing the American Express charges, OIG determined which funds were used and recommended support or repayment of amounts paid with Federal funds. Since not all of the amounts in the table were Federal funds, they are not all included in the ineligible or unsupported amounts in the report. Further, identification of the \$1,987 for the rental car for the resident commissioner in the Authority's response as a personal purchase of the commissioner is further evidence of the lack of controls, policies, and procedures at the Authority. This expense was incurred in November 2010; however, the Authority did not identify it as a personal expense of the commissioner until May 2012 when it provided its comments to this audit report. In addition, the commissioner should not have been authorized to incur this type of expense on the Authority's charge card.

**Comment 19** The OIG identified almost \$33,000 in equipment provided to the commissioners. During the audit OIG questioned what happened to the equipment when the commissioners completed their terms. The Authority's attorney responded, "As with the purchase of the tablets, this computer equipment is generally not worth much once a commissioner leaves the board, and, therefore, in the past, the Commissioners have been allowed to retain possession of this equipment." The Authority's response to the draft report indicated that all equipment must be returned, which is contrary to the response its attorney provided during the audit. It is appropriate that the Authority implement the recommendation to recover the equipment.

**Comment 20** The Authority argues, "A commissioner can fulfill his/her fiduciary duty by paying attention, acting diligently and reasonably. To act as an ordinary prudent person requires the commissioner to use common sense, practical wisdom and informed judgment. If a commissioner reasonably believes that his or her decision is in the best interest of the Authority, his/her duty of care is satisfied. Thus, a commissioner's fiduciary duty is satisfied by regularly attending meetings, reviewing the agenda, reports and information necessary to make an informed decision." Further, the Authority challenges the finding that the equipment constituted compensation to the extent that the items were reasonable and necessary business expenses that allowed the commissioners to satisfy their duties.

The Authority's statements that the commissioners can fulfill their duties by attending meetings, reviewing agendas, reports and information conflicts with the assertion that the commissioners need a multitude of electronic equipment and accessories. In addition, it is not clear how purchasing equipment for the commissioners and paying for entertainment videos for the resident commissioner were prudent, reasonable, or enabled the commissioners to satisfy their duties.

- Comment 21** The Authority stated that it will or is in the process of implementing corrective actions for nine of the recommendations. It argues that seven of the nine recommendations were "moot." However, that is not the case. It is appropriate to recommend HUD require the Authority to take steps to correct or address weaknesses or problems identified in the audit report. This enables HUD to verify that the Authority is addressing the issues and taking appropriate steps to strengthen its processes and recordkeeping requirements. This is especially important since the Authority has a history of responding to financial statement audit findings by stating that corrective actions have been implemented when they had not. HUD must oversee the implementation of the recommendations to ensure the Authority follows through with its pledged actions.
- Comment 22** As discussed in the finding, the Authority did not have a qualified resident commissioner, and it is the mayor's responsibility to appoint one. The compensation paid to the resident commissioner violated State law.
- Comment 23** It is not OIG's responsibility to determine to whom the Authority provided the equipment. The Authority's documentation did not specify a particular commissioner; it only indicated that the equipment was for a commissioner. The Authority should provide documentation to HUD to show which commissioner received the equipment identified in the report. Also see Comment 19.
- Comment 24** In keeping with our general practice, we will provide detailed information to HUD on the ineligible and unsupported amounts.
- Comment 25** The Authority did not allocate costs on a proportional basis. The Authority's general ledger and statements by its finance director reflected otherwise.
- Comment 26** The report does not state that the funds were spent on Gulf Breeze, only that the funds were budgeted for Gulf Breeze. The Authority provided no documentation designating the replacement reserves for Carver Terrace. This demonstrates that the Authority did not properly plan for its capital fund. Recapturing the funds will allow HUD to control the funds until the Authority has a plan for how it is going to spend the reserves. We added clarifying language to this section.
- Comment 27** The finding does not intend to indicate that public housing money was used on the mixed finance projects. However, the Authority used its other resources (personnel, efforts, time, etc.) in order to develop the mixed finance projects at the expense of Carver Terrace.
- Comment 28** As described in the report, the Authority is required to generate a 5-year plan detailing the physical and management improvement needs for the Authority as a whole and all of its developments, including preliminary estimates of the total cost of the improvements and a plan to carry them out. The Authority did not provide the required level of detail.