

HOUSING AUTHORITY OF EAST BATON ROUGE PARISH



INVESTIGATIVE AUDIT
ISSUED AUGUST 22, 2018

**LOUISIANA LEGISLATIVE AUDITOR
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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

August 22, 2018

**MR. J. WESLEY DANIELS, JR., CHIEF EXECUTIVE OFFICER
AND MEMBERS OF THE BOARD OF COMMISSIONERS
HOUSING AUTHORITY OF EAST BATON ROUGE PARISH**
Baton Rouge, Louisiana

We have audited certain transactions of the Housing Authority of East Baton Rouge Parish. Our audit was conducted in accordance with Title 24 of the Louisiana Revised Statutes to determine the validity of complaints we received.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*.

The accompanying report presents our findings and recommendations as well as management's response. This is a public report. Copies of this report have been delivered to the District Attorney for the 19th Judicial District of Louisiana and others as required by law.

Respectfully submitted,

Thomas H. Cole, CPA
First Assistant Legislative Auditor

THC/aa

HOUSING AUTHORITY OF EAST BATON ROUGE PARISH

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EXECUTIVE SUMMARY

Donation of Public Funds

From October 2014 to December 2017, the Housing Authority of East Baton Rouge Parish (Housing Authority) appears to have spent at least \$8,931 in public funds on celebratory functions, meals, and miscellaneous gifts to employees and others. By spending funds in this manner, Housing Authority management may have violated the Louisiana Constitution and state law.

BACKGROUND AND METHODOLOGY

The Housing Authority of East Baton Rouge Parish (Housing Authority) was created by the City of Baton Rouge to provide decent, safe, and sanitary housing affordable to persons of low and moderate income in Baton Rouge, Louisiana. The Housing Authority is governed by a six-member board appointed by the Mayor of the City of Baton Rouge. Members of the board serve five-year terms.

In July 2017, Housing Authority management discovered that Chief Executive Officer Richard Murray and Chief Operating Officer Melonie Bayham were paid in excess of their approved salaries. The Housing Authority hired Postlethwaite & Netterville (P&N) to perform a forensic audit to determine what amounts, if any, had been overpaid to Mr. Murray and Ms. Bayham. P&N issued its report to the Housing Authority on September 13, 2017. According to that report, the Housing Authority overpaid Mr. Murray and Ms. Bayham \$52,672 and \$22,481, respectively, from October 2015 to September 2016. Mr. Murray and Ms. Bayham reimbursed these amounts to the Housing Authority in September 2017. We reviewed the information concerning the foregoing and concluded that P&N properly identified the amounts overpaid and did not duplicate P&N's efforts in this report.

In addition to the salary overpayments received by Mr. Murray and Ms. Bayham, the Louisiana Legislative Auditor (LLA) received complaints regarding the Housing Authority in March 2018. LLA initiated this audit to determine the validity of these complaints. The procedures performed during this audit included:

- (1) interviewing Housing Authority employees and other persons as appropriate;
- (2) examining selected Housing Authority documents and records;
- (3) gathering documents from external parties; and
- (4) reviewing applicable state laws and regulations.

FINDING AND RECOMMENDATION

Donation of Public Funds

From October 2014 to December 2017, the Housing Authority of East Baton Rouge Parish (Housing Authority) appears to have spent at least \$8,931 in public funds on celebratory functions, meals, and miscellaneous gifts to employees and others. By spending funds in this manner, Housing Authority management may have violated the Louisiana Constitution¹ and state law.²

Any expenditure of public funds must comply with Article VII, Section 14 of the Louisiana Constitution. In Attorney General (A.G.) *Opinion No. 10-0171*, the A.G. stated that to do so, “the public entity must have legal authority to make the expenditure” and must show the following:

- (1) A public purpose for the expenditure or transfer that comports with the governmental purpose the public entity has the legal authority to pursue.
- (2) The expenditure or transfer, taken as a whole, does not appear to be gratuitous.
- (3) Evidence demonstrating that the public entity has a reasonable expectation of receiving a benefit or value at least equivalent to the amount expended or transferred.

The A.G. consistently applied these requirements in subsequent opinions (*No. 14-0112*, *No. 15-0095*, and *No. 16-0187*) issued throughout our audit period.

The following Housing Authority expenditures appear to have violated the Louisiana Constitution:

Celebratory Functions and Meals

During the period being audited (October 2014 to December 2017), we observed that the Housing Authority spent at least \$5,274 for office celebrations and meals. These expenses were incurred for annual employee picnics (\$2,953) and meals during Christmas celebrations for Housing Authority staff, management, and board members (\$2,321). In *Opinion No. 03-0387*, the A.G. opined that the payment of, or reimbursement for, food, drink, or other expenses associated with luncheons, banquets, parties or other similar functions from public funds is generally improper under state law.

Management stated the Housing Authority has hosted annual Christmas parties and employee picnics for several years. According to Chief Operating Officer Melonie Bayham, these parties show appreciation to Housing Authority employees. Both Ms. Bayham and Chief

Executive Officer Richard Murray stated that they were unaware that spending funds on parties and picnics was improper.

Miscellaneous Gifts

Since October 2014, the Housing Authority made purchases totaling \$3,657 that appear to be gratuitous. These purchases include \$2,535 for gift cards and gift certificates given as gifts and prizes for employees at celebratory functions and \$1,122 for miscellaneous gifts and/or flower arrangements for Housing Authority employees and board members. According to Housing Authority management, these items were purchased to show appreciation to Housing Authority employees, and they were not aware that spending funds in this manner was improper. Expenditures which appear to be gratuitous may violate the Louisiana Constitution¹ and state law.²

Recommendation

We recommend that Housing Authority management implement policies and procedures prohibiting the donation of public funds and requiring documentation of the public purpose of all expenditures.

LEGAL PROVISIONS

¹ **Louisiana Constitution Article VII, Section 14(A)** states, in part, “Except as otherwise provided by this constitution, the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private.”

² **Louisiana Revised Statute (La. R.S.) 42:1461 (A)** provides that “Officials, whether elected or appointed and whether compensated or not, and employees of any ‘public entity,’ which, for purposes of this Section shall mean and include any department, division, office, board, agency, commission, or other organizational unit of any of the three branches of state government or of any parish, municipality, school board or district, court of limited jurisdiction, or other political subdivision or district, or the office of any sheriff, district attorney, coroner, or clerk of court, by the act of accepting such office or employment assume a personal obligation not to misappropriate, misapply, convert, misuse, or otherwise wrongfully take any funds, property, or other thing of value belonging to or under the custody or control of the public entity in which they hold office or are employed.”

APPENDIX A

Management's Response



August 16, 2018

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Re: Housing Authority of East Baton Rouge Parish,
Response to Investigative Audit

Dear Mr. Purpera:

The Housing Authority of East Baton Rouge Parish (“Authority”) submits the following response to the draft investigative audit dated August 2, 2018. The Authority, first thanks your office for its commitment to review and investigate various financial matters of all agencies and entities subject to its review. It’s the dedication of this office that ensures the public funds are appropriately spent for the benefit of the citizens of this state, and in particular, the citizens served by this Authority.

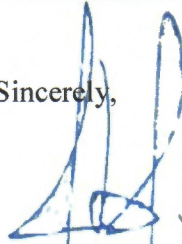
The Authority has reviewed the draft investigative report and will revise and implement policy consistent with Article VII Section 14 of the Louisiana Constitution. The findings raised by the report are taken seriously and under immediate revision. The amount \$8,931 over three (3) years for approximately \$2,977 per year between 2014 to 2017, while nominal to annual operating budget in excess of \$33,000,000.00, nonetheless could be construed negatively and will be corrected going forward. The Authority’s revised policy will comport with the applicable provisions of state law and, if necessary, seek further approval from the Attorney General’s office and/or the Louisiana Board of Ethics. Attorney General Opinion 08-0089 issued to the Louisiana Community and Technical College System provides such pathway, with approvals, for EBRPHA to pay for “meals related to specific activities” including “officials and honorees at awards banquets”. The Authority understands that your office’s review determined the existing policy does not comport with the opinion. The Authority’s revised policy will be vetted accordingly to ensure this issue does not repeat.

4731 NORTH BOULEVARD
BATON ROUGE, LOUISIANA 70806

The Authority has a proven track record of success. The Authority consistently files its audits timely with your office through an independent third-party auditing firm. These audits have further evidenced compliance, with no findings. Additionally, The U.S. Department of Housing and Urban Development (HUD) ranked the Authority as a High Performer under HUD Public Housing Assessment System (PHAS) Program and for the Housing Choice Voucher (Section 8) Program under the Section Eight Management Program (SEMAP) Program for several consecutive years, including this past fiscal year 2017. The Authority does not abuse the public's trust and continues to provide services and housing where annual allocation of funding decreases each year. The Authority further responds to internal issues and has policies in place to resolve expeditiously. The Authority's quick response is further evidenced by its proactive steps when identifying payroll issues, retaining an auditing firm, and resolving the issue without delay.

The Authority appreciates this opportunity to respond to the finding as presented in the draft report. Should your office need additional information in preparing its final report, please do not hesitate to contact us.

Sincerely,

A handwritten signature in blue ink, appearing to read "J. Wesley Daniels, Jr.", written over a faint, illegible stamp or background.

J. Wesley Daniels, Jr.
Acting Chief Executive Officer

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BATON ROUGE, LOUISIANA 70806