



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

April 10, 2015

**MEMORANDUM NO:**  
2015-FW-1805

## *Memorandum*

TO: Regenia Hawkins  
Director, Office of Public Housing, 6APH

//signed//

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

SUBJECT: The Housing Authority of the City of Lockney, Lockney, TX, Did Not Operate Its Public Housing Programs in Accordance With Requirements

### **INTRODUCTION**

Because of concerns identified by the U.S. Department of Housing and Urban Development's (HUD) Office of Public Housing, we performed a review of the Housing Authority of the City of Lockney. HUD alleged that the Authority's previous executive director had a conflict-of-interest and received ineligible payments. Our objectives were to determine whether the Authority operated its public housing in accordance with HUD requirements and whether HUD had valid concerns. Specifically, we wanted to determine whether the Authority (1) properly hired its previous director, (2) properly collected and accounted for its rental receipts, and (3) paid only eligible and supported costs. We also reviewed the board of commissioners' oversight and compliance with Texas State law.

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

### **METHODOLOGY AND SCOPE**

We conducted the review at the Authority's administrative office in Lockney, TX, the Lubbock Housing Authority in Lubbock, TX, the HUD Office of Public Housing in Fort Worth, TX, and our offices in Fort Worth and San Antonio, TX, from July through December 2014. The scope of the review generally covered the Authority's financial operations, including record keeping,

expenditures, tenant rent collections, and board oversight for the period January 1, 2013, through July 31, 2014. We expanded the scope as necessary to meet the review objectives.

The Authority imposed a scope limitation that significantly impaired our review. It provided disorganized and incomplete records haphazardly placed into boxes containing records for multiple years. The state of the records limited our ability to understand the substance of the Authority's financial activities. Further, the Authority dismissed its previous director; which prevented us from obtaining insight into the Authority's operations, policies, or controls for the period under her management. In addition, the records contained only a limited number of past board meeting minutes and no records for the past 18 months. Thus, we could not determine what actions the board had approved.

To accomplish our objective, we performed the following:

- Reviewed relevant laws, regulations, contracts, and other HUD requirements and guidance.
- Reviewed the Authority's available board meeting minutes from 2001 through 2014. The Authority did not maintain its minutes in a centralized location or organized manner.
- Reviewed the Authority's public housing funding and budget information maintained in HUD's Line of Credit Control System (LOCCS). We did not test the reliability of this electronic information as it was used only as background information.
- Reviewed the Authority's January 2013 through August 2014 bank statements.
- Reviewed available invoices, receipts, and creditor statements.
- Reviewed a hardcopy check register developed by the Lubbock Housing Authority, which included checks issued from July 2012 through July 2014.
- Reviewed electronic financial data from March 29, 2013, through June 30, 2014. We assessed the reliability of the data and determined that the electronic financial data provided by the Lubbock Housing Authority could be relied on to provide a complete, accurate, and consistent basis on which to support our findings, conclusions, and recommendations.
- Randomly selected and tested the January 2014 rent registers, rent receipts, and rent deposits to determine whether the Authority consistently and accurately maintained its rental records.
- Reviewed the Authority's staff payroll and contract wages to determine employees' salary and contract earnings.
- Reviewed the Authority's salaries and administrative expenses to determine total expenses paid by the public housing program.
- Reviewed staff work orders to determine tasks, time, and attendance.
- Reviewed the employment applications received in 2014 for the director's position.
- Interviewed selected HUD staff, the current Authority staff, various board members, a former director, the Authority's bookkeeper, Lubbock Housing Authority staff, the mayor of Lockney, TX, and the Ralls Housing Authority executive director.

## BACKGROUND

The Authority was established under State laws for the purpose of providing affordable housing to low-income families and individuals. The policy-making body of the Authority is its board, and the powers of the Authority are vested in its members. The board selects and employs the director, who is responsible for the efficient day-to-day operations of the Authority. The mayor of Lockney is responsible for appointing the Authority's five-member board. At least one of the commissioners must be a resident who is directly assisted by the Authority.

The Authority has 20 units of public housing and receives HUD capital funds and low-rent public housing funds annually. Table 1 contains the HUD funding the Authority received in fiscal years 2013 and 2014.

**Table 1: HUD public housing funding by fiscal year**

<b>Funding type</b>	<b>2013</b>	<b>2014</b>	<b>Total</b>
Low-rent public housing program	\$23,725	\$23,877	\$47,602
Public Housing Capital Fund program	\$23,435	\$23,073	\$46,508
<b>Total</b>	<b>\$47,160</b>	<b>\$46,950</b>	<b>\$94,110</b>

The Authority also administered a U.S. Department of Agriculture (USDA) Rural Rental Housing program that provided loans for the construction or acquisition and rehabilitation of rental housing for low- and moderate-income families, including the elderly and disabled. USDA also provided rental assistance for the tenants, if needed. The Authority administered 10 USDA units.

As shown in table 2, the Authority had employed four directors, including an interim director, since 2001. In July 2014, the board dismissed director 2. The Authority currently operates under a management agreement with the Lubbock Housing Authority acting as the executive director.

**Table 2: Authority directors**

<b>Director</b>	<b>Start of employment</b>	<b>End of employment</b>
Former director (director 1)	May 2001	December 2013
Interim director (board chairman)	January 2014	March 2014
Previous director (director 2)	March 2014	July 2014
Current director (Lubbock Housing Authority)	July 2014	Current

## **RESULTS OF REVIEW**

Generally, the Authority properly collected and accounted for its low-rent public housing receipts. However, HUD had valid allegations concerning the Authority's hiring of and payments to director 2. The Authority also did not operate its public housing programs in accordance with regulations and other requirements, including State law. Specifically, the Authority (1) allowed a conflict-of-interest by hiring the board chairman's daughter as its director, (2) paid ineligible and unsupported amounts to employees, (3) improperly used public housing funds for all of its administrative expenses, and (4) used its credit cards for unsupported and duplicative charges. Further, the Authority's board failed to provide oversight and prevent mismanagement. These conditions occurred because the board and its directors knowingly violated requirements and did not implement policies. As a result, the Authority mismanaged its annual public housing funding of \$46,950, including exhausting available low-rent public housing program funds and its cash reserves. The Authority also paid \$37,506 in questioned costs. In addition, the board failed to prevent the conditions identified in this report and lacked a record of its decisions and actions.

We recommend that the Director of HUD's Fort Worth Office of Public Housing require the Authority to adopt policies and procedures covering its operations. If the Authority properly implements the recommendation, it should ensure that its public housing funding of at least \$46,950 will be put to better use for the next 12 months. In addition, we recommend that the Director of Public Housing require the Authority to support or repay questioned costs totaling \$37,506.

### **The Board Violated Conflict-of-Interest Requirements by Hiring the Chairman's Unqualified Daughter as the Director**

The Authority hired the board chairman's daughter as director 2 in March of 2014 in violation of HUD's and the State's conflict-of-interest requirements.<sup>1</sup> In addition, director 2 had no public housing agency experience, which was needed to manage the Authority; and, due to her criminal history, she could not get access to the State and Federal computer systems necessary to operate the Authority. The Authority lacked a conflict-of-interest policy; however, the board chairman knew that hiring her daughter violated HUD's requirements. Other board members and director 1 told the chairman that she should not hire a family member, but she ignored them. Further, the other board members knew of the issues but did not take action to stop the hiring and did not notify HUD. As a result, the Authority hired an individual who significantly mismanaged its operations. Once hired, she quickly exhausted the Authority's low-rent public housing funds and cash reserves. Further, she was not authorized and could not get to access various vital secured computer systems, such as the State's Web site for researching applicants to determine whether they had criminal convictions and LOCCS which provides access to the Authority's HUD funds. Because she lacked LOCCS access, she could not draw down funds to pay the Authority's expenses, and she did not submit an application for fiscal year 2014 funding.

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<sup>1</sup> HUD's consolidated annual contributions contract, the State's Government Code 573, and State Local Government Code 171 (see appendix C)

Ultimately, director 2’s inexperience directly impacted the safety and continued financial stability of the Authority, which placed its annual HUD funding of \$46,950 at risk of misuse. The Lubbock Housing Authority is currently managing the Authority and agreed to manage it on a yearly basis. However, the Authority needs to adopt a conflict-of-interest policy. In addition, it must train its board on its responsibilities.

**The Authority Made Ineligible and Unsupported Payments to Employees**

In violation of Federal and State regulations,<sup>2</sup> the Authority (1) failed to properly allocate its employees’ time between its HUD and USDA Federal programs, (2) allowed its employees to both collect a salary and earn contract labor wages, and (3) paid its maintenance supervisor when others also paid for his services. These conditions occurred because the Authority’s management failed to implement a suitable allocation plan and did not have a policy to address its employees’ time and earnings. As a result, the Authority paid its employees \$11,256 in ineligible contract wages, and it cannot support \$21,875 in wages charged solely to its HUD programs.

*The Authority Did Not Properly Allocate Employees’ Wages*

The Authority did not properly allocate its employees’ salaries between its public housing and USDA programs in violation of Federal cost principles.<sup>3</sup> The Authority knew that it should allocate its salaries to the appropriate program as director 1 made a one-time payment of \$10,000 in August 2013 from the Authority’s USDA program to public housing. However, the Authority did not establish a formal policy to properly and accurately allocate its employees’ time and salary costs. Since the Authority billed its public housing program for all of its salary costs, it overcharged the program. As shown in table 3, based on the number of units in each program,<sup>4</sup> the Authority improperly used HUD’s public housing funds to pay an estimated \$21,875<sup>5</sup> of its USDA program expenses.

**Table 3: Estimate of salary cost allocation based on number of units per program**

Authority staff	Actual public housing salary payments	Office of Inspector General calculated	
		Public housing allocation	USDA program allocation
Director 1	\$10,990	\$7,327	\$3,663
Maintenance manager	35,040	23,360	11,680
Administrative assistant	5,495	3,663	1,832
Office manager	11,462	7,641	3,821
Director 2	2,638	1,759	879
<b>Total</b>	<b>\$65,625</b>	<b>\$43,750</b>	<b>\$21,875<sup>6</sup></b>

<sup>2</sup> 2 CFR (Code of Federal Regulations) Part 225, Cost Principles for State, Local, and Indian Tribal Governments, and Texas State Local Government Code 392.043 (see appendix C)

<sup>3</sup> Ibid.

<sup>4</sup> The Authority’s 10 rural housing units and 20 public housing units totaled 30 housing units. Therefore, we used a ratio of 10:30 and 20:30 to allocate employees’ salaries.

<sup>5</sup> A one-time transfer of \$10,000 from USDA to HUD for salary expense reduces the amount to \$11,875.

<sup>6</sup> Ibid.

*The Authority Paid Its Employees a Salary and Allowed Them To Earn Contract Wages*

The Authority paid all of its employees both a salary and for contract labor in violation of State law.<sup>7</sup> For example, directors 1 and 2 received a salary and contract labor payments for routine and ordinary tasks, such as administrative work, preparing for a tenant eviction, ground maintenance, and studying program policies. Administrative staff also received contract wages for performing other employees' tasks, such as preparing units for rent. Finally, maintenance personnel received contract labor wages for ordinary maintenance tasks, such as unit inspections. This condition occurred because the Authority's management, including its board and executive directors, did not properly oversee operations and failed to implement policies or take action to stop this practice. In addition, the Authority's employees, including its directors, took advantage of these inadequacies by inappropriately contracting for routine and ordinary tasks. One board member complained of the excessive earnings and cited examples of abuse. However, the board did not address the employees' compensation during board meetings, and it did not prohibit the employees from receiving both a salary and contract wages.

**Table 4: Total ineligible contract labor payments, January 2013 through July 2014**

<b>Authority staff</b>	<b>Public housing contract labor payments</b>
Director 1	\$ 1,025
Maintenance manager	3,255
Administrative assistant	1,025
Office manager	3,186
Director 2	2,765
<b>Total</b>	<b>\$11,256</b>

*The Authority Paid Its Maintenance Person Duplicative Payments*

The Authority's maintenance man received ineligible wages. The Authority paid its maintenance man contract labor wages for installing cabinetry in units; however, it contracted with and paid a third-party company to perform these tasks. Director 1 also used the maintenance man, who was earning both a salary and contract wages at the Authority, to repair units at another public housing agency she managed, Ralls Housing Authority. Since Ralls used its Federal funds to pay the maintenance man additional contract labor wages and the Authority had already compensated him for a full day's pay, the Authority's payments appeared to have been duplicative and excessive. These payments occurred because director 1 allowed the maintenance man to earn contract wages for services at the Authority and Ralls. As a result, the Authority paid \$3,255 in ineligible wages to its maintenance man. We questioned all contract wage payments in table 4.

HUD should require the Authority to create an allocation plan and policy that addresses employee pay and benefits. The policy should eliminate the use of Authority employees as contractors. In addition, the Authority needs to repay its public housing program \$11,875 in

<sup>7</sup> Texas State Local Government Code 392.043 (see appendix C)

improperly allocated employee expenses and \$11,256 in ineligible and duplicative contract wage payments.

**The Authority Improperly Used HUD’s Funds for All of Its Administrative Expenses**

Although it had two Federal programs (public housing and USDA) that required it to allocate costs, the Authority paid all of its monthly administrative expenses with public housing funds, which violated Federal cost principles.<sup>8</sup> For example, it paid all utilities, equipment leases, and telephone costs with HUD funds. These improper payments occurred because the Authority did not have a cost allocation plan. Further, directors 1 and 2 failed to develop a reasonable strategy to appropriately allocate the Authority’s general and administrative costs, and they did not inform the board of the need for a policy concerning allocating costs. By allocating its administrative costs based on the number of units per Federal program, we estimated that the Authority overcharged HUD’s public housing program \$9,072. HUD should require the Authority to develop and implement a cost allocation plan to fairly charge its costs to the appropriate programs. It should also require its public housing program to seek repayment of \$9,072 from its USDA housing program.

**The Authority’s Employees Used Its Credit Cards for Unsupported and Duplicative Charges**

The Authority’s employees, including director 2, made \$5,303 in unsupported credit card charges in violation of Federal cost principles<sup>9</sup> as shown in table 5. The Authority lacked receipts and invoices for the purchases and could not show that its employees acted in a reasonable and prudent manner when making the purchases. For example, the employees charged more than \$1,900 in fuel purchases in Lockney, TX, and other locations, some as far as 150 miles away, when the Authority’s properties were located within a mile of each other. Further, the Authority had no receipts, mileage logs, or stated purposes for the fuel purchases. In addition, the Authority had an agreement with a local gas vendor and paid more than \$3,000 to that vendor for fuel during our 18-month review period making the other credit card fuel charges appear duplicative.

**Table 5: Credit card purchases that lacked receipts**

<b>Description</b>	<b>Total charged</b>
Background check service	\$ 124
Gasoline	1,921
Personal expense	38
Post office	227
Printing	75
Miscellaneous purchases	643
Supplies and material	1,922
Telephone	165
Truck repairs	188
<b>Total</b>	<b>\$5,303</b>

<sup>8</sup> See footnote 2.

<sup>9</sup> See footnote 2.

These charges occurred because the board had not implemented a credit card policy and did not adequately review director 2's credit card purchases. In addition, neither director 1 nor 2 reviewed the charges made by employees to ensure that they made only reasonable, necessary, and supported purchases. As a result, the Authority made at least \$5,303 in unsupported purchases. HUD should require the Authority to adopt a credit policy and support or repay these costs.

### **The Authority's Board Failed To Provide Adequate Oversight**

The board failed to provide adequate oversight of the Authority's operations and its directors. Specifically, the board did not hold required meetings, lacked support for its actions and decisions, and allowed board members with expired term limits to remain on the board. Further, its chairman and director 2 circumvented State regulations<sup>10</sup> by appointing two board members. These conditions occurred because the board did not take its duties and responsibilities seriously and its directors disregarded requirements. Further, the mayor was unaware of her responsibilities to the Authority. As a result, the board allowed the Authority to be mismanaged and lacked a record of its decisions and actions.

#### *The Board Failed To Hold Regular Meetings To Conduct the Authority's Business*

The board did not hold meetings or keep records of its actions. The board could not show that it held any official meetings, made any decisions, or took any actions during our 18-month review period. Documents found at the Authority showed that in February and June 2014, the board prepared one public notice and completed one board sign-in log; however, it had no official records, transcripts, or notes documenting that a meeting had occurred. Further, interviews with various board members showed that they did not know that director 2 had depleted the Authority's bank account funds. This condition occurred because the board did not take its duties and responsibilities seriously. Both director 1 and a board member admitted that either no meetings or only one meeting took place during the 18 months reviewed.

#### *All Board Members Exceeded the State's Term Limit Requirement and Lacked a Certificate of Appointment*

All board members' terms exceeded the State's regulatory limit of 2-year terms.<sup>11</sup> Two board members had served since 2002 without the mayor reappointing them, and the others served for several years before resigning. Further, the Authority lacked the required certificates of appointment for all of its board members.<sup>12</sup> These issues occurred because the current and prior mayors did not exercise their responsibilities concerning appointing board members. The current mayor stated that she did not know she had the responsibility until HUD contacted her in April 2014. Additionally, the board members did not appear to know of the term limits. As a result, the Authority could not show that it properly appointed its board members and lacked turnover in these positions.

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<sup>10</sup> Texas State Local Government Code 392.031 (see appendix C)

<sup>11</sup> Texas State Local Government Code 392.034 (see appendix C)

<sup>12</sup> See footnote 10.

### *The Authority Improperly Appointed Two Board Members*

The chairman of the board and director 2 circumvented State law and the mayor's authority and appointed two new members to the board in 2012 and 2014, respectively.<sup>13</sup> Director 2 and the chairman disregarded State law concerning board member appointments when making these appointments. As a result, the appointed board members did not have the authority to conduct the Authority's business.

HUD should require the Authority to hold meetings and document the decisions and actions taken at those meetings. HUD should also require it to properly appoint and complete a certificate of appointment for each member. Finally, HUD should require the Authority to train its board members on their duties.

### **CONCLUSION**

The Authority did not operate its public housing program in accordance with regulations and other requirements, including State law. Specifically, it (1) allowed a conflict-of-interest by hiring the board chairman's daughter as its director, (2) paid ineligible and unsupported amounts to employees, (3) improperly used public housing funds for all of its administrative expenses, and (4) used its credit cards for unsupported and duplicative charges. Further, the Authority's board failed to provide oversight and prevent mismanagement. These conditions occurred because the board and the Authority's directors knowingly violated requirements and did not implement policies. As a result, the Authority mismanaged its annual public housing funding of \$46,950, including exhausting available program funds and its cash reserves. The Authority also paid \$37,506 in questioned costs. In addition, the board failed to prevent the conditions identified in this report, lacked appropriately appointed members, and lacked a record of its decisions and actions.

### **RECOMMENDATIONS**

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

- 1A. Require the Authority to adopt policies and procedures covering its financial operations, including but not limited to a personnel policy containing conflict-of-interest provisions, cost allocation policy, credit card policy, board meeting policy, and board member appointments policy. If the Authority properly implements this recommendation, it should ensure that its public housing funding of at least \$46,950 will be put to better use for the next 12 months.
- 1B. Provide training and technical assistance for the Authority's board.
- 1C. Require the Authority to support or repay \$11,875 in unsupported salary costs.
- 1D. Require the Authority to repay its low-rent public housing program \$11,256 from non-Federal funds for ineligible contract labor payments.

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<sup>13</sup> See footnote 10.

- 1E. Require the Authority to repay its low-rent public housing program \$9,072 for ineligible USDA program administrative expenses.
- 1F. Require the Authority to support or repay its low-rent public housing program \$5,303 for unsupported credit card charges.
- 1G. Require the Authority to provide a certificate of appointment for all board members.

## APPENDIXES

### Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds Put to Better Use 3/
1A			\$46,950
1C		\$11,875	
1D	\$11,256		
1E	9,072		
1F		5,303	
<b>Totals</b>	<b><u>\$20,328</u></b>	<b><u>\$17,178</u></b>	<b><u>\$46,950</u></b>

- 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.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Authority implements the recommendation, it will more appropriately put its public housing funding of at least \$46,950 to better use during the next 12 months.

## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments



## HOUSING AUTHORITY OF THE CITY OF LUBBOCK

P.O. BOX 2568 LUBBOCK, TEXAS 79401 MAIN OFFICE 806-762-1191 FAX 762-0836

March 2, 2015

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

Re: Memorandum- The Housing Authority of the City of Lockney, Lockney, TX, Did Not Operate Its Public Housing Programs in Accordance With Requirements

Dear Mr. Kirkland:

We are in receipt of your Draft Audit Report related to your audit to determine the Lockney Housing Authority's compliance with laws and regulations governing the administration of its Public Housing program. We appreciate the professional approach and overall conduct of your staff during the course of this audit.

### **Comment 1**

The Lockney Housing Authority generally agrees with the observations and recommendations set forth in the Memorandum.

The Lubbock Housing Authority entered into a Management Agreement with the Lockney Housing Authority on July 24, 2014. Since that date, staff have addressed many of the concerns found in the OIG report, as well as many other operational issues that were beyond the scope of this audit. The Agency has significantly improved its levels of compliance in all areas, including: financial, administrative and tenant/applicant operations.

Highlights of these improvements include:

- Adoption and Implementation of thirty-three (33) policies
- Adoption of revised Bylaws
- Implemented allocation of shared Public Housing/Rural Development expenses, including salaries and benefits
- Cessation of paying employees both wages and contract labor
- Conversion from manual accounting and wait list systems to electronic systems
- Instituted separation of duties in accounting, payables and payroll processes
- Termination of fee accountant's services

**Ref to OIG Evaluation**

**Auditee Comments**

- Implemented systems for maintaining records of Board Meetings
- Now in compliance with Internal Revenue and State Wage Reporting requirements
- Compliance with Commissioner appointment and term limit laws
- Attendance by two Commissioners and the Mayor at an informal Board Training session conducted by the Fort Worth HUD Field Office
- Monitors use of Agency assets and equipment, including vehicles and lawn maintenance equipment
- Cancelled all Agency credit cards

The Housing Authority will continue to work with staff, the City, Residents and HUD to address areas requiring improvement.

**Comments Related to Audit Report Recommendations**

The following constitutes the Agency response to recommendations noted in the Draft Memorandum.

**Recommendation 1A**

*"Require the Authority to adopt policies and procedures covering its financial operations, including but not limited to a personnel policy containing conflict-of interest provisions, cost allocation policy, credit card policy, board meeting policy, and board member appointments policy. If the Authority properly implements this recommendation, it should ensure that its public housing funding of at least \$46,950 will be put to better use for the next 12 months."*

**Comment 1**

**Housing Authority Response 1A**

1. The Agency adopted and implemented thirty-three (33) policies related to the Public Housing Program since August, 2014. These policies include:

**Financial Policies**

- Capital Funds Program Policy
- Check Writing Policy Disposition of Property Policy
- Investment Policy
- Uncollectible Debts and Write-off Policy
- Capitalization-Depreciation Policy
- Credit Card Policy
- eLOCCS Policy
- Program Funding Budgeting Policy

**Administrative Policies**

- Code of Ethics Policy

**Ref to OIG Evaluation**

**Auditee Comments**

- Handicapped/Disabled Policy
- Fair Housing Policy
- Internal Controls Policy
- Security Policy
- Vehicle Usage Policy
- Conduct Standards Policy
- EIV Security Policy
- Fraud Policy
- Records Management Policy
- Travel Policy
- Workplace Violence Policy

**Tenant/ Applicant Policies**

- Admissions and Continued Occupancy Policy and Dwelling Lease
- Satellite Lease Addendum
- Community Service Policy
- Criminal Screening Policy
- Grievance Procedures
- Pet Policy
- Rent Collection Policy
- Security Deposit Policy
- Reasonable Accommodation Policy
- Housekeeping Standards
- Satellite Dish Policy
- Maintenance Charges
- Flat Rents Policy

**Comment 2**

2. The Agency does not agree with the recommendations to adopt a Board Appointment Policy and a Board Meeting Policy. Requirements for Commissioner Appointments are statutory. (Section 392.031 of the Texas local Government Code)

The Board revised and adopted the Lockney Housing Authority Bylaws. The revised Bylaws are consistent with Local Govt. Code 392.031, and specifies the Board structure as well as requirements for regular/annual meetings, officer election, etc.

3. The Agency allocates expenses shared by both Public Housing and Rural Development as follows:
- 67% - Public Housing
  - 33% - Rural Development

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 3**

This allocation is based on the number of units managed by the Agency. There are 20 Public Housing units and 10 Rural Development Units. The Housing Authority has no objection to following the recommendation to formalizing the allocation by written policy.

4. The Housing Authority agrees with the recommendation to create a formal written Personnel Policy.

**Recommendation 1B**

*"Provide training and technical assistance for the Authority's board."*

**Housing Authority Response 1B**

Lockney Housing Authority is currently in the process of procuring a third-party to conduct Commissioner training services.

**Recommendations 1C, 1D, 1E and 1F**

*"Require the Authority to support or repay \$11,875 in unsupported salary costs.*

*Require the Authority to repay its low-rent public housing program \$9,072 for ineligible USDA program administrative expenses.*

*Require the Authority to support or repay its low-rent public housing program \$5,303 for unsupported credit card charges.*

*Require the Authority to repay its low-rent public housing program \$11,256 from Non-Federal funds for ineligible contract labor payments."*

**Comment 4**

**Housing Authority Response 1C, 1D, 1E and 1F**

The Lockney Housing Authority will discuss options for repayment of ineligible/unsupported costs with the HUD Field Office.

The Housing Authority has contacted the local USDA Rural Development Service Center to discuss the possibility of using Reserve funds for the repayment of ineligible USDA program administrative expenses. USDA staff advised that we must supply the OIG documentation that specifies the items purchased, vendor, date and amount of the transactions before they can consider approval of the use of Reserve funds.

**Recommendation 1G**

*"Require the Authority to provide a certificate of appointment for all board members."*

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 5**

**Housing Authority Response 1G**

The Mayor of Lockney appointed two Commissioners in September, 2014. At that time she administered an Oath of Office to the new appointees and the three existing Commissioners. A Certificate of Appointment, for each Commissioner, is filed at Lockney City Hall and the Housing Authority maintains copies of the certificates in the rental office.

Please contact me if you have any additional questions or concerns.

Sincerely,

A handwritten signature in cursive script that reads "Mike Chapman".

Mike Chapman  
Executive Director, Lubbock Housing Authority

Cc: Theresa Carroll  
Regenia Hawkins

### **OIG Evaluation of Auditee Comments**

- Comment 1** The Authority generally agreed with the OIG’s memorandum. It stated that it took steps to implement 33 new policies and procedures and to improve management control over the Authority’s operation. OIG acknowledges the actions and HUD’s Office of Public Housing will need to confirm that the Authority’s new policies are effective.
- Comment 2** The Authority disagreed with OIG’s recommendation to create a board appointment and board meeting policy; however, it revised its bylaws in compliance with Texas State Government Code. As bylaws are policy for the board, the Authority took action to address the recommendation. HUD’s Office of Public Housing will need to confirm that the new bylaws are effective.
- Comment 3** The Authority stated it would procure services to train its board members. OIG acknowledges the Authority’s progress. However, HUD’s Office of Public Housing needs to monitor to ensure that the training occurs and the board members understand their responsibilities.
- Comment 4** The Authority said it would seek ways to repay the questionable costs. It also asked for support for the administrative expenses attributed to the USDA rural housing program. OIG attributed the USDA portion of administrative expenses based upon amounts recorded in the Authority’s bank statements and allocated these costs using an agreed percentage reached with the Authority’s management.
- Comment 5** The City of Lockney appointed two new members and certified all members of the board of commissions. OIG acknowledges these actions, and HUD’s Office of Public Housing needs to confirm the appropriateness of the board appointments.

## Appendix C

### CRITERIA

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#### **The Authority's Annual Contributions Contract With HUD**

##### Section 15 – Books of Account, Records, and Government Access

- (A) The HA [housing agency] must maintain complete and accurate books of account for the projects of the HA in such a manner as to permit the preparation of statements and reports in accordance with HUD requirements, and to permit timely and effective audit.
- (B) The HA must furnish HUD such financial and project reports, records, statements, and documents at such times, in such form, and accompanied by such reporting data as required by HUD.

##### Section 19 – Conflict of Interest

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

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

#### **Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87)**

##### Appendix B to Part 225—Selected Items of Cost

##### 8. Compensation for personal services.

...

##### h. Support of salaries and wages.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods

...

##### j. Be adequately documented.

#### **Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments (24 CFR (Code of Federal Regulations) Part 85)**

##### Subpart C – Post-Award Requirements, Financial Administration

##### **Section 85.20, Standards for financial management systems.**

...

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

- (1) **Financial reporting.** Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) **Accounting records.** Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
- (3) **Internal control.** Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- (4) **Budget control.** Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.
- (5) **Allowable cost.** Applicable Office of Management and Budget (OMB) cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
- (6) **Source documentation.** Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

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

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

(a) Each municipal housing authority shall be governed by five, seven, nine, or 11 commissioners. The presiding officer of the governing body of a municipality shall appoint five, seven, nine, or 11 persons to serve as commissioners of the authority.

...

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

Section 392.034. TERMS OF OFFICE OF COMMISSIONERS.

(a) Two of the original commissioners of a county housing authority shall be designated to serve one-year terms from the date of their appointment, and three shall be designated to serve two-year terms. Subsequent commissioners are appointed for two-year terms.

Section 392.043. INTERESTED EMPLOYEES.

(a) Except as provided by Subsection (b), (c), or (f), an employee of an authority may not have dealings with a housing project for pecuniary gain and may not own, acquire, or control a direct or indirect interest in a:

...

(5) contract or proposed contract for the sale of materials or services to be furnished or used in connection with a housing project.