



Issue Date	October 14, 2010
------------	------------------

Audit Report Number	2011-FW-1001
---------------------	--------------

TO: Cheryl J. Williams, Director, Office of Public Housing, 6HPH

FROM: *//signed//*
Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The Housing Authority of the City of Shreveport, LA, Mismanaged Its Recovery Act Funds by Entering into Imprudent Contracts to Meet the Obligation Deadline

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the City of Shreveport (Authority) as part of our annual audit plan to review American Recovery and Reinvestment Act of 2009 (Recovery Act) funds. We selected the Authority based upon a risk assessment of housing agencies within the U. S. Department of Housing and Urban Development's (HUD) Region VI jurisdiction¹ that were allocated Public Housing Capital Fund Stimulus funds under the Recovery Act. Our objective was to determine whether obligations the Authority made between January 30 and March 17, 2010, were appropriate, prudent, eligible, and supported and whether procurements were made in accordance with requirements.

What We Found

The Authority mismanaged its Recovery Act funds by entering into imprudent contracts to meet the March 17, 2010 obligation deadline. In addition, it could not provide assurance that the contracts were properly awarded or managed. By selecting an activity for expediency purposes instead of prioritizing capital work

¹ Region VI includes the states of New Mexico, Texas, Oklahoma, Arkansas, and Louisiana.

in its best interest, the Authority inefficiently and ineffectively managed more than \$1.5 million in Recovery Act funding.

What We Recommend

We recommend that the Director, Office of Public and Indian Housing, New Orleans, LA, (1) require the Authority to deobligate more than \$1.1 million in Recovery Act funds that it allocated for the Wilkinson Terrace site and (2) recapture and rescind the deobligated funds and deposit those funds with the U. S. Treasury in accordance with the Recovery Act, as amended. Further, the Authority should establish and implement procurement procedures and contract administration for Authority staff and board of commissioners members involved in the contracting process.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided a copy of the draft report to the Authority and HUD on August 26, 2010, and received written comments on September 8, 2010. We held an exit conference with the Authority on September 9, 2010. The Authority and its architect provided additional supporting documentation on September 20, 2010.

The Authority disagreed with our report. The Authority's response along with our evaluation of the response can be found in appendix B of this report. Due to the volume of documentation provided, we did not include the attachments submitted with the response. The attachments are available for review upon request.

TABLE OF CONTENTS

Background and Objective	4
Results of Audit	
Finding: The Authority Mismanaged Its Recovery Act Funds by Entering into Imprudent Contracts to Meet the Obligation Deadline	5
Scope and Methodology	18
Internal Controls	19
Appendixes	
A. Schedule of Questioned Costs	21
B. Auditee Comments and OIG's Evaluation	22

BACKGROUND AND OBJECTIVE

The Housing Authority of the City of Shreveport (Authority) was established in 1940. A five-member board of commissioners (board) governs the Authority. The mayor of Shreveport, with city council confirmation, appoints each commissioner. The Authority is responsible for managing 668 units in 7 public housing developments and more than 3,300 housing choice vouchers. The Authority's main office is located at 2500 Line Avenue, Shreveport, LA.

The Authority receives capital funds annually via a formula grant from the U. S. Department of Housing and Urban Development (HUD). It may use its capital funds for development, financing, modernization, and management improvements for its public housing developments. The Authority received \$1.3 and \$1.4 million in formula capital funds in 2008 and 2009, respectively.

On February 17, 2009, the President signed the American Recovery and Reinvestment Act of 2009 (Recovery Act) into law.² The Recovery Act provided \$4 billion for public housing agencies to carry out capital and management activities, including modernization and development of public housing. It allocated \$3 billion for formula grants and \$1 billion for competitive grants. The Recovery Act required public housing agencies to obligate 100 percent of the funds within 1 year of the date on which funds became available to the agency for obligation and expend 60 percent within 2 years and 100 percent within 3 years of such date.

HUD allocated more than \$1.7 million to the Authority for its Recovery Act Public Housing Capital Fund Stimulus grant (formula grant). HUD made the formula grant available to the Authority on March 18, 2009, resulting in a statutory obligation deadline of March 17, 2010. If the Authority failed to comply with the obligation deadline, the Recovery Act required HUD to recapture the remaining unobligated funds awarded to the Authority and reallocate such funds to agencies that complied with those requirements.³

HUD required the Authority to use its formula grant on eligible activities already identified in either its annual statement or 5-year action plan (approved plans).⁴ The Authority was also required to submit a budget identifying work that it would complete with its Recovery Act formula grant. If the Authority decided to undertake work items not in its approved plans, HUD required it to revise and/or amend its approved plans.

² Public Law 111-5

³ The Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203) amended the Recovery Act, requiring recaptured funds to be returned to the Treasury.

⁴ The annual statement, annual plan, and 5-year action plan are all components of the Authority's comprehensive plan. The HUD-approved comprehensive plan sets forth all of the Authority's physical and management improvement needs for its public housing developments.

RESULTS OF AUDIT

Finding: The Authority Mismanaged Its Recovery Act Funds by Entering into Imprudent Contracts to Meet the Obligation Deadline

To avoid losing its Recovery Act formula grant, the Authority hastily entered into imprudent contracts using faulty procurements to conduct work at one of its developments. After 9 months with little progress toward achieving its original purpose, the Authority significantly revised the planned use of its Recovery Act formula grant and entered into procurements that violated requirements. Specifically, the Authority improperly modified one contract and awarded another contract in excess of the total bid for unapproved work. Further, it did not amend its procurement policy as required by HUD. Either the Authority misinterpreted requirements or in its zeal to obligate the funds violated the requirements. Also, the Authority did not have procedures in place to ensure compliance with contract requirements and quality workmanship. By selecting an activity for expediency purposes instead of prioritizing capital work in its best interest, the Authority inefficiently and ineffectively managed more than \$1.5 million.

The Authority Modified Its Activities without Sufficient Justification

The Authority modified its planned activities without meeting established requirements. The Authority did this to obligate the funds before the March 17, 2010 deadline. To receive its Recovery Act formula grant, HUD required the Authority to either select activities already in its approved plans or revise the approved plans.⁵ On March 3, 2009, the Authority submitted to HUD the required budgets identifying the activities that would benefit from its Recovery Act formula grant. The Authority budgeted \$1.4 million⁶ of its \$1.7 million grant to activities identified in its 2008⁷ approved plans (see table 1).

⁵ In Office of Public and Indian Housing (PIH) Notice PIH 2009-12 (HA), HUD required the Authority to revise/amend its plans, to the extent required, if it undertook work items that were not in an approved plan. The process for revision could trigger public hearing and public notice requirements.

⁶ On July 2, 2009, HUD approved the Authority's original Recovery Act budget, which allocated more than \$1.3 million to its dwelling structures account; however, the supporting pages identified more than \$1.4 million in work.

⁷ At the time of the Authority's original budget submission, its 2008 plans were the most recent HUD approved version. The Authority's 2009 approved plans were very similar to its 2008 approved plans.

General description of major work categories	Total estimated cost
Replacement of flooring in vacant units	\$ 90,000
Replacement of kitchen & bath cabinets	60,000
Treatment of mold and mildew in vacant units	105,000
Roof replacement on dwelling units	120,000
Underpinning leveling and repairs to dwelling unit foundation	85,000
Comprehensive modernization of dwelling units in scattered sites throughout the city (67 percent)	947,579
Total	\$1,407,579

Table 1: Excerpt from the Authority’s original budget

After taking the necessary actions to receive its Recovery Act formula grant in March 2009, the Authority’s activities went dormant. According to the executive director, the Authority hired him in August 2009. In November 2009, HUD conducted reviews of the Authority’s activities and determined that it would provide technical assistance to the Authority to ensure that it complied with Recovery Act requirements.

In December 2009, 9 months after being awarded the funds, the Authority began taking action to obligate its Recovery Act formula grant. It submitted two budget revisions⁸ to HUD, significantly changing the activities it would undertake with the grant funds. The Authority’s final revised budget focused on minor modernization and mold and mildew remediation at its Wilkinson Terrace site (see table 2). While the mold and mildew remediation had been identified in its approved plans, the minor modernization work had not. Although the Authority submitted a revised budget that HUD approved, it failed to amend its approved plans as required.

Major work categories	Authorized recovery budget revision
Minor modernization, removal and remediation of mold and mildew at Wilkinson Terrace	\$1,370,130
Testing, planning & contract admin fee	149,143
Relocation of residents	42,200
Total	\$1,561,473

Table 2: Excerpt from the Authority’s approved final budget

The Authority did not provide documentation for why it changed the main focus of the work from modernization of scattered sites to mold and mildew remediation and

⁸ HUD approved two budget revisions for the Authority. One was undated by the Authority and HUD; the other was submitted by the Authority on March 12, 2010, and approved by HUD on April 9, 2010.

minor modernization at Wilkinson Terrace. Further, the Authority did not supply support that its board approved the change or that a public notice was not needed for the change. At the exit conference, the executive director explained that the Authority mentioned the modernization in its approved plans and provided the following circled excerpt to support his statement (see table 3). However, the executive director’s explanation was flawed as table 3 shows that the planned modernization work did not include the Wilkinson Terrace site.

Development Number Name/HA-Wide Activities	General Description of Major Work Categories	Dev. Acct No.	Quantity	Total Estim
				Original
LA 2-2	f. Treatment of infested mildew & mold dwelling units	1460		\$22,000.00
	g. Install stove top fire suppression system @ range	1460		\$30,000.00
PHA-WIDE	h. Replacement of HVAC System in dwelling units	1460		\$18,000.00
	i. Restoration of Homeownership units	1460		\$20,000.00
LA 2-3, 9 & 10	j. Complete Comprehensive Modernization of dwelling units in LA 2-3, 9 & 10	1460		\$263,223.00
	k. Roof replacement on dwelling units	1460		\$110,000.00

Table 3: Excerpt from the Authority’s 2009 approved plans. Development number LA 2-2 is Wilkinson Terrace; LA 2-3 is Hollywood Heights Housing Development; and LA 2-9 and LA 2-10 are scattered sites.

The Authority was at Risk of Losing Its Recovery Act Formula Grant

As of February 13, 2010, the Authority had only obligated 19 percent of its Recovery Act formula grant. As a result, on February 17, 2010, HUD informed the Authority that it considered the funds at risk for recapture. HUD reminded the Authority that it had no ability to extend or alter the 100 percent obligation deadline and that it would immediately recapture any unobligated funds. HUD also notified the mayor of Shreveport and the chairman of the Authority’s board of the possibility that the Authority could lose the funding. Further, in an email dated March 3, 2010, HUD’s Assistant Secretary for PIH reminded the Authority of the obligation deadline and HUD’s requirements to recapture any unobligated funds.

The Authority Did Not Prioritize its Activities or Provide Notice of Changes

The Authority did not prioritize its capital activities as HUD required.⁹ Contrary to the requirement, the Authority’s executive director said that he looked at what was in the approved plans and chose the Wilkinson Terrace site to benefit from the funding.¹⁰ However, at the exit conference, the executive director acknowledged

⁹ Public Law 111-5, annual contributions contract between the Authority and HUD, and Notice PIH 2009-12 (HA)

¹⁰ The Authority obligated more than \$10,000 per unit benefited.

that he was unaware of the original approved plan for modernization at the scattered sites. This did not absolve the Authority from obtaining board approval and informing the public¹¹ of the significant changes to its planned use of Recovery Act funds.

The Authority separated the Wilkinson Terrace work into two phases, resulting in separate procurements and contracts. The phase 1 contract was for mold and mildew remediation and the phase 2 contract was for minor modernization. The Authority's approved plans for the Wilkinson Terrace site included the following work categories: lawn and ground maintenance program, repair of plaster walls and ceilings, wall furnace replacement, and abatement of mold and mildew in units. Although modernization work was an eligible capital fund activity, the Authority had not identified it as work to be undertaken at Wilkinson Terrace in its approved plans; therefore, HUD did not approve this work. The executive director believed that if an activity was "mentioned" in the Authority's approved plans it would be an eligible activity under its Recovery Act grant. He also explained that the Authority chose Wilkinson Terrace because it was the easiest thing to do and posed a health concern. Again, the approved plans did not mention modernization work at Wilkinson Terrace.

By undertaking unapproved modernization work at the Wilkinson Terrace site without a required board resolution and revised/amended plans, the Authority thwarted the opportunity for residents, local government officials, and other interested parties to express their priorities and concerns.

Contract Amounts Far Exceeded Estimates in the Authority's Approved Plans

Demonstrating how far its actions deviated from its approved plans, the contracts to complete work at the Wilkinson Terrace site were almost 450 percent greater than the total amount identified for the site in its approved plans. Although the Authority obligated more than \$1.5 million of its \$1.7 million grant, its approved plans estimated a total cost of only \$287,000 for work at the Wilkinson Terrace site over a 5-year period, with only \$100,000 specifically related to mold and mildew remediation. Between January 12 and March 16, 2010, the Authority entered into five contracts totaling more than \$1.5 million to conduct work at the Wilkinson Terrace site (see table 4).

¹¹ Under the Recovery Act, the number of days for public notice was reduced to 10 days.

Description	Date contract executed	Amount
Limited indoor air quality; limited asbestos inspection; lead inspection	January 12, 2010	\$ 60,143
Remediation and minor renovations; architect/engineering services	January 13, 2010	89,000
Relocation	February 10, 2010	42,200
Minor modernization phase 1 (mold & mildew) change order	March 8, 2010 March 16, 2010	222,460 191,850
Minor modernization phase 2	March 15, 2010	955,820
Total:		\$1,561,473

Table 4: Recovery Act formula grant contracts for the Wilkinson Terrace site

The Authority was unable to provide documentation to justify the substantially increased costs and the change from its original plan. The executive director believed that as long as a dollar amount was included in the approved plans, the Authority could spend any amount on the activity. The example used by the executive director was if they had \$1 allocated to an activity that it would be acceptable to spend \$1 million on the activity. This rationale undermines the planning and budgeting process. Furthermore, HUD cannot rely upon the accuracy, cost, or scope of the Authority's plans.

More Than 19 Percent of the Units Will Be Vacant After the Recovery Act Spending

A priority under the Recovery Act was the rehabilitation of vacant rental units. However, after the Recovery Act spending, more than 19 percent (35 of 184 units) of the Wilkinson Terrace site units will remain vacant and removed from the Authority's rent roll. In May 2006, HUD approved the Authority's request to remove 22 units from its rent roll "to deal with a recurring mold and mildew problem." Four of the 22 units removed in 2006 received remediation and rehabilitation with Recovery Act funds.¹² In 2010, an Authority contractor determined that the remediation required for 35 units¹³ was extensive enough to be cost prohibitive. These vacant units were interspersed throughout the complex.

In addition, the Authority had considered initiating the process to demolish the Wilkinson Terrace site. If the Authority's ultimate plan was to demolish the Wilkinson Terrace site within the next few years, the prudence of its decision to move the Recovery Act funds from the scattered sites to the Wilkinson Terrace site should be further questioned.

¹² The Authority provided conflicting information regarding whether work would be completed on two other units.

¹³ Includes 18 of the 22 units that the Authority requested and HUD approved in 2006 to be removed from the rent roll.

The Authority Did Not Properly Award Its Contracts

In its scramble to meet the Recovery Act obligation deadline, the Authority failed to follow procurement requirements. Specifically, it improperly modified one contract and awarded another contract in excess of the total bid for unapproved work. The executive director explained that because the timeline was so tight, the Authority either had to spend the money or lose it. As a result, the Authority violated procurement requirements to ensure that it obligated the funds. The timely obligation of funds did not usurp the Authority's responsibility to comply with procurement requirements or its fiduciary responsibilities.

While the Authority's files were generally in order, its records did not contain cost estimates as required.¹⁴ As previously stated, the amounts in the plans had no relationship to the actual cost. During the audit, the Authority obtained cost estimates from its architect for two of the five contracts. For the other three contracts and the change order, the Authority did not provide cost estimates.

The Authority's Phase 1 Contract Included an Ineligible Change Order

As shown in table 4, the Authority inappropriately executed a \$191,850 change order¹⁵ on March 16, 2010, that violated procurement regulations and nearly doubled the original \$222,460 contract. The Authority was required to obtain prior HUD approval for any contract modifications that changed the scope of the contract or increased the contract by more than the Federal small purchase threshold,¹⁶ currently set at \$100,000. The Authority did not seek or receive prior HUD approval for the change order. The following excerpt from the March 8, 2010 board meeting minutes provided evidence that the change order came about during the meeting and board members arbitrarily approved it just to obligate 100 percent of the funds:

“The Secretary¹⁷ advised the Chairman that if the Board would pass this Resolution, there would still be some extra funds left (over \$100,000.00) that need to be allocated and if the Board doesn't pass this Resolution today, then another meeting would need to be scheduled before March 17, 2010. The Secretary reported that there's one (1) item that is not listed that needs to be done in every unit and that's to paint the units.

¹⁴ 24 (Code of Federal Regulations) CFR 85.36(f)(1)

¹⁵ The \$191,850 change order to paint units consisted of \$55,250 for 490 sq. ft. one-bedroom units (\$3,250 X 17 units), \$78,200 for 747 sq. ft. two-bedroom units (\$3,400 X 23 units), and \$58,400 for 867 sq. ft. three-bedroom units (\$3,650 X 16 units).

¹⁶ HUD Handbook 7460-8, REV-2, Procurement Handbook for Public Housing Agencies.

¹⁷ The executive director serves in the capacity of board secretary.

...Commissioner Murphy asked the Secretary, ‘I just want to know if all of [the Recovery Act funding] will be allocated by the 17th?’”

Further, it did not appear that the board members understood what they were voting on or that the Authority needed this work.¹⁸

During the exit conference and in its response to the draft audit report, the Authority explained that the modification was not a change order, but a transfer of a portion of the phase 2 modernization scope of work to the phase 1 mold and mildew contractor based on unit pricing. However, the Authority had no basis to make such an arbitrary transfer, and its records and contract documents showed that the modification was a change order. Further, the bid documents did not inform bidders that the phase 2 scope of work might be split into several contracts. In fact, on March 8, 2010 (the same date as the previously discussed board meeting), the Authority sent the phase 1 contractor a letter informing it of the contract award to the phase 2 contractor.

The Authority’s violation of procurement regulations meant to ensure fair and open competition resulted in an ineligible contract amendment. In addition to deobligating these funds, HUD should prohibit the Authority from using any HUD funds for this improper \$191,850 change order. Further, the Authority must establish and implement procurement procedures for Authority staff and board members involved in the contracting process.

The Authority’s Phase 2 Contract for Unapproved Work Exceeded the Bid Amount

Nine days before the deadline for returning any unobligated Recovery Act funds, the board convened the March 8, 2010 board meeting to approve the awarding of a \$926,670 modernization contract for phase 2 work.¹⁹ Contrary to this, the board passed a resolution originally awarding a contract for more than \$1.1 million, \$226,100 more than the bid amount. After some discussion, the board amended the resolution to reduce the contract amount to \$955,870²⁰ and inappropriately awarded the \$191,850 change order to the phase 1 contractor as discussed previously.

Work for the phase 2 contract included modernization improvements and renovations such as removal of doors, wood cabinets, plumbing fixtures, mechanical equipment, light fixtures, etc., and replacement of these with new materials. As discussed previously, this modernization work was not identified as work to be

¹⁸ At the exit conference, the Authority asserted that the board minutes did not reflect what occurred in the board meeting.

¹⁹ The phase 2 contractor had other contracts with the Authority, including a modernization project that the Authority funded using 2005-2008 capital funds. The contract had substantial cost overruns and 13 change orders. On November 17, 2009, the Authority requested HUD approval to execute a 14th change order and use 2008 and 2009 capital funds to pay for the overruns. HUD suggested that the Authority not approve the change order and that it consult with legal counsel.

²⁰ Although the resolution was for \$955,870, the executed contract award totaled \$955,820.

undertaken in the Authority's approved plans. Further, the Authority did not adopt a board resolution or revise/amend its approved plans as required if it chose to undertake these new work items.

In its meeting, the Authority's board extensively discussed its primary concern of obligating the Recovery Act grant so that it would not lose the funding. The Authority's architect described different scenarios wherein all of the funds could be used. The final resolution included the base bid amount of \$782,760, three alternate bids totaling \$143,910, and the installation of 53 toilets for \$29,200 (\$551 per toilet). According to HUD guidance²¹ the Authority "...should not request alternate bids... Instead, when necessary because of limited available funding, [the Authority] may specify the most expensive system as the base bid and list deductive alternates in inverse priority order. Thus, in the case of limited funding, deductive alternates may be taken in numerical order as listed until the award can be made within available funds." In contrast with the guidance, the Authority specified the least expensive system as the base bid and listed increased alternates without priority.

Due to the arbitrary actions by the Authority in awarding this contract, it did not comply with procurement requirements. Further, the modernization component of this procurement did not comply with the HUD requirement that it be either already included in its approved plans or that the Authority revise or amend its plans and meet any public notice requirements. HUD should require the Authority to deobligate this \$955,820 contract from its Recovery Act formula grant and recapture and rescind the deobligated funds and deposit those funds with the U. S. Treasury in accordance with the Recovery Act, as amended. Further, the Authority must establish and implement procurement procedures for Authority staff and board members involved in the contracting process.

The Authority Did Not Amend Its Procurement Policy as Required

HUD required the Authority to amend its procurement policy to expedite and facilitate the use of Recovery Act funds.²² The Authority's board authorized its staff to amend the procurement policy. However, it did not do so. The Authority continued to operate using its policy from July 1997. This policy was outdated and omitted significant provisions. For example, although the table of contents listed contracting authority and contract administration sections, those subject matters were not included in the policy provided.

²¹ HUD Handbook 7460-8, REV-2

²² Notice PIH 2009-12 (HA)

The Authority Did Not Have Effective Procedures to Ensure Quality Work

The Authority did not have written procedures to approve contract work. Due to its poor procurement compliance, the Authority needed to ensure it had controls in place to identify and correct deficiencies by contractors in a timely manner. For the Recovery Act funds, the Authority appeared to rely upon its architect to ensure that its contractor(s) adhered to the contract, including the workmanship. However, upon learning of deficiencies during the audit, the executive director stated that the policy was that the contractor was not done until he signed off on the payment. As stated previously, the Authority's policy omitted the sections dealing with contract authority and administration. Without effective procedures and adherence to those procedures, the Authority showed a lack of management capability and commitment to effectively and efficiently using Recovery Act funds. The Authority must increase the effectiveness of its contract administration by having and adhering to current written procedures.

The contractor submitted an application for payment on June 4, 2010. On June 9, 2010, the Authority's architect informed it that "...37 units at Wilkinson Terrace have been remediated and achieved acceptable clearance criteria." During the audit, the Authority gave every indication that these units were complete. On June 10, 2010, we observed nine of the units for adherence to contract terms and workmanship. In addition, the procurement employee provided the listing of the 37 units and a maintenance staff member accompanied us on the visit.

The scope of work was divided into four levels of remediation. The phase 1 contract only included units requiring level 2 and level 3 remediation. At a minimum, the following definitions applied:

Wipe - Surface is to be cleaned and disinfected with an Environmental Protection Agency-approved biocide disinfectant.

Brush - Surface is to be scrubbed/brushed with a light- to medium-bristle scrub brush and vacuumed with a high-efficiency particulate air vacuum.²³

Encapsulate - Surface is to be encapsulated with an antifungal priming agent equivalent to Foster's 40-20 that has been tinted to match the paint in the housing units (antique white).

Level 2 remediation required units to be cleaned and disinfected. Also, painted surfaces from which residue had been removed or cleaned were to be encapsulated. Level 3 remediation called for extensive cleaning,

²³ A high-efficiency particulate air vacuum differs from conventional vacuums in that it contains filters that are capable of trapping extremely small, micron-size particles.

disinfection, encapsulation, and plaster repair. All surfaces were to be wiped and all painted surfaces encapsulated.

Observations of selected units indicated that contractual tasks (1) had not been completed, (2) had not been adequately completed, or (3) had been poorly completed with substandard workmanship. Specifically, the inspected units had what appeared to be pest excrement caked on surfaces that were to have been cleaned and disinfected. Further, it did not appear that painted surfaces had been encapsulated as required. In addition, there were dust and stains on surfaces that were required to be wiped. Many of the window frames that were required to be wiped and encapsulated were filled with spider webs, dead insects, rust, and what appeared to be mold. There were also painted surfaces with bubbling, unsmooth, oversprayed, and peeling paint. Pictures 1 through 4 show some of the deficiencies found during the June 10, 2010 inspection.



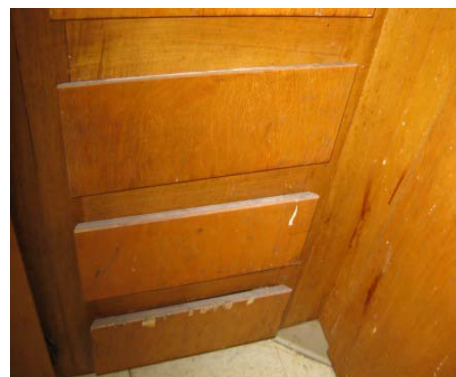
Picture 1: Unit 54. At the time of inspection, this unit had been vacant for more than 3 months. There were slimy substances and food on the walls and floors, flies throughout the unit, a pungent odor, and no visible indication of work having been completed.



Picture 2: Unit 133. This appeared to be a moldy towel in the window frame. The dirt and chipped paint indicated that the contractor had not cleaned or encapsulated the window frame as required.



Picture 3: Unit 147. This appeared to be partially painted-over pest excrement.



Picture 4: Unit 145. The dust on top of these cabinet drawers indicated that the contractor did not clean, disinfect, or brush them as required.

Because of the ongoing contract, statements made by the executive director, and to determine if corrective actions were taken, we conducted a follow-up site visit of six units (pictures 5 through 8) after our exit

conference on September 9, 2010.²⁴ None of the units were occupied and we were told the units would need additional cleaning and preparation work prior to leasing. While the Authority required correction of some of the previous deficiencies, we noted the following:

- No consistency in window frame work. In some units, the window frames were painted and in others, they were not.
- Possibly rust bleeding through paint, specifically on handrails (see picture 8).
- Instances where the contractor did not remove nails, hangers, etc. prior to painting.
- In one instance, the paint already had a bubble (see picture 5).
- In one instance, the sink had torn from the wall causing damage to the wall. It was unclear who was responsible for repairing it (see picture 7).



Picture 5: Unit 48. This appeared to be a large paint bubble.



Picture 6: Unit 48. The chipped paint indicated that the contractor had not cleaned or encapsulated the window frame as required.



Picture 7: Unit 107. The wall behind this sink was severely damaged. It was unclear who was responsible for the damage.



Picture 8: Unit 48. This handrail had paint drippings and rust appeared to have bled through the paint.

²⁴ We selected six units: four units that we visited previously, one unit that was also on the June 9, 2010 list, and one vacant unit that received no remediation. One unit was still under the control of the contractor.

During the second observation, the executive director explained to the site manager and maintenance employee the importance of keeping the windows closed as open windows may encourage the reoccurrence of the mold and mildew.²⁵ The Authority did not provide evidence that it had adequate processes in place to identify and correct such deficiencies. Further, it should implement effective policies to ensure that contractors meet the terms of their contract(s).

Conclusion

By its actions of significantly changing its activities without sufficient justification, not revising its approved plans to include new/different activities, exceeding the work in its approved plans, providing HUD with unrealistic budget information, and violating procurement requirements, the Authority mismanaged its Recovery Act grant. Further, the Authority did not have procedures in place to ensure contractor's compliance and workmanship. As a result of its actions, the Authority is at risk of inefficiently and ineffectively spending more than \$1.5 million in Recovery Act funding.

Recommendations

We recommend that the Director, Office of Public and Indian Housing, New Orleans, LA, require the Authority to

- 1A. Deobligate and return \$191,850 from its Recovery Act formula grant for the improperly procured change order for phase 1 contract work at its Wilkinson Terrace site. Any amounts paid on the contract should be repaid from nonfederal funds.
- 1B. Deobligate and return \$955,820 from its Recovery Act formula grant for the improperly procured phase 2 contract that also contained the unapproved activities. Any amounts paid on the contract should be repaid from nonfederal funds.
- 1C. Establish and implement procurement procedures for Authority staff and board members involved in the contracting process to ensure proper contract administration, including updating and following its procurement policy. This includes that the Authority receives quality workmanship, contractor compliance, payment procedures, and informing management, maintenance, and tenants of actions needed to preserve and maintain improvements and repairs.

²⁵ The architect's inspection site report also warned about leaving the windows opened.

1D. Correct the unit deficiencies cited during the observations.

Also, we recommend that the Director, Office of Public and Indian Housing, New Orleans, LA,

1E. Recapture and rescind the \$1,147,670 in deobligated funds and deposit those funds with the U. S. Treasury in accordance with the Recovery Act, as amended.

1F. Provide additional technical assistance for the Authority and impose procurement review thresholds.

SCOPE AND METHODOLOGY

We performed the audit at Authority's main offices at 2500 Line Avenue, Shreveport, LA, and our offices in Fort Worth, TX, from June 3 through September 20, 2010. The scope of the audit was the Authority's Recovery Act obligations from January 1 through March 17, 2010. We expanded the scope to September 9, 2010, as needed to accomplish our objective.

To achieve our audit objectives, we

- Obtained and reviewed relevant laws, regulations, program guidance, and grant agreements.
- Interviewed HUD and Authority staff.
- Analyzed and reviewed the Authority's Recovery Act contracts and obligations.
- Analyzed and reviewed the Authority's audited financial statements.
- Analyzed and reviewed HUD reviews of the Authority's Recovery Act activities.
- Analyzed and reviewed the Authority's annual statement, 5-year plans, and required budget submissions to HUD.
- Reviewed Authority board meeting minutes.
- Conducted site visits and inspected phase 1 completed units.
- Analyzed obligations and contracts to determine eligibility.
- Analyzed the Authority's compliance with reporting requirements.
- Analyzed and reviewed additional information the Authority and its architect provided after the exit conference.

We completed a 100 percent review of the Authority's five Recovery Act contracts. The Authority had completed 37 units for its phase 1 remediation. For our site visit, we randomly selected nine (24 percent) of those units for inspection. We used the scope of work detailed in the phase 1 project specifications to assess adherence to contract terms and quality of workmanship.

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

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Policies and procedures that the Authority's management implemented to reasonably ensure that its program met its objectives.
- Procurement policies and procedures established and/or followed by the Authority.
- Policies and procedures that the Authority's management implemented to reasonably ensure that its resource use was consistent with laws and regulations and that its resources were safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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

Significant Deficiencies

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

- The Authority mismanaged its Recovery Act grant by entering into ineligible contracts to meet the obligation deadline (finding).
- The Authority's plans were unreliable both in terms of activities to be undertaken and cost of the activities (finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible <u>1/</u>
1A	\$ 191,850
1B	955,820
Total	<u>\$1,147,670</u>

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.

Comment 2

The Authority's Phase 1 Contract Included an Ineligible Change Order

The scope of work was identified as unit pricing within the Phase 2 bid documents. Bids were received from three general contractors. The amount of this revision represents the lowest possible cost associated with one work item--\$191,850 as compared to \$238,900 from the second lowest contractor for encapsulating painting of each unit. This revision did not change the scope of the project. It transferred a Phase 2 unit price to Phase 1, saving a total of \$47,050, a more prudent use of federal funding.

The Board of Commissioners were knowledgeable of the entire project and assisted in the obligation of the ARRA funding. They spent a considerable amount of time discussing the issues related to the project as well as the process. The entire package was reviewed by the Board on a line item basis.

**Comment 2
Comment 9**

The Authority's Phase II Contract Amount Exceeded the Bid Amount

The Phase 2 contractor provided a base bid of \$926,670 with additive alternates totaling \$238,900. Modernization work as described from this report is a "broad term". These units were not receiving a "modernization". The title of the project manual for these projects is listed as a "minor modernization". New items were required due to the presence of mold, and the removal of certain items was identified within the scope of work for Phase I. Replacement items were included in Phase 2.

The bid documents provided a request for a base bid amount and three additive alternates. In addition, unit pricing was requested for twelve specific items. The installation of a new water closet was identified on the bid form as a requested unit price.

Comment 10

NOTE: Footnote #14 at the bottom of page 10 has no bearing on this project.

**Comment 11
Comment 12**

Finding 2: THE AUTHORITY MAY HAVE ALLOWED SUBSTANDARD WORK FROM ITS CONTRACTOR

The work was not complete for any part of project at the time of the audit. The quote provided on page 13 is a statement from the contractor, not the HACS' representative. Unless the HACS representative is the Executive Director, the statement cannot be considered an official statement of the HACS. In addition, since there was no punch list present and approved, the statement is definitely inaccurate. The statement, "37 units at Wilkinson Terrace have been remediated and achieved acceptable clearance criteria" was made by the contractor on June 9, 2010. However, that statement prompted a walkthrough of the project that resulted in a punch list as required to meet the intent of the documents. The punch list was not created until June 22, 2010, nearly two weeks after the contractor's statement. Meeting the indoor air quality "clearance criteria" is materially different than meeting the scope of work in regards to architectural work.

The removal of the locks did not prevent the contractor from returning to the site and addressing the associated punch list items. Locks on the doors, whether the owner's or the contractor's, in no way prevented the completion of the work.

Comment 11
Comment 12

Again, an item of note is that a date of June 9, 2010 is referenced in the report. This date is prior to issuance of a punch list (June 22, 2010). Based on the June 9th date, no work was "accepted". The contractor's first Application for Payment was not forwarded to the HACS for payment until July 8, 2010. As such, the contractor had not been paid for any work on June 9, 2010. Also, a retainage in the amount of 10% of the completed work is being withheld throughout the course of the project until all contractual obligations are met by the contractor.

A current timeline of Phase 1 and Phase 2 activities for stage one is attached for your review.

The pictures included within the report are not identifiable. *Picture #1* – Which unit was this? Was it scheduled to be included in the scope of the Phase 1? This image is not indicative of the work performed by the Phase 1 contractor. *Picture #2* – Where is the picture taken? Which unit? What is being questioned? Is the picture taken from the exterior of the building? The goal of this project is to improve the indoor air quality of each unit. All indoor air quality tests were performed with the windows closed. The scope of the work does not apply to the exterior of the building. *Picture #3* – The commentary associated with the picture is merely commentary. Again, what unit is this? The windows themselves are not required to be encapsulated. *Picture #4* – What unit is this? The status of the work was not complete. This was actually addressed in the Phase 2 portion of the work.

It should be pointed out that Altec provided the HACS with clean air reports for the following units on July 1, 2010:

8,9,16,17,21,22,24,27,29,44,48,52,54,56,59,67,71,79,90,92,93,107,109,110,117,124,133,135,137,142,145,147,155, 159,167,168,170, and 175

Repair of plaster work is scheduled to be completed within Phase 2 of the project. Paint deficiencies were identified during the generation of the punch list, and were addressed by the contractor.

Picture #5 – Which unit is this? This is not an accurate reflection of the work performed and not apparent whether work in this unit was in the scope of work for the Phase 1 contractor. *Picture #6* - Which unit is this? Is it within the scope of the Phase 1 contractor? Cleaning of the units is an ongoing process. The Phase 1 contractor reaches a level of completed work in accordance with the documents and produces a clean air report. The Phase 2 contractor then addresses additional work required to bring the quality of the units to a livable condition, and provides a broom finish level of clean to the unit. Final cleaning will be provided after the scope of the project is completed. *Picture #7* – What unit is indicated? Work was not complete in unit at time of photograph. *Picture #8* - No plaster repair was within the scope of the Phase 1 contractor. All plaster repair is scheduled under the Phase 2 portion of the work. The ceilings of the first floor units are painted concrete. The ceilings of the second floor units vary between painted gypsum board and traditional plaster. It is unclear which unit is photographed (first or second floor). It should also be noted that the installation of all water flues and plumbing modifications were provided some 20 years ago at this project. The quality of that installation and ongoing maintenance, repair, and painting over time yields a rough palette for a new paintable surface.

EQUAL HOUSING OPPORTUNITY

Comment 12

Any damage to locks will be corrected. It is unclear if the contractor damaged his own locks or those of the HACS. Ultimately, the Phase 1 contractor will be on site for at least three more phases of work, and all damaged locks will be corrected as required.

It is a correct statement that the Phase I contractor notified Altec that remediation was completed and clean air samples had been achieved. It is also typical for the contractor to assume to be paid for his work. However, a punch list must be developed after walking the units with the owner to determine if in fact the units were "complete," and in accordance with the contract documents. (This was not performed at the time of the visit for this DRAFT report).

Observations were made throughout the course of the work to determine what progress was being made on the project in the form of field observations and documentation. As the work neared completion, punch lists were generated and distributed to the contractor to review and complete prior to completion, and prior to bringing the Phase 2 contractor on site. Involvement from the environmental consultant, the architect, and the Housing Authority all lead to effective policies in place for the determination that the work was performed in accordance with the contract documents.

Phase 1 work was not complete at the time of the audit. Work is now complete. A punch list was generated, distributed to the contractor and deficient items were corrected. At the time of the report, no funds had been distributed to the Phase 1 contractor. Work is now underway for Phase 2 of the project, and this process will continue for approximately four stages of work.

Thank you for the opportunity to respond to the draft audit. Based upon the information and facts supplied in this letter, we welcome additional training. However, we see no reason for any monetary damages to the HACS as a result of our efforts to improve the quality of life for our residents. It is likely that our inability to finish this job will result in potential litigation, which would not be in the best interests of anyone. It is our desire to make the residents the winners of the use of the ARRA funding. Failure to do this hurts everyone involved. We gladly await to discuss this further on your visit here on Thursday, September 9, 2010.

Respectfully submitted,

Richard Herrington, Jr.
Executive Director
Housing Authority of the City of Shreveport
richardh@shvhousauth.com

Attachments

Cc: Ms. Cheryl J. Williams – Director, Office of Public Housing, New Orleans, Louisiana

EQUAL HOUSING OPPORTUNITY

OIG Evaluation of Auditee Comments

Comment 1 We acknowledged that the Authority underwent management changes in footnote 9 of the draft and included it in the finding of the final report. The Authority management's lack of awareness did not preclude it from being effective and efficient stewards of Recovery Act funds. Although the Authority criticized prior management, it used prior management's plans as its basis to support some decisions. Irrespective, effective and efficient obligation of Recovery Act funds should have been a top priority of the new management team, including understanding the planned use of the Recovery Act funds.

Comment 2 We modified the finding as appropriate. The contemporaneous documentation did not reflect cost savings as a reason for the Authority's procurement decisions. The Authority did not provide support for its assertion of cost savings. Further, the Authority did not provide documentation or discussion to contradict that it violated procurement requirements in the awarding of cited contracts.

Comment 3 We modified the finding as appropriate. The Authority's records, adopted board minutes and interviews with staff indicate expediency was the major consideration in awarding the contracts. The Authority provided a 2006 letter from HUD approving the Authority's request to remove 22 units from its rent roll due to mold and mildew problems. Four of the 22 units listed in the letter were included in the work performed with Recovery Act funds and presumably will be returned to the rent roll. The Authority did not provide any other documentation of the "health and safety concern that existed for a number of years prior to the arrival of the new executive staff." The testing of the units supplied by the Authority occurred in 2010.

Further, based on our follow-up observations 3 months after the initial observations, and after obligation of more than \$10,000 per unit, the units that we observed remained unoccupied and uninhabitable.

Comment 4 As discussed in the finding, modernization work undertaken by the Authority was not in its approved annual or five-year plan as required. HUD's approval of the Authority's request to remove 22 units due to mold and mildew 4 years ago does not support the Authority's assertion of "a long-standing health and safety air quality issue that was prevalent at the Wilkinson Terrace site." Nor, does it support the Authority violating Recovery Act requirements.

Our audit objective included determining whether obligations were appropriate and prudent. This includes ensuring the health and safety of residents and acceptable project conditions, primary concerns of OIG.

Comment 5 While the Authority may have been confident, HUD was not as evidenced by its letter to the Authority, its board and the Mayor of Shreveport. Further, the pre-bid conferences for the Phase 1 and Phase 2 contracts (87 percent of contract dollars for the Wilkinson Terrace site) were not held until after February 13, 2010. We maintain that the Authority was at risk of losing its Recovery Act formula grant.

Comment 6 We modified this section of the finding as necessary. The Authority did not provide documentation related to the cost and benefit to evaluate its response. Contrary to the Authority’s editorial, the Authority did expend Recovery Act funds on 4 of the 22 units removed from the Authority’s rent roll in 2006.

Comment 7 The Authority misinterpreted what the draft report stated.

Comment 8 The Authority was required by 24 CFR 85.36 to perform a cost or price analysis in connection with every procurement action including contract modifications. The Authority was also required to maintain records sufficiently detailing the history of the procurement, including the basis for the contract price.

Comment 9 We modified the finding as appropriate. According to the contractor’s bid package and the Authority’s official bid tabulation sheet (shown below), the lowest responsive bidder provided a base bid of \$782,760 and alternate bids totaling \$143,910, resulting in a total bid of \$926,670. The Authority’s response incorrectly reports that the contractor provided a base bid of \$926,670. The Authority did not provide sufficient explanation of how it calculated the alternate totals in its response.

Minor Modernization of Wilkinson Terrace Apartments – Public Housing Units: Phase II														Shreveport, Louisiana						
Friday, March 5, 2010 @ 10:00 A.M.														Project No. A00256						
CONTRACTOR'S NAME	OUTSIDE ENVELOPE				INSIDE ENVELOPE								Total Lump Sum, Base Bid	Alternate No. 1	Alternate No. 2	Alternate No. 3	Unit Pricing Provided			
	Name & No. of Project	Bid Documents	Bidder's Name & Address	Bidder's State License Number	Date & Time of Bid	Bid Form (pages E, F, G, H, I, J, K, L, M, N, O, P, Q, R, S, T, U, V, W, X, Y, Z)	Bid Bond %	HUD-5309-A Representations, Statements of Bidders	Contractor's Non-Collusion Affidavit	HUD - 2530 Previous Participation Certification	Qualification of a Drug Free Workplace	Contractor's "Buy American" Certification						Insurance Certificate	Ask, Addendum No. 1, 2, 3	
Construction Co., Inc.	X	X	X		X	X	X	X	X				X	X	\$585,327.00	\$20,945.00	\$28,764.00	\$29,682.00	X	
Builder, Inc.	X	X	X		X	X	X	X	X	X	X	X	X	X	\$782,760.00	\$30,010.00	\$56,950.00	\$56,950.00	X	
Services, Inc.	X	X	X		X	X	X	X	X	X	X	X	X	X	\$856,437.00	\$39,800.00	\$53,600.00	\$55,600.00	X	
Construction, Inc.															NO BID RECEIVED					

Comment 10 According to HUD requirements,²⁶ the Authority could have considered past performance in determining whether to award a contract.

Comment 11 We merged draft findings 1 and 2 into one finding based upon the Authority's comments and our additional site visit after the exit conference.

Comment 12 At the time of our June 10, 2010 observations, it appeared the Authority and its contractors considered the phase 1 work complete.²⁷ We informed the executive director of our observations at the conclusion of our June 10, 2010 site visit. Following our discussions, the executive director requested its architect to conduct a field visit to address our observations.²⁸

²⁶ 24 CFR 85.36(b)(8)

²⁷ The reference to removed locks was for illustrative purposes, indicating that the contractor considered the work complete. However, we removed the discussion from the finding.

²⁸ The architect provided a report on June 11, 2010, which referenced our observations.