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December 15, 2009

MEMORANDUM NO:
2010-AO-0801

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

//signed//
FROM: Sonya D. Lucas
Acting Regional Inspector General for Audit, Gulf Coast Region, GAH

SUBJECT: HUD Needs to Ensure That the Housing Authority of New Orleans Strengthens Its Capacity to Adequately Administer Recovery Funding

INTRODUCTION

The U.S. Department of Housing and Urban Development (HUD) awarded the Housing Authority of New Orleans (Authority) $34.5 million, under the American Recovery and Reinvestment Act of 2009 (ARRA), to use toward its Public Housing Capital Fund projects. In an effort to stimulate the economy, ARRA funding must be obligated and spent within three years. As part of the HUD Office of Inspector General's (OIG) obligation to ensure accountability and transparency in use of the ARRA funds, we performed a review to assess the Authority's capacity to administer ARRA funding. Our objective was to evaluate the Authority's capacity and risks in the following areas: basic internal controls, financial operations, procurement, and outputs/outcomes.

We provided a draft report to HUD and the Authority on November 3, 2009, and received written comments on November 24, 2009. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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.

METHODOLOGY AND SCOPE

Our review period was May 1, 2008, to May 31, 2009. We conducted our review between May 12 and September 9, 2009, at the Authority's headquarters, 4100 Touro Street, New Orleans, Louisiana, and the local HUD OIG field office, 500 Poydras Street, 11th Floor, New Orleans, Louisiana.

To accomplish our objective, we

- Reviewed and obtained an understanding of ARRA legislation, relevant program guidance and criteria, the Authority's amended annual contributions contract, and its planned activities under ARRA.
- Reviewed applicable public housing federal regulations and HUD handbooks.
- Interviewed HUD and Authority management and staff regarding the Authority's operations and ARRA plans.
- Analyzed and evaluated HUD OIG, HUD, and independent public accountant reports of the Authority and the Authority's responses and/or corrective action plans, as applicable.
- Reviewed the Authority's organizational charts; staffing levels; job descriptions; and future staffing plans in the Finance; Contracting and Compliance; and Real Estate Planning and Development Departments.
- Reviewed Authority financial records related to accounts payable disbursements made between May 1, 2008, and May 29, 2009. Selected a nonstatistical random sample of 30 accounts payable disbursements from a universe of 2,524 disbursements. Reviewed cancelled checks, if applicable, and all other available supporting documentation associated with the disbursements.
- Reviewed Authority procurement files for rehabilitation contracts that were procured between May 1, 2008, and May 15, 2009. Selected a sample of four contracts based upon type of contract (e.g. rehabilitation and/or development type contracts),[1] completed contracts, and dollar amount from a universe of 25 contracts.[2]
- Reviewed Authority outputs/outcomes related to14 completed rehabilitation and/or demolition type projects that were completed between May 2008 and May 2009, a 100 percent selection. Conducted sites visits for all 14 projects to determine whether the outputs/outcomes were adequate.
- Reviewed the Authority's cash receipts policy, finance policy, accounts payable policy, procurement policy, ARRA policy, ARRA risk analysis, five-year capital plan, and various HUD reviews.

BACKGROUND

ARRA became Public Law 111-5 on February 17, 2009. ARRA makes supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and state and local fiscal stabilization for the fiscal year ending September 30, 2009, and for other purposes. HUD was appropriated $13.6 billion in ARRA funds. Of the $13.6 billion, $3 billion[3] was allocated to public housing capital funding to

[1] The Authority planned to use the ARRA funding for the same purposes, rehabilitation and development, as the regular capital funding, which was included in the five-year capital funding plan.
[2] The 25 contracts exclude all contracts that were cancelled, did not receive proposals or responses, were pending, etc.
[3] The amount of funding was formula generated in accordance with the regulation found at 24 CFR (*Code of Federal Regulations*) 905.10. The Public Housing Capital Fund formula was computed based on data for buildings and units as reported in the Office of Public and Indian Housing Information Center system as of September 30 of the prior fiscal year, 2008, which is "the reporting date" designated by HUD.

carry out capital and management activities for public housing agencies. Of the $3 billion, $34.5 million was allocated to the Authority toward its public housing capital funding (capital funding).

In addition to the $34.5 million in ARRA funding, the Authority was authorized approximately $158.8 million in other allocated capital funding, totaling more than $193.3 million. As of October 2009, the Authority had an available balance of $110 million, as reflected in the chart below:

Program area	Authorized Amount (as of October 2009)	Available Balance (as of October 2009)
Capital fund recovery (or ARRA)[4]	$34,576,051	$33,904,567
Capital fund[5]	$158,806,183	$76,596,835
Total funding:	**$193,382,234**	**$110,501,402**

The Authority, as authorized by HUD, also combined more than $194.6[6] million in voucher and public housing funding to use with its ARRA and capital funding. The Authority planned to use the combined funding towards its capital fund program. Therefore, the Authority had more than $387.9 million to use towards its capital fund program.

The Authority plans to use the ARRA funds to procure various contracts to rehabilitate existing and/or develop new public housing units. It also plans to conduct physical needs assessments. As a result, the implementation of the ARRA plans would be associated primarily with the Authority's Contracting and Compliance[7], and the Real Estate Planning and Development Departments.[8] The Authority must expend all of its ARRA funding within three years of the Authority's amended annual contributions contract effective date.

The Authority is a state-created public agency governed by a board of commissioners. The Authority's mission is to provide decent, safe, sanitary, and affordable housing to low-income residents in the New Orleans, Louisiana, area. HUD took control of the Authority in 2002, because it had performed poorly almost continuously since 1979. To accomplish the takeover, HUD replaced the Authority's governing body with two HUD managers. HUD's administrative receiver replaced the Authority's executive director to control the day-to-day operations of the

[4] The capital fund recovery included the ARRA grant funded for fiscal year 2009.
[5] The capital fund included grants ranging from fiscal years 2005 to 2008.
[6] Section 901 of the Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006, allowed Public Housing Agencies to combine funds under the fungibility process. Under Section 901, HUD approved the Authority's 2006, 2007, and 2008 fungibility plans allowing the Authority to combine $97.9 million, $66.7 million, and $30 million in housing choice voucher and public housing funds for those years, respectively. The Authority has 5 years to spend the combined funding. HUD was unable to verify the amount of funds expended to date.
[7] The Authority's Contracting and Compliance Department's goal is to maintain continuous supply of goods and services necessary to support site development, production, and service schedules.
[8] The Real Estate Planning and Development Department includes three subdivisions, which were the Development Division, the Modernization Division, and the Homeownership Division. The Modernization Division was tasked to oversee capital funding grant activities as of February 2009. As a result, ARRA was placed under the Modernization Division.

Authority, and HUD's one-member board of commissioners replaced the Authority's board of commissioners for reviewing and approving policies, procedures, and contracts. The administrative receiver and one-member board has since been replaced. Specifically, on October 9, 2009, HUD's Secretary announced that (1) a new leadership team will take charge of the Authority and (2) the creation of a local Authority advisory panel that will provide counsel to the new leadership team.

RESULTS OF REVIEW

The review determined that the Authority had capacity deficiencies related to internal controls, financial operations, procurement, and inventory. Specifically, the Authority lacked (1) internal control capacity related to staffing levels and segregation of duties; (2) financial capacity related to its accounts payable procedures, financial policies, and independent public accountant reviews; and (3) procurement capacity as the Authority did not always comply with the procurement policy and the policy was not always clear. The Authority generally ensured that its outputs and outcomes related to rehabilitation contracts were adequate. However, it did not maintain an adequate inventory listing of items removed from some of the rehabilitated projects. To ensure that the Authority has adequate safeguards and procedures in place to adequately administer the ARRA funds, HUD, as the Authority's administrative receiver, must ensure that the Authority strengthens its capacity in the areas of internal control, finance, procurement, and inventory. A detailed discussion of deficiencies follows.

The Authority Did Not Maintain Adequate Staffing Levels Based upon Its Organizational Structures

According to HUD's recovery plan, dated October 2006, the Authority lacked adequate staffing. The recovery plan stated that to implement the financial recovery plan, the Authority needed to (1) retain staff to assist in daily operations, (2) develop efficient and effective controls, and (3) develop an efficient and effective Finance Department structure. The Authority was to implement this plan by January 1, 2007. Based upon our review, however, inadequate staffing levels remained a concern in both the Finance and the Contracting and Compliance Departments. We further determined that, at the time of our review, the Real Estate Planning and Development Department maintained adequate staffing levels. All departments will play vital roles in the expenditure and/or implementation of the ARRA funds.

- Finance Department

  A review of the Authority's organizational structure determined that the staffing levels in the Finance Department were not appropriate. The organizational structure required ten employee positions. As of May 2009, four positions were filled with Authority employees.[9] The Authority contracted with Caballero and Castellanos (C&C), which satisfied three of the positions.[10] The remaining three positions were vacant. Although

[9] There was a chief financial officer, budget analyst 3, treasury manager, and accounting specialist supervisor.

[10] The specific positions that were filled and/or covered by C&C were the internal auditor, Housing Choice Voucher program accountant, and payroll coordinator, based on the job descriptions. The remaining C&C team focused on various function areas within the Finance Department (e.g., budget, mixed finance, Section 8, utilities) but did not have a specific title.

the Authority contracted with C&C, according to Authority officials, the contract ended June 30, 2009, leaving a number of vacancies within the Finance Department and the risk for internal control deficiencies. Based upon the four Authority employees alone, the number of staff was insufficient for the workload.

The Authority's Finance Department, therefore, was deemed understaffed. HUD must ensure that the Authority obtains and maintains adequate staffing levels.

The Finance Department also lacked a segregation of duties in that some employees performed dual roles. For example, (1) the chief financial officer also performed the duties of the accounting manager, (2) the budget analyst also performed the duties of the accounts payable coordinator, and (3) the treasury manager also performed the accounts receivable function. In particular, the dual roles performed by the treasury manager presented a concern.

The treasury manager's roles and responsibilities included verifying and reconciling all accounting records, including daily cash and banking. In performing the accounts receivable function, the treasury manager was also responsible for receiving and accounting for incoming cash (cash receipts). These duties should be performed separately, since this lack of segregation of duties presents a risk for funds' exposure to waste and misuse. In addition, since the treasury manager performed the dual roles, the Authority's cash receipts procedures were not performed in accordance with the established policies. Specifically, the treasury manager:

(1) Performed both the receiving and processing function of the cash receipts procedure, although the policy called for an administrative assistant and a staff accountant to perform these duties,[11] and
(2) Physically took the received deposits to the bank, at the time of our review, when the policy required that the receipts be transferred to the bank by a courier.

An analysis of the Authority's organizational structure and job descriptions for current and future employees determined that an accounts receivable role was not considered for future staffing. The Authority should consider separating the Finance Department roles and responsibilities.

- Contracting and Compliance Department

As of May 2009, there were two employees in the Contracting and Compliance Department, the director and a contracting specialist. The Authority's organizational structure required three employees within the department. The vacant position pertained to a contract monitoring and compliance specialist, whose role was to oversee the Authority's departments and/or ensure that they monitored its contractors and received the desired deliverables. In the absence of the contracting and compliance monitor, the

[11] The cash receipts policy is unclear as it states that the mailed cash receipts are to be received by the chief financial officer's administrative assistant and then processed by a staff accountant. However, neither the Authority's organizational chart nor its job descriptions list the title of chief financial officer administrative assistant or staff accountant.

director and contracting specialist shared the role. The staff admitted that little monitoring was conducted, since the contract monitoring and compliance specialist positions were not filled. The Authority should hire a qualified individual to fill the contract monitoring and compliance specialist vacancy to ensure that its procured contracts are properly monitored.

A contracting specialist, hired in March 2009, was tasked to procure all contracts for the Authority regardless of the procurement type and dollar amount (which includes small purchase, sealed bids, construction contracts, etc.) The Authority should consider additional staff to minimize workloads for the current staff.

- Real Estate Planning and Development Department

  A review of the Authority's organizational structure determined that staffing levels, work load assignments, and staff responsibilities were appropriate to perform the Authority's Real Estate Planning and Development functions and to ensure adequate segregation of duties. The Authority's organizational structure required 12 employee positions. As of May 2009, there were 12 individuals filling the positions outlined for the department.

Adequate staffing levels and the proper segregation of duties are increasingly important, as it was recently revealed that the Authority was exposed to three alleged fraud schemes. Specifically, since June 2009:

1. The Authority's former chief financial officer, contracted through C&C, plead guilty to embezzling over $900,000 in Authority funds. The former chief financial officer billed and received funds from the Authority, for work his wife did not perform and falsified hourly rates through other various means;[12]
2. Three Authority staff in the Finance, and Contracting and Compliance Departments was placed on administrative leave after accusations that the staff stole more than $100,000 through an accounting scheme that dated back at least two years. In the scheme, the staff allegedly colluded to receive funds by creating bogus purchase orders for services that the Authority did not receive; and
3. On December 2, 2009, the Authority's former Section 8 department director plead guilty to a federal theft charge for illegally using Section 8 voucher funding to pay rent on his residence. The director unlawfully used over $45,000 to pay the rent for more than two years.

By July 14, 2009, the Authority had filled an additional five positions, one within the Contracting and Compliance Department,[13] and four within the Finance Department[14], which alleviated some of the dual roles. The employment of the chief financial officer, hired March 2009 to replace the

[12] Control weaknesses that contributed to this issue were identified in HUD OIG Audit report 2009 AO 0002.
[13] Positions filled included a contract monitoring and compliance specialist.
[14] Positions filled included accounting manager, Housing Choice Voucher program accountant, payroll coordinator, and accounts payable coordinator.

former C&C chief financial officer, ended September 2009, again decreasing the Authority's Finance Department's staffing level.

Given that the Authority was awarded $34.5 million in ARRA capital funding, as well as $158.8 million for non recovery capital funding, and planned to use over $194.6 million[15] of combined funding towards its capital fund program, adequate staffing levels and proper segregation of duties are crucial. Adequate staff and proper segregation of duties will aid the Authority in adequately administering its funding and assist in minimizing its exposure to fraud, waste, and misuse. At the time of our review, the staffing levels in the Finance, and Contracting and Compliance Departments were insufficient to maintain adequate controls over the millions of dollars planned for procurement and/or expenditure through the Authority. As such, HUD must ensure that the Authority obtains and maintains adequate staffing levels to (1) promote safeguards of its resources and the proper segregation of duties, (2) ensure that the Authority follows its policies and procedures, and (3) ensure that funds are protected from fraud, waste, and misuse.

The Authority Did Not Ensure That Its Finance Policies Were Followed or Clear, and Its Independent Public Accountant Audit Findings Were Corrected

A review of 30 randomly selected accounts payable disbursements, totaling more than $1.2 million**,** determined that eight (27 percent) were unsupported. This condition occurred because the Authority's Finance Department did not follow the established departmental policies, and/or the departmental policies were not clear. As a result, the Authority spent $321,462 on eight unsupported disbursements. Further, although supported, seven (23 percent) disbursements were processed without proper payment authorization, in part, because the finance policies and procedures were unclear.

The finance policy stated, "the Finance Department shall ensure that proper authorization is received from the appointed approving official prior to release of payment. All payments shall be issued based upon original invoices or vendor certified copies only." The review determined that these procedures were not always followed. Instances were noted in which disbursements were approved that did not contain an invoice or vendor-certified copy, and some invoices were not authorized by the Finance Department.

In addition, the finance and accounts payable policies were unclear with respect to approval forms, approving officials, and job titles for persons required to perform some finance functions. The finance policy was unclear with respect to (1) what documentation served as sufficient support for disbursements, (2) how to process exceptions in the absence of stated documentation, (3) how the Finance Department ensured proper authorization, (4) who in the Finance Department served as the authorizer, and (5) at what point in the process the Finance Department authorization should occur.

The accounts payable policy did not explain which form was the governing document for disbursement approvals. The Authority's accounts payable policy, effective April 2008, required the Authority to document a check request form, which must be signed by the chief financial officer and administrative receiver, to show that the disbursement was properly authorized. The

[15] 2006 fungibility plan $97.9 million + 2007 fungibility plan $66.7 million + 2008 fungibility plan $30 million. See background section above.

accounts payable policy also stated that the check request form was originally used in the event that a purchase order was not used. However, the accounts payable policy did not explain (1) whether the check request form was required for all disbursements and became the governing approval document, regardless of whether there was a purchase order, and (2) whether the chief financial officer and the administrative receiver were required to sign the purchase order if the check request form did not serve as the governing document. In addition, the account payable policy did not specify proper procedures related to prepaid items and whether those types of payables would need prior approval using the check request form as well. Finally, regarding the accounts payable process, the policy outlined a budget manager as a reviewer and approver throughout the process. However, the Authority did not have a budget manager to satisfy this requirement.

Independent public accountant reports have also identified the Authority's deficiencies, related to processing vendor invoices and its policies and procedures, as ongoing concerns since 2002. The January 2009 HUD OIG audit report cited the same deficiencies.[16] The Authority indicated that it was taking measures to address the findings. Based upon this capacity review, the Authority continued to have issues related to its financial operations.

The unsupported accounts payables, lack of proper approvals for the payables, unclear finance policies, and unaddressed independent public accountant findings presented a significant concern related to adequate safeguards of Authority funding, including the $34.5 million in ARRA funding. HUD must ensure that the Authority updates its finance policies to reflect the appropriate accounts payable processes and clarify authorizing requirements to correct the accounts payable deficiencies and address the similar independent public accountant findings. HUD must also ensure that the Authority follows its established policies and procedures. These measures are needed to improve the Authority's capacity regarding its financial operations.

The Authority Did Not Ensure That Its Procurement Policy and HUD Rules Were Followed

A procurement file review determined that (1) required documentation was not always maintained in the procurement files and (2) the procurement process was not always followed. It was also determined that the Authority's procurement policy was unclear in some instances.

The Authority's procurement policy, as well as HUD rules, required the Authority to document the rationale for chosen procurement methods and to notify bidders of the contract selection results. It also outlined the required procurement process. A review of four files identified issues in three (75 percent), as explained below:

- The procurement method was not documented for one file.
- Neither the procurement method nor the notifications to bidders of the contract selection results were documented in one file. In addition, the procurement process was not followed, as the bid was not advertised for the minimum 15 days as required for competitive proposals. According to the contracting and compliance director, the bidders

[16] 2009-AO-0002

were notified informally. However, federal regulations[17] and the Authority's procurement policy required sufficient record of the notification.

- The procurement method was not documented for one file. In addition, the procurement process was not followed, as (1) work was initiated by the contractor without a written notice to proceed; and (2) additional work commenced prior to formal approval. A verbal change order was issued by the user department,[18] but the contracting officer did not formally authorize the change, nor was documentation developed until after the change order was completed. The change order included some items that were outside the scope of the contract and other items that were already in the initial contract.

The remaining file included the required documentation and followed the procurement process.

The procurement policy was not always clear. Specifically, the policy included a section related to ethical standards. The ethical standards discussed conflicts of interest but did not specify items that would be considered a conflict of interest as documented within HUD's regulations.[19] As a result, the policy was vague with respect to conflicts of interest and could potentially lead to confusion for the Authority staff. The policy did not identify the type of documentation required to support the bid advertisement to ensure consistency throughout the files. As a result, the Authority should consider adding clarification and/or specifics to the procurement policy to improve the procurement process.

The Authority's lack of procurement file documentation, failure to follow the procurement policies, and unclear procurement policy presented a concern with respect to procurement capacity. Since the ARRA funds were meant to be obligated relatively quickly and the Authority planned to expend most of the ARRA funds through procuring contractors for rehabilitation and development, the procurement issues must be corrected to ensure that the expenditure of the ARRA funding will be properly documented and tracked.

The Authority Generally Ensured That Its Outputs and Outcomes Were Adequate but Lacked Sufficient Inventory Listings

An evaluation of 14 closed rehabilitation projects determined that the Authority generally ensured that its outputs and outcomes were adequate. Site visits to 14 projects determined that 11 (79 percent) were completed in accordance with the scope of work requirements. We were unable to verify the remaining three because the projects' units were in the demolition process and many of the items required as part of the scope of work, such as toilets, cabinets, hot water heaters, and doors, had been removed and placed in inventory or in other units. As related to the three unverified projects, we determined that the inventory listing and supporting documentation were not sufficient to track the items that were removed in some rehabilitated units. The inventory did not contain serial or other identification numbers. Further, a site visit to the Authority's inventory location determined that the items were not labeled with identification

[17] 24 CFR 85.36(b) (9) states, "Grantees and subgrantees will maintain records sufficient to detail the significant history of procurement. These records will include, but are not necessarily 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."
[18] A user department is any department within the Authority.
[19] CFR 85.36(3)

numbers or other identifying information, thus preventing verification that the items had been removed from the projects' units.

The lack of a sufficient inventory listing presented an internal control concern, as the ARRA funding was planned to be partially expended on rehabilitation projects similar to the 14 projects reviewed. Since the Authority's inventory was not traceable for three of the projects (21 percent), the Authority did not have an adequate system in place to safeguard and account for its assets. To ensure that the Authority's assets are safeguarded; adequately accounted for; and protected from loss, damage, and theft, HUD should consider requiring that the Authority label all assets with (1) identification numbers, (2) the source of the item, and (3) the condition/description of the item before these items are placed in the inventory.

HUD Had Implemented Controls to Monitor the Authority's Administration of the ARRA Funds and the Authority Developed ARRA Policies

In accordance with ARRA requirements, the HUD Secretary agreed to provide troubled public housing agencies with funding to improve HUD's inventory and engage in much-needed capital and management activities. HUD also determined that troubled agencies would require enhanced monitoring and oversight to meet the ARRA obligations. As a result, HUD's Office of Public and Indian Housing, Office of Field Operations, developed a troubled public housing agency Recovery Act strategy to ensure increased monitoring and oversight. There were 174 agencies designated as troubled as of February 25, 2009, including the Authority.

HUD performed a risk analysis and determined that the Authority had systemic capacity problems requiring atypical technical assistance to achieve any success in administering the ARRA funds. As a result, HUD implemented a $0 threshold requiring prior HUD approval on all obligations and expenditures related to the ARRA funding. HUD performed a remote and on-site ARRA review in July 2009. During the review, HUD identified that (1) environmental review documents must be completed before the obligation of funds and (2) there was no funding obligation with just over 200 days remaining before the statutory deadline. HUD noted that the Authority had addressed both issues. HUD's overall assessment denoted the Authority as "on track," based on the remote review, and "no obligations; no expenditures," based on the on-site review.

To comply with the ARRA requirements, the Authority also developed policies and procedures. The policies and procedures included (1) which projects the Authority planned to fund and the associated amount allocated per project; (2) required deadlines for the obligation and expenditure of funds; (3) HUD's reporting requirements; and (4) guidance on how the Authority would implement the policies.

We acknowledge HUD's and the Authority's actions, as these types of measures are necessary to ensure that the ARRA funding is spent in accordance with the requirements. HUD must also ensure that the Authority strengthens its capacity in the areas of internal control, financial operations, procurement, and inventory, as the Authority had weaknesses in these areas, and these areas will play a vital role in the proper administration of the ARRA funding.

Conclusion

Due to capacity limitations, the Authority will encounter difficulty in both obligating and expending the $34.5 million in ARRA funds within the statutory time limits. While the Authority had taken measures to develop policies and procedures for obligating and expending the ARRA funds, the Authority's prior performance continues to raise serious concerns about the Authority's ability to comply with the statutory requirements and safeguard these limited resources. HUD must make a realistic determination on the Authority's ongoing capacity limitations. To assist HUD in evaluating the Authority's capacity, we are also recommending the Authority hire two separate contractors to assist the Authority and HUD in overseeing, safeguarding, and monitoring the implementation of the planned ARRA activities.

RECOMMENDATIONS

We recommend that the Deputy Assistant Secretary, Office of Field Operations, ensure that the Authority strengthens its capacity in the areas of internal control, financial operations, procurement, and inventory by requiring the Authority's receiver to

1A. Support or repay its applicable accounts for eight unsupported disbursements totaling $321,462.

1B. Maintain adequate staffing levels in its Finance, and Contracting and Compliance Departments, based upon the organizational structure. In addition, as related to the Finance Department, the Authority should obtain qualified staff to perform the accounts receivable function.

1C. Amend its finance policies to specify approving officials, appropriate staff titles, and required approval forms and procedures. In addition, the Authority should incorporate in its finance policy procedures related to expenditure of prepaid items and ensuring that independent public accountant audit findings are addressed in a timely manner.

1D. Consider cross-training employees in the Finance Department and rotate respective roles periodically in an effort to prevent collusion.

1E. Amend its procurement policy to comply with 24 CFR 85.36. Specifically, the Authority should

- Clarify the procurement policy with respect to adequate documentation needed in the files.
- Prohibit procurement practices that do not comply with 24 CFR 85.36 to prevent informal procurement practices.
- Ensure that the corrected procurement policies are followed.

1F. Consider labeling all asset inventory items obtained for rehabilitation with (1) identification numbers, (2) the source of the item, and (3) the condition/description of the item before placing items into the inventory to ensure that its assets are safeguarded; adequately accounted for; and protected from loss, damage, and theft.

1G. Obtain a contractor to oversee the contracting, and the progress and completion of the work activities. At a minimum, the contract with the firm must have a scope of work which requires:

- Ensuring that all contracts comply with HUD requirements;
- Ensuring that costs are appropriate for contracted work;
- Ensuring that work is progressing at an acceptable rate and in compliance with the contract specification(s);
- Ensuring that cost invoices are consistent with work completed;
- Biweekly reporting of activities compared to plan and contract schedules;

1H. Contract with an accounting firm to maintain a separate accounting and biweekly reporting of ARRA funds expended on ARRA activities.

We also recommend that the Deputy Assistant Secretary, Office of Field Operations,

1I. Request that the Assistant Secretary for Public and Indian Housing immediately deobligate all or some of the Authority's ARRA funds and reallocate the funds to housing authorities that can utilize the funds, if the lack of capacity continues and indicates the Authority's inability to obligate or complete the planned work by the statutory deadline.

APPENDIXES

Appendix A

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

Recommendation number	Unsupported 1/	Funds to be put to better use
1A	$321,462	
1I		2/

1/ 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.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, de-obligation of funds, withdrawal of interest,-costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in pre-award reviews, and any other savings that are specifically identified. This schedule does not include any amounts associated with implementing recommendation 1l. To the extent that HUD reallocates all or a portion of the Authority's $34,576,051 in ARRA funds to other housing agencies, such amounts will be recognized at a later date as "funds put to better use."

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

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

ASSISTANT SECRETARY FOR
PUBLIC AND INDIAN HOUSING

MEMORANDUM FOR: Sonya D. Lucas, Acting Regional Inspector General for Audit, Gulf Coast Region, GAH

FROM: Deborah Hernandez, General Deputy Assistant Secretary for Public and Indian Housing, P

SUBJECT: Public and Indian Housing Response to Recommendations in OIG Capacity Review of HANO for Memorandum Number 2010-AO-1801, Dated November 3, 2009

PIH is responding to the recommendations of the draft report referenced above.

Comment 1

General:
HUD agrees that ensuring that the Recovery Act funds are used in a timely, appropriate and efficient manner is a top priority, and we share the IG's commitment to ensure accountability and transparency in the use of the Recovery Act funds.

As discussed previously, in response to the importance of ensuring that our PHAs' administer the funds appropriately and timely PIH has implemented a comprehensive monitoring strategy. The troubled PHA strategy, which is being implemented at HANO, contains several components that serve to strengthen the capacity of the troubled agencies to adequately administer the Recovery Act Capital funds. These components include:

- Review and approval of all obligation documents ***prior*** to obligations
- A zero threshold manual review for all requests of funds prior to release in LOCCS, which means that HANO can not draw down any funds without HUD approval.
- An initial remote review that included a review of grant initiation activities, uses of funds, environmental compliance, procurement policy, and grant performance.
- On-site review with follow-up monitoring. HANO is being monitored on-site quarterly.

The period of review for the subject MEMORANDUM NO: 2010-AO-1801 for the Housing Authority of New Orleans was May 1, 2008 – May 31, 2009. It is important to note that the review was completed prior to HUD fully implementing the troubled monitoring strategy for the Recovery Act funds and before HANO began implementation of the Recovery Act Capital Fund grant. HANO is adhering to the requirements of the troubled agency monitoring strategy described above and has currently obligated $7,695,495 (22%) of the grant.
The HUD Team has been working closely with the HANO staff to ensure adequate administration of this grant and will continue to work closely with the new Leadership Team at HANO. The new management team of 12 began their work on November 2, 2009 and while managing the day-to-day operations, will also be conducting a comprehensive operational and

management assessment of **all** functional areas, including: finances, development, property maintenance, public safety & security, resident services, procurement, IT, and audit & compliance. The results of this in-depth forensic investigation will become the basis of a new recovery plan that lays out, in detail, how HANO's deficiencies will be remedied.

Comment 2

Recommendation 1A: Support or repay its applicable accounts for eight unsupported disbursements totaling $321,462.

PIH Comment: Due to the recent leadership changes at HANO, the new team will need time to review the recommendation and determine what course of action is necessary. Specifically for this recommendation, the new leadership team will review the eight identified disbursements and provide supporting documentation for the disbursements totaling $321,462. Once the review is complete, if supporting documentation is unavailable, a plan for repayment of the unsupported disbursements will be developed and implemented.

Target Date: To be determined after review by the new leadership team.

Comment 3

Recommendation 1B: Maintain adequate staffing levels in its Finance and Contracting and Compliance Departments based upon the organizational structure. In addition, as related to the Finance Department, the Authority should obtain qualified staff to perform the accounts receivable function.

PIH Comment: Due to the recent leadership changes at HANO, the new team will need time to review the recommendation and determine what course of action is appropriate and necessary.

Target Date: To be determined after review by the new leadership team.

Comment 3

Recommendation 1C: Amend its financial policies to specify approving officials, appropriate staff titles, and required approvals forms and procedures. In addition, the Authority should incorporate in its finance policy procedures related to expenditure of prepaid items and ensuring that independent public accountant audit findings are addressed in a timely manner.

PIH Comment: Due to the recent leadership changes at HANO, the new team will need time to review the recommendation and determine what course of action is appropriate and necessary.

Target Date: To be determined after review by the new leadership team.

Comment 3

Recommendation 1D: Consider cross-training employees in the Finance Department and rotate respective roles periodically in an effort to prevent collusion.

PIH Comment: Due to the recent leadership changes at HANO, the new team will need time to review the recommendation and determine what course of action is appropriate and necessary.

Target Date: To be determined after review by the new leadership team.

Comment 4

Recommendation 1E: Amend its procurement policy to comply with 24 CFR 85.36. Specifically, the Authority should:

- Clarify the procurement policy with respect to adequate documentation needed in the files.
- Prohibit procurement practices that do not comply with 24 CFR 85.36 to prevent informal procurement practices
- Ensure that the corrected procurement policies are followed

PIH Comment: A review by HUD of HANO's Recovery Act procurement policy showed it to be in compliance with 24 CFR 85.36. In addition, due to the increased oversight and monitoring of Recovery Act activities at HANO, including prior approval of all obligating and expenditure documents, HUD believes the proper checks are already in place to address the concerns raised.

Target Date: HUD respectfully requests removal of this recommendation

Comment 3

Recommendation 1F: Consider labeling all asset inventory items obtained for rehabilitation with (1) identification numbers, (2) the source of the item, and (3) the condition/description of the item before placing items into inventory to ensure that its assets are safeguarded; adequately accounted for; and protected from loss, damage, and theft.

PIH Comment: Due to the recent leadership changes at HANO, the new team will need time to review the recommendation and determine what course of action is appropriate and necessary.

Target Date: To be determined after review by the new leadership team.

Comment 5

Recommendation 1G: Obtain a contract to oversee the contracting, and the progress and completion of the work activities. At a minimum, the contract with the firm must have a scope of work which requires:

- Ensuring that all contracts comply with HUD requirements;
- Ensuring that costs are appropriate for contracted work;
- Ensuring that work is progressing at an acceptable rate and in compliance with the contract specifications;
- Ensuring that cost invoices are consistent with work completed;
- Biweekly reporting of activities compared to plan and contract schedules

PIH Comment: HUD agrees with the importance of the requirements listed, but has already put in place measures to ensure that they are met. The contract with the new leadership team defines their roles and responsibilities in such a way that includes these requirements. And as an additional check, under the enhanced strategy for the oversight and monitoring of troubled agencies, HUD will ensure that many these requirements are in place prior to approval of obligations and expenditures.

Target Date: HUD respectfully requests removal or closure of this recommendation.

Comment 3

Recommendation 1H: Contract with an accounting firm to maintain separate accounting and biweekly reporting of ARRA funds expended on ARRA activities.

PIH Comment: Due to the recent leadership changes at HANO, the new team will need time to review the recommendation and determine what course of action is appropriate and necessary.

Target Date: To be determined after review by the new leadership team.

Comment 6

Recommendation 1I: Request that the Assistant Secretary for Public and Indian Housing immediately deobligate all or some of the Authority's ARRA funds and reallocate the funds to housing authorities that can utilize the funds, if the lack of capacity continues and indicates the Authorities inability to obligate or complete the planned work by the statutory deadline.

PIH Comment: While HUD shares the OIG's concern that ARRA funds be obligated in a timely and efficient manner, we disagree with this recommendation. In light of our common objective to restore HANO to its full capacity as a public housing authority, it would seem counter-productive to deobligate funds that are critical to achieving that end. As indicated in previous comments, HANO and HUD have both developed policies and procedures to ensure greater compliance with the Recovery Act funds going forward. HUD thus believes that the measure recommended is unnecessary.

Lastly, it should be noted that at the request of the Assistant Secretary for PIH, the newly appointed Administrative Receiver will meet with the Acting Regional Inspector General in New Orleans on an ongoing basis to ensure that the IG's office is kept updated on HANO's progress.

Target Date: HUD respectfully requests removal of this recommendation.

OIG Evaluation of Auditee Comments

Comment 1 HUD agreed with ensuring that the Recovery Act funds are used in a timely, appropriate, and efficient manner is a top priority. HUD also shared the HUD Office of Inspector General's (OIG) commitment to ensure accountability and transparency in the use of the Recovery Act funds. As a result, HUD implemented a comprehensive monitoring strategy to strengthen the Authority's capacity. HUD noted that the OIG completed its review prior to HUD fully implementing this strategy and before the Authority began implementation of the Recovery Act Capital Fund grant. HUD also stated that the HUD team has been working closely with the Authority to ensure adequate administration of the grant and will continue to work closely with the new leadership team at the Authority.

We acknowledge HUD's efforts in implementing the monitoring strategy for the Recovery Act funds and ensuring that the new leadership team assesses the Authority's deficiencies to establish appropriate corrective actions.

Comment 2 In response to recommendation 1A, HUD asserted that the corrective action was contingent upon review by the Authority's new leadership team who will provide supporting documentation regarding the eight accounts payable reimbursements totaling $321,462. If supporting documentation is not provided, HUD agreed to repay the unsupported costs.

We acknowledge HUD's proactive measures to resolving the recommendation.

Comment 3 For recommendations 1B, 1C, 1D, 1F and 1H, HUD stated that due to the recent leadership changes at Authority, the Authority's new leadership team will need time to review the recommendations and determine what course of action is appropriate and necessary.

We acknowledge HUD's approach to resolving the recommendations.

Comment 4 HUD asked that OIG remove recommendation 1E. Specifically, HUD determined the Authority's Recovery Act procurement policy was in compliance with 24 CFR 85.36 and that HUD's Recovery Act monitoring strategy established proper checks to address the recommendation.

During fieldwork, we reviewed the Authority's Recovery Act procurement policy, 24 CFR 85.36, and the Authority's procurement files. Based on that review, we believe that sufficient and appropriate evidence was gathered, which provided a reasonable basis for our findings and conclusions. As such, we stand by our original recommendation.

Comment 5 HUD agreed that the requirements noted in recommendation 1G were important but requested that OIG remove the recommendation from the memorandum. HUD asserted that the contract with the new leadership team includes the requirements in the recommendation.

HUD did not provide a copy of the new leadership team's contract. As such, we were unable to confirm HUD's assertions. Therefore, we stand by our original recommendation.

Comment 6 HUD disagreed with recommendation 1I and requested that OIG remove the recommendation. HUD explained that it was counterproductive to deobligate the Recovery Act funds. In addition, HUD and the Authority have both developed policies and procedures to ensure greater compliance with the Recovery Act funds going forward. HUD thus believes that the measure recommended is unnecessary.

The deobligation of funds would only occur if the Authority's lack of capacity continues. In addition, although HUD and the Authority have both developed policies and procedures, HUD must ensure that the Authority has corrected the deficiencies identified in this audit memorandum. As such, we stand by our original recommendation.