



Housing Authority of the City of Comer, GA

Public Housing Program



To: Ada Holloway, Director, Public and Indian Housing, Atlanta Field Office, 4APH
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 Comer Did Not Comply With Conflict-of-Interest and Procurement 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 Housing Authority of the City of Comer's financial operations and procurement practices.

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 404-331-3369.



Audit Report Number: 2015-AT-1002

Date: April 24, 2015

The Housing Authority of the City of Comer Did Not Comply With Conflict-of-Interest and Procurement Requirements

Highlights

What We Audited and Why

We audited the Housing Authority of the City of Comer's financial and procurement operations. We selected the Authority based on concerns from the U.S. Department of Housing and Urban Development's (HUD) Georgia State Office of Public Housing regarding significant deficiencies identified during its August 2013 management review. HUD's Office of Public Housing identified findings regarding the misuse of funds, a lack of governance and internal controls, excessive unit vacancies, and a conflict of interest by the executive director.

What We Found

The Authority did not properly manage its financial operations and procurement activities in accordance with HUD requirements. Specifically, it paid more than \$22,000 that violated conflict-of-interest provisions and also prevented it from renovating its vacant units in a timely manner. During the period 2006 to 2014, 10 units were taken offline for renovations, and only two had been completed. One unit had been offline since 2006. In addition, the Authority could not support that it complied with its procurement policies for more than \$33,000 in contracts for professional services and general labor. These conditions occurred because the board of commissioners and the executive director failed to follow the provisions of the Authority's consolidated annual contributions contract and Federal regulations.

What We Recommend

We recommend that the Director of the Atlanta Office of Public Housing require the Authority to (1) reimburse \$22,178 in ineligible costs from non-Federal funds; (2) hire qualified contractors to complete the work necessary to make the vacant units habitable and available to low-income families; (3) support or reimburse \$33,144 from non-Federal funds; and (4) ensure that its board of commissioners is able to enforce the regulations related to the Authority's financial operations, conflict-of-interest relationships, and procurement. We also recommend that the Director of the Departmental Enforcement Center, in coordination with the Director of the Atlanta Office of Public Housing, take appropriate enforcement actions against the Authority officials responsible for the noncompliance.

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Background and Objective

The Housing Authority of the City of Comer was established on July 25, 1950, in accordance with State and Federal laws. The Authority is responsible for administering 30 low-income units housed over two projects. The Authority's mission is to develop and operate its projects solely for the purpose of providing safe and sanitary housing for eligible families in a manner that promotes the serviceability, economy, efficiency, and stability of the projects and the economic and social well-being of the tenants in Comer, GA.

The Authority is governed by the provisions of a consolidated annual contributions contract between it and the U.S. Department of Housing and Urban Development (HUD). The Authority's oversight is the responsibility of a five-member board of commissioners appointed by the mayor of the Comer. The board of commissioners selects the executive director. The board of commissioners is responsible for the operational, financial, and compliance oversight of the Authority and its employees to ensure the accomplishment of the Authority's mission. The Authority's daily operations are managed by the executive director. The Authority's maintenance mechanic is its only other employee. Under the Authority's consolidated annual contributions contract, the Authority receives a Public Housing Operating Fund program subsidy for the operation and maintenance of its low-income housing projects. The Authority's consolidated annual contributions contract is amended annually to provide the Authority with a Capital Fund program subsidy. The capital funds are provided for the Authority to carry out major renovations and management activities for its housing units to ensure that the units continue to be available to serve low-income families. The Authority is permitted to combine its capital funds and operating funds and may use its capital funds under the Operating Fund requirements. HUD awarded the Authority more than \$203,000 for fiscal years 2013 and 2014, which included more than \$132,000 in operating subsidies and more than \$71,000 in capital funds. However, as of October 2014, more than \$37,000 in capital funds for fiscal year 2014 had not been made available for the Authority's use.

HUD's Georgia State Office of Public Housing in Atlanta, GA, is responsible for overseeing the Authority. Based on HUD's August 2013 management review, effective May 20, 2014, HUD required the Authority to submit invoices to the HUD Georgia State Office for approval before the Authority could receive payments.

Our audit objective was to determine whether the Authority complied with HUD's regulations for financial operations and procurement activities.

Results of Audit

Finding: The Authority Did Not Comply With Conflict-of-Interest and Procurement Requirements

The Authority did not properly manage its financial operations and procurement activities in accordance with HUD requirements. Specifically, it used its operating and capital funds to pay salary and contract labor payments to related parties. Its failure to comply with conflict-of-interest provisions prevented it from renovating its vacant units in a timely manner. Also, the Authority did not comply with its procurement policies before securing contracts for professional services and general labor. These conditions occurred because the board of commissioners and the executive director failed to follow the provisions of the Authority's consolidated annual contributions contract and regulations. As a result of the Authority's noncompliance, units remained vacant for extensive periods from 2006 to 2014, and HUD funds were used to pay more than \$55,000 for ineligible and unsupported costs.

Conflict-of-Interest Violations

We reviewed 100 percent of the Authority's disbursements totaling more than \$141,000 from June 1, 2013, to May 31, 2014. We identified more than \$22,000 paid for services to parties in conflict-of-interest relationships that violated the provisions in its consolidated annual contributions contract¹ and code of conduct.²

The Authority made payments for contract labor to the executive director and the executive director's husband, son, and daughter. It also paid the resident board member and the resident board member's friend to perform contract labor. The consolidated annual contributions contract prohibits the Authority from entering into any agreement or contract with an officer's immediate family member. The executive director purchased supplies and materials for the Authority's maintenance and Capital Fund program units from her husband's hardware store. Additionally, the payments included conflict-of-interest³ salary payments to the executive director's husband for his duties as the Authority's maintenance mechanic. The Authority's code of conduct defines a conflict of interest as a financial interest that may arise between the Authority's employees and their immediate family members. Table 1 shows the payments made for each of the conflict-of-interest relationships.

¹ Consolidated annual contributions contract, section 19, Conflict of Interest, (A)(1)(i)

² Housing Authority of the City of Comer Statement of Procurement Policy, section N(a)(1)(2)(3)

³ Consolidated annual contributions contract, section 19, Conflict of Interest, (B)(1)(i) and (B)(4)

Table 1 – Conflict-of-interest relationships

Relationship	Payment amounts
Executive director	\$ 8,142
Executive director’s husband (Authority’s maintenance mechanic)	\$ 4,351
Executive director’s son	\$ 755
Executive director’s daughter	\$ 1,500
Board of commissioners’ resident board member	\$ 358
Board of commissioners’ resident board member’s friend	\$ 200
Executive director’s husband’s hardware store	\$ 6,872
Subtotal ineligible	\$22,178
Executive director’s husband (unsupported salary payments for maintenance mechanic duties – waiver required)	\$ 8,233
Total ineligible and unsupported	\$30,411

The Authority’s board of commissioners hired the executive director in 1992, although her husband was the Authority’s maintenance mechanic. The executive director stated that when she was hired, the board did not believe that a conflict of interest existed because HUD provided a waiver to the prior executive director, who was also married to the Authority’s former maintenance mechanic. The current executive director stated that a lawyer reviewed the waiver and stated that there was no issue with the prior executive director’s relationship with the Authority’s prior maintenance mechanic. Therefore, the executive director believed there was no reason to request an additional waiver or seek a legal opinion.

During the February 28, 1997, board meeting, the board instructed the executive director to attempt to purchase competitively, especially large items or cases of goods, to offset any questions or problems that might arise regarding a conflict of interest at her husband’s hardware store.

The board approved conflict-of-interest relationships in 2006 by allowing the executive director to be paid for maintenance duties outside her regular duties and in 2009 by approving the executive director to hire her son and daughter to perform maintenance duties at the Authority. Additionally, in 2012, the board approved payments to the executive director and the maintenance mechanic for maintenance duties outside their regular duties and salaries. The board also approved the executive director to pay her daughter to perform clerical duties and cleaning at the Authority.

The Authority’s independent auditor’s 2012 and 2013 audit reports included a related-parties issue. The independent auditor identified a conflict of interest when the Authority paid four family members and a family member’s hardware store.

In August 2013, the Georgia State Office of Public Housing conducted a management review of the Authority. It issued a report to the Authority’s board chairman that identified several findings, including a conflict-of-interest violation. The Office of Public Housing determined that the executive director served as the contract administrator and the contractor for the Authority’s maintenance projects and contracted maintenance and administrative work to her son and

daughter. The report also identified the conflict of interest with her husband as the maintenance supervisor. The executive director issued a response to the report, stating that the working relationship between her and her husband did not violate any State or local laws or other regulations concerning the Authority. As a result, on May 2014, HUD required the Authority to submit all invoices for approval to the HUD field office before payments would be released.

The Authority's failure to comply with conflict-of-interest provisions prevented it from renovating its vacant units in a timely manner. The Authority's consolidated annual contributions contract is amended annually to include capital funds for the completion of major renovations, regular recurring maintenance, and management expenditures. From 2006 to 2013, the Authority placed 10 units offline for renovations. During that time, it disbursed more than \$337,000 (see table 2) in capital funds for regular recurring maintenance, management expenditures, and the renovation of two vacant units. In May 2013, the Georgia State Office of Public Housing denied the Authority's request for operating subsidies for vacant units based on the executive director's failure to provide adequate documentation to support that the units were undergoing modernization as provided in 24 CFR (Code of Federal Regulations) 990.145.⁴ After HUD's May 2013 review, the Authority completed the renovation of two units, spending more than \$14,000 in capital funds. The units were placed back online in August and December 2013. On May 27, 2014, the executive director requested more than \$1,600 from HUD for her services as the Capital Fund contract administrator. HUD refused to release the funds. As of October 2014, the remaining 2013 funds had not been disbursed for the purpose of completing the renovations on the Authority's remaining eight vacant units (see appendix C). In addition, the Authority did not provide adequate documentation to HUD for approval to release the 2014 capital funds.

Table 2 – Grant funds

Grant year	Amount authorized	Amount disbursed	Available balance
2006	\$ 46,325	\$ 46,325	\$ 0
2007	\$ 47,418	\$ 47,418	\$ 0
2008	\$ 46,425	\$ 46,425	\$ 0
2009	\$ 46,182	\$ 46,182	\$ 0
2010	\$ 46,027	\$ 46,027	\$ 0
2011	\$ 38,001	\$ 38,001	\$ 0
2012	\$ 35,177	\$ 35,177	\$ 0
2013	\$ 33,799	\$ 32,109	\$ 1,690
2014	\$ 37,979	\$ 0	\$37,979
Total	\$377,333	\$337,664	\$39,669

The units remained vacant because the Authority completed all Capital Fund renovations using in-house labor. The executive director stated that the Authority did not use outside contractors to perform Capital Fund renovations because the Authority acted as its own contractor and she

⁴ 24 CFR 990.145 (a)(1)(i)(ii)

subcontracted the work to herself, her husband, her son and daughter, and residents of the Authority. Further, the executive director stated that she purchased supplies and materials from her husband’s hardware store because the board instructed her to buy locally. However, we identified two hardware stores less than 10 miles from the Authority. The executive director also stated that the in-house labor could complete the renovations for approximately \$15,000 and a contractor would charge approximately \$80,000. The executive director did not provide documentation to support her estimates for the work requirements for the vacant units.

Procurement of Goods and Services

The Authority did not document it that properly procured goods and services totaling more than \$24,000 (see table 3). Additionally, the executive director did not provide documentation to support that she received at least three price quotes before executing small-purchase contracts that exceeded \$2,000 for services, including landscaping, accounting services, and professional services governed by HUD requirements. Finally, the executive director did not provide documentation, such as timesheets, invoices, or contractor-prepared statements of work, to support the reasonableness of prices for the Authority’s general contract labor when the cost did not exceed the micropurchase amount of \$2,000.

Table 3 – Procured goods and services

Services performed	Missing documentation	Total amount unsupported
Lawn care	No contract bids	\$ 3,100
Pest control	No contract bids	\$ 1,020
Fee accountant	No contract bids	\$ 5,260
Public information center contractor	No contract bids	\$ 3,250
Independent auditor	No contract bids	\$ 4,800
General contract labor	Timesheets and contractor statements of work	<u>\$ 7,481</u>
<u>Total</u>		<u>\$24,911</u>

The board of commissioners failed to ensure that the Authority complied with the documentation requirements governing procurement of goods and services. The board chairman was responsible for signing all checks for the Authority’s disbursements. He stated that before signing the Authority’s disbursements, he reviewed the supporting documentation to ensure that the purchases were for valid services but he relied on the executive director to provide him with the necessary regulations to make decisions. The board chairman’s failure to ensure that he had adequate knowledge of the regulations and the executive director’s failure to comply with procurement policies and procedures resulted in disbursements that did not have adequate supporting documentation.

Conclusion

Overall, the executive director did not eliminate the conflict-of-interest relationships or use outside contractors to complete the renovation of units approved under the Capital Fund program. In addition, the Authority's board of commissioners failed to ensure that the executive director complied with conflict-of-interest and procurement regulations to ensure that HUD funds were used for eligible services and disbursements were adequately supported.

Recommendations

We recommend that the Director of the Atlanta HUD Office of Public Housing require the Authority to

- 1A. Reimburse its Public Housing Operating Fund and Capital Fund programs \$22,178 from non-Federal funds for disbursements that violated conflict-of-interest regulations.
- 1B. Support or reimburse its Public Housing Operating Fund and Capital Fund programs \$33,144 from non-Federal funds for disbursements that lacked supporting documentation.
- 1C. Hire qualified contractors to complete the work necessary to make the vacant units habitable and available to low-income families
- 1D. Ensure that its board of commissioners understands the requirements relevant to the Authority's financial operations and procurement. The board should also enforce the requirements to ensure that the Authority's disbursements are supported and used for eligible services.
- 1E. Require the Authority to comply with HUD guidance and its policies and procedures to eliminate any present and prevent future conflict-of-interest relationships.

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

- 1F. Take appropriate administrative sanctions against the Authority officials responsible for the noncompliance with Federal regulations.

Scope and Methodology

We performed the audit from July through October 2014 at the Authority's office located in Comer, GA, and the HUD Office of Inspector General's (OIG) Atlanta regional office. The audit generally covered the period June 1, 2013, through May 31, 2014. We adjusted the period when necessary.

To accomplish our audit objective, we

- Interviewed Authority employees, the board of commissioners' chairman, and HUD officials.
- Reviewed the most recent HUD monitoring report to assess the Authority's financial operations and procurement procedures.
- Reviewed reports issued by an independent auditor's office.
- Reviewed and obtained an understanding of the Authority's written policies and procedures, relevant laws and regulations, the Authority's bylaws and consolidated annual contributions contract with HUD, and HUD's guidance.
- Reviewed HUD's files for the Authority.
- Reviewed board of commissioners' minutes.
- Conducted site inspections of five of the Authority's vacant units.

The Authority received \$33,799 in capital funds and \$132,182 in operating funds for fiscal years 2013 and 2014. We conducted a 100 percent review of the Authority's disbursements of more than \$141,000 from June 1, 2013, through May 31, 2014, or 85 percent of the Authority's disbursements for fiscal years 2013 and 2014, to determine whether the disbursements were for eligible and properly supported expenses. We relied on computer-processed data from the eLOCCS⁵ system to determine the amount of funding the Authority received from operating and capital funds. We validated computer-processed data by performing tests and procedures to ensure the integrity of the data 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. We also performed a detailed assessment of the reliability of the data provided by the Authority by validating each processed

⁵ The Line of Credit Control System (LOCCS) is HUD's primary grant and subsidy disbursement system that handles disbursement and cash management for most of HUD grant programs. In 1990, the LOCCS Voice Response System (VRS) was developed to handle grantees' access to their HUD funds using a touchtone phone system. In 2001, an Internet version of LOCCS VRS called eLOCCS was introduced, allowing public housing agencies, Section 8 performance-based contract administrators, and other approved HUD-trusted business partners access to their HUD portfolios through the Web.

check with supporting invoices and bank statements. 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(s). 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 provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.
- Relevance and reliability of information – Policies and procedures that management has implemented to reasonably ensure that operational and financial information used for decision making and reporting externally is relevant, reliable, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that program implementation is consistent with laws and regulations.

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 Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The Authority did not properly manage its program operations (see finding).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$22,178	
1B		\$33,144
Totals	\$22,178	\$33,144

- 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

Comment 1

Comment 2

Housing Authority of the City of Comer, Georgia 30629
P.O. Box 157
Comer, Georgia 30629

January 9, 2015

Nikita N. Irons, Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Audit – Region IV
75 Spring Street, S.W. , Room 330
Atlanta, GA 30303

Dear Ms. Irons,

Please consider this correspondence from the Comer Housing Authority as the written response to your draft audit report on the Comer Housing Authority (CHA).

The CHA received the Draft Audit on Friday, December 12, 2014. While CHA appreciated the opportunity to discuss the Draft Audit at the exit conference on December 16, 2014, and the opportunity to prepare a response, as a part-time housing authority, CHA is concerned that the OIG originally gave only (2) regular working business days (the CHA office is open on Tuesday and Thursday) for the housing authority to comment on and respond to a report during the holidays and during time that the housing authority is closed.

The CHA greatly appreciates that the OIG granted the CHA part of the time it requested for an extension. The extension allowed the housing authority an additional 2 regular working days. However, as there is only one (1) part-time person to respond to this report for the housing authority and also maintain the regular operations for the housing authority, the CHA believes this is not a sufficient amount of time to provide the most accurate and comprehensive response to the details of the report.

Please be aware that as a part-time employee (20 hours per week) that numerous hours have been expended since the entrance conference on July 23,2014 over and beyond the regular 20 hours per week to provide information requested. At this time, approximately 400 man hours have been documented without pay.

We respectfully submit the following for your consideration.

Sincerely,
Margaret Kellum
Executive Director



Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 3

Comment 3

Comment 4

Comment 5

Comments to the draft audit of the Comer Housing Authority

Paragraph1, page3

The Authority does not concur with the statement, "The authorities daily operations are managed by its two part time employees".

- The daily operations and managements are managed by the part time executive director.
- The Authority did not receive any CFP monies for 2013 until eleven (11) months into the year, November 2013.
- The Authority in accordance with its 5 Year and Annual Plan requested CFP monies be placed into BCI 1406 operations as allowed for small housing authorities (CFDA 148.72, 42 USC 1437,24 CFR 968, 24CFR 905). References attached.
- The Atlanta HUD field office denied this request and refused to release CFP monies until the Authority placed them into the BLI the Atlanta office said to. (see attachment 2A)
- The Atlanta field office placed immediate sanctions on the 2013 CFP monies on May 20, 2014 in the Management Onsite Review findings from the Management Onsite Review held August 2013 (nine months after the review was held).
- The Atlanta field office did NOT notify the Authority or the board before taking this action.

Paragraph 1 page 4

The Authority does not concur with the findings in paragraph one (1) on page 4 Results of audit.

The Authority respectfully asserts that it did, in fact, properly manage its financial and procurement activities in accordance with its ACC and HUD requirements. The Authority has consistently adhered to its CFP 5 year and Annual Plan and continues to modernize and rent units as money has been available.

Out of the 30 units, over twenty units have been modernized and rented. The physical REAC scores have consistently improved as a result of the Authority's efforts and adequate use of funds.

The Authority does not concur with the accusation of "ineligible and unsupported costs of \$55,000."

The Authority asserts that all funds paid out have been clearly documented and in accordance with all requirements. As documentation of this claim, we present the following facts:

- Each check written from the Authority is documented with the original invoice attached and signatures as needed. (see attachment 2B and 2C)
- All disbursements by the Authority have been documented as required in accordance with the Public Housing Procurement Handbook, the ACC, and all regulations.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 5

- Specifically, 24 CFR 85.36(b)4; Chapter 3 of HUD Procurement Handbook 7460.8 REV 2, states:
 - For micro purchases below \$2,000, the Contracting Officer generally does not need to prepare ICE.
 - The level of documentation should be commensurate with the value of the procurement.
 - 24 CFR 85.36(d)(1) Chapter 5 HUD Procurement Handbook 7460.8 Rev.2 states
 - PHAS may also establish Micro Purchase threshold of up to \$2000.00 Per purchase
 - To the extent practicable, PHAS shall distribute Micro Purchases equitably among qualified vendors
 - The signature of the contracting officer signifies the cost is reasonable.
 - Documentation for purchases above the micro purchase threshold should be kept to a minimum.
- All disbursements are further documented and audited for the housing authority by an approved HUD fee accountant and auditor.

Financial operations and procurement activities have been consistently in accordance with the HUD Procurement Handbook 7460.8 rev.2, the Procurement policy and other requirements required by the Department of HUD, to the best of its ability.

Comment 5

The draft audit states that the Authority did not properly manage funds in the dollar amount of \$22,177.76

The Authority does not concur with this conclusion and respectfully asserts that it did properly manage funds in compliance with OGGA 8-3-51 law, 24 CFR part 135, and the HUD Procurement Handbook 7460.8 Rev.2, and the small business act.

Comment 5

Dollar amounts of \$22,177.76 were in complete accordance with declared conflicts of interest and in accordance with law.

Comment 6

The Authority resides in a very rural location with a population of around 2000 persons and has very limited access to vendors, supplies, laborers and materials.

The housing authority made all feasible efforts to ensure that small and minority owned businesses and other individuals or firms located in or owned in substantial part by persons residing in the area of the housing authority are used when possible in accordance with Presidential Executive Orders and Section 3 of the HUD Act of 1968.

- Again, all invoices are attached to each check written which is not required for micro purchases (Refer to Handbook), and specifically documented.
- Checks to Hardware account 34 are assigned to maintenance operation.(Refer to attachment 2B)

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 7

- Any checks to Hardware Account 1315 are designated specifically for materials and supplies that are non routine, deferred maintenance, modernization, or emergency maintenance. All items are clearly identified in the Authority's CFP Five Year and Annual Plan.
- Invoices attached to checks are very clear and specific.(see attachment)
- The housing authority has contractor accounts set up at the Hardware, Lowe's and Home Depot, to ensure that the housing authority gets the best pricing available.

Comment 8

All monies expended were necessary operating expenses of the Authority for emergency work, non routine maintenance, **administration over** twenty hours per week, or modernization improvements. (24CFR968,CFDA14.872, 24CFR905, USC42 1437)

Comment 9

In regards to the conflict-of-interest, the Authority has consistently followed its 1996 ACC. The Authority has provided information to the Atlanta HUD office and the OIG auditors that any conflict of interest concerning any employee, or any ownership of any type, that might constitute a contention was declared to the Atlanta HUD office **PRIOR** to the Board of Commissioners approving, signing, and submitting the ACC by the required due date December 15, 1995. (Refer to attached ACC)

Comment 9

The Department of HUD Atlanta Office acknowledged the possible conflict of interest and the Atlanta HUD office deemed it declared and in accordance with directions issued by the Department of HUD in September 1995 "that the 1996 ACC requirements applied to newly hired employees only".

Comment 9

HUD executed and returned the ACC contract dated June 14, 1996 signed by the Director, Office of Public Housing, Harold E. Saether. (See attached ACC).

Comment 9

In accordance with Section 22, page 11 of the 1996 ACC and further acknowledged by the signature of the director of public housing and executed copy of HUD Form 53012A dated on June 14, 1996, the housing authority declared all conflicts of interest between any related parties and any ownership conflict.(page 11 ACC)

Comment 10

The housing authority has been open and transparent concerning these questioned conflicts of interest. They have been consistently declared to the board of commissioners, the public, the fee accountant, the auditor, and the Department of HUD.

Comment 11

Further conflicts of interest concerning a resident are specifically stated in Section 19 A(5) of the 1996 ACC and state, "Nothing in this section shall prohibit a tenant of the HA from serving on the governing body of the HA."(ACC)

Comment 12

Section 19 B(4) of the ACC states, "the requirements of this subsection (B) may be waived by the Authority Board of Commissioners for good cause".(ACC)

Comment 13

With only two (2) part-time employees and a very small, 30 unit housing authority located in a rural area, the Board of Commissioners has consistently discussed and documented, in board minutes, and policies decisions necessary for the effective operation of the Authority in accordance with the 1996 ACC.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 14

Paragraph 1, page 5

The housing authority does not concur with statements in paragraph 1, page 5 of the audit draft.

- The executive director was hired January 1,1993.

Paragraph3, page5

The housing authority does not concur with statements in paragraph 3, page 5 of the audit draft.

- The housing authority's board of commissioners, acting within its ACC section 19 b (4), and in accordance with 24CFR 968 and CFDA 14.877, its maintenance policy, and OCGA 8-3-51 approved payments to be made for work incurred over and beyond normal working hours.
- The board further made decisions in the best interest of the housing authority due to limited access of laborers and for security purposes.

Comment 6

Comment 6

Comment 15

These issues were also addressed by the HUD Atlanta Office in 2009 and at the request of the HUD employees reviewed by the Regional Procurement Office and HUD Legal Department. (Refer to attachment 5A)

- All issues were cleared. (Refer to attachment 5B)

Comment 16

The housing authority's independent auditors have disclosed this information in audits for years.

The fee accountant has disclosed this information for years in the Management, Data, and Analysis report.

- Any conflict of interest has been declared for over 20(twenty) years.

Comment 17

Paragraph 1 page 6

The housing authority does not concur with several statements in this paragraph.

- Three (3) employees from The HUD Atlanta Office scheduled a three (3) day Management Onsite Review in August 2013 on a 30 (thirty) unit housing authority.(24 CFR 902)
- May 20, 2014, nine (9) months later, the HUD Atlanta Field Office employees presented the housing authority board of commissioners their findings at a Board of Commissioners training meeting
- Findings presented on May 20, 2014 stated "the HACCC will be placed on zero threshold in the Electronic Line of Credit Control System (eLOCCS) immediately".
- The housing authority issued a response to the findings received on May 20, 2014 within the 45 days requested by the HUD office.(See attachment 5C)
- The housing authority's response was received in the HUD Atlanta Office on July 1, 2014.
- July 17, 2014 the OIG contacted the executive director to schedule an audit.
- The housing authority has had no response from the HUD Atlanta office.

Comment 18

Comment 18

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 19

Comment 20 Comment 21

Comment 4

Comment 22 Comment 22

Paragraph 2, page 6

The housing authority does not concur with this paragraph.

- Conflict of interest did not prevent the housing authority from timely renovating units.
- Over 20 units were renovated and rented between 2006 and December 2013.
- REAC Physical Inspections were also conducted in 2007, 2009, 2011, and 2012
- REAC Physical scores consistently improved each time.
- All funds listed in Table 2 on page 7 2006-2012 were allocated to Budget Line Item 1406 – operations, as the housing authority requested, and expended to modernize units and reduce vacancies in accordance with its CFP 5 year and annual plan in addition to using for operations.
- Funds listed in 2013 were expended as HUD Atlanta stated they had to be causing an extreme amount of unnecessary paper work and stress on the housing authority.
- All modernization has been completed using housing authority employees, residents, and local persons, (24CFR968, CHA Maintenance Policy, 24 CFR 905). (See attachment 6A and 6B for additional information)

NOTE: 2 units were modernized and rented in 2013 as in previous years.

The HUD Atlanta office denied all the housing authority's request to place units that needed modernization in the correct category in the Public Information Center (PIC).

- The housing authority submitted information to the HUD Atlanta office in August 2011
- The housing authority met with three (3) HUD Atlanta employees in April 2013.
- The housing authority submitted information to the HUD Atlanta office in May 2013.
- The HUD Atlanta office denied the information.

Please see attached submittals and denial letters, and emails. (See Attachment 6C)

The housing authority continued to work as monies were available to modernize vacant units.

- 2 units were modernized and rented in 2013
- 2013 CFP monies were not released to the housing authority until November 2013. (See attachment 6D)
- HUD Atlanta refused to allow the housing authority to put CFP monies in Budget Line Item (BLI) 1406. (CFDA 14.872) Please see attachment 6F.
- HUD Atlanta Office refused to release obligated administrative funds in BLI 1410
- HUD Atlanta Office refuses to acknowledge the part-time executive director as contract administrator. (OCGA 8-3-51)(CFDA 14.872) (42 USC 1437) (Refer to attachment 6E)
- Contract administration of CFP funds for a part-time director is allowable as it is hours worked over normal hours. (CFDA 14.872)(24 CFR 968)24CFR 905
- 2013 CFP funds cannot be closed out as this is the last payout.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 22

- Until HUD Atlanta recognizes the executive director is legally the contract administrator for the housing authority and releases payment for services rendered, nothing can be completed. (OCGA 8-3-51, also attached)

Paragraph 1 page 7

The housing authority does not concur with this paragraph.

- Units are vacant because funds allotted allow for approximately 2 units per year
- The housing authority can be its own contractor (24 CFR 968, 24CFR905, CFDA 14.872)
- Materials and supplies purchased at the hardware store are in compliance with the HUD Handbook 7460.8 Rev.2, and declared before the ACC was signed, in compliance with the Regulatory Flexibility Act and the board minutes. (Refer to Attachment 7A)
- The executive director provided information totaling approximately \$14,000.00 for the complete renovation of a 2 bedroom unit. Proof of this information, totaling 118 pages, was previously faxed to [REDACTED].

Note: All renovated units are documented by phases which show what work was completed before a unit is rented. (See Attachment 7B)

- Approximately \$80,000.00 was expended to a HUD approved architect and his contractors for renovating two, 2 –bedroom units for handicap accessibility.

Paragraph 2, page 7

The housing authority does not concur with this paragraph.

- Documentation has been consistently provided to the auditor.
- Documentation has been in complete compliance with requirements of the HUD Procurement Handbook and all other requirements.

Comment 23
Comment 22

Comment 24

Comment 25

Comment 26

Comment 5

Comment 5

Comment 5

Paragraph 1 page 8

- The board of commissioners and the executive director have complied with all requirements necessary for the procurement of goods and services and in the manner prescribed in the HUD Procurement Handbook 7460.8 Rev.
- The housing authority board of commissioners and the executive director have complied with all requirements and regulations for any conflict of interest.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 5

- The housing authority board of commissioners and the executive director have ensured that all funds have been used for eligible services and properly documented.

Comment 9

Response to HUD-OIG Recommendations:

- A. HUD-OIG Recommendation 1A: Reimburse its Public Housing Operating Fund and Capital Funds programs \$22,178 from non-federal funds for disbursements that violate conflict-of-interest regulations.

CHA Response: The Authority does not concur with the statements made. The housing authority has consistently declared any conflict of interest. See notes above.

- B. HUD-OIG Recommendation 1B: Support or reimburse its Public Housing Operating Fund and Capital Fund programs \$33,144 from non-Federal funds for disbursements that lacked supporting documentation.

CHA Response: The Authority does not concur as it did properly document all disbursements appropriately and in compliance with all HUD requirements and documentation described in the HUD Procurement Handbook 7460 Rev.2 required for purchases according to the dollar amount and in compliance with HUD approved fee accountants and auditors.

- C. HUD-OIG Recommendation 1C: Hire qualified contractors to complete the work necessary to make the vacant units habitable and available to low-income families.

CHA Response: CHA will gladly concur to hire qualified contractors. However, it should be noted that CHA does not have the funds to do so and operating funding from the Department of HUD have continually been cut back to the extent that the housing authority cannot operate efficiently.

Comment 27

Comment 28

Sequestration of operating funds of over \$25,000.00 in 2013 caused enormous constraints on the housing authority. (Refer to attachment 9A)

Furthermore, the part-time maintenance persons qualifications, extensive licenses, expertise, and previous experience as a construction project manager for multi-million dollar jobs for private and government entities, including National Security Clearance for Top Secret Projects are hard to beat.

The refusal of the HUD Atlanta office to place 2013 CFP funds into BLI –operations as the housing authority requested caused immense distress to the housing authority.

Comment 28

The housing authority had to cut the executive director's normal operating salary 50% while still continue working 20 hours per week.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 13

The housing authority had to discontinue paying the executive director board approved salary for necessary extra administrative duties.

The housing authority had to cut maintenance employee hours and salary by 50%. (from 20 hours per week to 10 hours per week)

The housing authority employees had to pay their own benefits in full for three months in 2013 and pay 50 % of their benefits for 3 months in 2014.

Note: HUD allows 1(ONE) FULL TIME PERSON PER 80 UNITS FOR ADMINISTRATION AND 1(ONE) FULL TIME MAINTENANCE PERSON PER 50 UNITS.

The operating funding for 2013 of \$75,000.00 was not sufficient for the housing authority to operate on. Please see attachment 9A.

Comment 28

Furthermore, the housing authority had to transfer \$5000.00 out of its money market account due to the sequestration of funding.

Note: The housing authority had \$15000.00(fifteen thousand) in reserve funding at the time HUD sequestered its funding.

Comment 20

Further restrictions and misstatements placed against the housing authority by the HUD Atlanta Field Office that are not in accordance with 24 CFR 968 and CFDA 14.850 and have hindered the housing authority from meeting its goals and have caused an enormous amount of unjustifiable administrative work.

Comment 13

- D. HUD-OIG Recommendation 1D: Ensure that its board of commissioners understands the requirements relevant to the Authority's financial operations and procurement. The board should also enforce the requirements to ensure that the Authority's disbursements are supported and used for eligible services.

CHA Response: The housing authority board is aware of its responsibilities.

Comment 29

- E. HUD-OIG Recommendation 1E: Require the Authority to comply with HUD guidance and its policies and procedures to eliminate any present and prevent future conflicts –of- interest relationships.

CHA Response: CHA will gladly comply with appropriate written guidance from the Atlanta field office and the OIG. Please see comments above. Maintenance man is suspended based on verbal recommendations from HUD and OIG. All purchasing has been suspended at the Hardware per specific verbal directive from OIG.

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 4

F. HUD-OIG Recommendation 1E: Take appropriate administrative sanctions against the Authority officials responsible for the noncompliance with Federal regulations.

CHA Response: The housing authority has been in compliance with all federal and state regulations.

OIG Evaluation of Auditee Comments

Comment 1 The Authority's comments state that it was not given enough time to provide the most accurate and comprehensive responses to the details of the report.

We provided the draft findings to the Authority on October 16, 2014. We conducted a formal draft finding discussion on October 20, 2014. The discussion draft report was provided to the Authority via email and FedEx on December 12, 2014, and was discussed at the exit conference on December 16, 2014. The draft findings and discussion draft audit report mirror one another, and the dollar findings are exactly the same in both documents. On December 22, 2014, the Authority requested an extension to January 27, 2015, to provide comments. We granted an extension to January 9, 2015. Therefore, the Authority was afforded more than 80 days to gather information to support the findings in the discussion draft report.

Comment 2 The Authority's comments state that as a part-time employee (20 hours per week), the executive director had spent many hours since the entrance conference on July 23, 2014, beyond her regular 20 working hours per week to provide information requested.

The information we requested was supporting documentation on transactions conducted by the Authority. This information should be readily available. The Authority needed significant time to collect the information because the state of its books and records did not allow for efficient retrieval of supporting information.

Comment 3 The Authority's comments state that the Authority did not concur with the statement, "The Authority's daily operations are managed by two part-time employees." We revised the statement in the report to state that the Authority's daily operations are managed by the executive director. The Authority's maintenance mechanic is the Authority's only other employee.

Comment 4 The Authority's comments state that the Authority does not agree with our finding that it did not properly manage its financial and procurement activities in accordance with its consolidated annual contributions contract and HUD requirements. The Authority also states that it has consistently followed its Capital Fund program and 5-year and annual plans and continues to modernize and rent units as money has become available.

The Authority did not properly manage its financial and procurement activities in accordance with its consolidated annual contributions contract and HUD requirements. The Authority used its operating and capital funds to pay salary and contract labor payments to related parties. It also did not comply with procurement requirements before securing contracts for professional services and general labor. The Authority's failure to comply with conflict-of-interest provisions prevented it from renovating its vacant units in a timely manner and

meeting the requirements of its Capital Fund program, along with its 5-year and annual plans.

Comment 5 The Authority's comments state that it does not agree with the ineligible and unsupported costs of \$55,000. The Authority asserts that all funds paid were clearly documented in accordance with requirements, specifically the \$22,177 identified in the report.

We do not agree with the Authority's statement that it clearly documented all of its disbursements and complied with all requirements referenced in the report. The Authority violated its annual contributions contract and HUD's requirements related to its conflict-of-interest and procurement activities from June 1, 2013, through May 31, 2014. The documentation the Authority provided during the audit did not satisfy the requirements established by Federal or local requirements for small-purchase and micropurchase procurement.

Comment 6 The Authority's comments state that due to its rural location, the Authority has limited access to vendors, supplies, laborers, and materials. The comments also state that the board made decisions in the best interest of the Authority due to its limited access to laborers and for security purposes.

The Authority's statement that the board made decisions in the it's best interest, due to its rural location; security issues; and limited access to vendors, supplies, laborers, and materials is not supported. The Authority is located 20 miles from an area with a population of more than 100,000 inhabitants with Lowe's and Home Depot hardware stores, and it is less than 10 miles from two other hardware stores.

Comment 7 The Authority's comments state that it has contractor accounts at the executive director's husband's hardware store, Lowe's, and Home Depot to ensure that the Authority gets the best prices available.

The majority of the Authority's supplies and material were purchased from the executive director's husbands' hardware store, which was a violation of conflict-of-interest provisions provided in the Authority's consolidated annual contributions contract. Furthermore, maintaining an account at a store is not assurance that the best price is obtained.

Comment 8 The Authority's comments state that the funds it spent were necessary operating expenses of the Authority for nonroutine maintenance, administration over 20 hours per week, or modernization improvements.

We determined that the Authority's expenditures complied with cost eligibility requirements at 24 CFR Part 968, Catalog of Federal Domestic Assistance (CFDA) 14.872, 24 CFR Part 905, and 42 U.S.C. (United States Code) 1437, referenced by the Authority; however, we did not question the eligibility of the Authority's charges, because we considered the costs in violation of conflict-of-interest requirements.

Comment 9 The Authority's comments state that it has provided documentation to the Atlanta HUD office and auditors to support that any conflicts-of-interest were declared to the Atlanta HUD office and approved by the HUD Director of Public Housing. In addition, the Authority states the in accordance with its 1996 consolidated Annual contributions contract section 22, page 11, and further acknowledged by the signature of the Director of Public Housing and an executed copy of Form HUD-53012A, dated June 14, 1996, the Authority had declared all conflicts-of-interest between any related parties and any ownership conflict. Further, the Authority states that HUD acknowledged the possible conflict-of-interest, and the Atlanta HUD office deemed it declared and in accordance with directions issued by HUD in September 1995.

Section 22, page 11, of the Authority's signed 1996 Form HUD-53012A, Consolidated Annual Contributions Contract, certifies that all conditions before the valid execution and delivery of the consolidated annual contributions contract have been complied with and in all respects are duly authorized in accordance with law. It was signed by the Authority's board chairman and the Director of Public Housing. However, the Authority has not provided support that it declared all conflicts of interest among related parties and any ownership conflict before its execution. Furthermore, HUD's signing of the Consolidated Annual Contributions Contract does not document its receipt or approval of disclosures or support that disclosures were made.

Comment 10 The Authority's comments state that is has been open and transparent concerning conflicts of interest.

The Authority did not disclose the conflict-of-interest to the HUD Office of Public Housing. Therefore, HUD was not able to provide the Authority with a waiver to exempt it from conflict-of-interest provisions.

Comment 11 The Authority's comments state that nothing in section 19A(5) of the 1996 consolidated annual contributions contract prohibit a tenant of the Authority from serving on its governing body.

We did not question the eligibility of the Authority's allowing a tenant to serve on its governing board.

Comment 12 The Authority's comments state that section 19(B)(4) of the consolidated annual contributions contract states that the requirements of subsection (B) may be waived by the Authority's board of commissioners for good cause.

Section 19(B)(4) allows the Authority to waive section 19(B)(1), which states that the Authority may not hire an employee in connection with a project under this consolidated annual contributions contract if the prospective employee is an immediate family member of any person belonging to one of the following classes: "(i) any present or former member or officer of the governing body who

formulates policy or the HA [housing agency]; and (ii) any employee of the HA who formulates policy or who influences decisions with respect to the project(s).”

The Authority did not hire employees who violated conflict-of-interest provisions. It hired contractors who violated requirements. Contractor conflict-of-interest provisions are governed by section 19(A)(1) of the Authority’s consolidated annual contributions contract. It states that in addition to any other applicable conflict-of-interest requirements, neither the Authority nor any of its contractors or their subcontractors may enter into any contract, subcontract, or arrangement in connection with a project under its consolidated annual contributions contract.

Comment 13 The Authority’s comments state that its board of commissioners consistently discussed and documented, in board minutes and policy, decisions necessary for the effective operation of the Authority in accordance with the 1996 consolidated annual contributions contract. The Authority also states that the board approved payments to be made for work incurred beyond normal working hours. The Authority further states that the Authority’s board is aware of its responsibilities.

We identified board meeting minutes from 1992, 2006, 2009, and 2012, in which the board approved the executive director to hire or make payments to individuals that violated conflict-of-interest provisions. The board minutes documented the board’s approval of the executive director’s request that she and the maintenance mechanic be paid as contract labor for maintenance and physical labor duties incurred during preparation for HUD’s Real Estate Assessment Center physical inspection. In addition, the board of commissioners failed to enforce conflict-of-interest provisions in the Authority’s consolidated annual contributions contract and the Authority’s own procurement policy; therefore, it is not aware of its responsibilities.

Comment 14 The Authority’s comments state that it does not agree with the statement that the executive director was hired January 1, 1993.

The Authority’s 1992 board minutes showed that the commissioners approved the executive director on December 18, 1992, and the executive director’s term began on January 1, 1993.

Comment 15 The Authority’s comments state that the issue regarding the Authority’s payments to the executive director, the maintenance mechanic, and the executive director’s children for the performance of contract labor were addressed and cleared by HUD’s Georgia State Office of Public Housing in 2009 by HUD employees from the regional procurement office and HUD’s legal department.

The Authority’s statement that the issue regarding its payments to the executive director, the maintenance mechanic, and the executive director’s children for the performance of contract labor were addressed and cleared by HUD’s Georgia State Office of Public Housing in 2009 is not supported.

The documentation provided by the Authority was for two reviews related to its 2009 American Recovery and Reinvestment Act funds. These reviews were conducted by a HUD facilities management representative and public housing revitalization specialist. Neither review addresses the Authority's conflict-of-interest violations. Additionally, we did not review any expenditures from the Authority's Recovery Act funds.

Additionally, HUD identified conflict-of-interest payments to the executive director, maintenance mechanic, and the executive director's children for the performance of contract labor in its 2013 management review.

Comment 16 The Authority's comments state that its independent auditor and fee accountant have disclosed conflict-of-interest relationships in the auditor's reports and the fee accountant's management, data, and analysis reports for years.

The Authority's independent auditor was aware of the Authority's conflict-of-interest relationships; however, he did not report it in the audit report before 2012 because the executive director stated that the Authority had a waiver, which exempted it from conflict-of-interest requirements. In August 2013, the HUD Atlanta field office identified the conflict-of-interest violations during its management review of the Authority. In September 2013, following HUD's review, the independent auditor issued the Authority's 2012 audit report with a related-parties issue. The independent auditor also included a related-parties issue in the Authority's 2013 audit report. In addition, the fee accountant stated that he did not report the conflict of interest because the executive director also informed him that the Authority had a waiver for related-party activities.

Comment 17 The Authority's comments state that the conflict of interest has been declared for more than 20 years.

The Authority has acknowledged that there is a conflict of interest; however, it has not provided support showing that HUD approved a waiver exempting the Authority from conflict-of-interest provisions.

Comment 18 The Authority's comments state that three employees from the HUD Atlanta office scheduled a 3-day management onsite review in August 2013 of a 30-unit housing authority. Following the management review on May 20, 2014, 9 months later, the HUD Atlanta field office presented the Authority's board of commissioners its findings at a board of commissioners training meeting.

We revised the date to May 2014, which is the effective date the corrective action took effect.

Comment 19 The Authority's comments state that it does not agree that its failure to comply with conflict-of-interest provisions prevented it from renovating its vacant units in a timely manner.

The Authority did not use qualified outside contractors to complete the renovations of its vacant units. Instead, it paid the executive director, the Authority's maintenance mechanic, the executive director's children, and residents of the Authority to complete the renovations. Time constraints caused by the executive director's and the maintenance mechanic's regular recurring work responsibilities and the Authority's failure to hire qualified contractors prevented the Authority from completing the renovation projects in a timely manner.

Comment 20 The Authority's comments state that the HUD Atlanta office's restriction on its 2013 capital funds caused an extreme amount of unnecessary paperwork and stress on the Authority. Additionally, the Authority had to discontinue paying the executive director the board-approved salary for necessary extra administrative duties.

HUD's restriction on the Authority's capital funds was because the Authority used its capital funds to pay ineligible salary and administrative costs to the executive director and her family members. As a result, the Authority's capital needs were not adequately addressed, and units were not made available to low-income families. To correct the condition, HUD required the Authority to distribute all capital funds intended for use on capital activities to appropriate capital-related accounts and withdraw the funds from eLOCCS accordingly until the Authority meets its significant capital improvement needs. The payments referenced by the Authority were discontinued because the payments violated conflict-of-interest provisions.

Comment 21 The Authority's comments state that all modernization has been completed using Authority employees, residents, and local persons. The Authority provided criteria references 24 CFR Part 968, the Authority's maintenance policy, and 24 CFR Part 905 to support its compliance with Federal regulations. Additionally, the Authority states that restrictions and misstatements against it by the HUD Atlanta field office are not in accordance with 24 CFR Part 968 and CFDA 14.850 and have hindered the Authority from meeting its goals and caused an enormous amount of unjustifiable administrative work.

We determined that the Authority did not comply with the requirements of 24 CFR 968.112(o)(5), which state that ineligible costs include ineligible activities as specified by HUD. The Authority's maintenance policy states that when employees of the Authority have the skills to do the work required but there is more work than there is time available to complete it, the Authority will determine whether it is more cost effective to use a contractor to complete the work. The Authority did not provide documentation to support that it had determined whether it was cost effective to use a contractor. Instead, the Authority paid the executive director and her family, a member of the board of commissioners, and the board member's friend to complete the Capital Fund renovations. The Authority's reference to 24 CFR Part 905 relates to streamlining the Capital Fund program and does not support the Authority's compliance with conflict-of-interest provisions or procurement requirements. Further, CFDA

14.850, which provides guidance to the Authority for proper uses of its program and funds, does not provide information to support the Authority's statement that the HUD Atlanta field office violated any regulations that prevented the Authority from meeting its goals or caused unjustifiable administrative work.

Comment 22 The Authority's comments state that the HUD Atlanta office refuses to acknowledge the part-time executive director as a contract administrator according to regulations at Official Code of Georgia Annotated 8-3-51, CFDA 14.872, and 42 U.S.C 1437. Additionally, the Authority states that the contract administration of capital funds for a part-time director is allowable as it is hours worked over normal hours according to CFDA 14.872, 24 CFR Part 968, and 24 CFR Part 90. Further, the Authority states that it can act as its own contractor and due to HUD's failure to acknowledge this fact, the 2013 capital funds cannot be closed out at the last payout.

HUD stated that the Authority can act as its own contractor for contract administration of its capital funds. HUD further states that it has not questioned the executive director's duties as the Authority's contract administrator. However, HUD determined that the Authority's executive director violated conflict-of-interest provisions in the Authority's consolidated annual contributions contract by acting as the contract administrator and contractor. The criteria references provided by the Authority did not exempt the executive director from the conflict-of-interest provisions in the Authority's annual consolidated contributions contract. Further, the criteria referenced did not state that the part-time director is allowed payments in excess of her normal salary for hours worked over part-time hours for extra administrative services. The Authority has access to its 2013 and 2014 capital funds; however, its disbursements must be approved by the HUD Atlanta office before disbursement. The executive director has not provided the HUD Atlanta office with adequate documentation to support disbursement of the Authority's remaining 2013 capital funds.

Comment 23 The Authority's comments state that units are vacant because funds allotted allow for renovating approximately two units per year.

The Authority's statement that funds allocated allow for the renovation of approximately two units per year is not supported. After a physical inspection of the Authority's vacant units, HUD determined that if properly managed, the Authority's 2013 capital funds would be sufficient to renovate its vacant units.

Comment 24 The Authority does not agree with our conclusions regarding the Capital Fund renovations. It states that materials and supplies purchased at the hardware store comply with HUD Handbook 7460.8, REV-2, and that this compliance was declared before the consolidated annual contributions contract was signed in compliance with Regulatory Flexibility Act and the board minutes.

All Authority purchases from the executive director's husband's hardware store are a direct violation of HUD Handbook 7460.8, chapter 4.4; Conflicts-of-Interest.

Comment 25 The Authority's comments state that it provided information to the audit team regarding approximately \$14,000 for the complete renovation of a two-bedroom unit.

The Authority provided checks and invoices to support more than \$14,000 in capital funds that it used to complete the renovation of two vacant units, not one two-bedroom unit.

Comment 26 The Authority's comments state that approximately \$80,000 was paid to a HUD-approved architect and his contractor for renovating two two-bedroom units for handicap accessibility.

The Authority did not provide documentation to support that it paid a HUD-approved architect and a contractor \$80,000 to renovate two two-bedroom units.

Comment 27 The Authority's comments state that it does not agree with recommendation 1B to properly support all disbursements. The Authority stated that it documented all of its disbursements in compliance with the HUD handbook and HUD approved fee accountants and auditors.

The Authority and its board chairman did not comply with small-purchase and micropurchase requirements of Procurement Handbook 7460.8, REV-2. For purchases that exceed \$2,000, the executive director failed to provide at least three price quotations as required by Handbook 7460.8, REV- 2. Further, the executive director failed to provide contractors' statements of work, adequate invoices, and timesheets to support payments that do not exceed \$2,000. The board chairman failed to comply with procurement requirements by signing and approving disbursements that did not meet Handbook 7460.8, REV-2, requirements.

Comment 28 The Authority's comments state that it would hire qualified contractors. However, it should be noted that the Authority does not have the funds to do so and operating funding from HUD has continually been cut back to the extent that the Authority cannot operate effectively. Additionally, the Authority states that sequestration of operating funds of more than \$25,000 in 2013 caused enormous constraints on the Authority. It further states that the Authority had to transfer \$5,000 of \$15,000 out of its money market account due to the sequestration of funding.

The Authority did not provide documentation to support that it sought out alternative actions other than violating conflict-of-interest provisions to fund Authority activities. When current grants are not sufficient to fund necessary capital improvements under Section 30 of the U.S. Housing Act, public housing agencies are authorized to pledge land, structures, and equipment to obtain loan

proceeds. The Authority did not attempt to obtain the financing needed through Section 30 of the Housing Act.

Comment 29 The Authority's comments state that it will comply with appropriate written guidance from the Atlanta field office and OIG. The Authority also stated that the maintenance man has been suspended based on verbal recommendations from HUD and OIG and all purchasing has been suspended at the executive director's husband's hardware store according to specific verbal directive from OIG.

We acknowledge that if the Authority complied with the appropriate written guidance from HUD and OIG, the actions would eliminate the conflicts of interest. However, the Authority's suspension of the maintenance man and purchases from the hardware store does not eliminate all conflicts of interest. The Authority's consolidated annual contributions contract's conflict-of-interest provisions require that the Authority stop all payments to the resident board member and the resident board member's friend for contract services. Additionally, the executive director must not pay herself as a contractor for the performance of maintenance or administrative tasks performed at the Authority.

Further, the executive director must comply with all of the consolidated annual contributions contract conflict-of-interest provisions and the Authority's own procurement policies to ensure that the Authority is in complete compliance. OIG did not direct the Authority to suspend its maintenance mechanic and all purchases at the executive director's husband's hardware store. OIG recommended that the Authority communicate with the HUD Atlanta office to ensure that it is in complete compliance with its consolidated annual contributions contract and Federal regulations related to conflicts of interest and procurement.

Appendix C

Schedule of Vacant Units and Work Remaining

Unit number	Vacancy date	Years vacant as of May 31, 2014	Remaining work items
1	April 1, 2006	8	<ul style="list-style-type: none"> • Install new kitchen cabinets • Frame closets and windows • Caulk windows • Refinish flooring • Update plumbing • Update electrical wiring • Install vent hood • Install appliances • Repair plasterboard • Repair walls • Repair bathroom tiles • Paint • General cleaning
2	March 15, 2007	7	<ul style="list-style-type: none"> • Major ceiling repair • Install heating, ventilating, and air conditioning (HVAC) system • Caulk and frame closets • Caulk and frame windows • Caulk, paint, and patch walls • Install kitchen appliances • Update the electrical wiring for lights and ground-fault circuit interrupter (GFCI) outlets • Install vent hood • Install water heater • Update plumbing • Paint • General cleaning

Schedule of Vacant Units and Work Remaining

Unit number	Vacancy date	Years vacant as of May 31, 2014	Remaining work items
3	April 1, 2007	7	<ul style="list-style-type: none"> • Refinish floors • Install new cabinets • Install appliances • Caulk and frame windows and closets • Install electrical wiring for GFCI outlets and vent hood • Update plumbing • Paint • General cleaning
4	December 1, 2007	6	<ul style="list-style-type: none"> • Caulk and frame windows • Install insulation • Install electrical wiring for light fixtures and GFCI outlets • Repair plumbing on drains and water lines • Refinish flooring • Install appliances • Update kitchen cabinets • Paint • General cleaning

Schedule of Vacant Units and Work Remaining

Unit number	Vacancy date	Years vacant as of May 31, 2014	Remaining work items
5	December 1, 2007	6	<ul style="list-style-type: none"> • Major ceiling repair • Install HVAC system • Caulk and frame closets • Caulk and frame windows • Caulk, paint, and patch walls • Install kitchen appliances • Update the electrical wiring for lights and GFCI outlets • Install vent hood • Install water heater • Update plumbing • Paint • General cleaning
6	July 1, 2009	4	<ul style="list-style-type: none"> • Refinish flooring • Update drain lines • Install electrical wiring • Install appliances • Install new cabinets • Paint • General cleaning

Schedule of Vacant Units and Work Remaining

Unit number	Vacancy date	Years vacant as of May 31, 2014	Remaining work items
7	November 1, 2010	3	<ul style="list-style-type: none"> • Major ceiling repair • Install HVAC system • Caulk and frame closets • Caulk and frame windows • Caulk, paint, and patch walls • Install kitchen appliances • Update the electrical wiring for lights and GFCI outlets • Install vent hood • Install water heater • Update plumbing • Paint • General cleaning
8	April 9, 2013	1	<ul style="list-style-type: none"> • Install HVAC system • Total kitchen renovation • Caulk and frame windows • Refinish flooring • Major renovations to main drain line