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TO: Deborah Hernandez, Deputy Assistant Secretary, Office of Field Operations, PQ

Rose Capalungan

FROM: Rose Capalungan, Regional Inspector General for Audit, New Orleans, Gulf Coast Region, GAH

SUBJECT: HUD's Receivership Did Not Ensure That the Housing Authority of New Orleans Properly Accounted for Its Fungibility Funding, Monitored and Paid Two of Its Contractors, and Paid Its Accounts Payable Disbursements

HIGHLIGHTS

What We Audited and Why

At the request of two United States senators, we initiated an audit of the U.S. Department of Housing and Urban Development's (HUD) administration of the Housing Authority of New Orleans (Authority) to determine the effect of HUD's receivership on the Authority's performance in its contracting activities and financial functions. Specifically, we wanted to determine whether HUD's receivership ensured that the Authority properly (1) accounted for its fungibility funds, (2) monitored and paid its contractors, and (3) disbursed its accounts payable.

This report is the second of three reports to be issued regarding the HUD receiver's management of the Authority.

What We Found

HUD's receiver did not ensure that the Authority

(1) Correctly supported, expensed, or reported its expensed fungible funds in accordance with HUD requirements, resulting in at least $3.5 million in unsupported expenses and $2.3 million in ineligible expenses that were unreported in its annual progress report and at least $1.4 million in additional unsupported expenses that were reported in the report;

(2) Monitored and/or paid two of its contractors in accordance with contract terms and the Authority's procurement policy, resulting in $97,193 in ineligible costs and $1,153 in unsupported costs paid on one of the contracts; and

(3) Supported 10 of 20 accounts payable disbursements in accordance with the Authority's financial policy, resulting in at least $15,000 in unsupported costs for those 10 disbursements.

What We Recommend

We recommend that HUD require the receiver to ensure that the Authority provides support or repays the ineligible and unsupported costs. We further recommend that the Authority provide an accurate annual progress report, including all eligible fungibility funds expensed in its 2006 annual report, and develop and implement the appropriate controls to ensure that the Finance Department (1) maintains adequate financial records for the accounts payable disbursements and (2) properly authorizes its accounts payable disbursements to safeguard the accounts payable funding.

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

Auditee's Response

We provided a copy of the draft report to the Deputy Assistant Secretary, Office of Field Operations, on November 19, 2008, for official comments and discussed the report with her at an exit conference held on December 2, 2008. She provided a written response on December 19, 2008.

The Deputy Assistant Secretary disagreed with some of the findings and provided 73 pages of additional documentation to support her disagreements. We reviewed the additional documentation and made changes to the report as appropriate.

With the exception of the supporting documentation, the complete text of the written response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The Housing Authority of New Orleans (Authority) is a state-created public agency governed by a board of commissioners. The Authority's mission is to provide safe, sanitary, and affordable housing for low-income residents in the New Orleans, Louisiana, area. Although its primary goal is to provide housing, the Authority also provides programs to empower residents to become self-sufficient by providing social services, education, job training, and employment opportunities.

The U.S. Department of Housing and Urban Development (HUD) took control of the Authority in 2002 because it had performed poorly almost continuously since 1979. Before the takeover, HUD had been involved in the Authority's administration since the mid-1990s. To accomplish the takeover, HUD replaced the Authority's governing body with two HUD managers. HUD's administrative receiver (receiver) replaced the Authority's executive director to control the day-to-day operations of the Authority, and HUD's one-member board of commissioners replaced the Authority's board of commissioners for reviewing and approving policies, procedures, and contracts. Since 2002, there have been eight HUD receivers and four HUD commissioners. Therefore, HUD controls all of the Authority's operations, including the contracting and finance functions, through the two managers.

The Authority has a history of problems in its contracting and finance functions. Office of Inspector General (OIG) audits in 2001 found that the Authority did not properly procure services or expend funds. Further, the Authority's independent auditors found that the Authority did not comply with contract terms related to Resident Management Corporation's financial reporting between 2002 and 2006, and the Authority's disbursements lacked proper approval and verification procedures in 2005 and 2006. Finally, the Authority's Public Housing Assessment System score[1] in 2005, the last reporting period available, was "troubled," the lowest rating available.

The Authority's Contracting and Compliance Department's goal is to maintain a continuous supply of goods and services necessary to support site development, production, and service schedules. There are 107 post-Hurricane Katrina contracts[2] totaling more than $42.6 million.[3]

The Finance Department's responsibility is to develop an accounting system of policies, processes, and procedures for maintaining effective control and accountability to safeguard the Authority's cash and other assets. From January 2006 to March 2008, the Authority disbursed more than $145 million in accounts payable. Further, HUD approved the Authority to expend more than $97 million in combined fungibility funding for fiscal year 2006.

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[1] The Public Housing Assessment System is a management tool that HUD's Real Estate Assessment Center uses to measure a housing agency's performance through its physical condition, financial condition, management operations, and resident service and satisfaction.
[2] Excludes all cancelled and pending contracts and those contracts that did not receive proposals or responses.
[3] Does not include leases and indefinite service type contracts.

Our audit objective was to determine whether HUD's receivership ensured that the Authority properly accounted for its fungibility funds, monitored and paid its contractors, and disbursed funds for its accounts payable.

RESULTS OF AUDIT

Finding 1: The Receiver Did Not Ensure That the Authority Properly Supported, Expensed, or Reported at Least $7.2 Million in Fungibility Funds

HUD's receiver did not ensure that the Authority properly supported, expensed, or reported at least $7.2 million in voucher and public housing funds spent between October 2006 and September 2007 that were combined under fungibility. This condition occurred because the Authority's chief financial officer neither maintained sufficient records to support the funds reported as expensed nor provided an accurate report of expensed funds in accordance with HUD's rules and the Authority's policies. As a result, the receiver and HUD lacked assurance that the funding reported by the Authority was supported, accurate, or spent for eligible activities.

HUD Allowed the Authority to Combine Funding under Fungibility

Following Hurricane Katrina, HUD allowed the Authority to combine its funding under fungibility pursuant to Section 901 of the Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006. The Act allowed participating public housing agencies to use the combined funds wherever necessary.[4] HUD required the Authority to submit a fungibility plan, detailing how it intended to spend the funds. HUD approved the Authority's 2006 fungibility plan, allowing the Authority to combine $97 million, including $81 million in voucher funds and $16 million in public housing funds. HUD's intent was to use the combined fungibility funds to provide replacement housing. In addition, the funds were to be used with available unobligated capital funds and to cover building construction costs, site improvements, and related capital fund project-eligible expenses including mixed-finance development costs.

HUD further required that the Authority submit annual progress reports[5] detailing how it used the funds during each fiscal year and how it expected to use

[4] Public and Indian Housing (PIH) Notice 2006-29.

[5] HUD PIH Notice 2007-22 required the Authority to provide an annual progress report to its HUD field office. The report was to include (1) the amount of funds, by source program, being combined under Section 901 fungibility; (2) the proposed uses of those combined funds; (3) the amount of funds obligated during the year from each source program; (4) the cumulative total amount of funds obligated; (5) the total amount of funds expended during the year from each source; and (6) the cumulative total amount of funds expended.

fungibility funds in the future. HUD required that the first reporting period include October 1, 2006, through September 30, 2007.

The Authority's 2006 annual progress report showed that the Authority spent $29 million of the $81 million combined voucher funds for construction tax credit properties and rehabilitation work on existing units. The report also showed that the Authority did not spend any of the $16 million in combined public housing funds during the reporting period.

The 2006 Fungibility Annual Progress Report Included $1.4 Million in Unsupported Costs

The Authority's chief financial officer could not provide support for $1.4 million of the $29 million in fungibility funds that the Authority reported as expensed in the first progress report covering the period October 2006 through September 2007. There was no supporting documentation attached to the progress report. The chief financial officer explained that the $29 million was expensed for predevelopment loans for new construction tax credit projects at the B.W Cooper, St. Bernard, Lafitte, and C.J. Peete developments.

A review of the fungibility funds bank statements designated for fungibility funds expenditures[6] and the supporting documentation for the bank transactions between October 2006 and September 2007 showed wire transfers totaling $27.5 million expensed for the B.W Cooper, St. Bernard, and C.J. Peete developments but did not show transfers for the Lafitte development. The chief financial officer could not support the $1.4 million difference.

The progress report stated that the Authority would maintain a full accounting of all expenditures and would provide reports upon request. In addition, both the annual contributions contract and the finance policy required the Authority and the chief financial officer to maintain records to support the Authority's expensed funds.[7] However, since this was not done, the receiver and HUD had no assurance that the Authority could properly support $1.4 million of the $29 million it reported to HUD as expensed. HUD should ensure that the receiver requires the Authority to either support or repay the $1.4 million in unsupported costs to its program funds.

[6] The chief financial officer created bank accounts to hold the $81 million that was combined from the voucher funding.

[7] The Authority's annual contributions contract required that the Authority maintain records that identified the source and application of funds in such a manner as to allow HUD to determine that all funds had been expended in accordance with each specific program regulation and requirement. Further, the Authority's finance policy required the chief financial officer to maintain the books of account showing receipts and expenditures and to oversee the administration of the Finance Department in accordance with policies and other laws, regulations, rules, and practices applicable to the Authority.

The 2006 Fungibility Annual Progress Report Underreported Expenses by $5.8 Million

The Authority's chief financial officer did not include in the annual progress report at least $5.8 million in combined voucher and public housing funds that the Authority spent during the 2006 reporting period. Of the $5.8 million, the chief financial officer did not include in the progress report (1) $672,956 because he did not know how to report it; (2) $2.3 million because the Authority intended to reimburse these funds from its capital account; and (3) $2.89 million because the Authority did not have the available supporting documentation and time to reconcile before the chief financial officer submitted the progress report. The following statements provide more details about the funds that were excluded from the Authority's 2006 annual progress report.

- The chief financial officer did not know how to report the $672,956 in voucher funding that was accumulated as interest income from the initial $81 million combined from voucher funds. This was later expensed to replenish the general funds. The chief financial officer provided documentation showing a wire transfer to the general funds account but did not provide documentation to show how the funds were ultimately spent.

- The chief financial officer explained that the $2.3 million in voucher funding was not included in the report because the Authority intended to reimburse the expensed fungibility funds from its capital funds account. However, as of September 24, 2008, the Authority had not reimbursed the fungibility funds account. It paid two transactions to a contractor via a wire transfer with insufficient supporting documentation and did not report the expensed funding because it planned to reimburse the funding from its capital funds. According to the annual contributions contract, the Authority could not withdraw from any of the funds or accounts for projects under the contract or for other projects or enterprises in excess of the amount then on deposit. The reasoning behind the unreported funding, the insufficiently supported wire transfers, and the loan between accounts did not follow this requirement. Therefore, HUD should seek repayment to its Section 901fungibility program funds for the $2.3 million the Authority expensed and did not report in the progress report to HUD.

- The chief financial officer excluded from the report $2.89 million in public housing funds that the Authority spent. The 2006 annual progress report stated that the Authority did not spend any public housing funds. According to the Authority's reconciliation, it expensed public housing funds totaling $1.4 million for rehabilitation costs[8] and $1.4 million on security for vacant sites.[9] The chief financial officer explained that the

[8] Between October 24, 2006, and September 26, 2007.
[9] Between January 5 and September 26, 2007.

Authority excluded these expensed funds from the progress report because it did not have time to gather the available information and perform the reconciliation before submitting the progress report. Further, he explained that the $16 million in public housing funding used for fungibility was located in various bank accounts holding various funding which was not specific to fungibility and was, therefore, combined with other funding and expenditures. As a result, we could not verify the expenditures in the bank accounts and determined that the expenditures were insufficiently supported.

HUD should ensure that the receiver requires the Authority to either support or repay the $672,956 in combined voucher funding and the $2.8 million in combined public housing funding and provide an accurate annual report to include the funding deemed supported. In addition, HUD should ensure that the receiver requires the Authority to repay to its program funds the $2.3 million deemed ineligible.

Conclusion

HUD allowed the Authority to combine its voucher and public housing funds under fungibility but required it to report the fungibility funds expensed annually. The 2006 annual progress report contained $1.4 million in unsupported expenses and underreported $5.8 million of the fungibility funds expensed during the reporting period. Of the $5.8 million unreported, $3.5 million[10] was deemed unsupported because the Authority could not provide sufficient documentation, and the remaining $2.3 million was ineligible because it was not spent in accordance with the fungibility plan. As a result, the receiver and HUD lacked assurance that the funding reported by the Authority was supported, accurate, or spent for eligible activities.

HUD should ensure that the receiver requires the Authority to (1) either support or repay $1.4 million in unsupported expenses that were reported on the progress report, (2) concerning the $5.8 million that was not reported on the progress report, support or repay the $3.5 million in unsupported expenditures and repay $2.3 million in ineligible expenses to its program funds, and (3) amend the fungibility report to accurately reflect the fungibility funds expensed.

Recommendations

We recommend that the Deputy Assistant Secretary, Office of Field Operations, require the receiver to ensure that the Authority

[10] $672,956 + 2,896,963 = $3,569,919 or $3.5 million.

1A. Supports or repays to its fungibility funds $1,482,181 in unsupported costs.

1B. Supports or repays $672,956 to its fungibility funds for voucher funds not reported on the 2006 fungibility annual progress report and not supported by the Authority.

1C. Repays $2,311,913 to its fungibility funds for voucher funds not reported on the 2006 fungibility annual progress report and deemed an ineligible expenditure.

1D. Supports or repays $2,896,963 to its fungibility funds for public housing funds not reported on the 2006 fungibility annual progress report and not supported by the Authority.

1E. For the amounts in recommendations 1B and 1D determined to have adequate support, amends its 2006 annual progress report on fungibility to accurately account for voucher and public housing funds that it spent but did not report during the 2006 reporting period.

RESULTS OF AUDIT

Finding 2: The Receiver Did Not Always Ensure That the Authority Properly Monitored and/or Paid Contractors

The receiver did not ensure that the Authority monitored and/or paid its contractors in accordance with its procurement policy or the contract's terms for two of the three contracts reviewed. This condition occurred because the receiver did not assign a contract monitor for the financial operations contract until late in its term and did not assign a contract monitor for the independent auditor contract. As a result of the lack of dedicated oversight, the Authority (1) did not receive all of the deliverables under the financial operations contract, while it paid at least $98,346 in ineligible and unsupported costs for that contract, and (2) received its financial statement audit results late for fiscal years 2005 and 2006 under the independent auditor contract.

The Authority's Procurement Policy Outlined Contract Policies and Procedures

According to Authority management, the Authority's procurement policy was the only official policy that outlined contract policies and procedures that the Authority was required to follow. It required the receiver to ensure that all department directors and staff complied with the established policies and procedures. It further required the department directors to

- Establish a contract system to ensure that contractors performed in accordance with contract terms, conditions, and specifications;
- Create and maintain documentation evidencing effective contract administration and oversight; and
- Ensure that contract invoices were consistent with terms of the contract.

Two Contractors Were Not Properly Monitored or Paid

The Authority did not properly monitor contractors for two of three sample contracts as required by its procurement policy and/or each contract's terms. One contractor, for the Lafitte demolition contract, was properly monitored by a separate contractor and properly paid by the Authority, but the two remaining contractors, for a financial operations contract and an independent auditor contract, were not properly monitored or paid.

The Financial Operations Contractor Was Neither Properly Monitored nor Paid

For a period of 20 months, the receiver did not ensure that the Authority monitored the financial operations contractor to enforce contract terms, conditions, and specifications.

The Authority's April 2003 procurement policy requires the executive director to manage all procurements and hold department directors accountable for compliance with the Authority's procurement policies and procedures. Department directors such as the finance director are responsible for establishing a contract administration system that ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts. They are further responsible for creating and maintaining documentation evidencing effective contract administration and oversight.

When the Authority entered into a contract to manage its finance department, it did not identify an independent monitor for the contract. Based upon the Authority's procurement policy, the finance department director was responsible for monitoring the contract. However, in this case, since a contractor official served as the finance department director, he was placed in the position of monitoring his own contract. The Authority needs to revise its procurement policy to ensure there is an independent monitor for all of its contractors.

As a result of the Authority not independently monitoring the contract, the contractor failed to provide 9 of 18 monthly status reports between September 2006 and March 2008 as required by the contract. In addition, a review of 4 of the 41 financial operations contract invoices showed that the Authority overpaid the contractor at least $97,193 and paid at least $1,153 for unsupported expenses from its capital funds account.[11] It made the overpayments and paid the unsupported expenses because it did not properly monitor the contract to ensure that contract invoices were consistent with terms of the contract.

[11] See appendix C for dates and amounts of the invoices.

The following table shows the types of deficiencies found in the invoices.

Types of deficiencies	Unsupported costs	Ineligible costs
The expense reports for the invoices did not include appropriate receipts to support expenditures. The contract required the invoices to include documentation of actual expenses incurred.	$1,153	$0
Some employees listed on the invoice were not in positions approved under the contract. The contractor charged for these positions without first obtaining approval from the Authority.	$0	$94,620
The contractor overcharged for negotiated profit. The contract limited negotiated profit to a fixed 5 percent of the hourly rate; however, invoices charged as much as 10 percent of the hourly rates. Further, the contractor charged higher hourly rates for some of the positions under the contract without first obtaining approval from the Authority. Finally, totals for some expenses on the overall invoice did not match the amounts charged on the invoice.	$0	$2,573
Some timesheets and expense reports in the invoices had not been approved by supervisors.	$0	$0
Totals	**$1,153**	**$97,193**

The Independent Auditor Contractor Was Neither Properly Monitored nor Paid

The receiver did not designate a contract monitor for the independent auditor contract. However, according to the chief financial officer, he maintained communication with the contractor through electronic mail concerning the contractor's progress. He further explained that the Authority could not specifically monitor the contract activities, since the contractor had to maintain a certain level of independence.

The independent auditor contract gave the independent auditor deadlines by which to submit the Authority's audited financial statements. HUD issued a waiver to extend financial reporting deadlines for the Authority. However, the Authority did not amend the contract to reflect the waiver. Therefore, the contractor was obligated to meet those deadlines prescribed in the contract but did not do so.

Further, a review of three independent auditor contract invoices showed that, while they did not include ineligible or unsupported costs, they also did not include details required by the contract. For example, the contract required that the invoices include detailed descriptions of the services provided and the names of the employees who provided them. None of the three invoices included such information.

The Receiver Had Addressed Contract Monitoring and Payment Issues and Made Improvements

The current receiver had addressed some of the contract monitoring and payment issues and begun to make improvements after advising her of our concerns regarding the chief financial officer's monitoring his own contract. Specifically, the receiver assigned a contract monitor for financial operations in May 2008. The monitor had identified some of the overpayments and unauthorized payments, and the Authority had taken steps to recover some of the money.

Further, the Authority agreed that the independent auditor contractor did not provide the three invoices according to the contract terms and stated that it would contact the contractor to have it honor the contract terms for current and future invoices**.**

The Authority Did Not Recover All of the Overpayments

In her response, the Deputy Assistant Secretary, Office of Field Operations, claimed that the Authority had reviewed all of the contract invoices since the inception of the contract and had recovered the overpayments. As a result of the Authority's review, the Deputy Assistant Secretary stated that the finding had been resolved and provided supporting documentation to support her claim.

After reviewing the supporting documentation, however, we determined that the Authority had not recovered all of the overpayments because

- The Authority's determination of overpayments only included the amounts for overcharged negotiated profit and overcharged hourly rates. It did not include the payments made for unapproved job positions or unsupported reimbursable expenses. Therefore, the contractor's overcharges were more significant than the Authority determined.

- The Authority's review period did not include all invoices since the inception of the contract (September 15, 2006) as the Deputy Assistant Secretary claimed in her response. The Authority's review covered an eight-month period (from September 28, 2007, through May 30, 2008) and, therefore, would not have identified any overcharges occurring outside that period.

- The Authority did not provide any documentary evidence to show that it had recovered or intended to recover what it determined as overpayments totaling $58,038 for 26 contractor invoices covering the period from October 2, 2006, through September 14, 2007. As a result, we added recommendation 2D.

Conclusion

The receiver did not ensure that the Authority properly monitored or paid two of three sample contractors in accordance with the contract terms or the Authority's procurement policy. As a result, the Authority overpaid and paid for unsupported expenses totaling $98,346 for one contract and received services late under the other contract for fiscal years 2005 and 2006.

The Authority should seek support or repayment for the ineligible and unsupported costs identified. Further, the receiver should ensure that the Authority follows its procurement policy and monitors and pays its contractors accordingly.

Recommendations

We recommend that the Deputy Assistant Secretary, Office of Field Operations, require the receiver to

2A. Ensure that the Authority seeks repayment to the capital funds from the contractor for the $97,193 in unauthorized payments and overpayments identified in the four invoices reviewed.

2B. Ensure that the Authority provides support for or repays the capital funds for the $1,153 in unsupported costs identified in the four invoices reviewed.

2C. Ensure that the Authority revises its procurement policy to include a requirement for an independent monitor to adequately monitor or oversee all contractors, and that the independent monitors' duties include but are not limited to ensuring (1) that contractors meet contract deadlines, specifications, and requirements, and (2) that the Authority's finance department makes contract payments consistent with the contract terms and/or procurement policy.

2D. Ensure that the Authority (1) determines the unauthorized payments and overpayments since the inception of the contract (September 15, 2006) by not only including the overcharged negotiated profit and overcharged hourly rates but also including the payments made for job positions that were not approved under the contract, as well as the reimbursable expenses that were unsupported or ineligible, and (2) recovers all of the unauthorized payments and overpayments, including the $58,038 in ineligible payments that it has already identified but not yet recovered.

Finding 3: The Receiver Did Not Ensure That the Authority Supported 10 of 20 Disbursements Totaling $15,203, Properly Processed 6 of the 10 Remaining Disbursements, and Corrected Long-Standing Internal Control Weaknesses

HUD's receiver did not ensure that the Authority could provide supporting documentation for 10 of 20 randomly selected accounts payable disbursements. Further, the Authority processed six of the remaining nine supported disbursements without proper payment authorization, demonstrating that the receiver had not corrected internal control weaknesses that independent auditors had reported since 2002. The unsupported and unauthorized payments occurred because although the Authority's Finance Department was aware of the established departmental policy, it did not follow the policy. As a result, the Authority spent $15,203 on 10 unsupported disbursements and put its assets at risk by not correcting internal control weaknesses identified in 2002.

The Authority Made Unsupported and Unapproved Disbursements

The Authority could not support 10 of 20 randomly selected accounts payable disbursements totaling $15,203 that were paid between January 2006 and December 2007 after Hurricane Katrina. Six of the disbursements, totaling $12,035, were unsupported because the Authority could not locate any documentation. For the other four disbursements totaling $3,168, the supporting documentation was not complete. The chief financial officer said that either the documentation for the six disbursements had been misplaced or the originals had been provided to other parties. However, in both cases, the Authority could not provide copies of the documentation. The other four disbursements did not have sufficient documentation to support the full disbursement.

Of the 10 supported disbursements, six disbursements totaling $28,604 had not been properly authorized in accordance with the Authority's policy.

The policy required the Finance Department to ensure that the appointed approving official provided proper authorization before payment. However, these six payments contained at least one of the following problems: the check request[12] was not approved by either the Finance Department or the receiver, the disbursement lacked approval signatures on the purchase order, or the

[12] A check request is a form used by the Authority's Finance Department to approve invoices for disbursement.

"certification of review and approval for contract payment" form[13] was not approved for payment.

The Independent Auditor Reported the Same Conditions

Independent auditor reports for 2002 through 2006[14] confirmed that the Authority lacked documentation of approval and verification on the check request and/or invoice for many disbursements. The Authority agreed to correct the finding in 2005, but the independent auditor report for 2006 stated that no corrective action had been taken. Based on our review of the disbursements, the Authority had not corrected the findings.

The unapproved and/or unverified and/or unsupported payments occurred because although the Finance Department was aware of the departmental policy, it did not follow the policy.[15] The policy required the Finance Department to ensure that (1) proper authorization was received from the appointed approving official before release of payment and (2) all payments were issued based upon original invoices or vendor certified copies.

Conclusion

The Authority could not provide documentation to support 10 of 20 randomly selected accounts payable disbursements and paid 6 of 10 disbursements without proper authorization. These problems occurred because the Authority's Finance Department did not follow established finance policies and procedures.

Independent auditor report findings from 2002 through 2006 show that this had been an ongoing problem at the Authority. The Authority needs to provide support for the $15,203 in unsupported disbursements, develop an appropriate filing system to ensure that it maintains supporting documentation for disbursements, and develop and implement appropriate controls to ensure that disbursements are properly authorized before payment.

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[13] The form requires the manager and a contract representative to certify the contractor-provided services according to contract terms and conditions. This document also requires a signature for payment approval.
[14] The 2006 report was the most recent independent auditor report issued related to the Authority.
[15] The Authority's finance policy, dated March 23, 2005.

Recommendations

We recommend that the Deputy Assistant Secretary, Office of Field Operations, require the receiver to ensure that the Authority

3A. Supports or repays its operating funds the $15,203 for the 10 disbursements that lacked documentation.

3B. Develops and implements an organized and efficient filing system to ensure that the Finance Department adequately safeguards financial records and documentation.

3C. Develops and implements proper controls to ensure that disbursements receive proper approval before payment.

SCOPE AND METHODOLOGY

We conducted our audit at the Authority and the HUD OIG office in New Orleans, Louisiana. We performed our audit work between April and October 2008.

To accomplish our objectives, we selected and reviewed a nonrepresentative sample of 3 of the 107 contracts the Authority executed after January 2006. We reviewed the scope of work and those contract terms that related to monitoring and invoices. We obtained and reviewed contract monitoring information and invoices provided by the contractor, the contract monitor, and the Finance Department.

The scope of the contract review was limited. We only reviewed three contracts due to other federal agency interest in the Authority's procurement activities. Also, one of the three contracts was the Lafitte demolition contract, which covered only a three-month period because it had been recently executed.

For the fungibility review, we obtained and reviewed applicable Office of Public and Indian Housing notices, the Authority's approved 2006 fungibility plan, and the 2006 annual report to determine the amount of fungibility funds HUD approved for expenditure and the amount reported as expensed. Further, we obtained and reviewed bank statements and available support for expenses from the fungibility bank accounts for the period October 2006 to September 2007.

For the accounts payable disbursements review, we selected a nonstatistical random sample of 20 accounts payable disbursements from a universe of 12,447 disbursements paid from January 2006 to March 2008. During the review, we determined that the available data were generally reliable for the purposes of the review. We reviewed canceled checks and all other available supporting documentation associated with the disbursements.

During the audit, we interviewed various senior HUD and Authority officials, contractor staff, and other Authority staff. We also reviewed the Authority's procurement policy, financial policy, and annual contributions contract; applicable federal regulations; *Federal Register* waivers; independent auditor reports; and other documentation relevant to the Authority's contracting and/or financial operations.

Our audit period covered January 1, 2006, through April 30, 2008. We expanded this period as necessary. Except for the limitation in scope of our contract review, we conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved:

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

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

Relevant Internal Controls

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

- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data within the management information system are obtained, maintained, and fairly disclosed in reports.

- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that fungibility fund use is consistent with HUD's laws and regulations.

- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that the Authority's funds are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

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

While under control the of HUD's receivership,

- The Authority did not properly support or report its fungibility expenditures during the period October 2006 to September 2007 (finding 1).

- The Authority did not monitor and/or pay its contractors in accordance with its procurement policy or the contract terms (finding 2).

- The Authority could not adequately support accounts payable disbursements with documentation (finding 3).

- The Authority put its assets at risk because it had not corrected conditions reported in independent auditor reports since 2002, which cited its failure to maintain sufficient documentation or ensure that disbursements were properly authorized before payment (finding 3).

FOLLOW-UP ON PRIOR AUDITS

This audit report is the second OIG audit report issued at the request of the two United States senators, regarding the HUD receiver's management of the Authority. Our first audit report, issued on December 12, 2008, is discussed below.

Report Number: 2009-AO-0001

Our audit report (2009-AO-0001) disclosed that HUD's receiver did not provide adequate management oversight to ensure that the Authority complied with HUD's requirements when operating its voucher program and public housing operations. Specifically, HUD's receiver (1) did not ensure that 8 of 10 randomly selected voucher program units complied with HUD's housing quality standards; (2) did not ensure that six of nine public housing units were in good repair; and (3) did not ensure that the Authority used a rent reasonableness system to avoid excessive payments to landlords, properly calculated or paid voucher program tenant rents, and maintained a proper waiting list for its Section 8 program.

We recommended that the Deputy Assistant Secretary, Office of Field Operations, require the receiver to ensure that the Authority (1) conducts not only annual inspections on all of its voucher program units but also all of the supervisory quality control inspections required by its administrative plan, (2) implements an inspection process to routinely review the physical condition of public housing units to ensure compliance with HUD's requirements, (3) develops and implements a method for assessing rent reasonableness to owners, (4) properly calculates and pays rental assistance, and (5) maintains a proper waiting list that complies with HUD's requirements for its Section 8 applicants. The recommendations were still open at the time this report was issued.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported/2
1A		$1,482,181
1B		672,956
1C	$2,311,913	
1D		2,896,963
2A	97,193	
2B		1,153
2D	58,038	
3A		15,203
Totals	$2,467,144	$5,068,456

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

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

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

OFFICE OF PUBLIC AND INDIAN HOUSING

DEC 19 2008

MEMORANDUM FOR: Rose Capalungan, Regional Inspector General for Audit, New Orleans, Gulf Coast Region, GAH

FROM: Deborah Hernandez, Deputy Assistant Secretary, Office of Field Operations, PQ

SUBJECT: HUD's Receivership did not Ensure That the Housing Authority of New Orleans Properly Monitored and Paid Two of Its Contractors, Properly Accounted for Its Fungibility Funding, and Paid Its Accounts Payable Disbursements

This memorandum responds to the above-referenced draft audit report submitted Office of Public and Indian Housing (PIH) via e-mail on October 31, 2008. In preparing this response, the PIH Office of Field Operations has consulted with the New Orleans HUD Receiver.

The draft audit declared that "HUD's receivership did not ensure that the Housing Authority of New Orleans properly monitored and paid two of its contractors, properly accounted for its fungibility funding, and paid its accounts payable disbursements." This declaration was based on three findings for which we are not in total agreement:

1. HUD's receiver did not ensure that the Authority monitored and/or paid two of its contractors in accordance with contract terms and the Authority's procurement policy, resulting in $105,564 in ineligible costs and $1,153 in unsupported costs paid on one of the contracts.

2. HUD's receiver did not ensure that the Authority correctly supported, expensed, or reported its expensed fungible funds in accordance with HUD requirements, resulting in at least $3.5 million in unsupported expenses and $2.3 million in ineligible expenses that were unreported in its annual progress report and at least $1.4 million in additional unsupported expenses that were reported in the report.

3. HUD's receiver did not ensure that the Authority supported 11 of 20 accounts payable disbursements in accordance with the Authority's financial policy, resulting in at least $57,000 unsupported costs for those 11 disbursements.

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Responses to IGA Recommendations (Pages 10, 14, 15, and 18):

1A. Ensure that the Authority seeks repayment to the capital funds from the contractor for the $105,564 in unauthorized payments and overpayments.

1B. Ensure that the Authority provides support for or repays the $1, 153 in unsupported costs to the capital funds.

Comment 1

Response to 1A, 1B: This issue was identified prior to the OIG audit and communicated to the auditors during the course of the audit. Therefore, we are uncertain as to why the OIG would include a Finding and Recommendation for a matter that was identified and resolved prior to the OIG audit commencement date. Considering the fact that the matter was resolved prior to the start of the audit, we are requesting that this issue be removed or communicated as a comment. The facts are as follows:

In February 2008, the Executive Administrator met with the contractor to review the status of the contract. Several weeks later the Executive Administrator assigned a contract monitor to oversee the Financial Services Contract. The contract monitor was assigned the responsibility of reviewing deliverables and reconciling invoices with Caballero & Castellanos. During the initial review the monitor identified overpayments made to Caballero & Castellanos in the sum of $99,178.57. The Authority pro-rated the overpayment amount over a five month period beginning in May 2008. The pro-rated payment amount of $19,835.71 was subtracted from monthly invoices. The contract monitor was then asked to reconcile all invoices beginning with the inception of the contract and as a result a new calculation showed the total overpayment amount should be $164,810.28. The Authority pro-rated the new overpayment amount over the remaining four months and starting in June 2008 the amount of $36,243.64 was subtracted from each monthly invoice. As of the invoice dated September 14, 2008, the Authority had received a total of $164,810.28 which represents the full amount of the overpayment. A copy of the documentation supporting the recovery of the overpayments is attached.

1C. Ensure that the Authority (1) provides proper oversight concerning contract deadlines, specifications, and requirements to monitor its contractors and (2) makes contract payments consistent with the contract terms, according to its procurement policy.

Response:

Comment 2

The Authority has re-organized the Procurement and Contracts Department, which is now named the Contracts and Compliance Department. The intent of the re-organization is to transfer more contract administration responsibilities, oversight and training to the newly reorganized department.

The Authority hired a Contract Compliance and Monitoring Specialist who is responsible for:

- Reviewing and monitoring contract oversight of user departments to ensure that the scope and reporting requirements are being met
- Developing and implementing processes and procedures to ensure and document effective overall contract administration and reporting
- Conducting regular reviews of contracts to ensure compliance and performance objectives are achieved; and
- Providing training to designated contract monitors, department heads, and other staff on required contract administration procedures.

In addition, the current Authority Procurement Policy states that Department Directors are responsible for establishing a contract administration system that ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts and purchase orders. The Contracts and Compliance Department will provide the needed assistance, training and oversight to Department Directors with this responsibility to ensure compliance with the Authority's Policies. In addition, in accordance with HANO's Strategic Improvement Plan, HANO has made several administrative changes in its organizational activities to ensure proper and full contract administration is performed on all existing and future contracts. Consistent with the schedule outlined in the Authority's Strategic Improvement Plan, the complete implementation of these strategies is scheduled to be complete by December 30, 2008, and will result in comprehensive contract administration system that will ensure compliance with HANO's Procurement Policy and all other applicable rules and regulations relative to the Authority's contracting activities. Copies of the Procurement Policy and applicable section of the Strategic Improvement Plan are attached.

2A. Supports or repays to its fungibility funds $1,482,181 in unsupported costs.

2B. Supports or repays $672,956 to its fungibility funds for voucher funds not reported on the 2006 fungibility annual progress report and not supported by the Authority.

2C. Repays $2,311,913 to its fungibility funds for voucher funds not reported on the 2006 fungibility annual progress report and deemed an ineligible expenditure.

2D. Supports or repays $2,896,963 to its fungibility funds for public housing funds not reported on the 2006 fungibility annual progress report and not supported by the Authority.

2E. For the amounts in recommendations 2B and 2D determined to have adequate support, amends its 2006 annual progress report on fungibility to accurately account for voucher and public housing funds that it spent but did not report during the 2006 reporting period.

Comment 3

Response to 2A, 2B, 2C, 2D, 2E: We are requesting that this Finding be removed from the report as written or identified as a comment since it is our belief that the Authority has properly accounted for all of the 2006 Section 901 fungibility funds. At the time of the subject Audit, the Authority was in the process of reconciling all of its Section 901 activity. The Annual Statement submitted in January of 2008 included costs that were being funged with capital work items that had been paid out of either Capital Funds, RHF, HOPE VI, or operating funds.

In order to protect expiring Grants and to also free up operating funds for other eligible program needs, in February of 2008 the Authority began the process of analyzing all activity that qualified for use under the Section 901 Fungibility Plan. This was done for the purpose of addressing the need to expend and protect dollars in Grants that were expiring between February and September of 2008. In doing so, a number of work items that had been paid for out of Section 901 Funds were funged and replaced with Capital Funds, RHF and HOPE VI dollars. Additionally, the Authority identified capital costs that had been paid from insurance and operating funds that could be charged to Section 901 Funds.

As a result of this reconciliation, the Authority contacted HUD Headquarters staff to report that the Annual Statement submitted in January 2008 needed to be revised. This was further communicated to HUD Headquarters staff that came on site in September 2008 to perform a review of the Authority's Section 901 activities and expenditures. Based on the discussions the Authority had with the Headquarters staff, HANO was instructed not to amend the Annual Statement submitted in January of

Comment 4

Comment 5

Comment 6

2008. Instead, the Authority was told to update its records and account for all activity year to date in the current Annual Statement that was due on November 14, 2008.

The Authority submitted to the New Orleans Field Office and the Cleveland Recovery and Prevention Corps the Annual Statement for the 2006 and 2007 Section 901 Fungibility Plans by the November 14, 2008 deadline. Included in the submission is supporting records for the amounts reported. The Authority has also updated its records and included documentation to support all amounts expended, reimbursements, bank charges and interest earned. These amounts have been reconciled to the bank statements as of September 30, 2008. A copy of the Section 901 Annual Statements for 2006, and 2007 are attached.

3A. Support or repay operating funds for 11 disbursements that lacked documentation.

Response: The Authority recovered supporting documentation for an invoice totaling $42,602.75. A copy of the check and invoice are attached. The Finance Department is working to recover invoices for the remaining 10 disbursements. However, it should be noted that many of the payments documented during the audit were transactions that were made during the emergency period after Hurricanes Katrina and Rita. In order to maintain operations, during the disaster recovery, payments had to be made based on approvals given via a phone call by authorized Authority staff because the individuals making the requests were not on-site but instead spread out over a number of different locations in different cities and states. To ensure that there is a documented process the Authority is working on a disaster recovery policy that will adequately address the processing of transactions in the event of future disasters.

The Authority has determined that all of the expenditures are eligible operating fund expenses. The documentation supporting these expenses is attached.

3B. Develops and implements an organized and efficient filing system to ensure that the Finance Department adequately safeguards financial records and documentation.

Response: The Finance Department has established a "File Room". All financial records are logged in a tracking system, and then placed in a binder based on the type of record. The binders are stored alphabetically in a file cabinet or file drawer. Each file cabinet and file drawer is locked. The records manager has keys to all cabinets and drawers. The Director of Finance has a set of backup keys. No one is allowed to view and/or remove files from the file room without going through the records manager. The records manager, using a log book, maintains the inventory of files by recording all documents removed for review by auditors and any other authorized personnel needing to review the files. Using the log book, the procedure requires that all files be signed out before being released. If the individual needs to remove the files from the Finance Department, the procedure requires a copy of the documents be made and kept in the files prior to them being released. The Authority is exploring the possibility of using an electronic tracking system involving bar codes and/or Radio Frequency (RF) tags.

3C. Develops and implements proper controls to ensure that disbursements receive proper approval before payment.

Response: The HANO has existing controls to ensure that proper approval is obtained prior to making payments. It should be noted that the payments documented during the audit were transactions that were made during the emergency period after Hurricanes Katrina and Rita. In order to maintain operations, during the disaster recovery, payments were made based on approvals given via telephonic communication by authorized staff because the individuals making the requests were not on-site but

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instead spread out over a number of locations in different cities and states. Consideration must be given to the fact that the HANO experienced a major event that caused a major disruption in the management and operations of the authority.

To ensure that there is a mechanism in place for addressing expenditures/disbursements the Authority is working on a disaster recovery policy that will adequately address the processing of transactions in the event of future disasters.

Attachments:
Supporting Documents Disbursements
HANO Procurement Policy
Contracting and Compliance Document
Fungibility Expense Report
Operating Fund Payments Documentation

OIG Evaluation of Auditee Comments

Comment 1 The Deputy Assistant Secretary, Office of Field Operations, claimed that the Authority had recaptured $164,810 for all Chief Financial Officer contractor invoices since the inception of the contract and that the issue (finding 1) was resolved and should be removed from the report. Note that we re-numbered finding 1 to finding 2 in this final audit report.

We determined that the additional documentation only supported $8,370, which is a small part of the ineligible expenses that we questioned. As a result, we reduced the ineligible expenses under finding 1 from $105,564 to $97,193.

We also included our detailed analysis of the additional documentation under the text box "Authority Did Not Recover All of the Overpayments" on page 14 of this report. As a result of our analysis, we added another recommendation, which is recommendation 2D.

Comment 2 In her response, the Deputy Assistant Secretary, Office of Field Operations, stated that the Authority reorganized its Procurement Department and hired a compliance and monitoring specialist to develop contract administrative procedures, train staff in the procedures, and oversee user departments. She further stated that the reorganization and new procedures would not be fully implemented until December 30, 2008.

We recognize that the Authority is taking steps to correct the deficiencies in its administration of the contract. However, we cannot reasonably test the adequacy of the Authority's implementation of contract administration that included monitoring or overseeing of user departments and contract administrative procedures because the Authority's full implementation was not until December 30, 2008, which is a very short implementation period. Therefore, we cannot conclude that the Authority's reorganization and new procedures are adequate to resolve the issues we found. And as a result, we did not remove our initial recommendation 1C. Note that we re-numbered recommendation 1C to 2C in this final audit report.

Comment 3 The Deputy Assistant Secretary, Office of Field Operations, disagreed with finding 2 (now finding 1 in this final audit report) and asked that it be removed from the report. She said it is her belief that the Authority properly accounted for all of the 2006 Section 901 fungibility funds. She stated that HUD headquarters staff instructed the Authority to report all activity to date in the annual statement that was due on November 14, 2008. The Authority then made a revision to its fiscal year 2006 annual statement, which included the combined activities for both fiscal years 2006 and 2007.

We determined that the Authority did not comply with HUD PIH Notice 2007-22, which required it to provide the first annual progress report covering the 12-month period from October 1, 2006, through September 30, 2007. Since the Authority's revised report covered multiple-year activity and the supporting documentation did not separate activity for each year, we could not determine the accuracy of expenditures in the revised report. Additionally, based on the results of our review of the additional documentation, we found neither any waiver of the PIH Notice 2007-22 requirements to report first period activity for October 1, 2006, through September 30, 2007, nor a document showing who at headquarters waived such reporting requirements. Therefore, we stand by our original finding conclusions and recommendations.

Comment 4 The Deputy Assistant Secretary, Office of Field Operations, provided us supporting documentation for 1 of the 11 disbursements that we questioned in our report. The invoice for this disbursement totaled $42,602.75. She also included a schedule showing vendor names, check numbers, invoice numbers, amounts, and descriptions of services for the 11 disbursements in a table and claimed that they were all eligible operating fund expenses. The Deputy Assistant Secretary, Office of Field Operations, indicated that the 10 remaining invoices were missing because the payments may have been approved verbally (by telephone) during the emergency periods following Hurricanes Katrina and Rita. She also said that the Authority was working on a disaster recovery policy that would adequately address transaction processing for future disasters.

We reviewed the supporting documentation for the invoice totaling $42,602.75. The documentation included copies of checks, invoices, purchase orders, and a contract. We agreed that the documentation was sufficient to show that the disbursement was fully supported. We adjusted the finding to account for the supported disbursement.

We disagreed, however, that the schedule alone was sufficient documentation for the remaining 10 disbursements. Also, 7 of the 10 unsupported disbursements were well after the immediate emergency periods because they occurred more than one year following the hurricanes. Further, the Authority did not provide any evidence of approvals via telephone logs during the audit.

Comment 5 The Deputy Assistant Secretary, Office of Field Operations, stated that the Authority's Finance Department has developed and implemented a file room and a tracking system to safeguard financial records.

We recognize that the Authority, as the Deputy Assistant Secretary stated, has developed and implemented a file room and tracking system to safeguard financial records. The Authority's file room and tracking system have not been implemented long enough for us to assess their adequacy. Therefore, we cannot reasonably conclude whether they have resolved the issues we found under finding 3. As a result, we did not remove or change our recommendation 3B.

Comment 6 The Deputy Assistant Secretary, Office of Field Operations, stated that the Authority had existing controls to ensure proper approval before making payments and reiterated that it was working on a disaster recovery policy that would adequately address the processing of transactions for future disasters.

We disagree with the Deputy Assistant Secretary's assertion that the Authority had existing controls for ensuring that proper approval was made before payments. We found that the Authority's controls lacked proper payment approval, which is a significant control weakness. In addition, the independent auditors determined that such a control weakness has been ongoing since at least 2002. Thus this weakness existed long before the August 2005 disaster because the Authority has not taken any corrective actions.

The Deputy Assistant Secretary of Field Operations indicated her agreement with our recommendation 3C when she stated that the Authority would implement a disaster recovery policy for proper processing of expenditures or disbursements. Such a mechanism would implement our recommendation 3C. A target completion date, however, is needed to reach a management decision under HUD's Audits Management System.

Appendix C

FINANCIAL OPERATIONS CONTRACT INVOICES REVIEWED

Invoice	Invoice date	Invoice amount ($)	Total unsupported costs ($)	Unauthorized payments – ineligible costs ($)	Overpayments – ineligible costs ($)	Total ineligible costs ($)
1	Mar. 2, 2007	126,998	142	16,840	1,336	18,176
2	Jan. 10, 2008	71,096	466	19,270	0	19,270
3	Sept. 2, 2007	127,850	331	30,520	0	30,520
4	Apr. 17, 2007	122,287	214	27,990	1,237	29,227
Totals		**$448,231**	**$1,153**	**$94,620**	**$2,573**	**$97,193**