



*State of Louisiana*

**OFFICE OF**

**STATE INSPECTOR GENERAL**

**HOUSING PROJECT ABUSE**

**Report by**

**Inspector General Bill Lynch**

**Prepared for**

**Governor M.J. "Mike" Foster, Jr.**

**MAY 28, 1998**

**File No. 1-98-0005**



*State of Louisiana*

**OFFICE OF  
STATE INSPECTOR GENERAL**

**Housing Project Abuse**

May 4, 1998

Report by

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Inspector General Bill Lynch

Approved by

A handwritten signature in cursive script, appearing to be "M.J. Foster", written over a horizontal line.

Governor M.J. "Mike" Foster, Jr.

File No. 1-98-0005

# Housing Project Abuse

A partnership paid \$51,000 in labor costs, which were largely unaccounted for, on a \$172,000 renovation project for a low-income housing apartment complex in Vernon Parish partly financed by the Louisiana Housing Finance Agency.

The then executive director of the Vernon Community Action Council, working as a subcontractor, charged the owner of the low-income housing apartment complex \$7,975 for inmate labor which was provided free by the parish.

The director, David Hudgens, failed to disclose to the parish sheriff that the facility was under private ownership and, therefore, not eligible for the use of inmate labor.

An ethics question is raised by the fact that Mr. Hudgens served as a subcontractor on the project when the facility is owned by a partnership that includes the Vernon Community Action Council.

The Community Action Council owes the Vernon Council on Aging \$29,110 in back lease payments for office space during the period July, 1994, through June, 1997.

## Background

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The Vernon Community Action Council is a nonprofit organization located in Leesville, Louisiana that provides shelter, transportation, preventive health, weatherization and energy assistance, crime victims' assistance, and other services to low income individuals within its community. The organization is funded by local, state, and federal funds. A large portion of the funding is legally restricted to expenditures for specified purposes. The Legislative Auditor requires the organization to have an annual independent audit.

The Vernon Council on Aging is a nonprofit organization also located in Leesville, Louisiana that provides meals, transportation, preventive health and entertainment services to the elderly of its community. The organization is funded with local, state and federal funds, the majority of which are administered through the Governor's Office of Elderly Affairs. A

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large portion of the funding is legally restricted to expenditures for specified purposes. The Legislative Auditor requires the organization to have an annual independent audit.

Both the Community Action Council and the Council on Aging are governed by independent boards. However, until April, 1997, both organizations employed the same executive director with each paying one half of the director's salary. David Hudgens became the executive director for both organizations in January, 1992, earning a salary of \$15,000 per year from each. He resigned from the Council on Aging and the Community Action Council, in April and May, 1997, respectively. Caren Kay is now the executive director of the Community Action Council, and Marvis Chance is the executive director of the Council on Aging.

The Community Action Council, Calhoun Property Management and Boston Corporation formed a private for profit partnership called the Butler St. Estates to purchase and renovate a 10-unit apartment complex which would provide low-income housing for the Leesville community. The project received permanent financing of \$50,000 from Premier Bank, now Bank One, and \$128,811 of Housing and Urban Development funds administered through the Louisiana Housing Finance Agency's HOME program. The funds are to be repaid out of rent receipts.

## Labor Records

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David Hudgens was the initial subcontractor on the Butler St. Estates, while employed as the executive director of the Community Action Council. Ronald Mayo, an employee of the Community Action Council, was later recruited as subcontractor for the renovations by Mr. Hudgens. Neither was able to substantiate \$51,517 in labor costs of which \$7,975 in fraudulent claims was charged for use of free inmate labor and \$3,859 in questionable claims was charged by Mr. Mayo for his own labor.

The renovations on the Butler St. Estates were funded in part with Housing and Urban Development funds administered through the Louisiana Housing Finance Agency's HOME program. The Finance Agency's loan agreement requires audited certified costs be submitted upon completion of the renovations in order to obtain the final draw on the loan. The

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unsubstantiated labor costs were subsequently submitted to the Finance Agency as certified costs on the renovations.

Renovations on the Butler St. Estates began in June, 1996 and were completed in September, 1996. According to Mr. Hudgens and Mr. Mayo, each Wednesday Mr. Mayo was responsible for faxing labor cost sheets to Calhoun Property Management, the fiscal partner responsible for financial transactions. The labor cost sheets contained each laborer's name, the hours worked per each laborer, and the cost per each laborer. A check for reimbursement was cut no later than the following Monday.

Eleven laborers were hired throughout the renovation period by either Mr. Hudgens or Mr. Mayo. Mr. Mayo stated that the laborers were paid in cash. He also stated that neither he, nor Mr. Hudgens reported the income to the federal and state governments. Neither Mr. Mayo, nor Mr. Hudgens have supporting documentation for the labor costs other than the labor cost sheets. The laborers did not sign receipts for their cash payments, nor did they sign time sheets.

## Overcharges

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Records show Mr. Mayo was paid as an employee by the Community Action Council at the same time he was paid as a subcontractor on the Butler St. Estates. Records also show Mr. Mayo was paid for his own labor on the Butler St. Estates by both the Community Action Council and Calhoun Property Management for the same time period. Payments to Mr. Mayo from Calhoun totaling \$3,859 are in question.

Mr. Mayo initially stated he had been laid off from the Community Action Council prior to working on the Butler St. Estates. Mr. Mayo's whereabouts are no longer known. Attempts to contact him for further questioning have failed.

Mr. Mayo worked for the Community Action Council until the end of June, 1996. His time sheets and earnings statements indicate he was paid \$1,360 from June 3, 1996 through June 26, 1996 for 160 hours of work. He began working on the Butler St. Estates' renovations at the beginning of June, 1996. Labor cost sheets submitted to Calhoun from June 5, 1996 through June 26, 1996 indicate he was paid \$2,288 for 240 hours of labor.

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The table below shows the hours Mr. Mayo charged on the labor cost sheets each week and the number of hours Mr. Mayo worked for the Community Action Council each week. The table also shows the number of hours per day Mr. Mayo would have had to work for 28 days straight. The hours charged are unreasonable and indicate Calhoun may have overpaid Mr. Mayo.

<b>Date</b>	<b>Project Hours Worked</b>	<b>Community Action Council Hours Worked</b>	<b>Total Hours Worked per week</b>	<b>Days worked per week</b>	<b>Hours per day</b>
June 3, - June 9,	80	40	120	7	17
June 10, - June 16,	40	40	80	7	11
June 17, - June 23,	40	40	80	7	11
June 24, - June 30	80	40	120	7	17

In addition, Calhoun may have overpaid Mr. Mayo for work he charged during the period Sept. 9, 1996 through Sept. 13, 1996. Mr Mayo was paid \$880 from labor cost sheets by Calhoun. He was also paid \$691 by the Community Action Council. The Community Action Council was subsequently reimbursed for the \$691 by Calhoun, making the total payment by Calhoun \$1,571.

## Inmate Wages

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Mr. Hudgens recruited nine inmates from the parish prison to work on the renovation project during June, 1996. The inmates were recruited as volunteer labor to repair the roof, sheetrock, and paint. However, the certified costs submitted to the Louisiana Housing Finance Agency indicate \$7,975, of the total \$51,517 in labor costs, were for individuals who were in fact volunteer inmate laborers and a sheriff deputy.

For the entire renovation period of June, 1996 through September, 1996, every labor cost sheet submitted to Calhoun by Mr. Hudgens and Mr. Mayo listed the names of the recruited inmates along with a labor cost for each. The labor cost sheets in June, 1996 also included the name of the sheriff deputy.

Each week Calhoun cut one check for the total labor costs obtained from that week's labor cost sheet. Every check listed the names of the laborers from the cost sheets on its stub. The first three checks were payable to Mr. Hudgens as reimbursements for the labor cost sheets dated June 6, June 12 and June 20, 1996. The total reimbursements payable to Mr. Hudgens were \$8,435, of which \$4,340 were charges for inmate laborers and the deputy. The remaining reimbursements were made payable to Mr. Mayo totaling \$43,082, of which \$3,635 were charges for inmate laborers and the deputy.

Officials of the parish prison, the deputy, and Mr. Hudgens all stated that neither the inmates, the deputy, nor the parish prison were compensated for the labor. Mr. Hudgens said the inmates' names appeared on the labor cost sheets and on the stubs of the reimbursement checks because of a miss communication between him and Mr. Mayo. He said he told Mr. Mayo to list the inmates on the labor cost sheets with a dollar value for the amount of labor performed by each, in order for the Finance Agency to see the cost savings. He said however, Mr. Mayo misunderstood him and replaced the names of actual hired laborers with the inmate laborers but used the actual costs from the hired laborers. This does not account for the fact that the first 3 labor checks were made payable to Mr. Hudgens.

Mr. Mayo denies having volunteer inmate laborers on the project at all. He claims to have hired and paid three inmates after their release from the parish prison. The labor cost sheets dated from July through September, 1996 included the names of two inmates. However,

officials of the parish prison, stated that the two inmates were never released from the parish prison and were, in fact, both sent to Elayn Hunt Correctional Center on Sept. 4, 1996.

## Misuse of Inmates

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Mr. Hudgens obtained free inmate labor for renovations on the Butler St. Estates by failing to disclose to the Vernon Correctional Facility the building's private ownership, which is not permitted by the Louisiana revised statutes.

According to officials of the Vernon Correctional Facility, inmates were recruited as volunteer labor for the renovation project by Mr. Hudgens. The inmates worked on the project during the month of June, 1996. The officials stated that the inmates were previously recruited by Mr. Hudgens for renovations to the Council on Aging facility, and they were under the impression that the Butler St. Estates was also owned by the Council on Aging. Mr. Hudgens did not disclose the private ownership of the building for which the Community Action Council is a partner, nor did he disclose his affiliation with the Community Action Council.

Mr. Hudgens admitted he recruited the inmate labor and stated he probably did not discuss its ownership.

La. R.S. 15:708 lists permitted parish inmate labor as work upon any of the public roads, levees, streets, public buildings or works, improvements inside or outside of the prison, work upon any cemetery or graveyard, work in a solid waste recycling program administered by a state agency or political subdivision and approved by the sheriff. The criminal sheriff may set the prisoner to work upon labor determined by the governing authority of the parishes and the municipal authorities of the towns and cities.

## Ethics

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In June, 1996, Mr. Hudgens began acting as subcontractor for the renovations project, while employed as the executive director with the Community Action Council, part owner of the Butler St. Estates. As subcontractor, he recruited labor including Mr. Mayo. An ethics question is raised because Mr. Hudgens was subcontracting on a project with his own agency.

Mr. Hudgens denies being the subcontractor for the renovations and denies receiving any compensation for labor as subcontractor. According to him and Mr. Mayo, Mr. Mayo was the subcontractor. However, the first three labor reimbursement checks from Calhoun Property Management were made payable to Mr. Hudgens, and certified costs submitted to the Louisiana Housing Finance Agency indicate he was paid \$1,080 in compensation for his own labor.

Donnie Heyen, Vice President of Operations with Calhoun, stated it was his understanding Mr. Hudgens was initially the subcontractor on the renovations, which was the reason the reimbursements were made payable to him. He said Mr. Mayo was recruited as the subcontractor at a later date by Mr. Hudgens.

## Lease

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As the executive director for both the Community Action Council and the Council on Aging, Mr. Hudgens entered the organizations into a lease agreement for office space to be leased by the Community Action Council. After both organizations moved to a new facility purchased by the Council on Aging, Mr. Hudgens discontinued the regular monthly lease payments. Lease payments totaling \$29,110 are now owed to the Council on Aging.

The agreement which began in April, 1994 stipulated that monthly payments in the amount of \$1,922 should be paid the Council on Aging for the office space. In July, 1994, both organizations began planning to move to the Council on Aging's new facility. During its

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July 19, 1994 board meeting, the Community Action Council discussed the move with Mr. Hudgens and acknowledged that lease payments should continue. However, between July, 1994 and June, 1997, Mr. Hudgens stopped making the scheduled lease payments to the Council on Aging. He did make sporadic partial payments throughout the period.

The organizations have been negotiating a settlement of the back lease payments. However, they have been unable to reach an amicable resolution.

### Conclusions:

1. True labor costs on the Butler St. Estates could not be determined due to lack of supporting documentation, fabricated costs for volunteer inmate labor, questionable overcharges for Ronald Mayo, and charges for David Hudgens for compensation as subcontractor.
2. Mr. Hudgens and Mr. Mayo submitted questionable and false labor costs to Calhoun Property Management, the fiscal partner of the Butler St. Estates partnership. These costs were subsequently submitted to the Louisiana Housing Finance Agency as certified costs. The final draw on the loan was contingent upon these costs.
3. Volunteer inmate labor obtained by Mr. Hudgens violated state law.
4. Mr. Hudgens' role as the subcontractor on the renovations while employed as the executive director of the Community Action Council raises a question of possible ethics code violations.
5. The Community Action Council owes the Council on Aging \$29,110 for office space leased between July, 1994 through June, 1997.

### Recommendations:

1. The questionable and false labor costs should be referred to the local district attorney and to the Louisiana Housing Finance Agency.

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2. All owners of the Butler St. Estates partnership should be made aware of the questionable and false labor costs and the unpermitted inmate labor.
3. David Hudgens' role as subcontractor for the renovations and as executive director of Community Action Council should be referred to the Louisiana State Board of Governmental Ethics.
4. The Community Action Council should resolve its lease debt with the Council on Aging.

*Management Response:*

David Hudgens, the Vernon Community Action Council and the Council on Aging were given an opportunity to respond to this report. A telephone response was received from Marvis Chance, the executive director of the Vernon Council on Aging, in which he stated the board concurred with the portions relating to them. Attached are written responses received from the Vernon Community Action Council and David Hudgens. The Vernon Community Action Council concurred with the housing project abuse. David Hudgens does not concur with the portions relating to him and states he has labor records on the housing project. Several messages have been left for Mr. Hudgens to contact us regarding these records. However, he has failed to return our calls.

BL/CS

File No. 1-98-0005

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## Vernon Community Action Council, Inc.

April 29, 1998

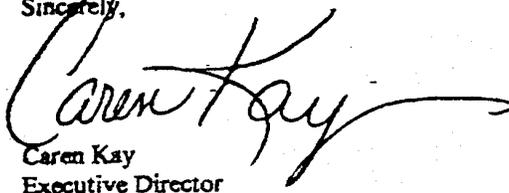
Bill Lynch, State Inspector General  
Post Office Box 94095  
State Capitol Annex  
Baton rouge LA 70804-9095

Dear Sir:

In a regularly scheduled meeting of our agencies Board of Directors that was held on Tuesday, April 14, 1998, your letter that was dated April 13, 1998 was discussed. Our Board of Directors took into advisement the information contained in your letter. In regards to the issue related to Housing Project Abuse, the Board of Directors in majority offers it's full support to you in your decision to refer this matter to the District Attorney of Vernon Parish. In relation to the Lease Debt with the Vernon Council on Aging our Board of Directors, in majority, are requesting a thirty (30) period so that the matter can be reviewed, investigated, and a decision made for further action by our agency. The Board of Directors is also requesting that they be issued copies of all "paper trail" information that was significant to the findings by your office as the agency is not in possession of such documents therefore, we are not able to concur with your findings.

We extend our appreciation to you and your office for your support and cooperation during this matter..

Sincerely,



Caren Kay  
Executive Director

April 19, 1998

Office of the State Inspector General  
P.O. Box 94095  
Baton Rouge La. 70804-9095

Dear Sirs:

I am in receipt of your letter dated 4-9-98, requesting a response to five findings, File 1-98-0005, concerning your investigation of my tenure as Executive Director of the Vernon Council on Aging( COA) / Community Action Council(CAC).

I am not in total agreement with all of your findings and have responded as follows.

Finding # 1, Labor Records.

At no time was I a sub-contractor on the Butler Estates project or any other project of this nature. As I previously stated to Ms. Summers, I simply assisted with various matters in the renovation and development of this project. I did in fact assist with compensating the laborers working on this project, but this is something I have done several times in the past. Although I would be reluctant to render such assistance in the future because of the attempt to criminalize this behavior by those who seek political gain from this investigation.

When contacted previously by Ms. Summers I offered to make my personal records of the employee payroll available to your office but as yet no one has extended the courtesy of asking for them.

As a side note, I recall that Mr. Mayo was not a subcontractor for the Butler Estates project. I believe he was simply a foreman for the renovation. Perhaps he signed a contract with Calhoun to be a subcontractor on the project, but if he did, I was not aware of it.

Finding #2, Overcharges.

It is my recollection that Mr. Mayo was concurrently employed by the Vernon CAC while he was performing as foreman for the Butler Estates renovation. Mr. Mayo was a salaried employee for the Vernon CAC and not an hourly wage employee. He continued to perform various tasks that were assigned to him while he was working for Mr. Calhoun.

As for Mr. Mayo charging Calhoun for more work than he may or may not have performed I could not accurately state yes or no that this may have occurred. I do know that he worked many weekends and late into the evening on the Butler Estates project as well as performed some of his duties at the Vernon CAC at those times.

Finding #3, Inmate Wages and Misuse of Inmates.

As stated, I recruited the assistance of the prisoners for the Butler project. No attempt was made to deceive anyone as to their intended use. In your letter you stated that the Butler Estates project was and is considered a private venture between the Vernon CAC, Calhoun Property Management and Boston Corporation. This was not my understanding of the venture. I

am not sure who Boston Corporation is, additionally because of the inclusion of the Vernon CAC, the project would still be considered a charitable venture which would not endanger the Vernon CAC's standing as a Public Non-Profit entity and its IRS 501 c-3 status. If as your letter states this is not the case, then the inclusion of prison labor should not have been allowed. Some further clarification on this would be needed to more accurately determine this.

As stated in your letter no monies were paid to any prisoner or deputy that I am aware of, and their inclusion on any checks was a result of a miscommunication between me and Mr. Mayo. The actual names of the labors who were paid with those monies should have appeared instead. Once this misunderstanding was discovered, to my knowledge no further labor reports were made with their inclusion.

Your letter states that two inmates could not have been employed with the project after their release, this is in error. At least two inmates were indeed employed subsequent to their release. A Mr. Bobby Woods and another inmate they called "RED" worked on the project. Perhaps this was during their stay at a half-way house work-release program but each worked for more than one week. If in fact they were still in jail, then an investigation should be made to determine how they were able to escape and return each day from their assigned prison.

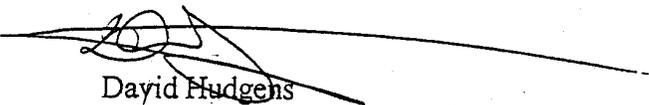
#### Finding #4, Ethics.

As stated earlier, at no time was I a subcontractor on the Butler Estates project and I was not involved in any cost certifications made on the project. I did voluntarily give money to those employees on the project on different occasions until the check arrived which could actually pay them. This behavior is something I have always done and other than the misrepresentation of this by certain political enemies, I have no regrets that I assisted hard working men pay their bills on time.

#### Finding # 5, Lease

This accusation is totally and unequivocally false and inaccurate. No lease was ever approved by the Vernon CAC or COA after the terms of the original lease were over. The minutes of the Vernon COA show that the Presidents of the two organizations were delegated the authority to make whatever lease they deemed appropriate. A gentlemen's agreement between these two individuals was reached which allowed the Vernon CAC to make whatever payments they desired whenever they desired to make them. Perhaps a conversation with these two gentlemen would confirm this arrangement.

I have replied to each finding to the best of my recollection and knowledge. If given more time I would perhaps be able to better answer your questions and accusations, but I have not been given adequate time nor the access to records which are needed to accomplish that. If you have need of further information please feel free to contact me.

  
David Hudgens