



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

September 26, 2013

MEMORANDUM NO:
2013-FW-1805

Memorandum

TO: Regenia Hawkins
Director, Public and Indian Housing, 6APH

//signed//

FROM: Gerald Kirkland
Regional Inspector General for Audit, 6AGA

SUBJECT: The Malakoff Housing Authority, Malakoff, TX, Did Not Have Sufficient
Controls Over Its Public Housing Programs, Including Its Recovery Act Funds

INTRODUCTION

In accordance with our regional plan to review public housing programs and because of weaknesses identified by the U.S. Department of Housing and Urban Development's (HUD) Office of Public Housing, we reviewed the management and internal controls at the Malakoff Housing Authority (Authority), Malakoff, TX. Our objective was to determine whether the Authority's controls were sufficient to ensure that it administered its HUD public housing programs in accordance with regulations and guidance. In reviewing its controls, we also reviewed the operations of the Authority to determine whether it complied with its consolidated annual contributions contract (ACC) with HUD. We also reviewed the board of commissioners' meeting minutes and actions taken by the board to determine whether they complied with the State of Texas' laws.

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

METHODOLOGY AND SCOPE

The scope of the review covered the Authority's financial and procurement controls, board meetings, and tenant rent collections for the period January 1, 2009, through December 31, 2012. We expanded the scope as necessary to meet the review objectives. We conducted the review at the Authority's administrative offices in Malakoff, TX, and at HUD's field office and our offices in Fort Worth, TX, from January through August 2013.

To accomplish our objective, we performed the following:

- Reviewed relevant laws, regulations, contracts, and other HUD requirements and guidance.
- Reviewed the Authority's procurement policy.
- Reviewed the Authority's board meeting minutes.
- Reviewed the Authority's general ledgers, bank statements, invoices, and receipts.
- Tested, and analyzed data representing transactions in the Authority's general ledger for the audit period.
- Reviewed tenant records including rent registers, rent receipts, and rent deposits.
- Interviewed HUD and Authority staff and board members.

BACKGROUND

The Authority was established in 1961 pursuant to the laws of the State of Texas for the purpose of providing quality, affordable housing to low-income families and individuals. The policy-making body of the Authority is its board of commissioners and the powers of the Authority are vested in its commissioners. It selects and employs the executive director, who is responsible for the efficient day-to-day operations of the Authority. The mayor of Malakoff is responsible for appointing the Authority's five-member board of commissioners. At least one of the commissioners must be a resident who is directly assisted by the Authority. In July 2012, the employment of the executive director for the majority of our review period was terminated by the Authority.

The Authority had 46 units of public housing and received HUD capital funds¹ and operating funds annually. HUD allowed the Authority to use its capital funds for development, financing, modernization, and management improvements for its public housing units. HUD allowed the Authority to use operating funds for the operation and management of its public housing program. In addition, the Authority received an American Recovery and Reinvestment Act grant in 2009. The Authority received the HUD funding shown in table 1 for fiscal years 2009 through 2012.

¹ Via formula grant

Table 1: Malakoff Housing Authority's HUD funding

Year	Capital	Operating	Recovery Act	Total
2009	\$ 62,914	\$184,977	\$80,054	\$327,945
2010	62,702	159,862		222,564
2011	51,769	163,567		215,336
2012	47,921	167,267		215,188
Total	\$225,306	\$675,673	\$80,054	\$981,033

The Authority was required to administer its public housing program pursuant to its ACC. The ACC is a contract between HUD and the Authority containing the terms and conditions under which HUD assisted the Authority in providing decent, safe, and sanitary housing for low-income families.

During the review period, the Authority's financial position significantly deteriorated. As shown in table 2, the Authority's cash reserves decreased by almost 39 percent.

Table 2: Analysis of the Authority's cash reserves

Date	Balance
01/01/2009	\$123,054
12/31/2012	75,374
Total decrease	\$(47,680)

RESULTS OF REVIEW

The Authority did not have sufficient controls in place to ensure that it administered its programs in accordance with Federal regulations, guidance, and State law. Specifically, the executive director violated the Authority's ACC by contracting with and hiring family members and another related party. The Authority also lacked financial and procurement controls to ensure that it made transactions in compliance with Federal regulations and guidance. Testing found significant deficiencies in the Authority's controls over its bank accounts, fixed assets, and staff compensation. In addition, the Authority failed to adhere to Federal regulations when procuring goods and services. Further, the board violated State law and its own bylaws. The Authority also failed to administer its tenant rent properly, accurately, or consistently.

These conditions occurred because the executive director failed to establish the necessary controls, ignored or failed to follow requirements, and circumvented the board's oversight. Additionally, the board failed to properly oversee the executive director and the Authority's activities. As a result, the Authority incurred \$577,367 in questioned costs. The Authority's general ledger also did not accurately reflect all transactions, and its board may have taken invalid and unsupported actions. Further, the Authority lost revenue; failed to take action on delinquent tenants; and could not show that it properly charged, collected, or deposited all rents. These actions also placed undue strain on the Authority's budget and depleted its cash reserves. Due to these significant inadequacies, the Authority could not support that it properly expended or managed the \$981,033 in HUD funding provided.

The Authority's Executive Director Violated Its ACC

The Authority's executive director violated the Authority's ACC.² Contrary to requirements, the executive director contracted with or employed various family members and related parties. The executive director improperly hired two members of her family as Authority employees and paid them a total of \$189,758 for 2009 through 2012 as shown in table 3.

Table 3: Summary of payroll payments to the executive director's family members

Relationship	2009	2010	2011	2012	Total
Daughter #1	\$23,468	\$23,980	\$26,146	\$16,581	\$ 90,175
Brother	24,382	28,318	30,023	16,860	99,583
Totals	\$47,850	\$52,298	\$56,169	\$33,441	\$189,758

As shown in table 4, the executive director also improperly contracted with other related parties.³

Table 4: Summary of the Authority's contract payments to the executive director's family members and another related party

Relationship	2008 ⁴	2009	2010	2011	2012	Total
Authority employee's relative	\$16,845	\$69,235	\$ 0	\$ 0	\$31,370	\$117,450
Daughter #2	n/a	5,550	6,643	5,400	2,750	20,343
Husband	n/a	4,925	1,200	650	0	6,775
Son-in-law #1	n/a	2,250	10,219	1,570	0	14,039
Son-in-law #2	n/a	0	0	4,225	425	4,650
Totals	\$16,845	\$81,960	\$18,062	\$11,845	\$34,545	\$163,257

The improper payments occurred because the executive director failed to follow the requirements and the board failed to oversee her actions. The executive director's payments to her family and other related parties placed undue strain on the Authority's finances. For the 4 years reviewed, the Authority received HUD funds totaling \$981,033. It paid related parties a total of \$353,015, or 36 percent, of the total funds it received. Also, the executive director's actions depleted the Authority's reserves by 39 percent.⁵ HUD should require the Authority to repay the \$353,015 improperly paid to family members and related parties. In addition, HUD should ensure that the Authority receives training or technical assistance on the ACC and Federal regulations.

² Section 19 (A)(1) and Section 19 (B)(1) of the ACC, see appendix C

³ For information on the Authority's inability to support its procurements of related party contracts and contract payments, see the section "The Authority's Executive Director Failed to Adhere to Procurement Regulations and Guidance."

⁴ We expanded the scope of our review for this individual to 2008, which was when the Authority began paying this individual for window replacements at its properties.

⁵ See table 2.

The Authority's Executive Director Failed To Implement Financial Controls

The Authority's executive director failed to implement financial policies or procedures. Testing found significant deficiencies in the Authority's controls over its bank accounts, fixed assets, and payroll, which opened the Authority's assets to misappropriation, waste, and abuse. This occurred because the executive director ignored Federal regulations and guidance. Due to the egregiousness of these issues, the Authority could not show that it spent its funds on only eligible, supported, and necessary items or that the funds it expended furthered its mission. Instead, the Authority spent \$76,357 on unsupported costs.

The Authority Did Not Effectively Manage Its Bank Accounts

The Authority ineffectively managed its bank accounts. During the review period, the Authority had a general fund checking account, a money market account, and multiple certificates of deposit. However, its executive director did not establish effective controls over them. As a result, the executive director made unsupervised and questionable transactions, including one totaling \$1,739, through the Authority bank account, and failed to provide bank account transactions to the fee accountant for recording in the Authority's general ledger.

The Executive Director Endorsed Unnumbered Checks

The Authority did not use preprinted or prenumbered checks for expenditures paid out of its money market account. Analysis of the money market account revealed numerous unnumbered checks written for Authority expenditures. In most instances, the checks reflected a hand-written number. The Authority did not provide these checks to the fee accountant so that they could be properly recorded in the Authority's general ledger. As a result, the Authority's general ledger was inaccurate and misleading.

The Executive Director Wrote a \$4,200 Check to Cash

The executive director wrote a \$4,200 check on the Authority's general fund account and deposited it into its money market account. The same day, she wrote an unnumbered check for \$4,200 to cash on the money market account. The Authority had documentation from a home improvement store reflecting purchases totaling \$4,491, of which \$4,200 was paid with cash. The remainder was charged to the Authority's credit card. However, it was unclear why the executive director would write multiple checks and obtain cash, as opposed to writing a check to the store, or charging the full amount to the Authority's credit card. Further, the fee accountant did not have this documentation to record the purchase accurately in the general ledger, and the Authority's files lacked a receipt for \$1,739 of the purchases. Consequently, the Authority lacked proof that it received all goods purchased, and the executive director failed to ensure that the Authority's general ledger accurately and completely reflected the purchase.

The Executive Director Did Not Obtain the Required Signatures on Checks

Contrary to the Authority's procurement policy requirements, the executive director issued numerous checks with only one signature.⁶ The executive director tendered checks with only her endorsement, which provided her with total discretion over the Authority's funds. Therefore, she failed to adhere to any safeguards put in place to ensure that the Authority expended HUD funds on only reasonable, necessary, or supported items. Since the board did not review these checks, it lacked knowledge of the executive director's activities, which allowed the executive director to pay for improper and ineligible costs.

The Authority's Bank Statements Reflected a Significant Number of Missing Checks

The Authority did not maintain control of its checks as required.⁷ Analysis of the Authority's general fund checking account reflected thousands of unaccounted for checks. According to the fee accountant, the checks did not clear the bank account; however, due to the state of the records, testing could not be performed to confirm that all of the checks did not clear the bank. The Authority's lack of controls over its unused checks substantially increased the risk that its funds could be misappropriated or diverted.

The Authority Lacked Controls Over Its Fixed Assets

The Authority lacked controls over its fixed assets.⁸ This occurred because the executive director failed to follow requirements.⁹ The Authority's executive director made several questionable fixed asset purchases totaling at least \$21,385. In addition, she purchased items totaling \$8,389 that could not be located on Authority property. Further, she improperly exchanged equipment with a related party without documentation supporting the business purpose of the equipment or the exchange.

The Authority Improperly Purchased Equipment

The Authority purchased a golf cart and a tractor that it did not need, as well as a metal building, a computer, and security lighting that it could not locate. All of these transactions lacked proper board approval and documentation supporting the business purpose or need for the equipment as required.¹⁰ As a result, the Authority could not support these purchases totaling \$21,385.

In July 2010, the Authority purchased a golf cart for \$4,485. According to the invoice, the executive director's brother made the purchase with an Authority check. The Authority's files contained no indication that the executive director discussed or received board approval for this purchase. Further, the Authority lacked documentation showing the need for a golf cart. Since the Authority had only 46 units, which were located at two sites, the size and location of its properties did not support the need for a golf cart. Since the Authority lacked

⁶ The Authority's policy specified that checks required two signatures. The following positions had the authority to sign checks: the executive director, chairman, vice chairman, and accountant. The Authority did not have an accountant.

⁷ 24 CFR (Code of Federal Regulations 85.20(b) (see appendix C)

⁸ Fixed assets are those such as land, machines, office equipment, buildings, etc. See also footnote 7.

⁹ 24 CFR 85.20(b)

¹⁰ 2 CFR 225, appendix A, C.1 and C.2 (see appendix C)

a canceled check for this transaction, testing could not determine whether the executive director obtained the required signatures for this purchase.

Also, in July 2010 the executive director purchased a large farm tractor with numerous attachments and paid the amounts shown in table 5.

Table 5: Amounts the Authority paid for a tractor

Item	Price
Tractor	\$10,480
Front loader	3,400
Box blade	495
Rotary tiller	1,450
Rotary cutter	1,075
Total	\$16,900

The Authority already had two riding lawn mowers in its inventory; therefore, this purchase appeared unwarranted. Authority staff indicated that the tractor was used on the Authority’s properties only a couple of times. In addition, the executive director did not discuss the purchase of the tractor with or obtain approval from the board in a timely manner. She presented the purchase to the board for approval in August 2011, over a year after she made the purchase. Further, Authority staff indicated that the Authority did not normally store the tractor at its properties.

The Authority Could Not Locate Some Purchases

The Authority made \$8,389 in purchases that could not be located at the Authority’s properties. In February 2012, the Authority made a \$5,974 purchase from a metal building supply company, but it lacked documentation showing what the purchase was and why it was needed. The Authority also purchased a computer in June 2009 for \$1,078 and security lighting in April 2010 for \$1,337. However, the Authority could not locate these items. The Authority had no documentation indicating that the executive director discussed these purchases with or had them approved by the board.

The Executive Director Improperly Exchanged Equipment With a Family Member

The executive director exchanged the golf cart previously discussed for a four-wheeler owned by her brother.¹¹ The Authority had no documentation verifying the value of the four-wheeler or why the Authority needed this type of equipment. Again, the executive director did not discuss this transaction with the board or obtain its approval.

The Authority’s General Ledger Reflected Unapproved and Irregular Payments to Staff

The Authority did not maintain documentation to show the board approved salaries for the executive director or other staff. In addition, the executive director did not ensure that payments occurred on a regular schedule. Therefore, testing could not determine whether the Authority paid its staff the correct amounts. The executive director also received unexplained payments in addition to her recurring salary payments. Further, she gave herself and other staff unapproved

¹¹ The general ledger reflected that it was an equal exchange and no money was included.

annual raises and bonuses. This occurred because the executive director ignored Federal regulations and circumvented the board by unilaterally authorizing payments. These unsupported payments totaling \$44,844, further eroded the Authority’s financial position.

The Authority Failed To Properly Document and Oversee Its Payroll

The Authority lacked documentation showing the annual or hourly salaries of its executive director and other staff. Further, it lacked documentation that the board knew or approved the wage amounts. Compounding the issue, the executive director did not prepare payroll on a regular schedule. Generally, the executive director issued payroll checks biweekly. In some instances, though, the Authority’s records showed that she issued payroll checks as often as weekly or as infrequently as monthly. As a result, testing could not determine whether the Authority properly paid its staff.

The Executive Director Paid Herself Additional Payments

The executive director paid herself additional amounts, in excess of her usual salary. During the review period, the executive director paid herself a total of \$13,991 for both “nontechnical salaries” and “inspection costs,” as shown in table 6.

Table 6: Additional amounts paid to the executive director

Date	Nontechnical salaries	Inspection costs
01/14/09		\$ 452
03/30/09		1,379
04/29/09	\$ 1,796	
07/01/09	2,338	
10/08/09		356
11/24/09	825	
09/02/10	1,947	
01/11/10		1,350
11/22/10	1,275	
12/10/10	911	
03/23/11	793	
03/12/12	569	
Total	\$10,454	\$3,537

The Authority lacked documentation justifying these payments in excess of the salary paid to her to supervise and manage the Authority and its projects. Further, the board was not aware of these payments.

The Executive Director and Staff Received Unapproved Raises and Bonuses

The executive director paid herself and Authority staff yearly raises and bonuses that the board did not approve. In fact, the board meeting minutes did not reflect any discussion of the amounts. Thus, these payments occurred because the executive director circumvented the

board. For the review period, the Authority paid unsupported bonuses totaling \$6,500¹² and raises in excess of \$50,000.¹³

HUD should require the Authority to implement financial policies and procedures covering, at a minimum, bank account management, fixed asset controls, and staff compensation. HUD should also require the Authority to obtain training or technical assistance on financial and internal control procedures. In addition, HUD should require the Authority to repay \$31,513 paid by the Authority for the unsupported and unnecessary purchases and \$44,844 in unsupported additional compensation.

The Authority Failed to Adhere to Procurement Regulations and Guidance

The Authority failed to adhere to Federal regulations in its procurement of goods and services.¹⁴ This occurred because the executive director ignored the regulations and circumvented the board when making procurements. Because the executive director did not use sound management practices, the Authority used its HUD funds ineffectively and inefficiently, incurred additional questionable costs totaling \$147,995, and did not maintain records documenting its procurements.

The Executive Director Did Not Maintain Procurement or Contract Documentation

Contrary to requirements,¹⁵ the Authority failed to maintain procurement or contract documentation. In fact, the Authority did not have any organized method of monitoring its procurements or purchases. The Authority lacked a contract register, contract files, contracts, or any documentation reflecting the significant history of its procurements. Further, it did not maintain invoices to support its purchases or payments.

The Authority Lacked Independent Cost Estimates

The Authority did not obtain cost estimates or perform any type of cost analysis for its procurements. While the majority of the Authority's procurements fell under the small purchase threshold,¹⁶ HUD still required the Authority to obtain price or rate quotations from an adequate number of sources to ensure that it paid reasonable amounts.¹⁷ However, the Authority lacked any documentation showing it performed any cost or price analysis for the 10 procurements reviewed.

The Authority Lacked Evidence of Competition

Testing of 10 purchases totaling \$311,138 showed that the Authority lacked evidence to support that it competitively procured them in order to obtain the best price, as required.¹⁸ Nine of the purchases totaling \$193,688 qualified as small purchases or micro purchases;

¹² The Authority paid out a total of \$6,500 in unapproved bonuses. However, \$3,900 was questioned earlier in this memorandum.

¹³ The Authority paid out in excess of \$50,000, but \$21,981 was questioned earlier in this memorandum.

¹⁴ 2 CFR 225, appendix A, A.2.a.(1). 24 CFR 85.36 (see appendix C)

¹⁵ 24 CFR 85.36(b)(9)

¹⁶ The Authority's procurement policy stated that the small purchase threshold was \$50,000 and that obtaining three quotes was preferable.

¹⁷ 24 CFR 85.36(d)(1)

¹⁸ 24 CFR 85.36 (c), 85.36(d), and 85.36(f)(1)

however, the Authority improperly awarded \$14,039 of that amount to related parties. It should have obtained quotes to ensure adequate competition.

The executive director also did not ensure competition for the one procurement that exceeded the Authority's small purchase threshold. For this procurement, the executive director paid \$117,450¹⁹ to a related party to replace all of the windows on the Authority's properties. However, the Authority lacked any documentation that the executive director performed any cost or price analysis, solicited bids, or took any steps to determine whether the amount paid was reasonable or comparable to what it would have paid an unrelated vendor.²⁰ It also lacked a signed contract. In addition, the Authority lacked invoices for the windows. Current Authority staff stated they could not determine where the contractor purchased the windows or whether any type of warranty existed. The current executive director stated that the Authority had problems with the windows, but without invoices, it could not take any action. Due to the significance of the deficiencies noted with this purchase, the Authority could not show that the \$117,450 paid to this contractor was a reasonable or efficient use of funds.

The Authority Contracted With an Unlicensed Electrical Contractor

In addition to violating Federal procurement regulations, the executive director violated State of Texas regulations,²¹ by hiring and paying \$18,660 to an unlicensed individual to install security lighting at the Authority's properties. Since the Authority did not properly procure a licensed electrician to install the lights, it could not show that it handled the installation in accordance with requirements or that this expenditure was an efficient use of Federal funds.

HUD should require the Authority to support or repay \$147,995²² in unsupported procurements, implement procurement policies and procedures, and require the Authority to obtain training or technical assistance in procurement.

The Authority's Executive Director and Board Violated State Law and Its Own Bylaws

The Authority's meeting minutes showed the executive director and its board violated numerous State regulations and its own bylaws.²³ Further, the board meeting minutes contained inconsistent information and numerous inaccuracies. As the powers of an authority are vested in the commissioners, it was crucial that the board adhere to regulations and maintain an accurate record of its actions. This occurred because the executive director and the board ignored State regulations and their own bylaws. As a result, the Authority may have taken invalid and unsupported actions. Due to the significant inadequacies of the board and its minutes, the Authority could not support that it expended or managed its \$981,033 in HUD funding in accordance with its ACC, Federal regulations, or other guidance.

¹⁹ The Authority paid \$100,605 during the audit period and an additional \$16,845 in 2008.

²⁰ 24 CFR 85.36(d) and 85.36(f)(1) (see appendix C)

²¹ Texas Electrical Safety and Licensing Act, Title 8, Chapter 1305, Occupations Code, section 1305.151

²² The total amount unsupported equaled \$300,538; however, the memorandum questioned \$152,543 earlier.

²³ State of Texas Housing Authority Law, Texas Local Government Code, title 12, subtitle C, chapter 392 (see appendix C)

The Authority Did Not Properly Execute Certificates of Appointment for Commissioners

Numerous individuals appeared in the Authority's board meeting minutes with no certificate or any other indication of how they came to be on the board. Each new commissioner must have a certificate of appointment filed with the clerk of the municipality, as conclusive evidence of his or her proper appointment.²⁴ During the period reviewed, the Authority's board minutes identified 13 new members. However, the Authority only located three certificates for new commissioners. As the governing board of the Authority, it is imperative that each of the commissioners be properly appointed and that that appointment is properly documented. If the board took actions based upon votes by improperly appointed commissioners, those actions were invalid and unsupportable.

The Commissioners Varied From Meeting to Meeting

Contrary to Texas State law,²⁵ the board meeting minutes reflected that the board consisted of anywhere from three to six commissioners. In accordance with State law, the initial board appointed by the mayor in 1961 was comprised of five commissioners. State law also required 2-year appointments for commissioners. However, the Authority's board meeting minutes reflected that individuals showed up or disappeared from meetings with no explanation or documentation. The minutes reflected instances where an individual identified as a commissioner would only be present for one meeting with no explanation of how they became a commissioner or why they did not attend subsequent meetings. For example, two commissioners reflected in the October 2009 minutes did not appear as commissioners in November 2009, but one of the two reappeared in March of 2010 with no explanation. If the board took actions based upon votes by improperly appointed commissioners, those actions were invalid and unsupportable.

The Authority Allowed Related Parties on Its Board

In violation of conflict-of-interest provisions in the Authority's ACC and State law,²⁶ the executive director's mother-in-law was appointed to the board and elected vice chairman in August 2011. She was subsequently elected chairman in November 2011. This action represented a significant breach of public trust and exacerbated the lack of controls and lax practices already in place at the Authority. Since the responsibility to sign and authorize Authority expenditures rested with the executive director and the chairman or vice chairman, this action increased the risk that HUD funds would be misappropriated, wasted, or misused as the individual responsible for reviewing and approving checks issued by the Authority had a conflict of interest.

The Board Minutes Did Not Always Reflect a Quorum

In violation of State law,²⁷ the board voted on and passed resolutions at two meetings when only two of the five board members attended according to the minutes. Further, the February 9, 2010, meeting minutes did not contain a roll call or any other way to determine who attended the meeting. Therefore, it was unclear whether a quorum existed. Since the Authority was established with a five-member board, a quorum did not exist in these

²⁴ State of Texas Housing Authority Law, section 392.031(c) (see appendix C)

²⁵ State of Texas Housing Authority Law, section 392.031(a) (see appendix C)

²⁶ See footnotes 2 and State of Texas Local Government Code, title 5, subtitle C, chapter 171

²⁷ State of Texas Housing Authority Law, section 392.036 (see appendix C)

instances. According to State law, the authority vested in a governmental body may be exercised only at a meeting of a quorum of its members. Thus, the board's actions taken when a quorum was not present were not valid or binding.

The Executive Director Did Not Maintain Consistent or Accurate Board Meeting Minutes

As secretary for the board, the executive director prepared board meeting minutes that contained numerous inconsistencies and inaccuracies. Multiple board meeting minutes reflected voting by commissioners not listed in the roll call. In addition, the minutes reflected that an absent member declared motions carried and resolutions adopted even though she was not reflected on the roll call nor was her name reflected in any of the votes. The minutes also contained inconsistent information from page to page. For example, the board meeting minutes for June 6, 2011, listed tenant write offs in the amounts of \$428 and \$235 on the first page of the minutes; however, later in the minutes, the amounts changed to \$376 and \$323.

HUD should require the Authority to review past board meeting minutes and reapprove actions adopted when a quorum was not present or where voting reflected in the minutes was inaccurate. HUD should also require the Authority to obtain technical assistance on the responsibilities of its board of commissioners. This technical assistance or training should include the responsibilities of the chairman, vice chairman, and secretary.

The Authority's Executive Director Did Not Properly Administer Tenant Rents

The Authority's executive director did not accurately or consistently calculate, document or collect tenant rents. Review of a sample of six tenants in the Authority's rent records reflected numerous irregularities, inaccuracies, and miscalculations. Additional testing showed the rent registers and receipts contained similar issues. The Authority's rent documentation reflected inconsistent application of late fees, incorrect rent due balances carried forward, incomplete and inaccurate receipts, and large tenant account write-offs. This occurred because the executive director failed to properly perform rent collection activities. As a result, the Authority lost revenue, failed to take action on delinquent tenants, and could not show that it properly charged, collected, or deposited all rent due

The Authority Did Not Consistently Charge or Apply Late Fees

The Authority's tenant records reflected inconsistent application of late fees. According to the Authority's leases, it charged tenants a \$35 late fee if they failed to pay their rent by the 10th of the month. For the six tenants sampled, the Authority did not correctly charge a late fee 97 percent of the time. Of the 30 late payments identified in the review, the Authority correctly charged the late fee in only 1 instance. As a result, the Authority failed to collect \$1,015 in late fees for 6 of its 46 units for 1-year. The Authority's failure to charge late fees resulted in lost revenue and failed to discourage its tenants from making late payments and maintaining large outstanding rent balances.

The Authority Did Not Maintain Accurate Rent Registers

The Authority did not maintain accurate rent registers reflecting amounts owed by its tenants. For example, it did not always carry a tenant's balance forward correctly. Table 7 lists for

one tenant reviewed, the rent charged, our corrected balance, the balances the Authority carried forward, and the difference between our amounts and the Authority's.

Table 7: Example of a tenant's improperly calculated rent balance

Month	Rent due	Paid	OIG calculated balance ²⁸	Rent register balance ²⁹	Difference
Apr-11	\$450	\$450	(\$2)	(\$2)	\$0
May-11	485	550	(67)	(2)	(65)
Jun-11	329	0	262	292	(30)
Jul-11	329	0	591	621	(30)
Aug-11	294	300	585	615	(30)
Sep-11	267	150	702	697	5
Oct-11	267	0	969	929	40
Nov-11	267	232	1,004	929	75
Dec-11	267	432	839	729	110
Jan-12	232	432	639	529	110
Feb-12	232	432	439	329	110
Mar-12	267	200	506	361	145

Although this tenant's account represented the worst case in our sample, testing disclosed balance issues with five of the six of the tenants reviewed. In addition, a review of the rental registers showed hand written adjustments to various tenants in the monthly rental registers. Therefore, the Authority's executive director and staff made it difficult if not impossible to determine whether they properly charged, collected, or deposited all rent due.

The Authority Wrote Off Large Tenant Balances

The Authority's rent records reflected large writeoff amounts for tenants.³⁰ In one instance, the Authority wrote off in excess of \$3,000 for one tenant. Since the Authority did not correctly calculate tenant balances, it was unclear whether this amount was accurate. Further, testing found different amounts shown as written off for the tenant in the Authority's rent register, receipts, general ledger, and board meeting minutes. As a result, the Authority's rent records and its general ledger contained inaccurate amounts. Additionally, the Authority's writeoff of this and another tenant may have been unwarranted as these tenants continued to live at the Authority, which made the Authority's uncollectible determination questionable.

The Authority Failed To Accurately Complete and Maintain Receipts

The Authority used hand-numbered, duplicate, and altered receipts to record rent amounts received from tenants. It had preprinted and prenumbered receipts for its tenant rents, so its regular use of hand-numbered receipts was unwarranted. In addition, testing showed that the

²⁸ The Office of Inspector General (OIG)-calculated balance included late fees when applicable

²⁹ The tenant had a beginning balance of (\$2).

³⁰ Write-offs normally reflect rent balances left unpaid by tenants and eventually written off the Authority's books once it is determined that the rents are uncollectible.

Authority did not record some prenumbered receipts in the rent registers, which raised questions as to whether it had issued a receipt and not recorded the rent in the register. The Authority also did not maintain all of its recorded receipts. For three of the six tenants reviewed, the Authority could not provide eight receipts, which raised questions about whether the amounts the Authority recorded in the register matched the receipts. Further, in one instance, the Authority issued two different tenants the same receipt number. However, it recorded only one of the receipts in its rental register. Thus, it could not account for the second \$213 rent payment. Additionally, the Authority occasionally used correction fluid on receipts, thereby making it impossible to trace the transactions or determine what transpired at the time the Authority prepared the receipt or whether it made changes after giving the receipt to the tenant. Finally, the Authority failed to completely fill out the receipts, which impacted our ability to determine rent balances. Due to these irregularities, serious concerns exist as to whether the Authority properly collected, recorded, and deposited tenant rent.

The Authority Staff Accepted Cash in Violation of Policy

In violation of the Authority's policy, its staff accepted and deposited cash. Cash is the asset most susceptible to improper diversion and use. By accepting cash, the staff increased the risk that funds could be diverted or improperly handled.

HUD should require the Authority to adopt and follow a clear rent policy to prevent irregularities from continuing.

RECOMMENDATIONS

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

- 1A. Repay \$287,655 paid to the executive director's and another Authority employee's family members to its public housing program. However, if the Authority made any of the expenditures from its 2008 capital fund grant, or if the Authority is unable to determine the source of funds used to pay expenditures, the Authority should repay HUD. Any repayments must be from non-Federal funds.
- 1B. Repay \$65,360 paid from Recovery Act funds to the executive director's and another Authority employee's family members to HUD for its transmission to the U.S. Treasury. Repayment must be from non-Federal funds.
- 1C. Support or repay \$31,513 in unsupported equipment and supplies costs. The funds should be repaid to the Authority's public housing program. However, if the Authority made any of the expenditures from its 2008 capital fund grant, or if the Authority is unable to determine the source of funds used to pay expenditures, the Authority should repay HUD. Any repayments must be from non-Federal funds.
- 1D. Support or repay \$42,150 in unsupported additional compensation paid to Authority staff. The funds should be repaid to the Authority's public housing program. However, if the Authority made any of the expenditures from its 2008 capital fund grant, or if the

Authority is unable to determine the source of funds used to pay expenditures, the Authority should repay HUD. Any repayments must be from non-Federal funds.

- 1E. Support or repay HUD for its transmission to the U.S. Treasury \$2,694 paid from Recovery Act funds for unsupported additional compensation paid to Authority staff. Repayment must be from non-Federal funds.
- 1F. Implement financial policies and procedures, including, at a minimum, bank account management, fixed asset controls and compensation management.
- 1G. Support or repay \$135,995 for unsupported procurement expenditures. The funds should be repaid to the Authority's public housing program. However, if the Authority made any of the expenditures from its 2008 capital fund grant, or if the Authority is unable to determine the source of funds used to pay expenditures, the Authority should repay HUD. Any repayments must be from non-Federal funds.
- 1H. Support or repay HUD for its transmission to the U.S. Treasury \$12,000 paid from Recovery Act funds for unsupported procurement expenditures.
- 1I. Adopt and follow procurement policies and procedures.
- 1J. Obtain and maintain certificates of appointment for all current and future board members.
- 1K. Review past board meeting minutes and reapprove actions adopted when a quorum was not present or where voting reflected in the minutes was inaccurate.
- 1L. Adopt and follow a clear rent policy to prevent irregularities from continuing.
- 1M. Obtain training or technical assistance concerning its ACC, Federal regulations, financial management and internal controls, procurement, roles and responsibilities of the executive director and the board, and tenant rent collections and documentation.
- 1N. Direct the Mayor of Malakoff to evaluate the board of commissioners and its effectiveness and remove and replace commissioners as appropriate.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$287,655	
1B	65,360	
1C		\$ 31,513
1D		42,150
1E		2,694
1G		135,995
1H		12,000
TOTALS	\$353,015	\$224,352

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

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



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Mr. Gerald R. Kirkland
Regional Inspector General for Audit
Office of Audit (Region 6)
819 Taylor Street, Suite 13A09
Fort Worth, TX 76102

SUBJECT: The Malakoff Housing Authority, Malakoff, TX, Did Not Have Sufficient Controls Over Its Public Housing Program

Dear Mr. Kirkland: Please find our response to the aforementioned memorandum of the OIG Audit below:

Introduction

The Malakoff Housing Authority (“MHA” or “Housing Authority”) in no way seeks to defend any inappropriate actions of the former Executive Director and her office administration. Rather, the Housing Authority seeks to highlight the many positive reforms that have been made by the current administration that will prevent any similar problems in the future. These include: adoption of a significant number of policies that address each of the highlighted issues in the audit; dramatically reducing MHA’s administrative budget as well as employing a whole new office staff; and an implementation of an overall system of checks and balances that ensure proper Board oversight as well as public transparency.

Comment 1

Although the audit recommends that, in addition to policy implementation, certain reimbursements to accounts should be made, it would be detrimental to MHA’s recovery for HUD to adopt such recommendations. Requiring MHA to pay these funds would have a devastating financial impact on the agency and would punish the Housing Authority and its low-income clients twice for the poor decision made by the former Executive Director and her office administration.

Comment 2

A full response to the audit and its finding follows. MHA looks forward to working with HUD and the OIG to further resolve the audit findings so that the Housing Authority can continue to move forward, grow and continue to serve the low-income families of Malakoff, TX.

Response

For the duration of the former Executive Director’s employment, several aspects of MHA’s operations fell far short of the high standards that the Housing Authority sets for itself. In particular, certain action by the former Executive Director and her staff were inconsistent with applicable requirements and significantly strayed from MHA’s mission. In response, the former Executive Director was terminated in July 2012 and a new Executive Director was appointed in August 2012. The Board of Commissioners also appointed two new members and elected a new chairperson. Following the dramatic changes in leadership, MHA took a number of actions to ensure that the inappropriate conduct which gave rise to the Audit would not be repeated.

Comment 1



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Comment 1

In the past 12 months, MHA has made significant changes that address the concern outlines in the Audit. Detailing these actions provides the most appropriate resolution to the Audit's findings. Although the Audit recommends repayment of MHA accounts in many cases as well, the implementation of those recommendations would take much needed resources away from low-income residents and further impede MHA's ability to move forward and recover. We believe that a more practical course of action is for HUD to continue to work with the new MHA administration to assure that new policies and procedures already in place protect the agency from again becoming susceptible to such an outrageous abuse of power.

Comment 1

The new MHA administration has made great strides to restore the public's trust in the Housing Authority and to improve MHA's operations, particularly in the areas of financial management, conflict of interest, and procurement procedures. During this short period of time MHA has already:

- Engaged a new certified accountant with experience specifically in housing authority accounting.
- Implemented a new web-based computer software system, eliminating the need for hand written records.
- Established a set waiting list.
- Established firm financial controls such as requiring two signatures on all checks.
- Established one bank account for the Housing Authority eliminating all other unnecessary bank accounts.
- Adopted a "no cash" policy and began only accepting checks or money orders.
- Established a "repayment plan" to bring all residents current and up to date on their rent.
- Dramatically reduced administrative expenses from Fiscal Year ("FY") 2012 to FY 2013.
- Held monthly Board Meetings where financials are presented to Board Members.
- Terminated or re-bid contracts that were past the term of the contract.
- Created and maintained an up to date inventory log and work order log system.
- Implemented a new application and lease agreement.
- Brought in any past due accounts receivables that could be collected.
- Instituted significant new financial controls, including policies, procedures and oversight.
- Engaged in training sessions to improve skills and stay current with HUD rules and regulations.
- Started distributing a monthly newsletter to keep tenants informed and connected.
- Began working towards bringing our community room up to code to hold resident events.
- Began organizing monthly resident events and making connections with the community to find ways to better serve our clients

Comment 2

The new MHA's administration has no desire to defend any of the inappropriate actions of the prior Executive Director or her administration. However, neither do we desire to be further punished for what was most certainly a shared failure of oversight. Our response contesting certain recommendations is not a defense of the former Executive Director or her administration. Instead, it flows from the new administration's desire to ensure that MHA and its low-income residents are not



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Comment 1

burdened with three to four decades of debt that will cripple the agency's ability to carry out its mission.

MHA is currently compliant with all applicable HUD requirements regarding salaries. More importantly, the Housing Authority has already significantly reduced its payroll expenditures to ensure that its funds are spent, not only for eligible purposes, but also consistent with its mission. MHA's current salaries are consistent with local pay scales. Thus there are no issues regarding salaries.

Comment 1

Board oversight has significantly increased. Accurate records are now being kept including certificates of appointment. The Board of Commissioners must approve the annual budget, as well as review and approve the checks register and bank statement's monthly for all administrative expenses. The Board of Commissioners and the Housing Authority have also increased public transparency by making Board minutes available to view in the office and strictly adhering to state law regarding public requests for information. The MHA Board of Commissioners is committed to responsible governance and takes very seriously its fiduciary responsibilities. The Board of commissioners has adopted or revised many policies to address and eliminate the infractions brought up in the Audit. The Board of Commissioners is also in the process of reviewing all policies and resolutions that were previously adopted or revised when a true quorum was not present. Currently the Board of Commissioners has adopted or revised several policies including:

- Occupancy and Admissions Policy
- Eviction Policy
- Petty Cash Policy
- Security Deposit Policy
- Property Disposition Policy
- Personnel Policy
- Capitalization for Financial Controls Purpose Policy
- MHA Bi-Laws

Further information concerning the new financial safeguards, and new policies will be provided upon request.

Conclusion

MHA does not seek to make any excuses for the actions of the prior Executive Director and her administration. Many of these actions were inconsistent with MHA's mission to serve low-income families and were unethical and bad business decisions. During the past year, the new MHA administration has made significant strides to implement meaningful checks and balances that will ensure accountability, transparency, and adherence to HUD and local requirements. In short, these changes will prevent the events of the past from reoccurring.



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Comment 2

MHA will continue to work with HUD and OIG, as well as the public and MHA clients, to resolve any issues and restore trust in the agency and its mission. The appropriate and most meaningful resolution to the Audit findings is one that will support the many changes that the current MHA administration has and is continuing to implement. MHA is open to other suggestions regarding policy changes that HUD or OIG may have which could further ensure the appropriate level of checks and balances at the Housing Authority. To recommend repayment of such a large sum of money simply penalizes the low-income families served by the Malakoff Housing Authority again for the actions of the prior Executive Director and her administration, and will significantly hinder MHA's ability to move forward and serve its clients.

Sincerely,

ArKita Dowell,
Executive Director
Malakoff Housing Authority

OIG Evaluation of Auditee Comments

Comment 1 OIG recognizes the Authority took the significant step of replacing the majority of its staff, including the executive director. The Authority should continue to work with HUD to ensure its changes address the issues noted in the audit memorandum, to improve its controls and processes, to implement additional policies as needed, and to educate its staff and board of commissioners concerning their roles and responsibilities.

Comment 2 We disagree that the repayment of funds is to punish or penalize the Authority. Instead, the recommendations seek a return of the ineligible and unsupported Federal funds so they can be used to benefit the Authority's tenants. The Authority should work with HUD to determine a feasible and effective way to address the ineligible and unsupported amounts reflected in the audit memorandum.

Appendix C

CRITERIA

The Authority's ACC with HUD

Section 19 - Conflict of Interest

(A)(1) In addition to any other applicable conflict of interest requirements, neither the housing authority (HA) nor any of its contractors or their subcontractors may enter into any contract, subcontract, or arrangement in connection with a project under this ACC in which any of the following classes of people has an interest, direct or indirect, during his or her tenure or for one year thereafter:

- (i) Any present or former member or officer of the governing body of the HA, or any member of the officer's immediate family. There shall be excepted from this prohibition any present or former tenant commissioner who does not serve on the governing body of a resident corporation, and who otherwise does not occupy a policymaking position with the resident corporation, the HA or a business entity.
- (ii) Any employee of the HA who formulates policy or who influences decisions with respect to the project(s), or any member of the employee's immediate family, or the employee's partner.
- (iii) Any public official, member of the local governing body, or State or local legislator, or any member of such individual's immediate family, who exercises functions or responsibilities with respect to the project(s) or the HA.

(2) Any member of these classes of persons must disclose the member's interest or prospective interest to the HA and HUD.

(3) The requirements of this subsection (A)(1) may be waived by HUD for good cause, if permitted under State and local law. No person for whom a waiver is requested may exercise responsibilities or functions with respect to the contract to which the waiver pertains.

(4) The provisions of this subsection (A) shall not apply to the General Depository Agreement entered into with an institution regulated by a Federal agency, or to utility service for which the rates are fixed or controlled by a State or local agency.

(5) Nothing in this section shall prohibit a tenant of the HA from serving on the governing body of the HA.

(B)(1) The HA may not hire an employee in connection with a project under this ACC if the prospective employee is an immediate family member of any person belonging to one of the following classes:

- (i) Any present or former member or officer of the governing body of the HA. There shall be excepted from this prohibition any former tenant commissioner who does not serve on the governing body of a resident corporation, and who otherwise does not occupy a policymaking position with the HA.
- (ii) Any employee of the HA who formulates policy or who influences decisions with respect to the project(s).
- (iii) Any public official, member of the local governing body, or State or local legislator, who exercises functions or responsibilities with respect to the project(s) or the HA.

- (2) The prohibition referred to in subsection (B)(1) shall remain in effect throughout the class member's tenure and for one year thereafter.
- (3) The class member shall disclose to the HA and HUD the member's familial relationship to the prospective employee.
- (4) The requirements of this subsection (B) may be waived by the HA Board of Commissioners for good cause, provided that such waiver is permitted by State and local law.

Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments (24 CFR Part 85)

Subpart C—Post-Award Requirements, Financial Administration

§ 85.20 Standards for financial management systems.

...

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(1) **Financial reporting.** Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

(2) **Accounting records.** Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

(3) **Internal control.** Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

(4) **Budget control.** Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

(5) **Allowable cost.** Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

(6) **Source documentation.** Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

...

§ 85.36 Procurement.

...

(b) **Procurement standards.**

(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.

(2) Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

(3) Grantees and subgrantees will maintain a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts. No employee, officer, or agent of the grantee or subgrantee shall participate in selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved. Such a conflict would arise when:

- (i) The employee, officer, or agent,
- (ii) Any member of his immediate family,
- (iii) His or her partner, or
- (iv) An organization which employs, or is about to employ, any of the above, has a financial or other interest in the firm selected for award. The grantee's or subgrantee's officers, employees or agents will neither solicit nor accept gratuities, favors or anything of monetary value from contractors, potential contractors, or parties to sub-agreements. Grantee and subgrantees may set minimum rules where the financial interest is not substantial or the gift is an unsolicited item of nominal intrinsic value. To the extent permitted by State or local law or regulations, such standards or conduct will provide for penalties, sanctions, or other disciplinary actions for violations of such standards by the grantee's and subgrantee's officers, employees, or agents, or by contractors or their agents. The awarding agency may in regulation provide additional prohibitions relative to real, apparent, or potential conflicts of interest.

...

(8) Grantees and subgrantees will make awards only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. Consideration will be given to such matters as contractor integrity, compliance with public policy, record of past performance, and financial and technical resources.

(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a 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.

...

(c) ***Competition.***

(1) All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of §85.36.

...

(d) ***Methods of procurement to be followed.***

(1) Procurement by ***small purchase procedures.*** Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(2) Procurement by ***sealed bids*** (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in

price. The sealed bid method is the preferred method for procuring construction, if the conditions in §85.36(d)(2)(i) apply.

- (i) In order for sealed bidding to be feasible, the following conditions should be present:
 - (A) A complete, adequate, and realistic specification or purchase description is available;
 - (B) Two or more responsible bidders are willing and able to compete effectively and for the business; and
 - (C) The procurement lends itself to a firm fixed price contract and the selection of the successful bidder can be made principally on the basis of price.
- (ii) If sealed bids are used, the following requirements apply:
 - (A) The invitation for bids will be publicly advertised and bids shall be solicited from an adequate number of known suppliers, providing them sufficient time prior to the date set for opening the bids;
 - (B) The invitation for bids, which will include any specifications and pertinent attachments, shall define the items or services in order for the bidder to properly respond;
 - (C) All bids will be publicly opened at the time and place prescribed in the invitation for bids;
 - (D) A firm fixed-price contract award will be made in writing to the lowest responsive and responsible bidder. Where specified in bidding documents, factors such as discounts, transportation cost, and life cycle costs shall be considered in determining which bid is lowest. Payment discounts will only be used to determine the low bid when prior experience indicates that such discounts are usually taken advantage of; and
 - (E) Any or all bids may be rejected if there is a sound documented reason.

...

(f) Contract cost and price.

(1) Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications.

Cost Principles for State, Local, and Indian Tribal Governments OMB Circular A-87, 2 CFR Part 225

Appendix A – General Principles for Determining Allowable Costs

A. Purpose and Scope

...

2. Policy guides.

a. The application of these principles is based on the fundamental premises that:

- (1) Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

...

C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

- b. Be allocable to Federal awards under the provisions of 2 CFR part 225.
- c. Be authorized or not prohibited under State or local laws or regulations.
- d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

...

- j. Be adequately documented.

2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded. In determining reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
- b. The restraints or requirements imposed by such factors as: Sound business practices; arm's-length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.
- c. Market prices for comparable goods or services.
- d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.
- e. Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

3. Allocable costs.

- a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Texas Local Government Code, Title 12, Subtitle C, Chapter 392, Housing Authorities Established by Municipalities and Counties

Sec. 392.001. SHORT TITLE. This chapter may be cited as the Housing Authorities Law.

...

SUBCHAPTER C. COMMISSIONERS AND EMPLOYEES

Sec. 392.031. APPOINTMENT OF COMMISSIONERS OF A MUNICIPAL HOUSING AUTHORITY.

- (a) Each municipal housing authority shall be governed by five, seven, nine, or 11 commissioners. The presiding officer of the governing body of a municipality shall appoint five, seven, nine, or 11 persons to serve as commissioners of the authority. An appointed commissioner of the authority may not be an officer or employee of the municipality. Appointments made under this section must comply with the requirements of Section 392.0331, if applicable.
- (b) A commissioner may not be an officer or employee of the municipality. A commissioner may be a tenant of a public project over which the housing authority has jurisdiction.

- (c) A certificate of the appointment of a commissioner shall be filed with the clerk of the municipality. The certificate is conclusive evidence of the proper appointment of the commissioner.

...

Sec. 392.036. VOTE REQUIRED FOR ACTION. Unless the authority's bylaws require a larger number, when a quorum is present an authority may take action on a vote of a majority of the commissioners present.