



**Cumberland Plateau Regional Housing Authority
Lebanon, VA**

HOME Investment Partnerships Program



Issue Date: July 15, 2014

Audit Report Number: 2014-PH-1007

TO: Ronnie Legette, Director, Office of Community Planning and Development,
Richmond Field Office, 3FDM
//signed//
FROM: David E. Kasperowicz, Regional Inspector General for Audit, Philadelphia
Region, 3AGA

SUBJECT: The Cumberland Plateau Regional Housing Authority, Lebanon, VA, Did Not
Procure Services in Accordance With HUD Requirements

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 Cumberland Plateau Regional Housing Authority's HOME Investment Partnerships 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 do not hesitate to call me at 215-430-6730.



July 15, 2014

The Cumberland Plateau Regional Housing Authority, Lebanon, VA, Did Not Procure Services in Accordance With HUD Requirements

Highlights

Audit Report 2014-PH-1007

What We Audited and Why

We audited the Cumberland Plateau Regional Housing Authority's HOME Investment Partnerships program because a Russell County, VA, special grand jury investigation resulted in the indictment of four people involved with the Authority's HOME program. Our audit objective was to determine whether the Authority procured services in accordance with U.S. Department of Housing and Urban Development (HUD) regulations and other applicable requirements.

What We Found

The Authority did not procure services in accordance with HOME program requirements. It paid three contractors to demolish six houses that were not demolished and maintained a prequalified contractor list, which included contractors that were not properly licensed. The Authority's 27 client files contained 115 procurement-related violations, and every file contained at least one violation. As a result, the Authority made ineligible payments totaling \$312,077 and unsupported payments totaling \$308,797 for rehabilitation services that were either not received or not procured in accordance with applicable requirements.

What We Recommend

We recommend that HUD direct the grantee to work with the Authority to (1) reimburse the grantee's program \$312,077 from non-Federal funds for ineligible payments; (2) provide documentation to support its use of \$308,797 in program funds or reimburse the grantee from non-Federal funds for any payments that it cannot support, and (3) based on the outcome of the State's investigation and criminal trial, make a referral to HUD recommending administrative sanctions, as appropriate, up to and including debarment of the Authority's former rehabilitation specialist, the Planning District Commission's former deputy director, and the involved contractors.

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BACKGROUND AND OBJECTIVE

The HOME Investment Partnerships program was created under Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended, and is regulated by U.S. Department of Housing and Urban Development (HUD) regulations at 24 CFR (Code of Federal Regulations) Part 92. The program provides formula grants to States and local units of government that communities use, often in partnership with local nonprofit groups, to fund a wide range of activities that build, buy, or rehabilitate affordable housing for rent or home ownership or provide direct rental assistance to low-income people. It is the largest Federal block grant to State and local governments designed exclusively to create affordable housing for low-income households.

HOME funds are awarded annually as formula grants. Participating States and local governments may choose among a broad range of eligible activities, using program funds to (1) provide home purchase or rehabilitation financing assistance to eligible homeowners and new home buyers and (2) build or rehabilitate housing for rent or ownership. States may also use HOME funds for other reasonable and necessary expenses related to the development of nonluxury housing, including site acquisition or improvement, demolition of dilapidated housing to make way for HOME-assisted development, and payment of relocation expenses.

The Cumberland Plateau Regional Housing Authority was organized in 1970 as a political subdivision under general statutes of the Commonwealth of Virginia. The Authority is governed by a six-member board of commissioners appointed by the board of supervisors of four counties¹ in southwest Virginia. The Authority's board of commissioners is responsible for program oversight, and its executive director is responsible for its daily operations. Its offices are located at 35 Fox Meadow Drive, Lebanon, VA. The Authority was a subgrantee for HOME program funds for its indoor plumbing and rehabilitation program (program) from the Virginia Department of Housing and Community Development (grantee). The grantee provided the Authority approximately \$2.4 million in HOME funds over a 5-year period to administer its program.

Grant year	HOME funds received
2007	\$569,600
2008	51,990
2009	502,413
2010	807,341
2011	435,946
Total	\$2,367,290

The Authority engaged the Cumberland Plateau Planning District Commission to provide grant management services to implement the program's projects. Both the Authority and the Planning District Commission were responsible for ensuring that the Authority's program was implemented according to applicable rules and regulations.

¹ The counties of Buchanan, Dickenson, Russell, and Tazewell

In August 2011, the grantee received a complaint alleging criminal activity with single-family housing rehabilitation programs within the Cumberland Plateau region. In October 2011, the grantee turned the investigation over to the Virginia State Police. That investigation developed into a special grand jury investigation. The investigation resulted in an indictment of four people, including one current Authority employee (suspended indefinitely), one former Authority employee, one contractor, and one former employee of the Planning District Commission. The Authority's role as a subgrantee was suspended indefinitely by the grantee on June 4, 2012, due to the seriousness of the allegations brought against the Authority. The Authority no longer receives any HOME program funds.

Our audit objective was to determine whether the Authority procured services in accordance with HUD regulations and other applicable requirements.

RESULTS OF AUDIT

Finding: The Authority Did Not Comply With HOME Program and Other Procurement Requirements

The Authority did not procure services in accordance with HOME program requirements. It paid three contractors to demolish six houses that were not demolished and maintained a prequalified contractor list, which included contractors that were not properly licensed. The Authority's 27 client files contained a total of 115 procurement-related violations, and every file contained at least one violation. These conditions occurred because the Authority did not have a written agreement with the Planning District Commission that defined the program's requirements, its rehabilitation specialist and the Planning District Commission's deputy director did not satisfactorily perform their job duties, the Authority did not provide adequate oversight of the work performed, and the Authority did not have procedures and controls in place to ensure that it complied with program requirements. As a result, the Authority made ineligible payments totaling \$312,077 and unsupported payments totaling \$308,797 for rehabilitation services that were either not received or not procured in accordance with applicable requirements.

Client Files Did Not Contain Evidence That Procurement Requirements Were Followed

The Authority's procurement process had significant problems. The Authority awarded 27 contracts valued at \$1.8 million to 10 contractors during the audit period. We reviewed the client files for each of these 27 projects and identified 115 violations related to procurement. Appendix C provides a summary of our results. The Authority

- Executed contracts with four clients who did not legally own the assisted properties until after they signed a HOME-funded rehabilitation contract, resulting in ineligible payments totaling \$278,077. Regulations at 24 CFR 92.254(c) require that the ownership of the assisted housing meet the definition of home ownership. The grantee's program manual states that home ownership is created when a family that does not legally own or legitimately control its place of residence becomes the legal owner of its place of residence. The Authority's management plan states that there are three types of households eligible to participate in the program, including owners of single-family residences, owners of mobile homes built since 1978, and persons with life-estate rights.
- Exceeded established cost limits and overcharged \$82,133 for base construction costs, administration fees, and construction-related soft costs. Construction-related soft costs include fees for the rehabilitation specialist,

engineers, and architects and inspection costs. The Authority's management plan set the maximum amount payable for base construction costs, administration fees, and construction-related soft costs. The \$82,133 the Authority received beyond the established limits was unsupported.

- Accepted faxed bids in the procurement process for four clients. There were two contracts awarded based on a faxed bid. The related payments totaling \$114,014 were unsupported. Regulations at 24 CFR 85.36(d)(2)(ii)(C) state that if sealed bids are used, all bids will be publicly opened at the time and place prescribed in the invitation for bids. The grantee's program manual required the Authority to use sealed bids.
- Executed a contract for services when different sealed bids were submitted on the same day from the same contractor for the same project, which resulted in an unsupported payment of \$8,000.² There was no documentation explaining why the bid awarded was greater than the lowest bid submitted. Regulations at 24 CFR 85.36(d)(2)(ii)(D) state that a contract will be awarded to the lowest responsive and responsible bidder.
- Did not ensure that client files contained a copy of the contractor's license. The grantee's program manual states that a construction contract must include the contractor's name, license number, expiration date, and designation.
- Did not ensure that work was completed within the applicable timeframe. The grantee's program manual requires that rehabilitation work on a single house be completed within 60 days of the construction start date.
- Paid contractors before inspection and project completion contrary to the Authority's management plan requirements. The Authority's management plan states that the Authority must ensure that work is inspected before making payment to contractors.
- Did not verify client income contrary to the grantee's program manual. To be assisted, regulations at 24 CFR 92.203 require clients to meet income eligibility requirements.
- Did not ensure that client files contained a description of household assets or income. The grantee's program manual requires that all income and assets be verified by independent source documentation. To be assisted, regulations at 24 CFR 92.203 require clients to meet income eligibility requirements.

² This is the difference between the contractor's two bids (\$52,611 - \$44,611 = \$8,000). The \$44,611 bid was the lowest bid received.

- Did not ensure that client files contained construction start and completion dates. The grantee's program manual requires that construction contracts include the date or number of days until construction will begin.
- Did not ensure that the amount of the bid submitted by the contractor equaled the accepted bid amount on the bid summary. The bid form submitted by the contractor listed a bid in both numerical and written form, and the Authority accepted the numerical bid amount. The Authority's bid form states that bid amounts must be stated in both words and figures and that in case of a discrepancy, words shall govern.
- Accepted bids for demolition services when the demolition method was not known at the time the bids were received. Since the demolition method was not known, the Authority could not have determined an accurate cost estimate. Regulations at 24 CFR 85.36(f) state that subgrantees must perform a cost or price analysis in connection with every procurement action. Grantees must make independent estimates before receiving bids or proposals.

These problems occurred because the Authority did not have a written agreement with the Planning District Commission that defined the program's requirements. Therefore, we could not determine whether the Commission was aware of requirements and the standards for the expected work product were known as they related to the preparation of client files. In addition, the Authority lacked controls to ensure that the client files were complete and contained documentation to demonstrate compliance with applicable requirements. We could not determine why the Authority did not have a written agreement and why it lacked controls because the responsible employees were either no longer employed (one of two Authority employees and one Commission employee) or suspended indefinitely (one Authority employee). Moreover, the grand jury indicted these three persons.

Contractors Did Not Demolish Homes as Required by Contract

Although the Authority paid three contractors \$43,000 in HOME funds to demolish six houses, the contractors did not demolish them. The Authority's management plan for its program stated that homes were to be demolished and could not be used for storage or other purposes. The Authority paid contractors to demolish 26 houses in 26 HOME-funded projects. However, they demolished only 20 of the houses. This condition occurred because, contrary to the Authority's management plan, the Authority's rehabilitation specialist did not always inspect properties to ensure that work was completed as required, including the demolition of homes. A lack of oversight by the Authority and the Planning District Commission also contributed to this condition, as neither entity reviewed the work conducted by the Authority's rehabilitation specialist or the Planning District Commission's deputy director. Because the Authority paid

contractors for work that was not performed, the \$43,000³ that the Authority paid was ineligible. The following photographs show three of the six homes that the contractors did not demolish.



Client #4: The client's new house (on the left) was built beside the client's former home (on the right), which was not demolished and was being used by the client for storage. The Authority paid the contractor \$9,500 to demolish this mobile home.

³ This figure includes \$9,000 in ineligible costs related to a client who did not legally own the assisted property until after signing a HOME-funded rehabilitation contract, which was discussed in the section above. To avoid double-counting, only \$34,000 of the \$43,000 discussed here was included in the ineligible costs reported in recommendation 1A.



Client #14: The client's former house was not demolished. The Authority paid the contractor \$9,000 to demolish this house.



Client #15: The client's new house (background) was built behind the former house (foreground), which was not demolished and was being used by the client for storage. The Authority paid the contractor \$9,000 to demolish this house.

The Authority's Prequalified List of Contractors Included Contractors That Were Not Properly Licensed

The Authority's prequalified contractor list contained contractors that were not properly licensed. Of 24 contractors that were prequalified to bid on program projects, 7 had issues that should have disqualified them from bidding or working on rehabilitation projects. During the audit period, these seven contractors were either not licensed, their license had expired, or they did not have the appropriate license designation. The Authority awarded contracts to two of the seven contractors. It awarded two contracts to one contractor and one contract to the other contractor. The Authority made unsupported payments to these two contractors totaling \$104,650.⁴ Regulations at 24 CFR 85.36(c)(4) state that grantees and subgrantees will ensure that all prequalified lists of firms, which are used in acquiring services, are current and include enough qualified sources to ensure maximum open and free competition. The grantee's program manual states that contractors must be licensed by the Virginia Department of Professional and Occupational Regulation. This condition occurred because the Authority lacked adequate oversight to ensure that all contractors on the prequalified list were properly licensed.

Conclusion

The Authority did not procure services in accordance with HUD regulations and other applicable requirements. It paid three contractors to demolish six houses that were not demolished and maintained a prequalified contractor list, which included contractors that were not properly licensed. These conditions occurred because the Authority did not have a written agreement with the Planning District Commission that defined the program's requirements, its rehabilitation specialist and the Planning District Commission's deputy director did not satisfactorily perform their job duties, the Authority did not provide adequate oversight of the work performed, and the Authority did not have procedures and controls in place to ensure that it complied with program requirements. As a result, the Authority made ineligible payments totaling \$312,077⁵ and unsupported payments totaling \$308,797.⁶

⁴ To avoid double-counting, this figure does not include \$59,617 that we classified as ineligible costs and \$6,600 that we classified as unsupported costs for the same projects discussed in the two sections of the finding above.

⁵ \$312,077 = \$278,077 + \$34,000

⁶ \$308,797 = \$82,133 + \$114,014 + \$8,000 + \$104,650

Recommendations

We recommend that the Director of HUD's Richmond Office of Community Planning and Development direct the grantee to work with the Authority to

- 1A. Reimburse the grantee's program \$312,077 from non-Federal funds for the ineligible disbursements.
- 1B. Provide documentation to support its use of \$308,797 in program funds or reimburse the grantee's program from non-Federal funds for any amount that it cannot support.
- 1C. Review and update its pre-qualified contractor list to ensure that it includes only properly licensed contractors.
- 1D. Based on the outcome of the State's investigation and criminal trial, make a referral to HUD recommending administrative sanctions, as appropriate, up to and including debarment of the Authority's former rehabilitation specialist, the Planning District Commission's former deputy director, and the involved contractors.

SCOPE AND METHODOLOGY

We performed our onsite audit work from August 2013 through February 2014 at the Authority's office located at 35 Fox Meadow Drive, Lebanon, VA, the grantee's office located at 468 East Main Street, Abingdon, VA, and the Russell County Courthouse located at 53 East Main Street, Lebanon, VA. The audit covered the period January 2010 through July 2013.

To accomplish our objective, we

- Reviewed applicable HUD regulations at 24 CFR Parts 92 and 85.
- Reviewed State guidance in the Virginia Public Procurement Act.
- Reviewed the grantee's monitoring reports, its contract with the Authority, and program guidance established by the grantee in its manual for the indoor plumbing and rehabilitation program.
- Reviewed the Authority's program documents, including the administrative plan, procurement policy, client files, general ledger, program contracts between the Authority and the clients, annual audited financial statements for fiscal years 2011 and 2012, board meeting minutes, and organizational chart.
- Visited 24 properties assisted with program funds.

We also interviewed Authority and grantee employees and HUD staff.

The Authority assisted 27 clients with HOME funds during the audit period. We reviewed all of these clients to determine whether they were eligible for assistance and whether the assistance was provided in accordance with established procurement requirements. Of the 27 HOME-funded projects, 26 included new construction, with the client's old house to be demolished, while 1 client's house was to be rehabilitated. Between September 19 and November 21, 2013, we visited 24 of the 26 properties to determine whether the contractors had demolished the houses as required. We did not visit two properties because we relied on the work conducted by the Virginia State Police and its determination that the contractors had not demolished the houses on those properties as required.

To achieve our audit objective, we relied in part on computer-processed data from the grantee's computer system and reports from HUD's Integrated Disbursement and Information System.⁷ Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

⁷ HUD's Integrated Disbursement and Information System provides program information and funding data for the HOME program.

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

INTERNAL CONTROLS

Internal control is 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:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding 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 did not

- Have a written agreement with the Planning District Commission that defined the program's requirements.
- Provide sufficient oversight of the work performed by its rehabilitation specialist and the Planning District Commission's deputy director.
- Implement procedures and controls to ensure that it complied with program procurement requirements.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$312,077	
1B		\$308,797



- 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

<p>Andrew Chatlin, Chairman H. Truman Mullins, Vice Chairman Ell B. Jones, Jr., Commissioner Patricia D. Gray, Commissioner Janice Lee, Commissioner James N. Horn, Commissioner</p>	<p> CUMBERLAND PLATEAU REGIONAL HOUSING AUTHORITY P.O. BOX 1328 / LEBANON, VIRGINIA 24286 Tel.: (276) 689-4910 / TDD: 1-800-545-1833 Ext. 418 FAX (276) 889-4615 www.cprha.org</p>	<p>Keith L. Viens, Executive Director</p>
<p><u>SENT VIA CERTIFIED MAIL AND VIA EMAIL TO dkasperowicz@hudoig.gov</u></p>		
<p>Mr. David E. Kasperowicz Regional Inspector General for Audit Office of Audit, Region 3 The Wanamaker Building, Suite 10205 100 Penn Square East Philadelphia, Pennsylvania 19017-3380</p>		
<p>Re: Cumberland Plateau Regional Housing Authority/HOME Investment Partnerships Program Audit Report Number: 2014-PH-XXXX</p>		
<p>Dear Mr. Kasperowicz:</p>		
<p>The Cumberland Plateau Regional Housing Authority (the "Authority") is in receipt of the Department of Housing and Urban Development's ("HUD") Office of the Inspector General's ("OIG") undated draft report ("Report") of the Authority's Home Investment Partnerships Program ("HOME" or "HOME Program"). Following the May 28, 2014 exit conference, the Report has been updated, and the Authority acknowledges receipt of the updated version of the Report.</p>		
<p>HOME provided funding for the Authority's Indoor Plumbing Rehabilitation ("IPR") program. The Virginia Department of Housing and Community Development was HUD's grantee for the HOME Program. That Department was referred to in the Authority's Management Plans as "DHCD" or "VDHCD," and is hereinafter referred to as "DHCD."</p>		
<p>Thank you for the opportunity to review the Report and comment on it. As the OIG is aware, and as is discussed herein, the Authority does not have access to the large majority of the documents which the OIG has reviewed, and which serve as the basis for its conclusions and recommendations. Those documents were seized from the Authority and have not been returned to it.</p>		
<p> EQUAL HOUSING OPPORTUNITY Helping With The Housing Needs Of Buchanan, Dickenson, Russell and Tazewell Counties, Virginia It is illegal to discriminate against any person because of race, color, religion, sex, handicap, familial status, or national origin.</p>		

Comment 1

That fact necessarily limits the Authority's ability at this time to completely and thoroughly respond, and to offer comments on the Report. Nonetheless, the Authority submits the following in response to the Report:

The scope and methodology of the OIG's audit were improperly limited.

Comment 2

The scope and methodology of the OIG's audit were flawed from the outset of its work, which included seven months of onsite work. *See* Report at 12.

Comment 3

The OIG did not meet with the Cumberland Plateau Planning District Commission ("PDC") or its staff.

Comment 4

The OIG's Report states repeatedly that the Authority did not have a written agreement with the PDC. Report at 5, 7, 10 and 15. Those statements overlook the undisputed fact that the scope of the PDC's work was clearly set forth at the outset of the Management Plan. *See* 2010 Management Plan at 2.¹ The Management Plan was approved by HUD's grantee.

Comment 4

The PDC performed

administrative duties to include intake, verification of information, maintain[ence] of an applicant list, . . . aid[ing] in prioritization of applications by IPR Oversight Board, ensur[ing] that all improvements made are justified by DHCD's HQS and are not cosmetic repairs; ensur[ing] that lead paint provisions are included in work write-ups and contracts; determin[ing] that all work can be performed within DHCD's cost limits and that all work can be completed within the budget, submit[ting] set-ups to VDHCD; ensur[ing] that all warranties are presented and explained to the homeowner; ensur[ing] that liens are secured by a recorded and enforceable deed-of-trust that include the complete address of the Trustee's residence or place of business; ensur[ing] that closing documents and lead-paint notices are provided to approved applicants regardless of ability to pay; ensur[ing] that all required process and notices for Environmental, Historical and Floodplains as required; [and] ensur[ing] that the required statutory environmental checklist is completed.

Comment 4

2010 Management Plan at 2. *See also* DHCD's 2010 Program Year Final Compliance Review, dated September 2, 2010 ("Review") at 1 (all administrative services for the IPR Program "were provided by Cumberland Plateau PDC."). The OIG places great weight on other portions of, and attachments to, the Management Plan, but fails to give appropriate weight to the quoted language.

¹ The 2010, 2011 and 2012 Plans are largely identical, and thus for ease of reference, citation is generally made herein to the 2010 Management Plan.

Comment 4

There is no indication, or evidence of which the Authority is aware, that the PDC was not in full agreement with the scope of its work as stated in the Management Plan. Nor have DHCD or HUD ever disputed the fact that the PDC was responsible for that wide variety of administrative duties. The PDC's former deputy director has publicly acknowledged the PDC's acute awareness of its administrative work and obligations under the Management Plan and other HOME projects.

Comment 4

The OIG claims that it "could not determine why the Authority did not have a written agreement" with the PDC. Report at 7. The OIG choose to not answer that question by not speaking to the PDC, and by ignoring the explanation offered by the Authority's Executive Director, who explained a draft contract which he prepared and tendered to the PDC.

Comment 3

The OIG also fails to consider whether signed invoices from the PDC may legally, in combination with the quoted portion of the Management Plan and other sources, constitute a written and enforceable agreement, or contract.

Comment 3

The OIG also contends that it "could not determine whether the [PDC] was aware of requirements and the standards for the expected work product were known as they related to the preparation of client files." Report at 7. The reason the OIG "could not" do this is because it did not speak to the PDC.

Comment 5

The bulk of the concerns identified by the OIG involve administrative (e.g. recordkeeping) matters.² For example, the PDC documented the start dates of construction work. The PDC signed that paperwork; the Authority did not sign such paperwork. Furthermore, the PDC maintained the client files at its office.

The PDC and/or DHCD were responsible for preparing, signing off on, and accepting the cost breakdown of IPR projects, namely on the Project Costs worksheet.

Comment 6

Despite its failure to squarely address the duties (and failings) of the PDC, the OIG's Report implicitly concedes that the PDC bore great responsibility for the failings identified in its Report, as it recommends the debarment of the PDC's former deputy director, who was largely responsible for the myriad of administrative failures for which the OIG has cited the Authority. Report at 1.

The Authority reasonably relied on DHCD's annual compliance and performance reviews and random audits to help verify that the IPR Program was being conducted properly. DHCD's 2010 Review reported that "[a]ll client files were complete and well maintained," and concluded that "[a]ll construction services were undertaken following proper procurement procedures." Review at 1. The Authority reasonably believed DHCD's Review to be an accurate barometer and assessment of the Authority's management of HOME funds, and the PDC's work.

² The large majority of the asserted violations (80 of 115, almost 70 percent) have no financial impact. They do not request or require monetary payback by any person or entity.

Comment 7

The Authority and DHCD had an agreement governing the IPR Program ("Agreement") funded by HOME funds. The Agreement provided that DHCD would pay the Authority all "allowable and eligible amounts set-up, approved, drawn down and expended for each project." Agreement at ¶ 1.

Comment 7

The Agreement specified that the relevant "CONTRACT DOCUMENTS" were not simply the IPR Plan, but included the Agreement and other documents. The OIG asserts that it reviewed the Authority's contract with DHCD, Report at 12, but its Report fails to apply the terms of that contract, including the Special Conditions to the Agreement.

Comment 8

The Special Conditions to the Agreement provided that once a set-up was approved by DHCD (which process included approval of the full contract price), the project needed to be completed within 120 days. Agreement, Special Conditions, No. 4. That portion of the Agreement superseded the Plan's provisions that work be completed within 60 days.

Comment 9

For each alleged overpayment identified by the OIG (the Report asserts that cost limits were exceeded by \$82,133, Report at 5), DHCD approved the set up and approved (and deemed eligible) all amounts submitted by the Authority. As the OIG acknowledged in discussions with the Authority, DHCD established what the maximum permitted costs would be.

Comment 1

For each time-overrun alleged by the OIG, the Authority believes the work was completed within 120 days, or within such time as was agreed to by DHCD.

Comment 10

Finally, the OIG also had access to extensive documents which were not, and are not, available to the Authority, as discussed below. The Authority did not have equal access to those documents.

The OIG's willful failure to explore and consider all sources of relevant information coupled with an imbalance in access to relevant documentation resulted in a flawed Report which ignored the duties and failings of other agencies.

The Authority lacks sufficient information at this time to respond to the OIG's allegations that clients who lacked a sufficient interest in a rehabilitated property were assisted with HOME funds.

Comment 11

The OIG alleges that four projects were funded with HOME funds although the occupants of those homes "did not legally own the assisted properties" when contracts were signed. Report at 5.

The OIG contends in its Report that the Management Plan "states that there are three types of households eligible to participate in the program, including owners of single-family residences, owners of mobile homes built since 1978, and persons with life-estate rights." Report at 5. That statement is a distortion of the provisions of the Management Plan.

Comment 11

The Management Plan, as approved by DHCD, provided that eligibility could be “documented by . . . payment of property taxes and insurance for at least three years.” 2010 Management Plan, Attachment D. The federal regulations cited in the Report, 24 C.F.R. §§ 92.2 and 92.254, permit forms of ownership other than fee simple or 99-year leases, as approved by HUD. The Authority reasonably relied on the approval of HUD’s grantee in formulating this aspect of its Management Plan.

The OIG’s Report is silent as to whether any of the four questioned clients had satisfied this condition of payment of taxes and insurance.

Comment 11

However, a document furnished by the OIG to the Authority with respect to one project indicates that the clients had lived at the location “since 84,” making it well possible that they had paid “property taxes and insurance [on the property] for at least three years.” The same is true of a document the OIG provided to the Authority relative to another project, which indicated the client had lived at the property “all [her] life.”

Comment 1

As noted below, the Authority does not have access to its files to begin to attempt to determine whether any of the four clients had satisfied the tax and insurance payment test.

Comment 1

The few documents provided to the Authority by the OIG on this subject create confusion rather than clarity, as the timelines asserted by those documents create more questions, which the Authority cannot now answer, as it lacks access to the relevant documents.

Comment 12

The Authority respectfully requests that this finding, and its attendant recommendation of repayment, be deferred for resolution until such time as the Authority can gather the relevant documents and information to perform the analysis which is required in light of the plain language of the Management Plan.

Comment 3

Should any of these violations be substantiated after proper analysis, the Authority takes the position that this matter was more of an administrative verification activity rather than a primary procurement activity, and that responsibility for any such violations belongs to the PDC.

Finally, the Authority notes that it is well possible that the affected clients were eligible to obtain the benefits of HOME funds, and to that extent, the desired outcome of providing needy and deserving persons with safe, affordable, and decent housing was achieved.

Comment 8

The OIG has improperly relied on a brief DHCD chart, which is not explicitly part of the Management Plan, to allege that the Authority improperly received excess costs, despite DHCD’s approval of all those costs.

The OIG alleges that the Authority received \$82,133 in excess costs from 26 projects. Report at 5-6.

The OIG contends that “excess” is measured by information contained on a chart on the first page of a two-page document which was produced by DHCD. The chart was attached to the Authority’s 2010 Management Plan, but none other, as Attachment E. Attachment E, unlike

Comment 8

other attachments to the Authority's Management Plan, is not referred to in the Management Plan, is not incorporated by reference into the Management Plan, and is not said to be applicable to the Management Plan. It is general guidance from DHCD.

Comment 8

In light of the uncontradicted fact that DHCD approved each and every cost payment to the Authority, including any amounts above the fees listed on the aforementioned chart, this chart cannot serve as the basis for any allegation that the Authority improperly received any excess costs. Therefore, none of the \$82,133 is properly termed unsupported.

The OIG's allegations about, and recommendations as to, the acceptance of faxed bids lack a basis in logic.

The OIG alleges that the Authority improperly accepted faxed bids on four client projects and that two contracts were awarded to low bidders who submitted faxed bids. Report at 6. The OIG has provided the Authority with documents which support only one of these allegations, a faxed bid from one contractor on work for a home for a client. The document, a bid, explicitly states that it was being faxed, and therefore was improper. That contractor's faxed bid was the low bid on the project, and that contractor was awarded – and satisfactorily completed – the project.

Comment 13

The OIG has provided the Authority with documents on one other client project, a project for which the OIG claims that a faxed bid was accepted and allowed to serve as the basis for a contract. The documents provided by the OIG as to that bid indicate that bids were opened on August 18, 2010. Logically, the bids had to be submitted on or before that date.

Comment 13

The sole basis for the OIG's assertion that the bid in question was faxed is the fact that there is a "faxed timestamp at the top of the bid form." The faxed timestamp reflects "01-07-11," or January 7, 2011, almost five months after the opening of bids.

Comment 13

The OIG's apparent view that the transmission of bid paperwork via fax at a point long after the bidding process is at odds with common sense and the law.

Comment 13

The OIG suggests that payments on the two contracts awarded are fully unsupported, in the amount of \$114,014. This approach lacks a logical basis: taxpayers saved money because the one faxed bid, in the amount of \$54,697, was erroneously accepted. Had the faxed bid been rejected, the cost of the project to taxpayers would have been more. There is no factual basis for determining the other bid was submitted by fax.

Comment 13

A more logical resolution of this allegation is to find a violation by the acceptance of a faxed bid, but to impose no financial penalty upon the Authority, because the acceptance of a faxed bid caused no financial harm to taxpayers. That, the Authority submits, is the appropriate resolution as to the OIG's finding as to faxed bids.

Comment 1

The OIG has failed to furnish the Authority with any documentation about its contentions aside from the two bids noted above, and thus the Authority cannot meaningfully respond to the OIG's contentions about the unsuccessful allegedly faxed bids at this time.

Finally, the Authority notes that it is undisputed that the affected clients were eligible to obtain the benefits of HOME funds, and thus there is no dispute that the desired outcome of providing some needy, deserving, and qualified persons with safe, affordable, and decent housing was achieved.

The OIG's recommendation about multiple bids lacks any factual basis.

The OIG contended that bids "were submitted on the same day from the same contractor" on one project. However, upon questioning by the Authority on January 29, 2014, the OIG employee conceded that he did not know the date of either bid submission.

The OIG employee did provide the Authority with copies of the two bids, with one showing an additional element (a septic tank). Neither bid produced by the OIG bears any date. Based on this information, it simply appears that the contractor permissibly submitted a second, and complete, bid. Thus, the Authority submits that there should be no repayment of \$8,000.

The OIG's allegations about the completion and accuracy of contractor records are flawed.

The OIG also alleges that client files did not contain certain information regarding contractors. Report at 6.

These contentions have at least two major flaws.

First, they ignore the undisputed documentation that the PDC – and not the Authority – was the entity responsible under the IPR Plan for keeping such records. 2010 Management Plan at 2.

Second, they are made without the Authority having access to the plethora of documents which the OIG has been able to examine during the audit.

The OIG's allegations about timeframes for completion of work are flawed.

The OIG contends the Authority did not ensure work was completed within 60 days of the start of construction, or that the start and completion dates were not noted. Report at 6 and 7.

These allegations have at least three major flaws.

First, they ignore the contractual agreement between the Authority and DHCD that work be done within 120 days. Agreement, Special Conditions, No. 4. That contractual language, ignored by the OIG throughout its audit, superseded any 60 day requirement.

Second, they are made without the Authority having access to the plethora of documents which the OIG has been able to examine during the audit.

Third, all of the work was either completed within 120 days, or within such time as was granted by DHCD.

Comment 14

Comment 14

Comment 3

Comment 1

Comment 7

Comment 1

Comment 9

Comment 1

The OIG's allegations about improper timing of payments are self-contradictory.

The OIG has alleged that certain payments were made prematurely and/or without documentation of an inspection. Report at 6. Without a chance to review records as to documentation and time of payment, the Authority cannot meaningfully respond to these allegations.

Comment 15

The Authority notes that in discussion preceding the issuance of the Report, the OIG contended that, as to one project, the Authority paid the contractor prior to final inspection, yet at the same time reported that a check for final completion of the project was written on March 11, 2011 after a March 3, 2011 inspection report showed the work was fully completed. Those two observations of the OIG are internally inconsistent.

Confusing allegations such as that only further complicate the Authority's task to respond to the Report.

The OIG's allegations about income and asset descriptions and verification are flawed.

The OIG contends that the Authority did not describe and/or verify several clients' income or assets. Report at 6.

These contentions have at least two major flaws.

Comment 3

First, they ignore the undisputed documentation that the PDC – and not the Authority – was the entity responsible under the IPR Management Plan for administrative tasks such as income and asset verification. 2010 Management Plan at 2.

Comment 1

Second, they are made without the Authority having access to the plethora of documents which the OIG has been able to examine during the audit.

The OIG's allegation about project costs awarded not equaling bids places form over substance, and fails to report the savings to taxpayers resulting from the error identified.

Comment 16

The OIG's Report indicates that a submitted bid was not the same as the accepted-bid listed in the bid summary, in that the submitted bid contained a different numerical bid than the bid amount in written form. Report at 7. The numerical bid was lower.

Comment 16

The OIG is correct that the bid sheets submitted by bidders provide that, in the event of a discrepancy between the words and the numbers stating the total bid, the words should govern. However, the OIG's Report fails to note the savings to taxpayers, and the benefit to the client which was served, resulting from this error.

Comment 1

The Authority cannot meaningfully respond to the OIG's allegation about one missing cost estimate.

Without access to the client file, the Authority cannot meaningfully respond to the allegation that it did not prepare a cost estimate in one case. Report at 7.

Comment 17

The Authority cannot fully respond to the OIG's report as to alleged improper licensure of contractors at this time.

The OIG contends that two contractors performed work without proper licensure, and has noted the \$104,650 paid under those contracts is unsupported. Report at 10. The amount in question is solely attributable to one contractor. The OIG's report is based solely upon review of the project contract files, to which the Authority has been denied access, as noted below.

Without a meaningful opportunity to independently review those files, the Authority cannot determine who actually performed, or supervised, the work.

The OIG also contends that the Authority failed to ensure that all prequalified contractors were properly licensed, but without the ability to review the relevant documents and files, the Authority cannot verify or deny that contention.

Comment 17

The Authority notes, as did DHCD during the May 28, 2014 exit conference, that there was no loss of taxpayer dollars related to the amounts identified by the OIG. Quality work was performed for the program recipients. Fair value was given for the work performed. The clients identified were provided safe, affordable, and decent housing, thus providing the program outcome desired.

The OIG's allegations as to non-demolition of substandard housing fail to adequately address how to remedy those errors in a manner which ensures the unavailability of that substandard housing in the future.

The Management Plan included provisions for the demolition of certain homes which had been inhabited by recipients of the IPR Program. The cost of demolition of the homes was included in the set up amount for those clients' new homes. The goal of demolition, as stated in the Management Plan, was to ensure "that another tenant isn't placed into substandard housing." 2010 Management Plan at 19. There is no evidence, or allegation, that the quoted goal was not met.

Comment 18

The OIG has identified six homes which were not demolished, although payments of \$43,000 were made to contractors for demolition of those homes. Report at 7. According to the OIG, the homes were later removed or were used as miscellaneous storage units.

The Authority acknowledges that money was paid to contractors for work which was not performed, but respectfully submits that the most efficient and effective way to see that HUD's HOME funds are properly used and that the goal of the Management Plan is carried out, is not for the Authority to repay money to HUD or DHCD, but instead is for the Authority to ensure

Comment 18

the demolition of those homes which have not been removed or demolished, to ensure that no one else is placed into those "substandard" homes. The OIG's repayment recommendation would do nothing to ensure that no one lived in those "substandard" homes.

In the alternative, any recovery of money from the Authority – for the alleged non-demolition of mobile homes and otherwise – should be offset by any restitution ordered by the court adjudicating the pending criminal proceedings which involve the same alleged conduct.

The Authority requests an extension of time in which to review seized documents and make a more complete response.

Comment 1

Throughout the audit period, the Authority has made the OIG well aware of the fact that the Authority has lacked, and continues to lack, access to a large number of documents which would allow the Authority to evaluate the accuracy of the large majority of the violations alleged by the OIG. Before there was an audit, there was a lengthy criminal investigation of certain individuals which resulted in voluminous Authority documents being seized by the Virginia State Police.

Despite the Authority's requests, the Virginia State Police and the Russell County Commonwealth's Attorney's Office have denied it access to all of those seized documents. The State Police and prosecutor, however, made all of those documents available to the OIG. That arrangement did not include any provisions for the Authority to have access to the seized documents.

Comment 1

The OIG has provided the Authority with copies of a few of these documents throughout the course of its work, and the Authority is appreciative of that fact. However, the providing of a few select documents by the OIG does not meaningfully assist the Authority in responding to the plethora of allegations levied by the OIG.

Comment 19

In other audits, the OIG has granted extensions to provide documents, such as where delay has been occasioned by the need to focus on budget preparations. See HUD OIG Audit Report No. 2014-PH-1001 at 7. The need here is even greater, because unlike a resource allocation decision such as budgetary preparation, the Authority has been deprived of a meaningful opportunity to review documents through no choice of its own.

Comment 19

In light of the undisputed fact that the Authority has no access to many of its documents, which would assist it in more meaningfully responding to many of the OIG's allegations, the Authority respectfully requests an extension of time in which to complete a more thorough response to the Report. This is particularly important with respect to the OIG's numerous allegations that the files fail to contain certain documentation.

Without an opportunity to review those files, the Authority cannot dispute or comment on whether the files contain the necessary documentation. Because those files have been seized for a lengthy period of time, the Authority has no way to verify that all of the documents which may have once been contained in them remain there.

Comment 12

As the OIG knows, the State Police and prosecutor will not provide the Authority with access to the documents while criminal trials are pending. Trials of persons charged as a result of the investigation during which the documents were seized are currently scheduled for the middle of this August. The Authority has absolutely no control over the scheduling or conduct of those trials.

For those reasons, it is impossible to state a time certain for the Authority to more fully respond. However, the Authority is committed to making a prompt review of the documents, and a more complete response, if allowed the opportunity to do so, as soon as the State Police and prosecutor allow the Authority access to all of the Authority's documents which were seized.

Comment 12

The interests of fairness require an extension of time to fully respond to the Report, and a delay on any action taken against the Authority, until such time as the Authority stands on equal footing with the OIG with respect to the ability to independently review the relevant files and documents.

Conclusion

The Authority is always eager to accept constructive criticism and works tirelessly in an effort to continually improve and evolve in all facets of its operation.

We are proud of our successful relationship with HUD and DHCD, and look forward to our continued partnerships.

In sum, the Authority submits that the aspects of the Report suggesting financial consequences should be resolved as follows:

Comment 8
Comment 18

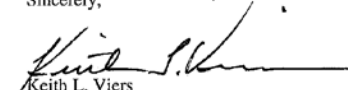
- Any portion of the \$278,077 which is justified following proper analysis should be repaid by the PDC
- The \$82,133 approved by the DHCD should be removed
- Any portion of the \$43,000 attributable to a home which is not demolished or removed within a reasonable time frame agreed to by the Authority and DHCD, less any restitution ordered by the court adjudicating the pending criminal proceedings which involve the same alleged conduct, will be repaid by the Authority
- The \$114,014 attributable to faxed bids should be removed, as value was received for money paid, and there was no financial harm to the taxpayers
- The \$8,000 attributed to alleged multiple bids should be removed, as there is no evidence produced to the Authority that the bids were impermissible

Comment 13
Comment 14

Comment 17

- The \$104,650 related to work performed by allegedly unlicensed contractors should be removed, as value was received for money paid, and there was no financial harm to the taxpayers

Sincerely,



Keith L. Viers
Executive Director

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Mr. Ronnie Legette (via email to Ronnie.J.Legette@hud.gov)
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R. Lucas Hobbs, Esq. (via email to lhobbs@elliottlawson.com)

OIG Evaluation of Auditee Comments

- Comment 1** The Authority stated that it did not have access to the large majority of the documents which the auditors reviewed, and which served as the basis for our conclusions and recommendations. Due to the ongoing criminal investigation, we could not provide the Authority copies of all of the documentation that we obtained from its seized files. However, during the audit we provided copies of key documents to the Authority to facilitate discussion of the audit issues.
- Comment 2** The Authority stated that our scope and methodology were flawed but it did not identify the part of the scope and methodology that it believed was flawed. However, as stated in the audit report, 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.
- Comment 3** The Authority stated that we did not meet with the Cumberland Plateau Planning District Commission or its staff. We audited the Authority. The Authority was a subgrantee for HOME program funds for its indoor plumbing and rehabilitation program that it received from the Virginia Department of Housing and Community Development (the grantee). The Authority was ultimately responsible for ensuring that its indoor plumbing and rehabilitation program complied with HOME program requirements. The Authority engaged the Cumberland Plateau Planning District Commission to provide grant management services to implement its program's projects. The Commission's deputy director was the main point of contact associated with the Authority's program. We did not interview the deputy director because his employment had been terminated before our audit began and he was involved in a related ongoing criminal investigation. We reviewed the documentation seized by the Virginia State Police from the Authority and the Cumberland Plateau Planning District Commission including the client files for clients assisted through the Authority's indoor plumbing and rehabilitation program.
- Comment 4** The Authority stated that we overlooked the undisputed fact that the scope of the Cumberland Plateau Planning District Commission's work was clearly set forth at the outset of the management plan. The Authority asserted that the Commission was aware of its administrative duties and responsibilities related to the indoor plumbing and rehabilitation program as a result of its management plan. However, contrary to its assertion, the management plan is a document created by the Authority for the Virginia Department of Housing and Community Development. Although it describes the process and procedures it plans to use to implement the program, it does not constitute a binding agreement between the Authority and the Commission and officially notify the Commission of its duties and responsibilities. We found no evidence that the Authority executed a written

agreement or contract with the Cumberland Plateau Planning District Commission. The Authority has not provided a copy of an agreement or a contract in response to our inquiry. The executive director did not provide a copy of the draft contract that he claimed to have prepared and tendered to the Commission. Moreover, the audit results showed that the Commission did not always comply with program requirements and the Authority did not provide adequate oversight of the work performed by the Commission as described in the management plan.

Comment 5 The Authority stated that we failed to squarely address the duties (and failings) of the Cumberland Plateau Planning District Commission. Although the Commission was involved with the implementation of the program, the Authority, as a subgrantee of the Virginia Department of Housing and Community Development, was ultimately responsible for ensuring that its program complied with applicable requirements. The Authority was responsible for overseeing the day-to-day operations of the indoor plumbing and rehabilitation program. The Authority's employees including the executive director, rehabilitation specialist and financial manager were responsible for performing duties such as preparation of cost estimates, bid tabulations, inspection of projects, payment to contractors and other administrative duties. Although the Commission was tasked to perform some of the administrative duties, the Authority was responsible for ensuring that it complied with program requirements.

Comment 6 The Authority stated that it reasonably relied on the Virginia Department of Housing and Community Development's annual compliance and performance reviews and random audits to help verify that its program was being conducted properly. Although the Department's 2010 compliance review indicated proper procurement procedures were followed, in its 2011 compliance review the Department reported that the Authority's procurement process was not consistent with its procurement policy because the Authority allowed faxed bids. The Authority was required to ensure that bids be sealed, delivered to a specific place at a predetermined time and opened in public. The Authority did not always follow procurement requirements.

Comment 7 The Authority stated that we failed to apply the terms of its contract with the Virginia Department of Housing and Community Development including the special conditions to the agreement. The Authority misinterpreted the terms "set-up report" and "construction start dates." The Virginia Department of Housing and Community Development's manual states that the Department has minimum guidelines that may be adopted or revised to a more stringent standard. These minimum guidelines state that rehabilitation work on a single house must be completed within 60 days of construction start. Furthermore, construction contracts between the Authority, its clients and contractors show that the 60-day requirement must be followed. The contracts stated that upon commencement of work, the contractor agreed to complete the work within 60 calendar days, time

being of the essence. A penalty of \$100 a day could be assessed for each day past the end of the 60-day agreed upon period.

The special conditions to the agreement did not address construction start dates, but instead addressed “set-up” dates. The agreement stated that the Department agreed to pay the Authority the total allowable and eligible amounts set-up, approved, drawn down and expended for each project during the contract period. The Authority’s set-up requests would be approved if completion reports were submitted within 120 days of set-up approval verifying that projects were completed promptly.

- Comment 8** The Authority stated that the Virginia Department of Housing and Community Development approved the set-up and approved (and deemed eligible) all amounts submitted by the Authority. The Department established the maximum allowable cost limits for the Authority’s program. The Authority’s 2010 and 2011 management plans, which were approved by the Department, included attachments which established maximum allowable cost limits that were more stringent than the Department’s requirements. The Authority exceeded its cost limits for 26 projects, which resulted in \$82,133 in costs that did not comply with the cost limits established in its management plan.
- Comment 9** The Authority stated that it believed that work was completed within 120 days, or within such time as was agreed to by the Virginia Department of Housing and Community Development. Contrary to its assertion, the Authority did not ensure project completion dates met program requirements. Of the 21 clients whose project’s construction was not completed within 60 days of the construction start date, there were 2 clients whose construction was not completed within 120 days, which is twice the allowable limit.
- Comment 10** The Authority asserted that we willfully failed to explore and consider all sources of relevant information. The Authority’s statement has no merit. We considered all sources of relevant information throughout the audit period.
- Comment 11** The Authority stated that we distorted the provisions of the management plan. However, the wording in the audit report came directly from the management plan regarding eligible households. Specifically, page 42 of the Authority’s 2011 management plan required that eligible participants be owners of single-family residences, owners of mobile homes built since 1978, and persons with life estate rights. For the four clients classified as ineligible, none of them owned their home at the time of application and none of them obtained life estate rights prior to participating in the program. Moreover, none of the files for the four clients contained documentation to demonstrate that the clients paid taxes and insurance on the subject properties for at least 3 years. Therefore, these clients were not eligible for assistance.

Comment 12 The Authority requested that the finding and recommendation of repayment be deferred for resolution until it can gather documents and information. As part of the normal audit resolution process, HUD's Richmond Office of Community Planning and Development will work with the Authority and the Virginia Department of Housing and Community Development to resolve the recommendations in the audit report within the timeframes prescribed in HUD Handbook 2000.06, REV-4.

Comment 13 The Authority stated that our view that the transmission of bid paperwork via fax at a point long after the bidding process is at odds with the law. This is incorrect. There was only one bid form included in the client file for the winning bidder. The bid form showed a faxed timestamp of "01-07-11; 01:54PM; #2/2", or January 7, 2011, almost 5 months after bids were opened. The transmission of bid paperwork via fax at a point long after the bidding process is contrary to the required sealed bid method of procurement. Moreover, there were two sets of bid opening documents in the file dated August 18, 2010. The winning bidder's name and bid amount appeared on one bid opening document but not the other. Also, although the bid opening apparently occurred on August 18, 2010, the construction contract was not signed until March 3, 2011.

Regarding the faxed bid in the amount of \$54,697, the Authority stated that it erroneously accepted the bid. The related payments totaling \$54,697 are unsupported since the faxed bid should not have been accepted.

Since we classified the related payments totaling \$114,014 as unsupported costs, the Authority has the opportunity to provide documentation to HUD to address the audit issue and support the payments. By accepting faxed bids when the sealed bids were required the Authority created an appearance of impropriety and potential fraud.

Comment 14 The Authority stated that the auditor did not know the dates that the bids were submitted. However, documentation in the client file indicated that the Authority used the sealed bid method of procurement. Accordingly, all bids should have been opened on the same day at the same time. The documentation in the client file showed that bids were opened on the same day from the same contractor in different amounts because there were two sets of bid opening documents dated August 18, 2010, in the file. There was no reference in the file to explain this situation. There were two bid forms from the same contractor; one bid totaled \$52,611 and another bid totaled \$44,611. The client file does not explain why the winning bid was \$8,000 more than the lower bid submitted by this contractor. Additionally, it appears the bidder's original bid form as well as the bid amounts from the other bidders on the bid opening form had been altered. As a result of the issues surrounding the legitimacy of the bid, the \$8,000 difference in the two bids is unsupported. The Authority has the opportunity to provide documentation to HUD to address the audit issue and support the payments.

- Comment 15** The Authority stated that the observations of the auditor were inconsistent. This is not correct. The Authority's statement is a distortion of the events. The auditor identified several inconsistencies in this client file and the auditor sent an e-mail to the Authority on January 27, 2014, that discussed them. In the e-mail, the auditor noted that on March 10, 2011, the Authority's inspection review showed that the work was 75 percent complete. However, a March 3, 2011, Authority inspection review showed that the work was 100 percent complete. On March 11, 2011, the Authority wrote a check for \$18,245 as final payment for completion of 100 percent of the work. The check was cashed on March 14, 2011. However, on April 11, 2011, about a month after the contractor cashed the final payment, the contractor certified the work was completed.
- Comment 16** The Authority stated that we failed to note savings to the taxpayers, and a benefit to the client served, because it erroneously used a numerical bid amount rather than the bid amount expressed in words. As stated in the audit report, the Authority did not comply with its established procedure when it accepted the numerical bid amount. We did not claim any questioned costs as a result of this deficiency.
- Comment 17** The Authority stated that it, and the Virginia Department of Housing and Community Development, during the May 28, 2014, exit conference, noted that there was no loss of taxpayer dollars related to the amounts we identified, that quality work was performed for the program recipients, and fair value was given for the work performed. However, as stated in the audit report, the Authority made unsupported payments to two contractors. We reported only \$104,650 because, as noted in footnote 4, to avoid double-counting, we did not include \$59,617 that we classified as ineligible costs and \$6,600 that we classified as unsupported costs for the same projects discussed elsewhere in the finding. The Virginia Department of Housing and Community Development's program manual stated that contractors must be licensed by the Virginia Department of Professional and Occupational Regulation. Accordingly, the Authority will have the opportunity to provide documentation to HUD to support its assertion that quality work was performed.
- Comment 18** The Authority acknowledged that money was paid to contractors for work that was not performed and asserted that it should not repay any related funds, rather it should ensure the demolition of the homes that were not demolished to ensure that no one lives in those substandard homes. As stated in the report, the Authority paid contractors to demolish homes, but they did not do so. The \$43,000 in payments related to the six homes that were not demolished needs to be repaid because the payments were ineligible. Ineligible costs are costs charged to a HUD-financed program that are not allowable by law; contract; or Federal, State, or local policies or regulations.
- Comment 19** The Authority requested an extension of time to complete a more thorough response to the audit report based on language in HUD OIG audit report 2014-

PH-1001. However, during that audit, we requested the auditee provide documentation to us within 19 days of our request. The auditee requested an additional 37 days to gather the documentation. In consideration for the auditee's needs and due to the constraints an extension would have imposed on the audit process, we informed the auditee that it could provide the documents to HUD for review after the audit.

Appendix C

SCHEDULE OF DEFICIENCIES AND QUESTIONED COSTS

Client	Violations noted during file review *												Total violations	Project cost	Total ineligible costs	Total un-supported costs
	1	2	3	4	5	6	7	8	9	10	11	12				
Client 1		X			X	X							3	\$57,480	\$ 3,500	\$ 3,300
Client 2		X	X			X	X						4	65,981	-	57,997
Client 3		X	X		X	X	X						5	76,433	-	68,800
Client 4		X											1	74,550	9,500	4,100
Client 5	X	X			X	X	X		X				6	78,460	78,460	-
Client 6		X			X		X	X					4	64,550	-	2,200
Client 7		X			X	X	X						4	59,795	-	3,300
Client 8		X			X	X	X	X					5	68,703	-	3,300
Client 9		X			X	X	X						4	56,000	3,000	53,000
Client 10	X	X			X	X	X			X			6	56,617	56,617	-
Client 11		X			X	X	X						4	47,400	-	1,900
Client 12		X			X	X							3	74,250	-	3,300
Client 13		X	X		X	X			X		X	X	7	58,250	-	58,250
Client 14	X	X			X	X	X	X	X				7	73,500	73,500	-
Client 15		X			X	X	X						4	72,500	9,000	2,700
Client 16		X			X	X		X		X			5	67,500	-	3,300
Client 17		X	X	X	X	X	X						6	63,821	-	11,300
Client 18		X			X			X					3	58,536	-	3,300
Client 19		X				X				X			3	68,550	-	5,650
Client 20		X			X	X							3	51,990	-	3,300
Client 21		X			X			X					3	70,375	-	3,300
Client 22		X			X	X	X						4	73,500	-	3,300
Client 23		X											1	69,200	-	3,300
Client 24	X				X	X		X		X	X		6	69,500	69,500	-
Client 25		X			X	X	X		X	X			6	73,500	-	3,300
Client 26		X			X	X	X						4	73,500	-	3,300
Client 27		X					X		X		X		4	73,250	9,000	3,300
Totals	4	26	4	1	22	21	16	7	5	5	3	1	115	\$1,797,691	\$312,077⁸	\$308,797⁹

⁸ In addition to the ineligible costs related to violations listed in column 1 of the chart, the total ineligible costs include \$34,000 for payments the Authority made to contractors for demolition services that were not performed for client 1 (\$3,500), client 4 (\$9,500), client 9 (\$3,000), client 15 (\$9,000), and client 27 (\$9,000). See report pages 7 and 8.

⁹ In addition to the unsupported costs related to the violations listed in columns 2, 3 and 4 of the chart, the total unsupported costs include \$104,650 for payments the Authority made to contractors that were not properly licensed for client 9 (\$49,700) and client 13 (\$54,950). See report page 10.

* Violations noted during review:

The violations in this column resulted in ineligible costs (see footnote 8):

1. The client did not own the property until after the contract was signed. (\$278,077 See report page 5.)

The violations in these columns resulted in unsupported costs (see footnote 9):

2. The Authority overpaid for base construction costs, administration fees, and construction-related soft costs. (\$82,133 See report page 5.)
3. The Authority accepted faxed bids. (\$114,014 See report page 6.)
4. Bids were submitted twice on the same day from the same contractor for the same project. (\$8,000 See report page 6.)

The violations in these columns resulted in no questioned costs: (See report pages 6 and 7.)

5. The contractor's license, designation, or both were missing from the file.
6. Work was not completed in the applicable timeframe.
7. The Authority paid the contractor before inspection.
8. The client's income was not verified.
9. Descriptions of household assets or income were missing from the file.
10. Construction start and completion dates were missing.
11. Amounts on contractor bid forms did not equal the amounts on the summary bid sheet.
12. The demolition method was not known at the time of bidding, yet cost estimates were accepted.