OFFICE OF AUDIT
REGION 4
ATLANTA, GA

The Housing Authority of the City of Spartanburg
Spartanburg, SC

Public Housing Program

2014-AT-1016 **SEPTEMBER 30, 2014**

Issue Date: September 30, 2014

Audit Report Number: 2014-AT-1016

TO: Eric A. Bickley, Director of Public Housing, Columbia, SC, 4EPH
Craig Clemmensen, Director, Departmental Enforcement Center, CV

//signed//

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

SUBJECT: The Housing Authority of the City of Spartanburg, SC, Used HUD Program Funds for Ineligible Expenses

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Housing Authority of the City of Spartanburg's public housing program.

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

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

If you have any questions or comments about this report, please call David Butcher, Assistant Regional Inspector General for Audit, at 865-545-4400, extension 118.

September 30, 2014

The Housing Authority of the City of Spartanburg, SC, Used HUD Program Funds for Ineligible Expenses

Highlights

Audit Report 2014-AT-1016

What We Audited and Why

We audited the public housing program of the Housing Authority of the City of Spartanburg, SC, because of a citizen's complaint.

Our objective was to determine whether the Authority's performance in the areas of financial operations, procurement, and inventory practices met HUD requirements.

What We Recommend

We recommend that the Director, Office of Public Housing, Columbia, SC, require the Authority to repay its public housing program for funds diverted to other activities as identified in the Authority's fiscal year 2013 audit and over $28,000 for other ineligible program expenses, provide support showing that it used almost $2.4 million for eligible program expenses, and determine whether the Authority is in substantial default of its consolidated annual contributions contract.

We also recommend that the Departmental Enforcement Center consider the need for administrative sanctions.

What We Found

The Authority used HUD program funds for ineligible or unsupported expenses, and failed to maintain an accurate accounting and financial control system. This condition occurred because the Authority's management and board disregarded HUD's requirements for the proper use of program funds and failed to create an effective accounting and internal control environment. As a result, the Authority deprived its Public Housing program, and possibly other HUD programs, of needed funds and may have defaulted on its consolidated annual contributions contract with HUD.

The Authority generally failed to follow HUD's procurement regulations or its own procurement policy. It failed to maintain required documentation, paid for services without required contracts, and failed to perform cost analyses. This condition occurred because the Authority's management and board failed to implement sufficient internal controls over the procurement process. As a result, the Authority could not assure HUD that it procured its goods and services at the lowest cost using full and open competition. For the procurements reviewed, the Authority had more than $1,100 in ineligible spending and was unable to support more than $2.2 million in spending.

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BACKGROUND AND OBJECTIVE

The Housing Authority of the City of Spartanburg was established in 1938 by the State of South Carolina to provide safe and sanitary housing. The Authority is governed by a seven-member board of commissioners appointed by the city council of Spartanburg, SC, to 5-year terms. An executive director is responsible for daily operations.

The Authority manages 1,129 conventional low-income public housing units and 2,158 Housing Choice Voucher program units. It has implemented project based budgeting and accounting under HUD's asset management program. The Authority receives funds annually from the U.S. Department of Housing and Urban Development (HUD) to operate its programs and maintain its housing stock. It received operating subsidies and capital funds in the following amounts from fiscal year 2011 to fiscal year 2013.

Fiscal year	Operating subsidy	Capital funds
2011	$4,091,798	$1,689,834
2012	$4,183,008	$1,506,817
2013	$3,641,647	$1,490,403

The Authority was designated as a "High Performer" with a score of 92 out of 100 on its most recent Public Housing Assessment System report.

We received a confidential complaint from a concerned citizen. The complainant expressed numerous allegations or concerns regarding the procurement, financial operations, and inventory practices at the Authority.

Our objective was to determine whether the Authority's performance in the areas of financial operations, procurement, and inventory practices met HUD requirements.

RESULTS OF AUDIT

Finding 1: The Authority Used More Than $1 Million in HUD Funds for Ineligible or Unsupported Costs

The Authority used HUD program funds for ineligible or unsupported expenses, and failed to maintain an accurate accounting and financial control system. This condition occurred because the Authority's management and board disregarded HUD's requirements for the proper use of program funds and failed to create an effective accounting and internal control environment. As a result, the Authority deprived its public housing program, and possibly other HUD programs, of needed funds and may have defaulted on its consolidated annual contributions contract with HUD.[1]

The Authority Improperly Used HUD Program Funds

The Authority used program funds that HUD intended for low-income housing assistance for ineligible expenses. It improperly used program funds to support entities that it created to own and manage its office space and for other disbursements that were an ineligible or unsupported use of HUD funds.

HUD Program Funds Used to Support Related Entities

The Authority's HUD financial data schedule reports and independent public accountant audit reports showed that the Authority used HUD funds for the ineligible expenses of related entities. The Authority received independent public accountant audit findings in 2010 and 2013 for the ineligible use of Federal funds. The last annual audit report, dated September 30, 2013, reported that the Authority misused $885,891 that HUD provided for the public housing program. The HUD financial data schedule showed that the Authority's business activities were the primary beneficiary of these funds.

Although the Authority owned its office building debt-free, during 2006, it engaged in a series of transactions with related entities that resulted in the loss of that space and the payment of excessive rent.[2] Without HUD approval, the Authority transferred ownership of its office building and maintenance warehouse to the Spartanburg Housing Authority Property Company, a nonprofit corporation that it had created for the purpose of owning and managing non-dwelling

[1] A consolidated annual contributions contract is a written contract between HUD and a public housing authority in which the authority agrees to administer its public housing program in accordance with HUD regulations and requirements.
[2] These transactions occurred under the administration of the previous executive director.

properties. Although the nonprofit subsequently leased the property in the private market, it never paid the Authority the $420,000 purchase price.

After losing its office space, the Authority rented space in the former Mary H. Wright Elementary school that its nonprofit had purchased and transferred to another related entity, Mary Wright, LLC (Mary Wright).[3] Mary Wright renovated the building using construction loans totaling almost $4.8 million[4] and rented nearly 19,000 square feet to the Authority for office space. The Authority was paying nearly $220,000 annually for this space for three years until HUD notified it that it could only pay local market rates. The Authority subsequently lowered the rate but continued to pay Mary Wright for more space than it needed. Although Mary Wright rented some of the remaining office space to the City of Spartanburg, it was not able to generate income sufficient to cover operating expenses and debt service. One of the loans that Mary Wright obtained to renovate the building had a $3 million balloon payment due in February 2015. The Authority has no funds available for this payment and the executive director stated that there was no concrete plan for dealing with it.

In addition to paying rent, the Authority used HUD program funds to pay Mary Wright's operating expenses. It paid for all building maintenance, real estate taxes, utilities, major expenses for repairs of mechanical systems, and some debt service. The executive director stated that he would continue to use HUD funds to pay for other Authority activities because his other sources of funds were insufficient to cover recurring expenses. He stated that the Board was aware he used HUD funds to support the building but believed that they had no other option.

The Authority's misuse of funds intended to benefit the low-income participants of HUD's public housing program represents violations of its contract with HUD. The contract states, in Section 9,[5] that the Authority must use public housing funds only for public housing projects under contract. Further, Section 17[6] states that HUD can find the Authority in substantial default of the contract for dispositions or encumbrances of any project, or portion of a project, without HUD approval.

Other Cash Disbursements Were Ineligible or Unsupported

The Authority used Federal funds to pay $24,594 in ineligible expenses, could not show that it had properly charged an additional $142,434 to HUD programs, and miscoded $1,687 in expenses. HUD regulations required the Authority to maintain detailed disbursement records to document eligible expenditures.[7]

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[3] SHA Property Company is the managing member of Mary Wright, LLC.
[4] The first loan has two notes. The senior note is $3,000,000, while the supplemental note is $750,000. The second loan is $1,010,029.
[5] Consolidated Annual Contributions Contract, part A, section 9(C)
[6] Consolidated Annual Contributions Contract, part A, section 17(B)
[7] 24 CFR 905.310(b)

Cash disbursements were ineligible or unsupported

Eight of the 14 disbursements reviewed did not have adequate documentation, including four instances where the Authority paid for services without a valid contract. The Authority used $19,865 of Capital Fund money to pay its law firm for non-capital fund uses, a violation of the program regulations[8], and could not show that it had properly charged $14,737[9] to various HUD programs. This condition occurred because the Authority's finance staff was not aware of the terms of the vendors' contract agreements such as the amount to pay per unit for a repair.

Capital fund draws were ineligible or unsupported

The Authority paid ineligible expenses or could not provide support for five of the seven fund drawdowns reviewed. The five disbursements contained $4,230 in ineligible uses and $127,697 without proper support. Examples include using capital funds to pay for repairs at non-public housing developments, and lack of documentation supporting payments to consultants. This condition occurred, in part, because the Authority's written procedures did not outline the specific document requirements needed to support each drawdown.

Credit card purchases were ineligible or miscoded

During our audit period, the Authority purchased $140,314 in goods and services with its Visa credit cards. We reviewed three credit card payments totaling $17,590, or about 13 percent, of the total charges. The Authority had $499 in ineligible costs and $1,687 in miscoded costs. There were ineligible purchases of zoo tickets, a professional membership, food, and a gift card. The Authority charged these purchases to the Resident Opportunities and Self Sufficiency (ROSS) grant, a grant that it used to fund supplies, equipment, furniture, salaries, and local travel for program staff. Additionally, the Authority miscoded the cost of a job posting to the capital fund program's administration budget line item instead of the management improvement budget line item. The Authority had insufficient procedures in place for the use of its credit cards and review of transactions.

The Authority Failed To Maintain Auditable Records

The Authority's records for establishing the proper use of HUD funds were not auditable. This condition occurred because the Authority failed to maintain accounting records showing the sources and uses of funds for its various

[8] 24 CFR 905.202(a) – Costs not associated with a public housing project or development are ineligible activities and costs for the Capital Fund Program.

[9] Total questioned cost of $53,514 was reduced to $14,737 to avoid double counting of $38,777 in questioned costs in Finding 2.

activities. This failure may have placed the Authority in default of Section 15[10] of its contract because it failed to maintain an accounting system that included auditable records showing the source and proper use of program funds.

The Authority pooled funds from numerous sources and paid most of its obligations from one general fund account. HUD permits this type of system but only if the accounting system can track the sources and uses of funds in sufficient detail to maintain an adequate audit trail.[11] When funds are pooled, the contract prohibits an entity from withdrawing more funds from the pool than it has deposited.[12] Since balances between programs indicate that funds belonging to a program were used for another activity, interfund balances must be promptly cleared with a cash payment to the program that provided the funds.

The Authority's accounting was inadequate to show the sources and uses of funds for all transactions, and the staff was unable to explain why this was so. The staff stated it was unable to provide reconciled interfund balances that included all financial activity since the last independent audit in September 2013. Staff told us that accurate interfund balances would not be determined until the end of the fiscal year.

Without interfund balances, it was not possible to determine how the Authority had used HUD funds provided for operation of public housing or its other programs, or how the interfund balances may have changed since the last audit report. Staff attributed the problem to issues with the Authority's computer system that dated back to the implementation of the system in October 2011.

The financial and accounting staff's inability to explain how their system worked indicated that their management had not provided them with the information or direction they needed to perform their jobs. The Authority's policies and procedures were not always written, which made it difficult to maintain consistency. In addition, the chief financial officer position had experienced excessive turnover. The most recent chief financial officer resigned during our review and had not been replaced at the end of fieldwork.

<u>Accounting entries were unapproved or unsupported</u>

Some accounting entries to adjust account balances lacked either proper explanation, support, or evidence of approval. All seven journal vouchers[13]

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[10] Consolidated Annual Contributions Contract, part A, section 15(A) The Housing Authority (HA) must maintain complete and accurate books of account for the projects of the HA in such a manner as to permit the preparation of statements and reports in accordance with HUD requirements, and to permit timely and effective audit.

[11] HUD Guidebook 7510.1G, paragraph II-15 and Consolidated Annual Contributions Contract, part A, sections 9 and 15.

[12] Consolidated Annual Contributions Contract, part A, section 10(C) The HA shall not withdraw from any of the funds or accounts authorized under this section amounts for the projects under ACC, or for the other projects or enterprises, in excess of the amount then on deposit in respect thereto.

[13] Journal vouchers are accounting records used to note the details of a financial transaction for recordkeeping and auditing purposes.

reviewed (totaling $2,490,236) had some type of deficiency. The entries lacked sufficient descriptions or had not been approved by the senior accountant, as required by the Authority's procedures. In some cases, the financial staff could not explain the purpose of the entries. For example, one journal voucher, an adjusting entry of $891,635 for the fiscal year 2013 audit, could not be located or explained.

The Authority's management and board failed to establish an adequate accounting system or internal control environment for its financial transactions. HUD regulations[14] state that effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets. The Authority's accounting system and its related controls failed to provide information for making sound financial decisions and failed to provide HUD assurance that public housing funds, or other HUD provided funds, were properly used to benefit program participants.

Recent Developments

On July 11, 2014, HUD's Columbia field office, Office of Public Housing, put the Authority on a "zero dollar review threshold" until further notice. This action required the Authority to submit copies of all invoices, bills, and receipts to the field office prior to expending or obligating any HUD funds by check, cash, or promissory note. Additionally, HUD required the Authority to submit all procurement documents for HUD's approval prior to awarding and executing contracts.

Conclusion

The Authority's misuse of Federal funds and failure to provide an accurate accounting for its use of Federal funds has placed it in default of multiple provisions of its contract and other program requirements. As such, the consolidated annual contributions contract states that HUD may determine that the Authority is in substantial default of the contract and take possession of the projects under the contract to obtain proper management.

Recommendations

We recommend that the Director, Office of Public Housing, Columbia, SC,

1A. Require the Authority's management and board to immediately cease using HUD program funds for unauthorized purposes.

[14] 24 CFR 85.20(b)(3)

1B. Require the Authority to repay its public housing program the amount identified in the Authority's fiscal year 2013 audit report and any additional HUD program funds misused since the last audit report.

1C. Ensure that all board members obtain HUD-approved training that explains their overall roles and responsibilities, including those related to internal control and financial matters.

1D. Require the Authority to procure an accounting firm to identify sources and uses of funds disbursed since October 1, 2013, and quantify the interfund balances. Once determined, the Authority should reconcile and eliminate the interfund balances. Any ineligible funds should be repaid from non-Federal funds.

1E. Require the Authority to reimburse the appropriate capital fund grant $24,095 using non-Federal funds.

1F. Require the Authority to provide proper support for $14,737[15] in operating disbursements or repay the affected programs from non-Federal funds.

1G. Require the Authority to provide support for $127,697 in other capital fund drawdowns or repay the affected capital fund grant from non-Federal funds.

1H. Require the Authority to provide proper support for $1,687 in unsupported credit card payments or repay the affected programs from non-Federal funds.

1I. Require the Authority to repay the appropriate programs $499 from non-Federal funds for the improper use of the Authority's credit cards.

1J. Require the Authority to establish and implement proper accounting, including adequate written policies and procedures, for staff to follow.

1K. Require the Authority to ensure that central office and asset management staff with accounting and finance responsibilities, have received adequate training for performance of their duties.

1L. Prepare a memorandum to the Deputy Assistant Secretary for Field Operations disclosing the activities potentially causing a breach or default of sections 9(C) and 15(A) of the consolidated annual contributions contract.

[15] The actual amount for unsupported disbursements was $53,514. To avoid double counting, the amount was reduced for the $38,777 in recommendation 2A.

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

1M. Consider administrative sanctions against the Executive Director and board for misuse of HUD program funds.

Finding 2: The Authority Failed To Comply With Federal or Its Own Procurement Requirements

The Authority generally failed to follow HUD's procurement regulations or its own procurement policy. It failed to maintain required documentation, failed to provide for full and open competition, paid for services without required contracts, and failed to perform cost analyses. This condition occurred because the Authority's management and board failed to implement sufficient internal controls over the procurement process. As a result, the Authority could not assure HUD that it procured its goods and services at the lowest cost using full and open competition. For the procurements reviewed, the Authority had more than $1,100 in ineligible spending and was unable to support more than $2.2 million in spending.

The Authority Failed To Follow Procurement Requirements

The Authority's management did not consistently follow HUD's procurement regulations[16] or its own procurement policy. Authority records were insufficient to identify the total universe of contracts procured for the review period. The Authority did not maintain a centralized contract register or other documents listing its procurement activity and did not keep its procurement documents filed with the procurement officer or another central location.

We selected and reviewed 12[17] procurements, 7 from the 74 procurements listed on the contract list compiled by the audit team with assistance from Authority staff, and 5 selected for review by auditors during the performance of the assignment. Each of the procurements had at least one deficiency, and 10 had multiple deficiencies, resulting in $2,227,249 in unsupported costs and $1,102 in ineligible costs. See Appendix C for a list of procurements and deficiencies.

The Authority Failed To Maintain Required Documentation

Regulations required the Authority to maintain a complete history for all procurements.[18] Documentation provided to support the history of 10 of the 12 procurements reviewed was generally incomplete. Neither the staff nor management could explain whether missing documentation had been discarded, misplaced, or had never existed.

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[16] 24 CFR (Code of Federal Regulations) 85.36
[17] There were originally 13 procurements reviewed. One procurement was removed after it was determined that nonfederal funds were used with this contract resulting in only 12 procurements reviewed. Three of the 12 procurements resulted in 3 vendor selections for each.
[18] 24 CFR 85.36(b)(9)

The Authority Failed to Provide Full and Open Competition

The regulations required the Authority to conduct its procurement transactions in a manner providing full and open competition.[19] The Authority could not provide sufficient documentation showing this for 8 of the 12 contracts. Instead of performing the required advertising[20], the Authority targeted vendors for two procurements. For the architecture and engineering procurement, the Authority only requested quotes from five firms or individuals that it chose. For a grading contract, the Authority allowed a contractor to perform the advertising and the only documentation the contractor provided was a listing of individuals that it had selectively contacted.

The Authority Paid For Services Without Required Contracts

In several cases, the Authority obtained and paid for services without executing contracts or continued to use contractors after their contracts had expired.

<u>The Authority failed to execute contracts</u>
The Authority hired and paid vendors without following procurement requirements or executing a contract. The Authority used three vendors to provide temporary staff without entering into a contract or following any procurement requirements. This action resulted in $450,435 in unsupported expenditures.

<u>The Authority obtained services from expired contracts</u>
The Authority has had the same independent public accountant since 2007. The 2007 contract was a one-year contract to audit the Authority's fiscal year 2006 records. Although the contract did not have an option for extensions, the Authority continued to use the firm's services for six years past the end date. The January 2012 board minutes stated that they would continue to use the firm because it knew the Authority's unwritten rules. The Authority's records showed that it had paid the firm $47,522 from public housing funds during 2014. The source of funds used for prior year payments was unclear.

The Authority contracted for accounting services. The contractor provided the auditors with contracts for 2010 and 2012 along with subsequent change orders and addenda. Although the 2010 contract and change orders ended November 2011, the Authority continued to use the contractor until it signed a new contract in 2012. The Authority paid the contractor $98,125 during our audit period, $41,466 after the 2011 contract expired and $56,659 after it failed to properly procure the 2012 contract.

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[19] 24 CFR 85.36(c)
[20] HUD Handbook 7460.8, section 7.1 states that any of the following solicitation methods can be used, as long as it provides for full and open competition: advertising in newspapers, advertising in various trade journals, or e-procurement.

The Authority entered into three $80,000 contracts for unit turnarounds on May 3, 2011. The Authority continued to pay the contractors to turn around units after the initial contract year ended and above the $80,000 per contract threshold. The $531,758 that the Authority paid the vendors without a valid contract was unsupported.

In November 2011, the Authority signed a one-year contract for refuse removal services for its public housing developments. Although the contract had a not-to-exceed limit of $77,808, and expired in November 2012, the Authority continued to use the contractor and, as of May 31, 2014, paid $229,230, or $151,422 over its maximum limit. In addition, the bid documents showed that the winning contractor had bid only $35,688. The contract documents contained no justification as to why the Authority signed the contract for more than the bid amount and the procurement officer could not explain why this occurred.

The Authority procured a pest control contract for January 2011 through January 2012. The Authority could provide no support that it signed an option or completed a new procurement and continued to pay the contractor a total of $114,599 for more than two years after the contract had expired.

The Authority Failed To Perform Cost Analyses

The regulations required the Authority to perform a cost or price analysis for all procurements before it received bids or proposals.[21] Eight of the 12 procurements lacked evidence that the Authority prepared the required cost analyses. As a result, the Authority had no support for the reasonableness of the cost.

The Authority Lacked Sufficient Internal Controls

Although the Authority had a procurement policy and some procedures, management did not ensure that staff followed the requirements. The staff indicated that they had received little direction from management regarding how to handle procurements. Management had not provided staff the detailed written guidance needed for their daily procurement responsibilities. Asset management staff stated they handled procurements based on their past experiences. Each asset manager interviewed provided a different amount when asked what their purchase threshold was. Further, the Authority had experienced excessive turnover for the procurement manager position. There had been three different people in this position, and periods of vacancy, since October 2011.

[21] Regulations at 24 CFR 85.36(f) read in part, "Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications."

Conclusion

Because of its failure to comply with HUD's procurement regulations or its own policies, the Authority used $1,102 in HUD program funds for ineligible costs and could not provide support for another $2,227,249. This condition occurred because the Authority's board and the executive director failed to implement adequate or enforce existing controls. After the Authority makes needed improvements, it will be able to assure HUD that its procurements are made at a reasonable cost and obtained using fair and open competition as required by Federal regulations.

Recommendations

We recommend that the Director, Office of Public Housing, Columbia, SC, require the Authority to

2A. Repay the applicable program(s) $1,102 for ineligible expenditures from non-Federal funds.

2B. Provide support for $2,227,249 in unsupported payments or repay the appropriate program from non-Federal funds.

2C. Determine how much it paid the independent public accountant from HUD program funds after the contract expired and repay any ineligible amounts from non-Federal funds.

2D. Ensure that procurement staff are adequately trained and have detailed written guidance for performing their responsibilities.

2E. Ensure that the Authority's board and management understand their procurement responsibilities and consider whether additional procurement training would be appropriate.

Finding 3: The Authority Failed To Maintain an Adequate Inventory Control System

The Authority failed to implement sufficient written policies and procedures for inventory control. The Authority did not have accurate inventory records, could not account for some assets, and had not completed required physical inventories. As a result, the Authority could not assure HUD that program funds it expended for equipment and supplies were properly used for program activities or that the values reflected in its inventory records were accurate.

The Authority Failed To Develop and Implement Adequate Inventory Controls

Although regulations[22] required the Authority to maintain effective control and accountability over all assets and keep detailed property records, management failed to implement effective written policies or procedures for inventory. Staff used informal unwritten procedures but failed to apply them in a consistent or effective manner to ensure that the Authority maintained accurate inventory records, safeguarded inventory, or completed the required periodic physical inventories.

Inventory Records Had Errors and Omissions

The Authority's inventory records contained numerous errors and omissions. Review of the inventory listing showed deficiencies, such as incorrect or missing equipment purchase or installation dates and missing serial numbers. HUD's regulations[23] required the Authority to maintain complete property records, including such information as acquisition date, location, serial numbers, cost, etc.

A review of a September 2011 purchase of 115 stoves showed that staff had not entered stoves into the Authority's inventory records and could not tell us where the stoves were located. They were also unable to tell us how the old stoves, which the Authority had presumably replaced, had been disposed. At our request, the Authority staff attempted to locate the new stoves but was only successful in locating 16 of them. Authority staff later determined that, although the Authority had purchased the stoves with 2011 public housing capital funds, it had placed 12 of the 16 stoves, valued at $2,779, in the Authority's Section 8 project-based development. The placement of stoves purchased with public housing funds in a Section 8 project based development is an ineligible use of funds and must be repaid.[24] The Authority paid $25,445 for the 99 stoves that it could not locate.

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[22] 24 CFR 85.32 (d)(1)
[23] 24 CFR 85.32 (d)(1)
[24] See footnote 7

No Physical Inventories Were Performed

The Authority staff was unable to provide documentation for a complete physical inventory of its assets. Staff provided documents that showed that the Authority had performed limited inventories about 4 years ago but the date of the last complete physical inventory was unknown. HUD's regulations[25] required the Authority to perform a physical inventory of all assets and reconcile to the property records at least once every two years.

Since there were no official procedures, the employees with responsibility for Authority assets were handling inventory in different ways. Some of the site managers were trying to devise systems to establish accountability at their sites and some were not. None of the site managers were properly accounting for appliances. One stated that the maintenance workers were trusted to do the right thing.

Conclusion

The Authority failed to develop, document, and implement an adequate inventory control system, including procedures for conducting and documenting periodic physical inventory counts and adjusting the asset records. If the Authority makes needed improvements, it will be able to more reliably and consistently account for the assets it has, their correct locations, and account for any assets that may have been lost, stolen, or disposed of. It will also be able to assure HUD that program funds spent on equipment and supplies were properly used for Authority activities and that the values in its inventory records are accurate.

Recommendations

We recommend that the Director, Office of Public Housing, Columbia, SC, require the Authority to

3A. Develop and implement an improved inventory control system, including procedures for conducting and documenting periodic physical inventory counts and adjusting its asset records.

3B. Promptly perform a complete physical inventory and adjust the accounting records, as needed.

3C. Locate and properly record the 99 new stoves or repay its 2011 Capital Fund program $25,445 from non-Federal funds.

[25] 24 CFR 85.32 (d) 2

3D Repay the 2011 Capital Fund program $2,779 for the ineligible placement of 12 stoves from its project based Section 8 development.

SCOPE AND METHODOLOGY

We performed our fieldwork at the Authority's main offices located at 201 Caulder Avenue, Spartanburg, SC, the HUD field office in Columbia, SC, and at our office in Greensboro, NC. We performed our audit work from January through July 2014. Our audit period was October 2011 through December 2013. We expanded the audit period as needed to accomplish our objective.

To accomplish our objective, we

- Reviewed relevant laws, regulations, and HUD guidance;
- Reviewed the Authority's policies and procedures;
- Reviewed the Authority's board of commissioners meeting minutes from October 2011 through December 2013;
- Reviewed the Authority's audited financial statements for fiscal years 2008 - 2013;
- Analyzed the Authority's financial records;
- Reviewed a list of Authority contracts; and
- Interviewed Authority and HUD Columbia, SC, field office staff.

We reviewed the Authority's general ledger interfund reports, financial data schedule, and independent public accountant reports to determine whether the Authority maintained large interfund balances during our audit period. We also attempted to reconcile these balances to those reported to HUD.

We selected a non-statistical sample of 14 (out of 245) cash disbursements over $1,500 (totaling $243,376 out of $2,015,748) from 4 months in the Authority's check register during our audit period. Checks for standard charges such as utilities and benefit payments were excluded from the sample. We reviewed the disbursements to determine whether they complied with HUD and Authority requirements.

We selected a non-statistical sample of 7 (out of 31) Line of Credit Control System payment vouchers totaling $757,467 out of $1,305,203, to review for accuracy and eligibility. The sample included each Capital Fund program grant drawdown during the audit period.

We reviewed a non-statistical sample of three Visa credit card payments for questionable charges. The three payments reviewed accounted for $17,590, or about 13 percent, of the $140,314 in goods and services charged to the credit card during our audit period.

We reviewed a non-statistical sample of seven journal vouchers totaling $2,490,236 between October 2011 and December 2013 to determine whether each had an adequate description, approval, and justification. We were not able to identify a complete universe since the Authority could not provide one. We selected vouchers based on high dollar amounts and nonrecurring entries like payroll.

We selected a non-statistical sample of 12[26] procurements for compliance with HUD and Authority requirements. Three of the 12 procurements resulted in 3 vendor selections for each. Of the 12 procurements reviewed, 7 were selected from the 74 procurements that we compiled with the assistance of Authority staff. The remaining five procurements selected were listed in the check register or initially reviewed during the cash disbursement review. We selected our sample to ensure we included procurements from the current procurement manager's work, concerns raised by the complainant, and our review of the Authority's board minutes. We were unable to compile a complete list of procurements or contract amounts due to the state of the Authority's procurement records.

We selected a purchase of 115 stoves, totaling $31,490, to determine whether the items were properly accounted for. This purchase was one of three bulk purchases of appliances purchased during our audit period.

The results of the non-statistical samples apply only to the items reviewed and cannot be projected to the universe as a whole.

We tested electronic data that we relied upon during the performance of the various review steps. We conducted tests and procedures to ensure the integrity of computer-processed data that were relevant to our audit objective. The tests included, but were not limited to, comparisons of computer-processed data to invoices and other supporting documentation. We found the data to be generally reliable for our purposes.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

[26] There were originally 13 procurements reviewed. One procurement was removed after it was determined that nonfederal funds were used with this contract resulting in only 12 procurements reviewed.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

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

Relevant Internal Controls

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

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

We assessed the relevant controls identified above.

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

Significant Deficiencies

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

- The Authority lacked controls over the use of HUD program funds and failed to maintain an adequate accounting system and financial controls (finding 1).

- The Authority did not have adequate controls in place to ensure that procurement activities complied with applicable laws and regulations (finding 2).

- The Authority failed to implement written policies and procedures for inventory control and the Authority's informal system was inadequate (finding 3).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/
1E	$ 24,095	
1F		$ 14,737
1G		127,697
1H		1,687
1I	499	
2A	1,102	
2B		2,227,249
3C		25,445
3D	2,779	
Total	**$28,475**	**$2,396,815**

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**

SPARTANBURG
HOUSING AUTHORITY
WWW.SHASC.ORG

September 24, 2014

Nikita N. Irons
Regional Inspector General for Audit
Office of Audit (Region 4)
75 Spring Street S.W., Box 42, Room 330
Atlanta, GA 30303

Re: **Response to Draft Audit Report on the Housing Authority of the City of Spartanburg's Use of HUD Funds, Compliance with Applicable Procurement Requirements, and Maintenance of Inventory Control**

Dear Ms. Irons:

Comment 1

Thank you for the opportunity to respond to the draft audit report examining the Housing Authority of the City of Spartanburg's ("Authority") use of U.S. Department of Housing and Urban Development ("HUD") funds, compliance with applicable procurement requirements, and maintenance of inventory control. In the draft audit report ("Draft Audit") provided to the Authority, the Office of Inspector General ("OIG") concludes that the Authority used HUD funds for ineligible or unsupported costs, failed to comply with federal or the Authority's procurement requirements, and failed to maintain an adequate inventory control system. The Authority appreciates and agrees with the OIG's recommendations with regard to improving its recordkeeping and updating policies and procedures related to interfund transfers, procurement and inventory control. However, as further described herein, the Authority adamantly disagrees with the scope and magnitude of certain of the Draft Audit's findings and recommendations. Our very detailed responses which, together with the documentation we have provided to the OIG, constitutes sufficient and appropriate evidence[1] that addresses many, if not all, of the OIG's findings in its Draft Audit.

[1] Section 7.37 of the United States Government Accountability Office's Government Auditing Standards, 2011 Revision, states that, with regard to an audited entity's response, "the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence."

{D0410357.DOCX / 8 DC154-100}

201 CAULDER AVENUE, SPARTANBURG, SC 29306
PHONE: 864.598.6000 FAX: 864-598-6155
INFO@SHASC.ORG

EQUAL HOUSING OPPORTUNITY
TTY# 1-800-735-8583

Nikita N. Irons
September 24, 2014
Page 2

We request that our response be published in its entirety with the OIG's Final Audit but agree that the OIG may omit the exhibits due to their size.

Comment 2

As we detail in our response to the Draft Audit, the Authority has already repaid the full $885,891 identified in its FY2013 financial audit as being owed to its Public Housing Program. We also detail herein that the OIG vastly overstates the procurement deficiencies of the Authority by mistakenly identifying deficiencies where there were none by analyzing one contract related to project based Section 8 developments as if it were subject to public housing procurement requirements, analyzing a number of small purchase procurements as competitive procurements, and, by identifying as missing, documentation that Authority senior staff located immediately after receipt of the Draft Audit and provided to the OIG. The Authority has comprehensively addressed the matters set forth in the Draft Audit and the Authority's Board

Comment 3

of Commissioners held a special session on September 22, 2014 to implement updated policies and procedures related to interfund transfers, procurement and inventory control.

We feel compelled to voice concern about the very limited amount of time we were given to respond to the Draft Audit.[2] While the OIG took five months to conduct their audit of the Authority's

Comment 4

activities, we were given one week to evaluate the initial Draft Audit and submit responses and less than 24 hours to review the revised Draft Audit transmitted by the OIG on September 22, 2014 prior to our exit conference.

At the exit conference, the OIG staff seemed to acknowledge the unreasonableness of their inflexible timing schedule by stating they had not had the time to review our draft responses to the Draft Audit in detail. Therefore, for nearly two hours we walked through our responses to the Draft Audit with the

Comment 5

OIG, highlighted various mistakes in the Draft Audit, provided clarifying documentation to the OIG, and requested that the OIG modify the Draft Audit to correct the mistakes, additional documentation and additional information included in our draft response. The OIG staff acknowledged that for a number of matters there could be changes to the Draft Audit based on our responses and clarifying documentation. Additionally, for certain procured contracts, the OIG offered to provide additional documentation and

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Comment 4

[2] We received an email from you at 4:43pm EST on Thursday, September 11, 2014 transmitting the draft audit findings but noting that you were waiting on final approval and proposing that the exit conference be held the following week with our written comments due no later than September 23, 2014. After reviewing the draft audit findings, we responded by email on Friday, September 12, 2014 at 5:45pm EST requesting that the exit conference be scheduled no earlier than one week after the draft audit was formally issued and requesting an additional two weeks after the exit conference to prepare our written responses. We did not receive Appendix C which identified the contracts that were the subject of the Finding 2 until Monday, September 15, 2014 at 12:47pm EST which meant we had even less time to analyze and respond to all the alleged procurement deficiencies. We received a transmittal of the Draft Audit from Nikita N. Irons on Tuesday, September 16, 2014 at 2:18pm EST which disregarded our request to have at least a week to review and respond and stated that the exit conference would be held three days after we received the Draft Audit on September 19, 2014. We called the OIG again on September 16, 2014 to emphasize that three days was insufficient time to review the Draft Audit, and the OIG agreed to offer us a week to review the Draft Audit before holding the exit conference. However, the OIG did not grant any additional time to prepare our responses and the OIG insisted that we submit them by 5pm EST on the day of the exit conference, September 23, 2014. At 1:38pm EST on September 22, 2014, one day before the exit conference, the OIG transmitted a revised Draft Audit.

Nikita N. Irons
September 24, 2014
Page 3

Comment 4

information to clarify the specific contracts about which they had concerns. Given all the open items that the OIG acknowledged during the course of the exit conference, we requested again at the end of the exit conference that the OIG grant a one week extension to allow the OIG time to review our draft responses and consider revising the Draft Audit, to correct the various mistakes we identified and clarifications we provided, and to then allow the Authority a reasonable period of time to provide a final response to a corrected Draft Audit. Seemingly ignoring the substance of our responses that we walked through for the nearly two hour exit conference, you noted that you were boarding a plane and summarily rejected our extension request. After we pointed out the absurdity of your statement that you would inform the Authority after you landed later that afternoon whether or not you had decided to grant an extension of that day's 5pm response deadline,[3] you granted the Authority a one day extension while you considered our request for a week extension for us to provide a final response.[4]

Comment 4

We believe the OIG was unreasonable in its inflexibility with the strict timing deadlines that it imposed on the Authority. The OIG's schedule afforded insufficient time to review and respond to the Draft Audit and insufficient time to follow up on matters discussed during the exit conference. The inflexibility displayed by the OIG reflects a predisposed bias on the part of the OIG to simply issue their findings without consideration of our response.

Comment 4

We submitted to the OIG initial draft responses to the initial Draft Audit at 2:17pm on September 22, 2014. These final Authority's responses are based on the Draft Audit received from the OIG on September 16, 2014, the revised Draft Audit received by the OIG on September 22, 2014, and the exit conference with the OIG on September 23, 2014. As noted above, we believe we have provided very detailed responses and sufficient and appropriate evidence that addresses many, if not all, of the OIG's findings in its Draft Audit.

I. Overview of the Authority's Activities

Comment 6

The Authority takes the concerns raised in the Draft Audit very seriously and welcomes the opportunity to address the issues raised and enhance the administration of its programs. In fact, the Authority is making management changes, implementing key management improvements, establishing proper accounting policies and procedures (including improved interfund transfer policies and procedures), updating and improving its procurement policy, and adopting inventory control policies and procedures to address all of the issues described in the Draft Audit.

While the Authority acknowledges the need to make certain management improvements and improve certain policy and procedures, it does not agree with many of the findings of the Draft Audit and

Comment 4

[3] The time of this extension discussion was 12:44pm EST of the day (September 23, 2014) that the OIG was insisting the Authority's written responses had to be provided by 5pm EST.

[4] Given that we never received a confirmation in writing of the extended deadline after the exit conference, we sent the OIG a confirming email at 4:22pm EST on September 23, 2014 noting that the OIG agreed that the Authority's final response was due by 5pm EST on September 24, 2014 and that we had requested a longer one week extension. At 6:59pm on September 23, 2014, you sent a response email acknowledging the one day extension and denying our request that we have one week after the exit conference for our final response.

Comment 7

wants to ensure that the Authority's performance is viewed in the appropriate context. First, it is important to note that the Authority has been designated a "high performer" by HUD since the fiscal year end of September 30, 2012. Secondly, the Authority has been a leading development agency having received a number of competitive grants from HUD, including FY1996 and FY2004 HOPE VI grants, a FY2012 Choice Neighborhood Planning Grant, and multiple FY2012 Rental Assistance Demonstration ("RAD") awards for Authority public housing properties.

In recent years, the Authority has struggled to navigate the impact that severe HUD funding cuts have had on its programs. These funding cuts have had a ripple effect that impacted both the number of people we can serve as well as the Authority's internal operations. Many of the issues highlighted in the Draft Audit were the direct result of diminished funding and corresponding staffing cuts and turnover. Regardless, we want to make any improvements we can to address the concerns and issues raised in the Draft Audit.

Comment 6

Lastly, we would note that the Authority's existing executive director, Harry Byrd Jr., has tendered his resignation to the Authority's Board of Directors due to health reasons but is working to see the Authority through this period of transition. Because of the urgency of hiring a new executive director, the Board has formed a search committee to find a replacement and has begun the process of procuring the services of an executive search consultant. In addition, Authority staff have been working toward filling the vacancy of the Chief Financial Officer position. Three interviews for this position are scheduled for the week of September 22-26, 2014 and all three interviewees are certified public accountants. The Board also intends to procure outside experts to perform an independent organizational and operational assessment of the Authority and make recommendations to the Board regarding Authority operations. Lastly, we have already contacted the National Association of Housing and Redevelopment Officials to schedule an on-site training for our entire Board so that we are all attuned and fully up to date on our responsibilities and HUD requirements.

Authority's Internal Analysis

While we are undertaking the executive director search and engaging outside experts to analyze the Authority's operations, we have been in the process of implementing a number of organizational improvements that directly address the findings in the Draft Audit. Specifically, the Authority has taken the following steps which address the items raised in the Draft Audit:

Comment 2

- repaid in full the Public Housing Program an amount of $885,891 from non-Federal funds to address FY2013 Financial Audit Finding 13-01;

Comment 6

- performed extensive internal analysis of the Authority's accounting and financial control systems and procurement policy and procedure, including enhanced budget preparation, controls and reporting, month-end closing procedures, and internal financial management control policies which included fixed assets inventory for 2014 and vendor management services reconciliation;

Comment 6

- implemented interfund transfer policies and procedures in April 2014 and refined these further recently, adopting the updated interfund transfer policies and procedures attached as Exhibit A on September 22, 2014 for immediate implementation;

Comment 6

- adopted the updated procurement policy attached as Exhibit B and a procurement procedures manual attached as Exhibit C that will simplify the required procurement processes for our procurement personnel and we adopted these policies and procedures on September 22, 2014;

Comment 6

- adopted inventory control policies and procedures attached as Exhibit D that we adopted on September 22, 2014;

Comment 8

- through FY2012, the Authority utilized a cost allocation plan in accordance with Agenda Item: NB#3, dated September 27, 2011 (R#2011-21) (attached as Exhibit E-1) and, beginning with FY2013, the Authority switched to a fee-for-service approach (see accounting related to fee approach attached as Exhibit E-2) in lieu of cost allocation as is detailed further in our response;

Comment 2

- an accounting demonstrating sources utilized to repay the Public Housing Program an amount of $885,891 from non-Federal funds to address FY2013 Financial Audit Finding 13-01 (Exhibit F), and

Comment 9

- an inventory of 99 stoves that are the subject of Finding 3 of the Draft Audit (see Exhibit G)
- begun work to address any actual or perceived problems with the expenditure of HUD funds and the administration of the Authority.

We have undertaken a detailed review of each of the expenditures and procurements that were questioned by the OIG in its Draft Audit and we address each on an itemized basis in our detailed responses below. The Authority plans to use the coming weeks to address the OIG's recommendations as well as any items identified as part of the Authority's organizational assessment. In this manner, the Authority is determined to create a stronger agency that will continue to fulfill its important social mission in a financially responsible manner.

OIG Audit Findings Should Be *Management Improvement* Recommendations

Comment10

The Authority has learned some valuable lessons through its internal assessment and the OIG's audit process. These lessons include the need to update its policies and procedures, improve its recordkeeping, and ensure its employees are knowledgeable regarding such policies and procedures. While the Authority agrees that certain improvements need to be made and that the Draft Audit illustrates key areas for upgrading and enhancement, we continue to believe that there are a number of very serious mistakes in the Draft Audit. Given all this, the conclusions in the Draft Audit should be management improvement suggestions as opposed to audit findings against the Authority. Given the impending change of administration at the Authority and the actions already underway to remedy past shortcomings, we believe that the Authority is poised to better serve its residents and complete some important redevelopment projects while improving and updating internal accounting, procurement, and documentation controls to better evidence its compliance with HUD requirements.

II. Authority's Evaluation of OIG Findings and Recommendations

The OIG makes three (3) findings with respect to the Authority relating to (1) use of HUD funds for ineligible or unsupported costs, (2) failure to comply with procurement requirements, and (3) failure to maintain an adequate inventory control system. While the Authority disagrees with a very significant number of items included in Finding 1 and Finding 2 and provides a detailed response for each in its itemized responses below, the Authority also believes that it needs updated policies and procedures for accounting, procurement, and inventory control. The Authority located 99 stoves noted in Finding 3 but otherwise agrees with the OIG recommendations for Finding 3.

The Authority would like to take this opportunity to address each recommendation made by the OIG. The Authority feels that it has made significant improvements on the issues identified by the OIG, and will continue to implement reforms to address the recommendations. The Authority's responses are set forth below. To facilitate ease of discussion, the Authority has addressed the responses and recommendations in the order in which each appeared in the Draft Audit.

Finding 1 – Authority's Response

Comment 11

The Authority's FY2013 financial audit for year ended September 30, 2013 identified that the Authority's Public Housing Program was owed a total of $885,891 from other Authority programs. The Authority received its FY2013 audit in June 2014 and immediately realized the scope of the ineligible expenditures of public housing funds. The Authority's board chairperson, Suzanne Cole, notified Wells Fargo Bank in a letter, dated July 21, 2014, that it could not continue to fund operating deficits at the Mary Wright Center stating in relevant part that "... Spartanburg Housing Authority ("SHA") Senior Staff have informed you that, per our recent audit, SHA lacks eligible funds to pay ongoing operating deficits, debt service, swap, and sinking fund payments for Mary Wright Center."

Comment 2

In accordance with its accountant's recommendations, the Authority began to implement an improved monitoring system over inter-program receivables and operating cash balances in April 2014. The Authority implemented interfund transfer procedures in April 2014 and refined these further recently, adopting the updated interfund transfer policies and procedures attached as Exhibit A on September 22, 2014 for immediate implementation. As of September 22, 2014, the Authority had repaid in full from non-Federal funds the $885,891 that needed to be reimbursed to its Public Housing Program based on the FY2013 financial audit (see Exhibit F which provides a detailed accounting of the amounts and timing of non-Federal sources used for the reimbursement). We are in the process of reconciling all accounts for FY2014 and will issue a request for proposals for accounting consulting services to assist with this. We anticipate that this RFP will be issued no later than September 26, 2014. We also issued Request for Proposals No. 2014-0057 on July 24, 2014 to procure a new independent public accountant for annual audit and tax services. Responses were due on September 11, 2014 and we anticipate making a selection shortly.

Mary Wright Center

The OIG scrutinizes the Mary Wright Center (the "Center") transaction, a New Markets Tax Credit ("NMTC") and Historic Tax Credit commercial development undertaken by a prior Authority administration. There are some important inaccuracies in the Draft Audit relating to this transaction that need to be corrected. We should also emphasize that the Authority has been having periodic discussions with the HUD Columbia Field Office regarding the Center and alerted them to its workout negotiations with Wells Fargo Bank, the lender for the Center.

Comment 12

The development of the Center was undertaken by SHA Property Company (the "Company"), an Authority-created related entity that the Authority wholly controls. The Draft Audit states that the "[w]ithout HUD approval, the Authority transferred ownership of its office building and maintenance warehouse to the Spartanburg Housing Authority Property Company, a nonprofit corporation that it had created for the purpose of owning and managing non-dwelling properties." However, it is not clear what approval the OIG intended for the Authority to obtain given that HUD has made clear to housing authorities that instrumentalities, such as the Company, are considered the housing authority and, as such, the Authority's conveyance of ownership of its office building to its instrumentality is not a disposition and does not trigger the need to obtain HUD disposition approval.[5]

Comment 13

The financing for the Center involved a number of financing sources including equity generated by the NMTCs and various debt sources. In addition to the ongoing operating deficits, the two key outstanding liabilities are the Wachovia Bank[6] loans.[7] The $3 million loan from Wachovia requires interest-only monthly payments until its maturity date of February 9, 2015 at which point it is due in full. There is also a $750,000 supplemental loan from Wachovia with interest set at a nominal 0.50% per annum interest rate and no payments are due on this loan prior to its maturity date of February 8, 2048. The loan agreement for the two private bank loans includes as an attachment the projected refinancing that the parties anticipated for the $3 million senior loan at the end of the seven year NMTC compliance period. It recites that "it is assumed that SHA will issue a bank-qualified bond to purchase the MWC Project from the SHAP entity as its principal offices as a public purpose bond." As noted previously, the Authority's executive director did not structure the financing for the Center. Further, he does not recall making a statement that "there was no plan for dealing with" the refinancing. Regardless, as noted above, the contractual documents anticipate a bond refinancing transaction at the end of the seven year NMTC compliance period.

The Center was underwritten with the following projected tenant rents: i) Authority Office - $220,947; ii) SHD Office - $57,809; iii) City of Spartanburg - $103,570; iv) Urban League Upstate - $34,767; v) ReGenesis - $11,589; and vi) a to-be-determined commercial tenant - $47,954. The anticipated tenant mix was to generate $476,636 in total income. Additionally, the 325 S. Church Street property, which was also pledged as collateral for the transaction, was projected to generate $124,000 in additional rental

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[5] The Housing Act of 1937, as amended, and applicable HUD regulations all define Public Housing Authority to include any instrumentality of the Public Housing Authority.
[6] Wachovia Bank was the lending institution for the initial transaction but was acquiring subsequently by Wells Fargo Bank.
[7] There is also subordinated related party debt held by Authority-related entities.

income. Adjusting for a 10% vacancy rate, this led the parties to project effective gross income of $552,973 on an annual basis. With the financial collapse in 2008, a number of major commercial tenants vacated the property which left it running operating deficits. Prolonged vacancies have created an operating deficit of approximately $25,000 per month.

The Authority's direct liabilities related to the Center are only its commercial rent payments. It currently pays approximately $110,000 per year in rent at the Center pursuant to a commercial lease. This rental level has been an ongoing point of concern not just for the Authority as it has led to financial difficulties for the Authority. The Authority desired to terminate its lease at the Center and relocate its offices to the 325 South Church Street property but such a relocation implicates complex issues given that the Church Street property was pledged as collateral in conjunction with the development of the Center as further described below. Therefore, the Authority continued to fund operating deficits at the Center in order to retain its office space and avoid foreclosure.

The Authority's FY2013 audit was received by the Authority in June 2014. The Authority and its board recognized that there had been an ineligible use of public housing funds – largely driven by operating deficits at the Mary Wright Center – and, as noted previously, the Authority's board chairperson, Suzanne Cole, promptly communicated to the lender, Wells Fargo Bank in a letter, dated July 21, 2014 that the Authority could not continue to fund operating deficits at the Mary Wright Center stating in relevant part that "... Spartanburg Housing Authority ("SHA") Senior Staff have informed you that, per our recent audit, SHA lacks eligible funds to pay ongoing operating deficits, debt service, swap, and sinking fund payments for Mary Wright Center." The Authority also brought the current status of the Mary Wright Center transaction to the attention of HUD Columbia. The Authority is negotiating with the lender, Wells Fargo Bank, to structure a workout of this transaction by relocating the Authority's offices to a more affordable space and attempting to negotiate a deed in lieu of foreclosure to the Center to Wells Fargo Bank in return for a total and complete satisfaction of the Center's outstanding debt. We offer this information to underscore that there is a clear and considered plan for dealing with the Center in a manner that complies with all applicable HUD requirements and it is a central focus of the Authority going forward.

Ineligible or Unsupported Other Cash Disbursements

Comment 14

The Authority acknowledges that certain cash disbursements were ineligible or unsupported. We appreciate the OIG bringing certain items to our attention and we address each item identified by the OIG below in our responses to relevant OIG recommendations.

Failure to Maintain Auditable Records

Comment 15

While we acknowledge that we can improve our recordkeeping, we certainly do not believe that our records are not auditable. Our accounting firms have been able to audit our records each year and, in fact, it was our FY2013 fiscal audit that revealed our ineligible use of public housing funds which largely resulted from our use of one general fund account. As noted previously, we have corrected that by repaying the

Comment 2

Comment 6

Comment 16

Comment 8

Public Housing Program the full amount cited as going toward ineligible uses and have implemented an improved monitoring system over inter-program receivables and operating cash balances.

The Authority has taken a number of steps to address the concerns raised by the OIG with regard to its recordkeeping. The Authority opened two separate bank accounts in June 2014. One of these bank accounts is for the Authority's Public Housing Funds and the other bank account is for the Authority's Housing Choice Voucher (Sec 8) program. This will help ensure that the Authority's Public Housing Funds are only utilized for eligible purposes and will simplify accounting. As previously noted above, the Authority implemented interfund transfer procedures in April 2014 and refined these further recently, adopting the updated interfund transfer policies and procedures attached as Exhibit A on September 22, 2014 for immediate implementation. The Authority has been providing ongoing training to staff involved with bank reconciliation and interfund transfer procedures. SHA has repaid the full $885,891 identified in its FY2013 financial audit as being owed to its Public Housing Program.

Please also see our response to Recommendation 1A below.

Unapproved or Unsupported Accounting Entries

On September 18, 2014, two days after receiving the Draft Audit, the Authority requested information from the OIG as to which seven journal vouchers were reviewed and being questioned so that it could examine those entries. On Friday, September 19, 2014 at 10:54am the OIG provided the Authority with information as to which seven journal vouchers it reviewed. However, with not even two full business days to research its accounting records regarding these seven journal vouchers, it has been impossible for the Authority to respond to the OIG's allegations that such journal vouchers are deficient. Had the OIG allowed more time or immediately identified the seven journal vouchers, then the Authority could have pulled the same journal vouchers, analyzed them and provided a detailed response.

Costs Not Properly Allocated

As noted previously, through FY2012, the Authority utilized a cost allocation plan in accordance with Agenda Item: NB#3, dated September 27, 2011 (R#2011-21) (attached as Exhibit E-1). Beginning in FY2013, the Authority switched to a fee-for-service approach in lieu of cost allocation beginning in FY2013. We have attached an accounting of the fee-for-service charges by Authority program for FY2013 (Exhibit E-2) totaling $539,835. The Supplement to HUD Handbook 7475.1 REV., CHG-1, Financial Management Handbook (Revised April 2007) (the "Supplement") makes clear that the fee-for-service approach is a permissible approach for PHAs, stating in relevant part "[t]his supplement is intended to allow PHAs to use a fee-based structure in lieu of cost allocation systems."[8]

[8] Section 7.9, Supplement to HUD Handbook 7475.1 REV., CHG-1, Financial Management Handbook (Revised April 2007). Section 7.9 states further, in the context of non-Federal programs that, while "HUD cannot dictate to the PHA that a fee-for-service methodology be used in State-funded or other business activities the PHA may administer … HUD believes such a policy makes good business sense …"

The Draft Audit raises the concern that the Authority did not allocate staff costs associated with management of day-to-day operations of the Mary Wright Center and that such costs were disproportionally borne by the Authority's other programs. However, the Authority pays its staff from its Central Office Cost Center, which in turn imposes permissible fee-for-service charges on its federal and non-federal programs in accordance with the Supplement.

__Recommendation 1A.__ Require the Authority's management and board to immediately cease using HUD program funds for unauthorized purposes.

Comment 11

We want to be clear that the Authority itself identified the ineligible use of public housing funds in its FY2013 financial audit, understood the gravity of the issue, and moved immediately to rectify the finding and institute controls. In fact, the Authority's FY2013 audit included a "Reply & Corrective Action Plan" to address the finding about ineligible use of public housing funds – it stated:

> The Authority will implement an improved monitoring system over inter-program receivables and operating cash balances to be fully completed by May 30, 2014. Corrective actions and improvements will include an elevated level of managerial approval to pay certain invoices. Additionally, financial reports will be prepared and analyzed monthly in order to monitor cash and inter-program balances and to assess the applicable balances against forecasted demands on cash. In October of 2013, the Authority received reimbursement of $294,000 from the State of South Carolina Workers Compensation fund which was used to repay some of the borrowed funds.
>
> Additional corrective actions and improvements will include an increased level of oversight by the Chief Financial Officer. This oversight will require review validation of the correct account coding before bills are paid relating to certain funds. The funds should include all SHA funds when there is a reason to believe that the fund in question may not have sufficient cash on hand to pay its own operating expenses from operating revenue received.
>
> SHA will open two separate bank accounts in April of 2014. One account will be for all transactions in Public Housing and the other account will be for Housing Choice Voucher (Sec 8) program transactions. The establishment of these bank accounts will facilitate the timeliness and accuracy of the monthly bank reconciliation process which will allow for the identification of inter-fund transactions as well as improved segregation of cash balances for each fund during the monthly settlement process.
>
> Lastly, SHA has revised its inter-fund procedures that describe the steps to be taken each month along with the oversight that will be implemented. The procedures will be augmented with the training of staff involved with the bank reconciliation and inter-fund settlement processes.

As mentioned before, the Authority's FY2013 audit was received by the Authority in June 2014. The Authority and its board recognized that there had been an ineligible use of public housing funds – largely driven by operating deficits at the Mary Wright Center – and the Authority's board chairperson, Suzanne Cole, promptly communicated to the lender, Wells Fargo Bank in a letter, dated July 21, 2014 that the Authority could not continue to fund operating deficits at the Mary Wright Center stating in relevant part that "... Spartanburg Housing Authority ("SHA") Senior Staff have informed you that, per our recent audit, SHA lacks eligible funds to pay ongoing operating deficits, debt service, swap, and sinking fund payments for Mary Wright Center."

Comment 6

As noted previously, to ensure that HUD program funds are only utilized for eligible purposes, the Authority implemented interfund transfer procedures in April 2014 and refined these further recently, adopting the updated interfund transfer policies and procedures attached as <u>Exhibit A</u> on September 22, 2014 for immediate implementation. The Authority has taken additional steps as well to guard against any future ineligible uses of Public Housing Funds, including utilizing two bank accounts, one for Section 8 funding and a separate one for Public Housing funding.

***Recommendation 1B**. Require the Authority to repay its public housing program the amount identified in the Authority's fiscal year 2013 audit report and any additional HUD program funds misused since the last audit report.*

Comment 2

As noted above and as of September 22, 2014, the Authority has repaid in full from non-Federal funds the $885,891 that needed to be reimbursed to its Public Housing Program based on the FY2013 financial audit (see Exhibit F which provides a detailed accounting of the amounts and timing of non-Federal sources used for the reimbursement). We are in the process of reconciling all accounts for FY2014 and will issue a request for proposals for accounting consulting services to assist with this. We anticipate that this RFP will be issued no later than September 26, 2014. We also issued Request for Proposals No. 2014-0057 on July 24, 2014 to procure a new independent public accountant for annual audit and tax services. Responses were due on September 11, 2014 and we anticipate making a selection shortly.

***Recommendation 1C**. Ensure that all board members obtain HUD-approved training that explains their overall roles and responsibilities, including those related to internal control and financial matters.*

Comment 6

We will implement a plan for regularly scheduled board member trainings to ensure that each board member understands his or her role and responsibilities, especially with regard to internal control and financial matters. The Authority is planning an on-site NAHRO training for all commissioners in fall/winter 2014. Additionally, the Board will regularly attend NAHRO conferences to ensure that they are all up-to-date on all of their roles and responsibilities. Lastly, the Authority will implement any other best practices identified by the outside experts that are procured to perform an independent organizational and operational assessment of the Authority.

***Recommendation 1D**. Require the Authority to procure an accounting firm to identify sources and uses of funds disbursed since October 1, 2013, and quantify the interfund balances. Once determined, the Authority should reconcile and eliminated [sic] the interfund balances. Any ineligible funds should be repaid from non-Federal funds.*

Comment 6

The Authority is currently working with Casterline Associates on these matters. Please see our response to Recommendation 1B above for the detailed plan on reconciling and eliminating the interfund balances through use of non-Federal funds. We are in the process of reconciling all accounts for FY2014 and will issue a request for proposals for accounting consulting services to assist with this. We anticipate that this RFP will be issued no later than September 26, 2014. We also issued Request for Proposals No. 2014-0057 on July 24, 2014 to procure a new independent public accountant for annual audit and tax services. Responses were due on September 11, 2014 and we anticipate making a selection shortly.

***Recommendation 1E**. Require the Authority to reimburse the 2011 capital fund grant $24,095 using non-Federal funds.*

Comment 14

We acknowledge that the $24,095 should have been paid from non-Federal funds and we will reimburse the Public Housing Program accordingly.

***Recommendation 1F**. Require the Authority to provide proper support for $14,737 in operating disbursements or repay the affected programs from non-Federal funds.*

Comment 14

We acknowledge that the $14,737 should have been paid from non-Federal funds and we will reimburse the Public Housing Program accordingly.

***Recommendation 1G**. Require the Authority to provide support for $127,697 in other capital fund drawdowns.*

Comment 14

Of the $127,697, $61,471.73 was to pay Authority employee salaries from budget line item 1410 (administration) for Capital Fund related work. It is our understanding that at the beginning of each year, all of this line item can be drawn. If necessary, we do believe that we could produce payroll records for each of these draws to document which employees were paid along with the corresponding details. The Authority is continuing to research the remaining amount and will either provide support or repay its Public Housing Program any ineligible amounts.

***Recommendation 1H**. Require the Authority to provide proper support for $1,687 in unsupported credit card payments or repay the affected programs from non-Federal funds.*

Comment 14

The Authority is continuing to research these credit card payments and will either provide support demonstrating that these are eligible costs or repay its Public Housing Program any ineligible amounts.

***Recommendation 1I**. Require the Authority to repay the appropriate programs $499 from non-Federal funds for the improper use of the Authority's credit cards.*

Comment 14

The Authority is continuing to research this item and will either provide support or repay its Public Housing Program any ineligible amounts.

***Recommendation 1J**. Require the Authority to establish and implement proper accounting, including adequate written policies and procedures, for staff to follow.*

Comment 3

Please see our response to Recommendation 1A. As noted previously, to ensure that HUD program funds are only utilized for eligible purposes, the Authority implemented interfund transfer procedures in April 2014 and refined these further recently, adopting the updated interfund transfer policies and procedures attached as Exhibit A on September 22, 2014 for immediate implementation. The Authority has taken additional steps as well to guard against any future ineligible uses of Public Housing Funds, including utilizing two bank accounts, one for Section 8 funding and a separate one for Public Housing funding. We are immediately training staff on implementing all of our improved and updated accounting policies and procedures. Lastly, the Authority will implement any other best practices related to accounting identified by the outside experts that are procured to perform an independent organizational and operational assessment of the Authority.

Comment 6

***Recommendation 1K.** Require the Authority to ensure that central office and asset management staff with accounting and finance responsibilities, have received adequate training for performance of their duties.*

Please see our response to Recommendation 1J above. The Authority's Senior Accountant and Staff Accountant will attend HUD accounting training including advanced HUD accounting. The new Staff Accountant will be attending an intermediate-level accounting training. Staff will also participate in regular webinars and we will schedule HUD accounting training for both our payables and receivables accounting assistants.

***Recommendation 1L.** Prepare a memorandum to the Deputy Assistant Secretary for Field Operations disclosing the activities potentially causing a breech [sic] or default of sections 9(C) and 15(A) of the consolidated annual contributions contract.*

Comment 17
Comment 2

Comment 18

The Authority does not dispute that it made ineligible expenditures with certain Public Housing Program funds. However, as set forth in our response to Recommendation 1B, the Authority itself disclosed this issue to the HUD Columbia Field Office well prior to the Draft Audit Report being issued and utilized non-Federal funds to reimburse all ineligible expenditures to the Public Housing Program. Therefore, we do not believe that HUD Columbia should declare a breach of Section 9(C) of the Consolidated Annual Contributions Contract (the "ACC"). However, if HUD Columbia believes it needs to declare such a breach, then it should deem the breach cured by the actions of the Authority in disclosing this issue previously to HUD Columbia and then correcting and reimbursing these ineligible expenditures.

Comment 19

The Draft Audit Report concludes, based on conversations with certain unidentified staff of the Authority, that there may have been a violation of Section 15(A) of the ACC because such staff were unable to provide reconciled interfund balances that included all financial activity since the September 30, 2013 fiscal year end for the Authority. We are in the process of reconciling all accounts for FY2014 and will issue a request for proposals for accounting consulting services to assist with this. We anticipate that this RFP will be issued no later than September 26, 2014. We also issued Request for Proposals No. 2014-0057 on July 24, 2014 to procure a new independent public accountant for annual audit and tax services. Responses were due on September 11, 2014 and we anticipate making a selection shortly.

***Recommendation 1M.** We also recommend that the Director of the Departmental Enforcement Center, in coordination with the Director of HUD's Columbia Office of Public Housing, consider administrative sanctions against the Executive Director and board for misuse of HUD program funds.*

The OIG findings in the Draft Audit do not warrant a recommendation to pursue administrative sanctions against the Executive Director and the board for misuse of HUD program funds for a number of reasons. Administrative sanctions, such as debarment actions, are intended to protect the public interest

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by excluding persons who are not "presently responsible" from participation in federal programs.[9] Debarment may be imposed only to protect the public interest, not for the "purposes of punishment".[10] In the context of compliance with a public agreement like the ACC, the causes for debarment are:

1. A willful failure to perform in accordance with the terms of one or more public agreements or transactions. 2 C.F.R. § 180.800(b)(1).
2. A history of failure to perform or of unsatisfactory performance of one or more public agreements or transactions. 2 C.F.R. § 180.800(b)(2).
3. A willful violation of a statutory or regulatory provision or requirement applicable to a public agreement or transaction. 2 C.F.R. § 180.800(b)(3).
4. Any other cause of so serious or compelling a nature that it affects your present responsibility. 2 C.F.R. § 180.800(d).

Comment 20

Comment 11

Comment 2
Comment 7

The facts here make clear that none such willful failures or violations are at issue. Instead, the present Authority leadership inherited a complicated New Markets Tax Credit and Historic Tax Credit transactional structure from the prior administration related to its office building and has acted carefully and rationally in attempting to avoid foreclosure, potential lawsuits for deficiency judgments against the Authority and loss of the Authority's office space. When it received the finding in its FY2013 fiscal audit, the Authority promptly disclosed the ineligible use of public housing funds to the HUD Columbia Field Office in the midst of the OIG's investigation and well before the Draft Audit was released and, as summarized in the preceding responses, has already reimbursed the Public Housing Program for all ineligible expenditures.

The Executive Director has led a housing authority to "high performer" status under HUD's assessment program and the successes of the Authority is further underscored by the fact that it has received awards under a number of competitive programs, including the HOPE VI, Choice Neighborhoods Planning, and Rental Assistance Demonstration programs. The Authority acknowledges that certain policies and procedures need to be updated and the exhibits show that the Authority is moving forward in doing that. A period of extreme austerity in federal funding precipitated staff turnover at the Authority and made staff training and adherence to proper procedures difficult – this is not an excuse but simply the reality of the past few years. Regardless, our response makes clear that the findings in this Draft Audit do not rise to the level of warranting administrative sanctions against the Executive Director or Authority Board. As mentioned previously, the Executive Director has tendered his resignation due to health reasons but is continuing to see the Authority through this period of transition to new leadership.

Finding 2 – Authority's Response

Comment 21

The OIG greatly overstated the Authority's procurement deficiencies and made a number of mistakes in analyzing the Authority's compliance with applicable procurement requirements. First, the OIG included in its findings a roof repair contract that was for certain of the Authority's project based Section 8 developments, which do not trigger 24 CFR part 85 procurement requirements. Secondly, the OIG failed to recognize that a number of contracts followed small purchase procedures (for contracts less than

[9] 2 C.F.R. 180.125.
[10] Id.

$100,000) which have different requirements than competitive procurements (e.g. as we detail below, small purchases do not have the same advertising requirements as competitive procurements). The OIG allegations of expired contracts also failed to recognize that the Authority has discretionary renewal rights under nearly all of their contracts and regularly exercises these.[11] As we further detail below, these mistakes led the OIG to vastly overstate the number of procurement deficiencies, the number of expired contracts and the level of unsupported and ineligible amounts. With regard to the alleged missing documentation, the Authority senior staff, when they received the Draft Audit, quickly located nearly all of the procurement files that the OIG identified as missing and provided nearly all such documentation to the OIG at the exit conference and then also provided a few other follow up items prior to submission of this final response to the Draft Audit.

Comment 22

Comment 23

During the course of our exit conference discussions, OIG staff helpfully acknowledged that it would review the additional documentation provided by the Authority and potentially revise its findings. Also, in response to concerns expressed by the Authority that the information in the draft audit was ill-defined and too vague, OIG staff noted at the exit conference that they would provide additional information to the Authority to clarify which specific contracts were implicated in Finding 2 of the Draft Audit.[12] However, as of the OIG's deadline for our final response, we had only received information related to the refuse contract and the roof repair solicitation and not received any additional information as to what the OIG was specifically concerned about with regard to the accounting and fire damage contracts. By the OIG's own admission, it did not provide a comprehensive listing of the specific contracts at issue to Authority senior management prior to issuing the Draft Audit.[13] In fact, Appendix C to the Draft Audit which is the recitation of the alleged procurement deficiencies was not even included in the OIG's original transmittal of its draft findings to the Authority. Only when the Authority specifically asked for Appendix C, was it provided and that was the first time Authority senior management saw the full scope of the OIG's alleged procurement deficiencies.[14] The fact that the Authority produced all the procurement documentation that it delivered to the OIG at the exit conference makes clear that, had such informational requests been clearly communicated to senior Authority staff, this information could have been provided during the course of the audit. In the end, the Authority provided all the information referenced in these responses to the OIG at the exit conference and, regardless of whether the OIG reviews it or simply issues

Comment 24

Comment 23

[11] While we agree that the Authority should properly document exercise of its election to renew contracts and the Authority is committed to making sure that gets done going forward, the appropriate finding/recommendation relates to proper documentation of the exercise of a renewal right and not an invalidation of a contract. Such contracts are still valid and there was clear value received with each of these contracts commensurate with the contract pricing (which was supported by the cost and/or price analysis that we detail below for each contract).

[12] We hoped to receive that additional information but the OIG did not send it to the Authority prior to the deadline for this final response.

[13] In response to this concern when we raised it at the exit conference, the OIG stated that they had met at one point with senior Authority staff. Authority senior staff recalls their only interactions with the OIG auditors to be passing conversations, exchanges of pleasantries, and this one meeting. Authority senior staff recall this meeting as a late in the day and hastily convened status update from the OIG that provided an update to Authority senior staff on the status of the audit and other generalities related to the audit.

Comment 23

[14] The Authority's executive director received draft findings from the OIG at 4:43pm on Thursday, September 11, 2014 without Appendix C. The Authority requested and received Appendix C from the OIG on Monday, September 15, 2014 at 12:47pm.

Comment 6

Comment 24

Comment 25

Comment 26

the findings it appears predetermined to issue, we have faith that HUD Columbia will review and consider our full procurement files in evaluating the OIG's recommendations.[15]

We should also note that the Authority has been in the process of revamping and updating its procurement policy, procedures and processes and is attaching to this response its updated procurement policy attached as Exhibit B and a procurement procedures manual attached as Exhibit C that will simplify the required procurement processes for our procurement personnel. We have immediately begun implementing these policies and procedures and will have internal and external trainings for all procurement personnel and other critical staff in each department. Finally, the Authority is determined to improve procurement staff training, to reinstitute a centralized contract register and procurement filing system, and to have enhanced senior staff oversight of its procurement division.

While we acknowledge some deficiencies with our past procurements (the largest of which was under the prior Authority administration), we wanted to clarify a number of inaccuracies in the Draft Audit that should not have resulting in audit findings and that led the OIG to vastly overstate the Authority's procurement deficiencies. Aside from the Appendix C chart to the Draft Audit, we were not given detailed information regarding the specific procurements that the OIG analyzed and therefore we have had to make educated guesses as to the procurements at issue in formulating our responses.[16] If the OIG analyzed different contracts from those that we included below, we would need to understand the specific contracts it audited in order to adequately analyze and respond. We also re-examined our files and provided additional information to the OIG for certain of the contracts on the dates set forth below after we learned of the findings and used our best efforts to identify the audited procurements. Below we address each audited procurement/contract in the Draft Audit:

Independent Public Accountant: The Authority agrees with the OIG that the Authority needs to re-procure for the services of an independent public accountant and has already issued a request for proposals for such services. That being said, we do not believe that $54,997 is an unsupported amount as there was an initial procurement of independent public accountant services and the cost of such services were commensurate with the value of such services. Regardless, we have substantially completed the procurement process and will be recommending a firm for approval at the regular October 2014 Board of Commissioner's meeting.

Accounting Services: We provide responses to each of the cited deficiencies below:

1) Lacking History. We could not tell which accounting procurement the OIG reviewed in determining there were deficiencies. At the exit conference, the OIG stated that it would provide additional information as to the specific contract it examined but, as of the OIG's deadline for our final response, we had not received any such information

[15] The information referenced in our responses to Finding 2 is too voluminous to attach to this response but in addition to being provided to the OIG at the exit conference, it is on file at the Authority's offices.
[16] For example, we had multiple public relations contracts that were entered into over the years. Given the "unsupported amount" that the OIG cited in Appendix C of the Draft Audit, we made an educated guess as to the public relations contract that the OIG was citing.

relating to procurements for accounting services. Therefore, we have provided a procurement history with regard to two procurements pursuant to which Casterline was selected over the past four years. We believe we have provided the OIG with sufficient detail on the "significant history" of this procurement as is required by 24 CFR 85.36(b)(9).[17]

a. In August 2009, the Authority advertised a Request for Qualifications #2009-003 for qualified accounting consulting firms to provide financial and accounting services as well as for compliance with HUD and GAAP requirements. The Authority advertised this RFQ through the National Association of Housing and Redevelopment Officials on August 31, 2009. On September 15, 2009, the Authority received five proposals (of which only four were eligible since one was incomplete) and an evaluation panel scored Casterline Associates, P.C. ("Casterline") the highest. On October 21, 2009, the Authority entered into an agreement with Casterline for a not-to-exceed amount of $11,576 and the Authority entered into another contract with Casterline, dated March 12, 2010 pursuant to the same procurement for a not-to-exceed amount of $44,970. The Authority entered into a change orders to the March 12, 2010 agreement, dated May 21, 2010/May 24, 2010 (signed in counterparts), for a total of $34,950. In the aggregate, the total costs under solicitation #2009-003 were $91,496, below the Authority's small purchase procurement threshold of $100,000.

b. In September 2010, the Authority advertised a Request for Qualifications, Proposal No. 2010-094 as an indefinite quantities contract. The Authority advertised Proposal No. 2010-094 in the Herald-Journal on September 3, 2010. On September 16, 2010, the Authority received four proposals from respondents. The evaluation panel scored the respondents in accordance with Proposal No. 2010-094 and Casterline was the highest scoring respondent. On October 26, 2010, the Authority Board of Commissioners passed Resolution #2010-24 authorizing the executive director to negotiate an Indefinite Quantities Contract with Casterline. The Authority then entered into a number of contracts and change orders with Casterline pursuant to Casterline's selection under Proposal No. 2010-094: i) Agreement between Authority and Casterline, dated September 10, 2012 with a total not-to-exceed of $58,745; ii) Second Addendum to the September 10, 2012 agreement, dated February 5, 2013, with an increase in the not-to-exceed amount from $58,745 to $64,445. In the aggregate, the total costs under solicitation #2010-094 were $64,445, below the Authority's small purchase procurement threshold of $100,000.

2) Insufficient advertising documentation. Please see our response to item 1 above.

3) Expired Contract. The Authority is unclear which contract the OIG believes expired as there were multiple procurements and a number of contracts and change orders entered into with Casterline from 2010-2014. We summarized those above. As noted above, at the exit conference, the OIG stated that it would provide additional

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[17] 24 CFR 85.36(b)(9) lists "rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price" as the items that should be included in the contract. The Authority has recited all of these items in our response and we thought that we had previously provided sufficient detail on the significant history to the OIG during the review.

information as to the specific contract it examined but, as of the OIG's deadline for our final response, we had not received any such information.

4) Lack of cost analysis. The Authority analyzed price based on pricing included in the responses to the RFP noted above. As noted in Section 10.3 of the HUD Procurement Handbook, in a competitive procurement such as this one for accounting services, "the force of competition is usually adequate to allow the PHA to make a price reasonableness determination based simply on a comparison of the offered prices." We believe the Authority did just that in selecting Casterline pursuant to the RFP in question.

Comment 27

Fire Damage: After a child started a fire at one of the Authority's public housing properties and the building sustained damage, the Authority issued an Invitation for Bid Tracking #2013-22 on May 22, 2013 with an estimated amount of $13,345. Two bids were submitted – one from Dunbar Construction priced at $14,230 and one from MP Service LLC priced at $13,745. Therefore, MP Service LLC was selected and the Authority entered into a contract with MP Service LLC, dated October 14, 2013. Of the total contract price, $12,745 was funded by the Authority's insurer, State Budget and Control Board Insurance Reserve Fund, and the remaining $1,000 was funded by the Authority. Given that the Authority was only utilizing $1,000 of public housing funds to fund this work, this should be deemed a micro-purchase contract (i.e. below $2,000). Even if the OIG analyzed this as a small purchase, the Authority met the small purchase procurement requirements as well.

Comment 28

Public Relations: There have been multiple public relations procurements and contracts so, prior to the exit conference, it was unclear to what exactly the $63,496 cited by the OIG refers. The Authority has issued two public relations RFPs over the past 5 years: i) RFP #2013-0040 on October 22, 2013; ii) RFP #2010-097 on October 3, 2010. The OIG clarified at the exit conference that the Draft Audit related to the 2013 procurement not the 2010 one. Regardless, we provide responses to each of the cited deficiencies below with regard to each public relations RFP and contract:

1) Lacking History.
   a. RFP #2010-097: On October 3, 2010, the Authority advertised in the Herald Journal for Comprehensive Community Outreach Marketing Program services in the form of an RFQ No. 2010-0097. The submittal date for all bids was October 22, 2010. However, the Authority only received one response and therefore they re-advertised the RFQ a second time on November 2, 2010 in the Herald Journal. The Authority also reached out to specific potential respondents to ensure they received a sufficient number of responses. Three firms responded by the deadline of November 5, 2010. The Authority selected the highest scoring respondent under the RFQ, The Palladian Group ("Palladian"), and entered into an agreement with Palladian, dated December 1, 2010. We believe we have provided the OIG with sufficient detail on the "significant history" of this procurement as is required by 24 CFR 85.36(b)(9).[18]

[18] 24 CFR 85.36(b)(9) lists "rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price" as the items that should be included in the contract. The Authority

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b. RFP #2013-0040: The Authority issued RFP #2013-0040 for Public Relations, Marketing & Branding Services on October 22, 2013 with proposals due on November 14, 2013. The Authority advertised RFP #2013-0040 electronically both on the Authority's website and on the South Carolina Business Opportunities website on October 24, 2013 and has copies of both electronic advertisements on file.[19] Two firms responded by the deadline of November 14, 2014. The Authority selected the highest scoring respondent under the RFQ, again Palladian, and entered into an agreement with Palladian, dated April 30, 2014. We believe we have provided the OIG with sufficient detail on the "significant history" of this procurement as is required by 24 CFR 85.36(b)(9).[20]

2) Insufficient advertising documentation. Please see our responses with item 1 above.

3) Lack of cost analysis. Both public relations RFPs make clear that the price or fee schedule was an evaluation factor.[21] As noted in Section 10.3 of the HUD Procurement Handbook, in a competitive procurement such as this RFP for security services, "the force of competition is usually adequate to allow the PHA to make a price reasonableness determination based simply on a comparison of the offered prices." We believe the Authority did just that in selecting Palladian pursuant to the two RFPs in question.

Comment 29

Security: We provide responses to each of the cited deficiencies below:

1) Lacking History. While this procurement occurred under the prior Authority administration, we located procurement records reciting that the Authority issued a Request for Proposals for Security Services in January 2008. Carolina Security Services was selected pursuant to that RFP to provide security services for the Authority. Currently, those security services relate just to the Archibald Rutledge and Village apartment complex which is a 12 story public housing complex for senior and disabled residents. Security is provided on a 7 day/week and 24 hour/day basis.

2) Insufficient advertising documentation. As this procurement occurred under the prior Authority administration, Authority staff is not personally aware of how this January 2008 procurement was advertised. However, we also have no reason to believe the standard advertising protocol for procurements was not followed.

3) Lack of cost analysis. Again, as this procurement occurred under the prior Authority administration, Authority staff is not personally aware of this January 2008 procurement.

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has recited all of these items in our response and we thought that we had previously provided sufficient detail on the significant history to the OIG during the review.

[19] The Authority's website is: www.shasc.org and the South Carolina Business Opportunities website is: http://www.thestate.com/

[20] 24 CFR 85.36(b)(9) lists "rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price" as the items that should be included in the contract. The Authority has recited all of these items in our response and we thought that we had previously provided sufficient detail on the significant history to the OIG during the review.

[21] The 2010 RFP offered up to 10 points based on price and the 2013 RFP offered up to 25 points based on the fee schedule.

However, the RFP makes clear that price was an evaluation factor and 10 points were awarded for "Hourly rate for service in relation to the scope of services." The selected respondent, Carolina Security Services, priced its services at $12.80/hour as set forth both in its response letter, dated January 9, 2008, and in its contract with the Authority.[22] As noted in Section 10.3 of the HUD Procurement Handbook, in a competitive procurement such as this RFP for security services, "the force of competition is usually adequate to allow the PHA to make a price reasonableness determination based simply on a comparison of the offered prices." We believe the prior administration did just that in selecting Carolina Security Services as the security services firm for the Archibald Rutledge and Village apartment complex.

Comment 30

Temporary Services: The OIG alleges that the Authority used three vendors to provide temporary staff "without entering into a contract or following any procurement requirements." However, this is simply not true. As is clearly stated in the Authority's policies and procedures for procuring temporary personnel, the Authority determined that there are only a small number of qualified vendors in the Spartanburg, South Carolina area that provide temporary personnel solutions. Prior to June 2014, when there was a need for temporary services, the Authority would contact the qualified vendors that provide temporary personnel solutions, provide a job description, compare proposed pay rates and compare such pay rates against state standards as well as those of other agencies. The selection of the vendor was then made on a competitive basis based on proposed rates provided and the number of qualified candidates.[23] In June 2014, the SHA policies and procedures for procuring temporary personnel were changed to utilize an intergovernmental agreement approach to procurement of temporary personnel. Such personnel are secured only through approved vendors that have a state contract. Chapter 14 of the HUD Procurement Handbook permits such cooperative business relationships, such as here where the Authority utilizes the State of South Carolina's contracted vendors to perform temporary staffing for the Authority.[24]

Pest Control: We provide responses to each of the cited deficiencies below:

Comment 31

1) Lacking History: On October 18, 2010, the Authority solicited issued a Request for Proposals No. 2010-096. The Authority received responses from two pest control companies. The Authority reissued the same RFP No. 2010-096 in November 2010 and again received two responses. The Authority selected Gregory Pest Solutions ("GPS"), which commenced work on January 18, 2011. We believe we have provided the OIG with sufficient detail on the "significant history" of this procurement as is required by 24 CFR 85.36(b)(9).[25]

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[22] Security Contract by and between Spartanburg Housing Authority and Carolina Security Services, dated March 4, 2008.

[23] Even if the OIG were to deem this selection process did not meet HUD competitive procurement requirements, a sole source procurement should be deemed justified here based on the inadequate competition for temporary personnel solutions in the Spartanburg, SC area.

[24] Chapter 14, HUD Procurement Handbook 7460.8.

[25] 24 CFR 85.36(b)(9) lists "rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price" as the items that should be included in the contract. The Authority has recited all of these items in our response and we thought that we had previously provided sufficient detail on the significant history to the OIG during the review.

2) Expired Contract: Section 2.4 of the contract states that the contract was initially executed for services pertaining to FY2011 only, but "SHA shall retain the right to renew this contract, at the HA's option, for the two additional FY's named in the RFP Document #2010-096 that the SHA received pricing for." The SHA elected to renew the contract as permitted by the "Renewal Options" section cited above for FY2012-2013. Therefore, the contract was only expired for FY2014. Of the $124,183 cited as an ineligible amount in the Draft Audit, only $83,043.78 related to work performed in FY2014. That being said, we do not believe that $83,043.78 is an unsupported amount as there was an initial procurement of independent pest control services and the cost of such services were commensurate with the value of such services. Going forward SHA shall ensure that any such renewals are done in writing and will immediately re-procure pest control services pursuant to a new request for proposals. Please note that the scope of work under this contract relates to Authority public housing developments so should be an eligible cost of the Public Housing Program.

Unit Turnaround: We provide responses for the cited deficiency below:

Comment 32

1) Expired Contract: Three contractors were selected pursuant to IFB 2011-006 and three contracts were entered into, each of which was effective May 3, 2011. Section II(H) of each contract stated that the contract was "for the period of one year or 365 days with the option of a two year extension which is at the SHA's discretion, of additional time [sic]." The SHA elected to renew the contract as permitted by the "Renewal Options" section cited above for FY2012-2013. Therefore, the contract was only expired for FY2014. Of the $560,604 cited as an ineligible amount in the Draft Audit, only $62,456 related to work performed after the expiration of the contract on May 3, 2014. That being said, we do not believe that $62,456 is an unsupported amount as there was an initial IFB of unit turnaround contracts and the cost of such services were commensurate with the value of such services. Going forward, the Authority shall ensure that any such renewals are done in writing. Please note that the scope of work under each of these contracts relates to Authority public housing developments so should be an eligible cost of the Public Housing Program.

Comment 21

Roof Repair: The Authority has two roof repair contracts for certain Section 8 developments but these do not implicate the Authority's public housing and are not funding through the Public Housing Program. The cited dollar amount of $222,215 was paid with insurance proceeds from two insurance companies and the remainder as an operating expense from non-public housing income at two of the Authority's Section 8 developments: i) a 32-unit Section 8 project-based development; and ii) a 100-unit Section 8 project-based multifamily property. Regardless, after the exit conference when the Authority understood that the OIG was concerned because of errant references in the Invitation for Bid to public housing, the Authority provided the OIG with full details and documentation relating to this procurement which demonstrated its history and cost analysis. Given that this relates to Section 8 developments and the contract was funded with non-public housing funds as summarized above, federal procurement requirements do not apply and there should be no finding in the Draft Audit.[26]

[26] At the exit conference, we struggled to understand the OIG's position which was to defend imposing public housing procurement requirements on a roof repair contract related to two of the Authority's Section 8 project-based

Refuse: We provide responses to each of the cited deficiencies below:

Comment 33

1) Lack of History. The Authority issued Invitation for Bid, Proposal No. 2011-0022, for Refuse Collection/Disposal Services on August 22, 2011. The Authority advertised the above cited IFB in the Herald-Journal on August 28, 2011. The Authority received responses from three firms and Republic Services was the selected respondent and the Authority entered into a contract with Republic Services, dated November 17, 2011. At the exit conference, the OIG stated that its concern with this contract was that the price calculation for Republic Services was cited in one analysis as $35,688 and the final contract price was for $77,808. The original pricing for all respondents was based on an assumed frequency of one garbage pick-up per week. The Authority negotiated more frequent refuse pickups with Republic Services as part of the final contract negotiations and that obviously had an upward impact on pricing but the final pricing was consistent with the original rate of pricing provided. We believe we have provided the OIG with sufficient detail on the "significant history" of this procurement as is required by 24 CFR 85.36(b)(9).[27]
2) Expired Contract. Section I of the November 17, 2011 contract between the Authority and Republic Services states that it is for a period of one year with the option of renewal up to three years. The contract clearly states that election to renew is in the Authority's discretion. Read most conservatively that Section I would allow for a valid contract through November 17, 2014 but it also could be read to mean an initial one year term and then a three-year renewal, meaning the contract could run through November 17, 2015. Either way, the contract is not expired.

Comment 34

Grading: The Draft Audit notes that this contract contains certain deficiencies. However, the OIG failed to note that the contract at issue was entered into pursuant to a small purchase procurement (i.e. the grading contract was for $46,880, well below the small purchase threshold of $100,000). Chapter 5 of the HUD Procurement Handbook is relevant to small purchase procurements and makes clear that for such small purchase procurements "[t]he PHA must solicit price quotes from an adequate number of qualified sources (generally defined as not less than three, except in the case of Micro Purchases, below)"[28] and

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multifamily properties. The OIG said that there were references in the Invitation for Bids Proposal No. 2011-0023, dated August 25, 2011, to the property being public housing and the Authority recognizes that there were some errant references in the IFB. Regardless, that does not change the fact that the contract was not funded by public housing funds and the properties were not public housing. Therefore, there is simply no basis for the OIG to impose public housing procurement requirements on a Section 8 project based development roof repair contract that was funded with non-public housing funds and impose deficiency findings based on that. That the OIG continued to defend its position at the exit conference even after being informed that the roof repair contract related to two of the Authority's Section 8 project-based multifamily properties and was funded with non-public housing funds suggests a very concerning lack of substantive knowledge of HUD programs, 24 CFR part 85, and the HUD Procurement Handbook on the part of the OIG.

[27] 24 CFR 85.36(b)(9) lists "rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price" as the items that should be included in the contract. The Authority has recited all of these items in our response and we thought that we had previously provided sufficient detail on the significant history to the OIG during the review.

[28] Section 5.3(A), HUD Procurement Handbook 7460.8.

defers to the PHA's procurement policy for the specific policy. The Authority's Procurement Policy which was in effect at the time required no less than three offerors be solicited for small purchase procurements not exceeding $100,000.[29] The OIG statement that "the Authority allowed a contractor to perform the advertising and the only documentation the contractor provided was a listing of individuals that it had selectively contacted" is simply not true. The Authority solicited pricing proposals from four respondents in accordance with procurement requirements for small purchase procedures as set forth in the HUD Procurement Handbook and the Authority's Procurement Policy.

We provide responses to each of the cited deficiencies below:

1) Lacking History. In September 2013, the Authority solicited quotes for this grading contract from four firms in accordance with the HUD Procurement Handbook and the Authority's Procurement Policy for small purchases (i.e. purchases not exceeding $100,000 under the Authority's Procurement Policy in effect at the time of this procurement). All four firms responded with the following pricing: i) HNO Grading & Hauling, LLC ("HNO") - $37,886; ii) Vaughn's Curbing Company, LLC ("Vaughn's") - $46,880; iii) Raby Construction - $47,702; iv) Harrison & Son Contractors, Inc. – $98,213. While HNO offered the lowest bid, they did not have the required contractor's license and therefore the Authority selected Vaughn's in accordance with the HUD Procurement Handbook and the Authority's Procurement Policy. The Authority entered into a contract with Vaughn's, dated September 24, 2013, for $46,880. We believe we have provided the OIG with sufficient detail on the "significant history" of this procurement as is required by 24 CFR 85.36(b)(9).[30]
2) Insufficient advertising documentation. Please see our response above. The Authority's solicitation of four quotes in conjunction with this procurement for grading services complies with the HUD Procurement Handbook and the Authority's Procurement Policy for small purchases (i.e. purchases not exceeding $100,000 under the Authority's Procurement Policy).
3) Lack of cost analysis. The Authority analyzed the pricing provided by the four respondents, and selected the lowest qualified bidder (i.e. Vaughn's since HNO did not possess the required contractor's license. Section 5.5 of the HUD Procurement Handbook makes clear that price analysis "will consist of a comparison of quotations to each other and to other sources of pricing information (e.g. past prices paid, catalog prices, etc.)." The HUD Procurement Handbook emphasizes that for small purchases "[o]nly in rare cases would the Contracting Officer conduct a cost analysis (a non-commercial type purchase unique to the PHA's needs, such as a training course for PHA accounting personnel)."[31]

[29] Housing Authority of the City of Spartanburg Procurement Policy, March 2011.
[30] 24 CFR 85.36(b)(9) lists "rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price" as the items that should be included in the contract. The Authority has recited all of these items in our response and we thought that we had previously provided sufficient detail on the significant history to the OIG during the review.
[31] Section 5.5(A)(2), HUD Procurement Handbook 7460.8.

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Architect and Engineering: The Draft Audit notes that this contract contains certain deficiencies including failure to comply with the advertising requirements for Competitive Proposals set forth at Section 7.1 of the HUD Procurement Handbook 7460.8 ("HUD Procurement Handbook"). However, Section 7.1 of the HUD Procurement Handbook did not apply to this procurement. The OIG failed to note that the contract at issue was entered into pursuant to a small purchase procurement (i.e. each contract was for an amount not-to-exceed $100,000). Chapter 5 of the HUD Procurement Handbook is relevant to small purchase procurements and makes clear that for such small purchase procurements "[t]he PHA must solicit price quotes from an adequate number of qualified sources (generally defined as not less than three, except in the case of Micro Purchases, below)"[32] and defers to the PHA's procurement policy for the specific policy. The Authority's Procurement Policy which was in effect at the time required no less than three offerors be solicited for small purchase procurements not exceeding $100,000.[33] We provide responses to each of the cited deficiencies below:

1) Lacking History. In February 2013, the Authority solicited quotes through a Request for Quotes from five architectural and engineering firms for an indefinite quantity contract (IQC) in accordance with the HUD Procurement Handbook and the Authority's Procurement Policy for small purchases (i.e. purchases not exceeding $100,000 under the Authority's Procurement Policy in effect at the time of this procurement). Three firms responded by the deadline of February 22, 2013. The Authority entered into agreements with all three firms that responded. We believe we have provided the OIG with sufficient detail on the "significant history" of this procurement as is required by 24 CFR 85.36(b)(9).[34] Lastly, we would note that the HUD Columbia Field Office also previously reviewed and approved details of this procurement pursuant to email exchanges in May 2014.
2) Insufficient advertising documentation. In February 2013, the Authority solicited quotes through a Request for Quotes from five architectural and engineering firms for an indefinite quantity contract (IQC) in accordance with the HUD Procurement Handbook and the Authority's Procurement Policy for small purchases (i.e. purchases not exceeding $100,000 under the Authority's Procurement Policy).
3) Lack of cost analysis. The Authority analyzed the hourly rates provided by the three respondents, which were all comparable, and selected all three. Section 5.5 of the HUD Procurement Handbook makes clear that price analysis "will consist of a comparison of quotations to each other and to other sources of pricing information (e.g. past prices paid, catalog prices, etc.)." For A&E contracts, comparison of the proposals is a reasonable methodology of price analysis. The HUD Procurement Handbook emphasizes that for small purchases "[o]nly in rare cases would the Contracting Officer

[32] Section 5.3(A), HUD Procurement Handbook 7460.8.
[33] Housing Authority of the City of Spartanburg Procurement Policy, March 2011.
[34] 24 CFR 85.36(b)(9) lists "rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price" as the items that should be included in the contract. The Authority has recited all of these items in our response and we thought that we had previously provided sufficient detail on the significant history to the OIG during the review.

conduct a cost analysis (a non-commercial type purchase unique to the PHA's needs, such as a training course for PHA accounting personnel)."[35]

Design: The Authority is continuing to research this contract and will either provide support demonstrating that it was conducted appropriately or repay its Public Housing Program any ineligible amounts from non-Federal funds.

***Recommendation 2A.** Repay the applicable program(s) $1,102 for ineligible expenditures from non-Federal funds.*

The OIG changed this recommendation in the Draft Audit one day before our exit conference. Based on Exhibit C of the revised Draft Audit that we received at 1:38pm on September 22, 2014, this allegedly relates to the unit turnaround contract. Please see our response above with regard to that contract.

Recommendation 2B. Repay the applicable program(s) $2,562,757 in unsupported payments or repay the appropriate program from from non-Federal funds.

The OIG changed this recommendation in the Draft Audit one day before our exit conference as well. Of the aggregate amount that OIG alleges to be ineligible expenditures and based on our analysis and responses above, the Authority believes that only a maximum of $151,899.78 could be deemed to be unsupported payments related to these procurements.

Recommendation 2C. Determine how much it paid the independent public accountant from HUD program funds after the contract expired and repay any ineligible amounts from non-Federal funds.

Comment 14

As noted above, the Authority recognizes the need to re-procure for the services of an independent public accountant. We issued Request for Proposals No. 2014-0057 on July 24, 2014 to procure a new independent public accountant for annual audit and tax services. Responses were due on September 11, 2014 and we anticipate making a selection shortly. Evaluations are complete and we anticipate making a recommendation for contract award to the Board of Commissioners at the regular October 2014 Authority Board of Commissioners Meeting. That being said, we do not believe that $54,997 is an unsupported amount as there was an initial procurement of independent public accountant services and the cost of such services were commensurate with the value of such services. If any amounts are determined to have been ineligible expenditures related to the Authority's contract with its prior independent public accountant, the Authority agrees to work with HUD to repay ineligible amounts from non-Federal funds.

Recommendation 2D. Ensure that procurement staff are adequately trained and have detailed written guidance for performing their responsibilities.

Comment 6

On September 22, 2014, the Authority adopted the updated procurement policy attached as Exhibit B and a procurement procedures manual attached as Exhibit C that will simplify the required procurement

[35] Section 5.5(A)(2), HUD Procurement Handbook 7460.8.

Comment 6

Comment 9

Comment 9

processes for our procurement personnel. We will provide both internal and external procurement trainings to our procurement staff. Lastly, to the extent they relate to procurement, the Authority will implement any other best practices identified by the outside experts that are procured to perform an independent organizational and operational assessment of the Authority.

Recommendation 2E. ***Ensure that the Authority's board and management understand their procurement responsibilities and consider whether additional procurement training would be appropriate.***

We will train all board members and management regarding procurement to ensure that each board member understands his or her role and responsibilities with regard to procurement. The Authority is planning an on-site NAHRO training for all commissioners in fall/winter 2014. Additionally, the Board will regularly attend NAHRO conferences to ensure that they are all up-to-date on all of their roles and responsibilities with regard to procurement. Lastly, the Authority will implement any other best practices identified by the outside experts that are procured to perform an independent organizational and operational assessment of the Authority.

Finding 3 – Authority's Response

The Authority acknowledges that it needs to improve its inventory controls and, on September 22, 2014, the Authority adopted the inventory control policies and procedures attached as Exhibit D. The Authority was able to locate 99 stoves and has now properly recorded them in its inventory log. However, the OIG is correct that the Authority mistakenly placed 10 of the stoves at one of its project based Section 8 developments.[36] Therefore, the Authority shall reimburse its Public Housing Program in the amount of $2,570.20 for the 10 stoves that were used at its project based Section 8 development.[37] As of the date of this response, the Authority has completed a fixed asset inventory which includes equipment, office supplies, and furniture as well as a separate inventory of appliances. The office furniture and equipment was completed about a month ago and the appliances inventory was just recently completed within the last week. Both will be provided to the accounting department to be included in the year end audit. We will ensure going forward that we conduct physical inventories at least once every two years going forward in accordance with 24 CFR 85.32(d)(2).

Recommendation 3A. Develop and implement an improved inventory control system, including procedures for conducting and documenting periodic physical inventory counts and adjusting its asset records.

As of the date of this response, the Authority has completed a fixed asset inventory which includes equipment, office supplies, and furniture as well as a separate inventory of appliances. The office furniture and equipment was completed about a month ago and the appliances inventory was just recently

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[36] The OIG noted that there were 12 stoves located at the Authority's Section 8 project based developments. However, we located at least one new stove still in its original box that we will ensure is used at an eligible public housing property (we anticipate using it at Camp Croft).

[37] This amount is based on a per stove cost of $257.02 (i.e. $25,445/99 stoves) multiplied by 10 stoves that were used at its project based Section 8 development.

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completed within the last week. Both will be provided to the accounting department to be included in the year end audit. Additionally, the Authority adopted the inventory control policies and procedures attached as Exhibit D. Lastly, as noted above, the Authority will ensure that going forward we conduct physical inventories at least once every two years in accordance with 24 CFR 85.32(d)(2).

Comment 9

Recommendation 3B. Promptly perform a complete physical inventory and adjust the accounting records, as needed.

Please see our response to Recommendation 3A. Attached as Exhibit G is an inventory of 99 stoves.

Comment 9

Recommendation 3C. Locate and properly record the 99 new stoves or repay its 2011 Capital Fund program $25,445 from non-Federal funds.

As noted above, the Authority was able to locate 99 stoves and has now properly recorded them in its inventory log attached at Exhibit G. However, the OIG is correct that the Authority mistakenly placed 10 of the stoves at one of its project based Section 8 developments. Therefore, the Authority shall reimburse its Public Housing Program in the amount of $2,570.20 from non-Federal funds for the 10 stoves that were used at its project based Section 8 development.

Comment 9

Recommendation 3D. Repay the 2011 Capital Fund program $2,779 for the ineligible placement of 12 stoves from its project based Section 8 development.

Please see our response to Recommendation 3C which addresses this. As noted above, only 10 stoves were mistakenly placed at the Authority's project based Section 8 developments. We believe the reimbursement amount should be $2,570.20 based on our per stove cost calculation set forth at Footnote 37 on the preceding page.

II. Conclusion

Thank you for the opportunity to respond to the Draft Audit. The Authority hopes that its entire response and attached exhibits will be included in the final report and receive favorable consideration by HUD and the OIG. In general, the Authority agrees that it can benefit from improvements in its administration. Even so, the Authority's management improvements already underway address the key recommendations contained in the Draft Audit. With the renewed compliance focus of the Authority coupled with the submission of its updated policies and procedures, the Authority is adequately addressing the findings set forth in the Draft Audit.

The Authority is determined to create a stronger agency that is poised to move forward and achieve its important social mission of providing quality affordable housing to the Spartanburg community. The Authority is poised to move forward with important redevelopment projects, including multiple major RAD redevelopments, the effect of which will be to create needed affordable housing in Spartanburg, create jobs and stimulate the local economy.

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In conclusion, we would like to thank the OIG for its time and effort in conducting its audit of the Authority's activities. It has been a valuable experience for us and we look forward to implementing management improvements based on the recommendations in the Draft Audit.

Respectfully yours,

Harry A. Byrd, Jr.

Harry A. Byrd, Jr.
Executive Director

Enclosures:

Exhibit A – Interfund transfer policies and procedures
Exhibit B – Procurement Policy
Exhibit C – Procurement Procedures Manual
Exhibit D – Inventory control policies and procedures
Exhibit E-1 – Cost Allocation Plan
Exhibit E-2 – Fee-For-Service Accounting
Exhibit F – Accounting of Repayment of $885,891 to the Public Housing Program to address FY2013 Financial Audit Finding 13-01
Exhibit G – Inventory of 99 Stoves

OIG Evaluation of Auditee Comments

Comment 1 The Authority's comments state that it appreciates and agrees with the OIG's recommendations with regard to improving its recordkeeping and updating policies and procedures related to interfund transfers, procurement, and inventory control. However, it adamantly disagrees with the scope and magnitude of certain of the draft audit's findings and recommendations. It stated that it believes its very detailed responses together with the documentation provided to the OIG constitutes sufficient and appropriate evidence that addresses many, if not all, of the OIG's findings in the draft audit.

We commend the Authority for recognizing the need for improving recordkeeping and updating its various policies and procedures as recommended in the draft audit report. As we explained to the Authority during the exit conference, we will correct any errors in the draft report; however, we will provide to HUD, for assistance in clearing the audit findings, any documentation the Authority has recently located that was unavailable to us during the audit.

Comment 2 The Authority's comments state that it has already repaid the full $885,891 identified in its fiscal year 2013 financial audit as being owed to the Public Housing Program.

The documentation provided only supports $338,039 of the $885,891 was repaid. Of this $338,039, $164,890 was taken from JC Bull, the Authority's project based Section 8 development, as a loan until it receives its Rental Assistance Demonstration development fees and predevelopment loan. Additionally, the documentation shows that the Authority paid the funds to its Central Office Cost Center and not to Public Housing as required. The Authority should provide proper documentation to the HUD Columbia Field Office to clear the recommendation.

Comment 3 The Authority's comments state that its board of commissioners met on September 22, 2014, to implement updated policies and procedures related to interfund transfers, procurement, and inventory control.

We appreciate the Authority's efforts to implement updated policies and procedures based on our audit results. The HUD Columbia field office will review the actions taken by the Authority to clear the applicable report recommendations.

Comment 4 The Authority's comments voiced concern regarding the amount of time provided to respond to the draft report. They state that they were only provided one week to respond to the draft report, less than 24 hours to review the revised draft sent on September 22, 2014, and we were unreasonable in denying their request for a one-week extension to provide a final response.

The deficiencies outlined in the draft report should not have been new to the Authority. We worked with the Authority over several months to obtain the information on which the report is based. During that time, on several occasions, we discussed deficiencies with Authority's management including the executive director and the chief financial officer. We provided the draft findings by email to the Authority's executive director on September 11, 2014, and suggested that the Authority use them to begin drafting comments. We followed up with the complete draft report containing these findings with minor revisions on September 16, 2014. The revised draft provided to the Authority on September 22, 2014, only recategorized the majority of the ineligible costs to unsupported costs contained in the original draft report. This was to the benefit of the Authority, since it provided it the opportunity to provide HUD support for the costs, and should not have resulted in any additional evaluation or response. At the September 23, 2014, exit conference we granted the Authority an additional day to modify its response but advised the Authority that the final report would contain few changes from the draft and subsequently denied the requested one week extension. Thus, in total, we provided the Authority thirteen days to respond to the findings and believe that should have been more than adequate time.

Comment 5 The Authority also remarked that at the exit conference the OIG staff seemed to acknowledge the unreasonableness of their inflexible timing schedule by stating they had not had time to review our draft responses to the draft audit in detail. The Authority stated that this caused the need for them to walk through their comments for nearly two hours.

The Authority submitted its comments to us late in the day on Wednesday, September 24, 2014, and the exit conference occurred Thursday morning at 11:00am. We informed the Authority that we did not have time for a detailed analysis but that we had read the comments and were aware of the contents. As was the case here, the discussion draft is meant to encourage feedback at the exit conference and provide OIG the latitude to adjust report wording, tone, or findings. Due to the number and complexity of the audit issues, a two-hour exit conference is not unusual. While we appreciated getting the Authority's written comments prior to the exit conference, the discussion draft is intended to serve as the document to solicit formal comments after the issues are formally discussed at the exit conference.

Comment 6 The Authority's comments state that it is making management changes, implementing key management improvements, providing training for staff, and establishing proper accounting policies and procedures.

We appreciate the Authority's effort to make the necessary changes to ensure the Authority is managed in the most efficient and effective way. The HUD Columbia field office will review the actions taken by the Authority to clear the applicable report recommendations.

Comment 7 The Authority's comments state that it has been designated by HUD as a "High Performer" since fiscal year end 2012.

The Authority's status as a high performer refers to a designation under HUD's Public Housing Assessment System (PHAS) and is based largely on the integrity of data the Authority submits to HUD. PHAS is also limited in its ability to detect misuse of funds as was explained in a 2009 United States Government Accountability Office report: "…PHAS is limited in its ability to identify housing agencies that may be at greater risk of inappropriate use or mismanagement of funds because it was not designed to detect inappropriate use, and in some cases has not detected housing agencies showing signs of housing fund mismanagement." [27]

Comment 8 The Authority's comments state that it switched to a fee-for-services approach in lieu of cost allocation beginning in FY2013. It further states that this approach is permissible under HUD's requirements.

We agreed, and removed all references to the lack of a cost allocation plan from the report.

Comment 9 The Authority's comments state that it will ensure going forward that it conducts physical inventories at least once every two years and has recently completed a fixed asset inventory. It also states that it has located 99 missing stoves and recorded them in its inventory log.

We appreciate the Authority's effort to complete a fixed asset inventory, its plans to conduct the required inventories in the future, and its effort to locate the missing stoves. After the final report is issued, the Authority should work with HUD to confirm the proper documentation of the stove inventory.

Comment 10 The Authority's comments state that it has learned some valuable lessons through its internal assessment and the OIG's audit process, recognizes the need to update its policies and procedures, improve its recordkeeping, and ensure it employees are knowledgeable regarding such policies and procedures. It also states that there are a number of very serious mistakes in the draft audit and that the conclusions in the draft audit should be management improvement suggestions as opposed to audit findings against the Authority.

[27] United States Government Accounting Office, GAO-09-33, June 2009

We acknowledge the Authority's recognition that it needs to update its policies and procedures, improve its recordkeeping, and ensure its employees are knowledgeable regarding the policies and procedures is a very positive first step. It must now follow through with the development and implementation for these very important elements of internal control. Regarding the Authority's comment that the draft audit contains very serious mistakes, we adjusted the report where needed and disclosed them in our response to these comments. The information in this report includes a possible default of the Annual Contributions Contract. The OIG has a responsibility to report serious matters.

Comment 11 The Authority's comments are unclear as to when it learned of the misuse of public housing funds. It states that the Authority itself identified the ineligible use of funds and took action but the timing is not stated. In other locations in the comments, it states that it took action after learning of the misuse of funds in June 2014 when the audit report was issued.

Had the Authority maintained an accurate ongoing record of the interfund accounts, it would have known of the pending audit results long before the fiscal year 2013 report was issued in June 2014. It should also have immediately ceased funding nonfederal uses with Federal funds at that time. It should also have provided information on interfund transfers board meetings.

Comment 12 The Authority objected to our statement in the report saying that it had transferred its former office space to its related nonprofit without HUD approval. Its comments state that HUD has made it clear to housing authorities that instrumentalities, such as its nonprofit, are considered the housing authority and, as such, the Authority's conveyance of ownership of its office building to its instrumentality is not a disposition and does not trigger the need for HUD approval.

The Authority cannot transfer or dispose of a public housing property to itself, including its instrumentalities. Public housing grant funds cannot be used for development without following 24 CFR Part 905 and placing the building under the Annual Consolidated Contract and having a Declaration of Trust. Even if the Authority obtained a Declaration of Trust, there is a constructive use restriction on the former office building by that same statute.[28]

Comment 13 The Authority's comment state that the Executive Director did not make a statement that "there was no plan for dealing with" the refinancing.

We did not state that the Authority did not have a plan for dealing with the refinance of the $3 million balloon payment. We stated that there was no

[28] 24 C.F.R. § 905.505(a) states that a PHA shall obtain written HUD approval for all Capital Fund financing transactions that pledge, encumber, or otherwise provide a security interest in public housing assets or other property, including Capital Funds, and use Capital Funds for the payment of debt service or other financing costs.

concrete plan for dealing with the matter. During our fieldwork, the executive director informed us of at least three potential plans for dealing with the refinancing of the $3 million balloon payment – none of those plans included bond refinancing as an option.

Comment 14 The Authority's comments state that it acknowledges that certain cash disbursements were ineligible or unsupported.

For any unsupported amounts, the Authority should provide the HUD Columbia field office the necessary supporting documentation when requested as part of the audit resolution process.

Comment 15 The Authority disagreed that its records were not auditable.

As stated in the report, the Authority was unable to provide records establishing the proper use of HUD funds; thus, the records were not auditable.

Comment 16 The Authority's comments state that it did not have sufficient time, two business days, to respond to our concerns with seven journal vouchers.

During the audit, we attempted to obtain an explanation for these journal vouchers from the Authority's management, the chief financial officer, and the senior accountant. They were not able to explain the journal vouchers or provide the missing voucher. Journal vouchers should be self-explanatory and all journal vouchers should be retained. The Authority provided no information to contradict the journal voucher deficiencies in the report.

Comment 17 The Authority stated that it had disclosed its ineligible use of public housing funds to the HUD Columbia field office well prior to the draft audit report being issued.

However, the Authority does not state when this occurred. We met with the HUD Columbia field office staff on April 21, 2014, and asked if they were aware of the finding in the pending FY 2013 audit report. The Staff that we spoke with told us that they were not aware of the finding or what was in the report since it had not been submitted at that time. In order to prevent possible miscommunication, in the future it may be better to provide written documentation regarding such matters to the HUD field office.

Comment 18 The Authority state that it does not believe that HUD Columbia should declare a breach of Section 9C of the Consolidated Annual Contributions Contract. If HUD Columbia believes it needs to declare such a breach, then it should deem the breach cured by the actions of the Authority in disclosing this issue previously to HUD Columbia and then correcting and reimbursing theses ineligible expenditures.

Only the HUD Assistant Secretary for Public and Indian Housing, in consultation with the HUD Office of General Counsel, can declare a breach of the Consolidate Annual Contributions Contract, not the field office. HUD will consider all the facts, including those cited by the Authority, before making such a determination.

Comment 19 The Authority's comments state that HUD OIG's concern that a possible violation of the ACC may have occurred due to the inability of the Authority to provide reconciled interfund balances since September 30, 2013, was based upon conversations with certain unidentified staff of the Authority.

Our concern that a possible violation of the ACC may have occurred was based upon the inability of the interim Chief Financial Officer and the Senior Accountant to provide us with reconciled interfund account balances since the end of fiscal year 2013.

Comment 20 The Authority's comments state that the findings in the draft audit do not warrant a recommendation to pursue administrative sanctions against the executive director and the board for misuse of HUD program funds.

We acknowledge that the issues with the Mary Wright Center were inherited by the current Executive Director. However, as noted in our report, the Authority received a finding for ineligible use of federal funds (Section 8) in its FY 2010 audit report and then again in FY 2013 (Public Housing funds) under the current management. Furthermore, the Executive Director informed us during the review that the Authority would continue to use federal funds to pay nonfederal expenses because there was no other viable option for the Authority. We believe that the contents of the report justify the recommendation.

Comment 21 The Authority's comments state that OIG greatly overstated the Authority's procurement deficiencies and made a number of mistakes in analyzing the Authority's compliance with applicable procurement requirements. Specifically, it states that the roof repair contract was for certain of the Authority's project based Section 8 developments and not subject to procurement regulations.

We based our results on the documents as provided by the Authority, and not what the Authority is now saying these documents intended to mean. In its invitation for bids for the roofing contract, the Authority clearly stated the contract would be for public housing units as follows: "This IFB is to help SHA in the up keep of our Roof Systems in our Public Housing Communities. One of our top priorities is to maintain the conditions of our roofs in all our Public Housing units and to ensure the quality and craftsmanship in the Roofing Replacement Services." However, although the invitation for bid erroneously specified public housing, upon further review of the accounting records we determined that the repairs were actually paid for from the Section 8 project based account and not public housing. As such, we removed the contract from the report.

Comment 22 The Authority's comments state that the OIG failed to recognize that a number of contracts followed small purchase procedures that have different requirements. This led the OIG to vastly overstate the number of procurement deficiencies, the number of expired contracts, and the level of unsupported and ineligible amounts.

We determined that all but three of the procurements, including expenditure of non-federal funds, were above the $100,000 threshold. However, the limited documentation provided for two of the three procurements under the small purchase threshold (fire damage and grading) show the Authority either issued an Invitation for Bids or requested proposals from vendors. Therefore, small purchase threshold rules do not apply. Additionally, the Authority did not conduct a cost analysis for the design contract. This is required regardless of what procurement method is used.

Comment 23 The Authority's comments state that it was able to locate nearly all of the procurement files that the OIG identified as missing and provided nearly all such documentation to the OIG at the exit conference.

The Authority's staff was unable to provide sufficient procurement documentation while the audit team was onsite. In an effort to obtain procurement files or other documentation, we spoke with the procurement officer and senior staff on several different occasions. During the exit conference, we informed the Authority that we would provide the information they were able to locate, and provide to us, to the HUD Columbia field office to assist in clearing the report recommendations.

Comment 24 The Authority's comments state that we did not provide them with detailed information regarding the specific procurements we reviewed.

During the entrance conference, we were told that the procurement officer would be our point of contact for anything procurement related. While onsite, we were in constant communication with the procurement officer regarding our procurement sample, and while looking for documentation. When the procurement officer was unable to provide us with the documentation we requested, we spoke with senior management about what we needed. After taking notes on several occasions, management provided us with everything they said was available after reviewing their files.

Comment 25 The Authority's comments state that it does not believe that $54,997 it spent for the independent public accountant contract is unsupported because it received value commensurate with the cost.

Although we acknowledge that the Authority may have received value, it still needs a properly executed contract. A written contract specifies the responsibilities of the parties to the contract, protects their interests if there is a dispute, and specifies the payment terms.

Comment 26 The Authority's comments state that we did not provide them with specific contract information for the accounting services contract as promised.

The Authority was aware that we were looking at the 2012 accounting services procurement. During our review, we met with senior management several times to get documentation concerning the accounting services. We were in constant communication with the former chief financial officer to get the complete procurement file. The Authority eventually provided a stack of documentation, including spreadsheets and emails, not in any order. We received the 2012 contract only after we contacted the contractor directly.

Comment 27 The Authority's comments provided further information regarding the contract for fire damage repair services. It contends that the contract should be considered a micro-purchase contract since the Authority only utilized $1,000 of public housing money. It further contends that even if the OIG analyzed this as a small purchase, the Authority met the small purchase procurement requirements.

The information the Authority provided in its comments regarding the fire damage contract was not made available during the audit. In response to our questions for this contract during the audit, the Authority was only able to provide us with the scope of work, two bids, a pre-bid meeting write up, and a contract. No other information, such as the Invitation for Bid mentioned in the comments, was provided. Further, since the Authority issued an invitation for bids, the small purchase procedures mentioned by the Authority would not apply.

Comment 28 The Authority's comments contain numerous details regarding procurement of public relations contracts.

This information was not made available during the audit despite numerous requests. In response to our questions for more information about this procurement during the audit, the Authority could only provide a copy of the 2013 contract.

Comment 29 The Authority's comments state that it is unaware of details regarding the security contract because it occurred during the previous authority administration.

It is irrelevant that the contract occurred during the previous Authority administration because the record retention rule in 24CFR85.42 require that the Authority maintain procurement records for three years after the final expenditure report. This procurement was active since the most recent financial records showed check numbered 225137 was disbursed on July 2, 2014. Based upon this latest payment date, the regulations required the Authority to maintain the security contract procurement records until at least July 2017.

Comment 30 The Authority's comments state that it is not true that it used three vendors to provide temporary staff without entering into a contract or following any procurement requirements.

During our audit, the Authority could provide no documentation to support their selection of these vendors. We contacted the three vendors referenced in the report and verified that they had no contracts.

Comment 31 The Authority's comments state that the pest control contract was only expired for 2014 because it had executed a renewal option contained in the 2011 contract that covered 2012 and 2013. It further states that amounts paid without a contract should not be unsupported because it received value for the payments.

Although we agree that the 2011 contract allowed for the possibility of the option period, no information we were provided during the audit showed that an option had been exercised. In addition, although the Authority may have received value associated with payments it made when it had no contract in force that does not negate the requirement to document the exercising of an option.

Comment 32 The Authority's comments claim that the unit turnaround contracts were only expired for 2014 because it had renewed them for 2012 and 2013 as provided for in the contracts.

We based our conclusion on the documents provided by the Authority. Its contracts required the Authority to execute a written change if the time period or dollar threshold were exceeded. Each of the three contracts was originally for one year and was not to exceed $80,000. The Authority did not have the written documentation to show the contracts were renewed, as was its option, or that the contractors could exceed the $80,000 per contract threshold.

Comment 33 The Authority's comment state that the refuse contract was not expired because it had exercised an option to renew the contract. It also provided an explanation of why the final contract was over twice the bid price.

Like the unit turnaround contracts, its refuse contract required the Authority to execute a written change if the contract period or dollar threshold was exceeded. Again, the Authority did not comply with the requirement for documenting the extension of the time or the dollar threshold. In addition, during the audit, the Authority was unable to provide any explanation or documentation as to why it awarded the refuse contract at over twice the bid price.

Comment 34 The Authority's comments state that the OIG failed to note that the grading contract was entered into pursuant to a small purchase procurement and contains a lengthy explanation of why it believes that it properly procured the grading contract.

The Authority's explanation of what occurred during this procurement may be correct; however, this information was not provided to us during the audit, either through file documentation or by explanation by Authority staff. We were provided a contract, copies of four proposals, and little else. As such, without a clear history, we could not determine the type of procurement the Authority had performed and whether it had followed the applicable requirements.

Comment 35 The Authority's comments state that the architect and engineering contract was properly procured because it was a small purchase and some requirements, such as the advertising requirement, did not apply.

While we understand the fact that the current amount spent on the contracts would qualify as a small purchase, the Authority procured three contracts within this procurement, and signed indefinite quantities contracts not to exceed $100,000. If the Authority had given all of the work in this procurement to one vendor, it would have clearly been above the $100,000 threshold, in total. HUD Handbook 7460.8 Rev 2 Chapter 5.3(C) states, "the Contracting Officer shall not break down requirements aggregating more than the small purchase threshold into multiple purchases that are less than the applicable threshold merely to permit use of the small purchase procedures or avoid any requirements that apply to purchases that exceed those thresholds. However, larger requirements may be broken into smaller ones to afford small and minority businesses the opportunity to participate in the PHA's procurements. The Contracting Officer should document in the contract file the reasons for breaking down larger requirements into smaller ones." There was no such documentation in the Authority's files.

Appendix C

PROCUREMENT DEFICIENCIES

Procurement Deficiencies							
Type of contract	**Unsupported amount**	**Ineligible amount**	**Lack of history**	**Insufficient advertising documentation**	**Lack of executed contract**	**Expired contract**	**Lack of cost analysis**
Independent public accountant contract	$47,522		X	X		X	X
Accounting services	$98,125		X	X		X	X
Fire damage contract	$1,000		X	X			
Public relations	$61,621		X	X			X
Security contract	$691,584		X	X			X
Temporary services contract	$450,435		X	X	X		X
Pest control contract	$114,599		X			X	
Unit turnaround	$531,758	$1,102				X	
Refuse contract	$151,422		X			X	
Grading contract	$46,880[29]		X	X			X
Architect and engineering	$25,902		X	X			X
Design contract	$6,400						X
Total	**$2,227,249**	**$1,102**	**10**	**8**	**1**	**5**	**8**

[29] The Authority charged this amount to the Central Office Cost Center. However, the Authority had plans to reimburse the Central Office Cost Center when it received Choice Neighborhood Initiative funds.