



Issue Date August 31, 2000
Audit Case Number 00-AT-202-1008

TO: Mack R. Heaton, Director, Office of Public Housing, 4CPH

FROM: Nancy H. Cooper
District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Cullman Housing Authority
Public Housing Programs
Cullman, Alabama

We have completed a limited review of selected operations of the Cullman Housing Authority (CHA). The review was initiated in response to a citizen's complaint. We conducted our review to determine whether CHA administered its activities in an efficient, effective, and economical manner, and in compliance with the Department of Housing and Urban Development (HUD) requirements. Our report presents two findings that detail the Authority's need for improvement with recommendations for corrective action.

Within 60 days, please give us a status report for each recommendation in the report on: (1) the corrective action taken; (2) the proposed corrective action and a planned implementation date; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued as a result of the audit.

Should you or your staff have any questions, please contact me or Sonya D. Lucas, Assistant District Inspector General for Audit, at (404) 331-3369. We are providing a copy of this report to the Cullman Housing Authority.

(This Page Left Blank Intentionally)

Executive Summary

Our review disclosed significant weaknesses in CHA's ability to follow proper procurement and contracting procedures and to maintain an adequate system of internal controls.

- The Cullman Housing Authority's procurement practices did not comply with Federal procurement and contracting requirements or its own procurement policy. CHA spent \$126,560 for goods and services without adequately documenting the eligibility of the costs. CHA had inadequate controls over its purchase orders; awarded contracts for professional services without documenting the competitive process; and allowed a low bidder to withdraw its bid without proper justification or retaining the \$18,700 bid guarantee. This occurred because CHA's management disregarded requirements. Also, the Board of Commissioners did not adequately monitor the Authority to ensure operations were carried out in an efficient and economical manner. As a result, HUD lacked assurance that CHA obtained goods and services at terms that were most advantageous.
- The Cullman Housing Authority failed to maintain an adequate system of internal controls to safeguard its assets. The Authority did not adequately segregate duties over its assets. The Executive Director commingled business and personal affairs that resulted in CHA making payments of \$4,572 for cellular telephone charges which included charges incurred by the Executive Director's son and for the Executive Director's personal cellular phone. The Authority also made monthly payments for a storage building without a written contract which the Executive Director's son used. In addition, CHA did not: (1) properly select applicants for its housing units and paid ineligible housing assistance payments totaling \$4,115; (2) safeguard its equipment; (3) ensure controls were adequate to properly dispose of its surplus assets; (4) support cost allocations; and (5) obtain adequate fidelity bond coverage. This occurred because CHA officials lacked knowledge of certain requirements, and the Board of Commissioners did not effectively carry out its responsibilities. Also, the Executive Director was excessively involved in the Authority's decision making. As a result, HUD lacked assurance that CHA's resources were used to the maximum extent to benefit its residents.

We presented our findings to CHA and HUD's Alabama State Office officials during the course of the audit. We held an exit conference on April 12, 2000. CHA generally agreed with the findings in this report.

CHA provided written comments on August 1, 2000. We considered the comments in finalizing the report. CHA's comments are summarized within each finding and included in their entirety as Appendix B.

We recommend HUD require CHA to repay all ineligible costs and resolve unsupported costs; implement policies and procedures to ensure compliance with procurement practices; and develop and implement policies and procedures to ensure a system of internal controls to properly select applicants for housing assistance, safeguard its equipment, properly account for and safeguard its inventory, adequately dispose of surplus assets, document cost allocations, and obtain adequate fidelity bond coverage.

Table of Contents

Management Memorandum	i
-----------------------	---

Executive Summary	iii
-------------------	-----

Introduction	1
--------------	---

Findings

1	CHA Did Not Follow Proper Procurement Requirements	3
2	Internal Control Procedures Were Inadequate	13

Management Controls	25
---------------------	----

Follow-Up on Prior Audits	27
---------------------------	----

Appendices

A	Schedule of Questioned Costs	29
B	Auditee Comments	31
C	Distribution	35

Abbreviations:

ACC	Annual Contributions Contract
CFR	Code of Federal Regulations
CHA	Cullman Housing Authority
HQS	Housing Quality Standards
HUD	Department of Housing and Urban Development

(This Page Left Blank Intentionally)

Introduction

The Housing Authority of the City of Cullman, Alabama, is a public corporation organized under the laws of the State of Alabama. Its primary mission is to provide low-income housing for qualified individuals. CHA is governed by a five-member Board of Commissioners (Board) whose members are appointed by the Mayor of Cullman, Alabama. The Board is responsible for setting Authority policy, approving an annual operating budget, and hiring an Executive Director. CHA's Board Chairman is Mr. Ronald Dunn. The Executive Director of CHA is Mr. Larry Entrekin.

HUD's Alabama State Office in Birmingham, Alabama, is responsible for overseeing CHA.

CHA maintains its records at 408 Cleveland Avenue, S.W., Cullman, Alabama. CHA owns and manages four public housing developments consisting of 326 units. Additionally, CHA administers about 72 Section 8 Existing Certificates totaling \$406,652 and 100 Vouchers totaling \$299,150. The Authority received \$353,626 of HUD operating subsidy for fiscal year 1999.

Audit objectives, scope and methodology

Our audit objectives were to determine whether CHA administered its activities in an efficient, effective, and economical manner, and in compliance with the Department of Housing and Urban Development requirements.

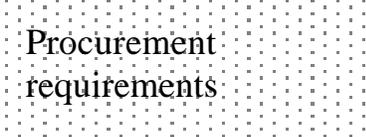
To accomplish the objectives, we tested for compliance with program requirements. We interviewed Alabama State Office of Public Housing program officials, current and former CHA Board of Commissioners, and CHA's staff. We reviewed related CHA files and records. We reviewed the controls and procedures over the contracts awarded for fiscal years 1996 through 1999; reviewed controls and procedures used to account for equipment inventory and for disposing of surplus property; and reviewed and tested tenant selection and Section 8 assistance award procedures. We judgmentally selected the items tested.

Our review generally covered the period January 1996 through May 31, 1999. We extended the periods as necessary. We performed our on-site work from October to December 1999. We conducted our audit in accordance with generally accepted government auditing standards.

(This Page Left Blank Intentionally)

CHA Did Not Follow Proper Procurement Requirements

The Cullman Housing Authority's procurement practices did not comply with Federal procurement and contracting requirements or its own procurement policy. CHA spent \$126,560 for goods and services without adequately documenting the eligibility of the costs. CHA had inadequate controls over its purchase orders; awarded contracts for professional services without documenting the competitive process; and allowed a low bidder to withdraw its bid without proper justification or retaining the \$18,700 bid guarantee. This occurred because CHA's management disregarded requirements. Also, the Board of Commissioners did not adequately monitor the Authority to ensure operations were carried out in an efficient and economical manner. As a result, HUD lacked assurance that CHA obtained goods and services at terms that were most advantageous.



Procurement requirements

The procurement requirements are included in Title 24 Code of Federal Regulations (CFR) 85.36; HUD Handbook 7460.8 REV-1, Procurement Handbook for Public Housing Agencies; and CHA's procurement policy.

Title 24 CFR, part 85.36 (c) (1) requires that all procurement transactions be conducted in a manner providing full and open competition. Part 85.36 (b) (9) requires the grantees to maintain sufficient records to show the significant history of a procurement. The records shall document the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the cost or price. Part 85.36 (f) (1) requires that grantees and subgrantees must perform a cost or price analysis in connection with every procurement action. Paragraph (i) of the section requires that the grantees' and subgrantees' contracts must contain provisions to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Procurement Policy.

HUD Handbook 7460.8 REV-1, paragraph 4-3 (B), Procurement Handbook for Public Housing Agencies and Indian Housing Authorities, requires that for small purchases below \$1,000 only one quotation needs to be solicited if the price received is considered reasonable.

Small purchases must be distributed equitably among qualified sources. If practical, a quotation shall be solicited from other than the previous source before placing a repeat

Finding 1

order. Paragraph 2-6 of the HUD Handbook requires a housing agency to conduct all procurements using full and open competition. An agency must allow responsible sources to compete.

The Authority's procurement policy authorizes the Executive Director to make purchases below \$1,000 by whatever method he deems most advantageous to the Authority. Only one quotation is required, provided the quotation is reasonable. However, CHA's policy did not require that small purchases must be distributed equitably among qualified sources, or if practical, quotations solicited from other than the previous source before placing a repeat order.

Board of Commissioners' responsibilities

HUD's Program Integrity Bulletin, dated November 1990, outlines the Commissioners' responsibilities. Public Housing Authority Commissioners have responsibilities to HUD to ensure national housing policies are carried out, and to the Executive Director and staff to provide sound and manageable directives. The Commissioners are accountable to their locality and best serve it by monitoring operations to be certain that housing programs are carried out in an efficient and economical manner.

Controls over purchase order numbers were not adequate

The Authority's procurement policy states that purchase orders, invoices, check vouchers, or other proof of payment should be used for all purchases and be maintained in an orderly fashion. CHA did not have an effective system to control its purchase orders. CHA did not: (1) properly separate the duties and responsibilities for the purchase orders (the same employee prepared and signed purchase orders for less than \$100); (2) use pre-numbered purchase orders; or (3) verify proper authorization of purchases prior to payment.

CHA's Executive Director created purchase order numbers to make purchases when purchase orders were not obtained for the purchases. For example, we determined that purchases made from Lowe's Home Center (Lowe's) for two security lights using purchase order numbers "408"

and “6737”, identified on the invoices, did not exist. CHA’s Executive Director confirmed that the purchase orders never existed and said that the numbers were used to make after hour purchases requiring purchase orders. He further stated that the numbers were not purchase order numbers, instead the number “408” was the address for CHA’s Administrative Office Building and “6737” may have been part of a CHA’s telephone number. According to the Executive Director, he used the numbers on several occasions. However, because of the weaknesses in the system, we could not identify all purchases made with the created numbers. During the course of review, the Executive Director ordered pre-numbered purchase orders for future use.

Competitive procedures
were not followed or
documented.

As required by Title 24 CFR 85.36, all procurement transactions must be conducted in a manner providing full and open competition; proposals must be solicited from an adequate number of qualified sources; and grantees and subgrantees must perform a cost or price analysis in connection with every procurement action.

CHA contracted services totaling \$126,560, which included architectural (\$65,847), consulting (\$18,085), legal (\$36,688) and accounting (\$5,940), without performing or documenting a cost or price analysis for the contracts. Further, the consulting, legal and accounting services procurements were sole source procurements. CHA did not seek competitive prices or proposals. CHA obtained its architectural and legal services from the same two firms and its consulting services from the same individual from 1996 to 1999.

The result was that CHA routinely purchased goods and services without full and open competition.

Architectural Services Contracts

CHA entered into architectural services contracts with the same architect for each of its modernization projects. It paid the architect \$65,847 from January 1996 to October 1999. CHA used qualification based procurement procedures to obtain the services of the

architect, without considering price as a factor. CHA did not provide any type of cost or pricing analysis for the contracts to support whether the contract prices were reasonable. The Executive Director said that he determined that the contract prices were within HUD guidelines, but he did not document his determinations.

Consulting Services Contracts

In July 1993, CHA entered into two professional services contracts with a consultant. Both agreements were still in effect during our audit. One contract dated July 1, 1993, provided for the consultant to serve as the Modernization Clerk/Secretary. The consultant was responsible for maintaining the financial records and performing all of the secretarial work for the Modernization Programs, as well as any other duties necessary at the discretion of the Executive Director. The contract did not provide a rate or price for the services.

A second contract, dated July 28, 1993, provided for compensating the same consultant at a rate of \$20 per hour, for duties performed on behalf of CHA as set forth by the Executive Director. The consultant agreed to perform the work on an as needed basis. The consultant agreed to substitute for the Executive Director or any CHA employee when requested by the Executive Director. CHA paid the consultant \$18,085 from January 1996 to October 1999.

The Executive Director said that CHA contracted with the consultant because the Authority wanted someone with experience and the consultant had the desired experience. The consultant retired from another housing authority. The Executive Director also said that the consultant's contracts were reviewed by its attorney. The attorney did not identify any problems with the contracts. A Board member said that the

Board did not approve of the consultant substituting for the Executive Director. They were not aware of the details regarding her agreement with CHA. As a result of awarding the contracts non-competitively, without a cost or price analysis and justification, \$18,085 was improperly paid.

Legal Services Contracts

CHA entered into legal services contracts with the same private law firm on an annual basis. The Authority awarded the contracts without seeking competitive prices, proposals, or obtaining HUD's approval as required. The contracts provided for the firm to provide services to CHA as requested, relating to its tenants, contracts, leases, grants, and other general business of the Authority. In addition, the contract provided for the general representation of the Board of Commissioners and the Executive Director regarding the day-to-day operations of CHA. The law firm was paid a monthly retainer of \$150 per month plus \$125 per hour for all services performed from 1996 to 1999. In 1999, the hourly fee increased from \$125 to \$135 per hour. The Authority paid the \$150 monthly retainer without any indication of what, if any, services were performed for the fee. Services billed at the respective hourly rates of \$125 and \$135 were itemized. CHA made payments to the law firm totaling \$36,688 from January 1996 to November 1999.

CHA's Executive Director sent out proposals for legal services after we discussed the situation with him. He agreed that legal services should be obtained competitively, or in the absence of competition obtain HUD's approval for the procurement of the services.

Accounting Services Contract

In September 1999, CHA executed a contract for accounting services with the same accounting firm that performed its annual financial statement audits. CHA awarded the contract without seeking competitive prices or proposals. The contract provided for the firm to convert CHA's accounting system to a Generally

Accepted Accounting Principles basis. Although the conversion was completed, the contract did not have a maximum price or amount for the services. The contract provided the firm \$75 per hour for services plus actual travel expenses. CHA made one payment to the accounting firm for \$5,940. The accounting firm's billing was not in accordance with the contract. The billing only showed a lump sum amount of \$5,940 without itemizing the hours billed or travel expenses.

In addition, the contracts for the consulting, legal and accounting services did not include the required provisions pertaining to rights for record examination and record retention. As a result, we have no assurance that the services obtained were at terms most advantageous to the Authority.

CHA allowed a low bidder to withdraw its bid without retaining the bid guarantee

CHA allowed a low bidder to withdraw its bid and did not retain the bid guarantee of \$18,700. The contractor had the lowest bid of \$374,000 for a Comprehensive Grant Program construction project. The contractor stated he withdrew the bid based on an error made in the bid formulation. However, the contractor did not identify the error in the bid. CHA's files did not include adequate justification to support the decision to allow the bidder to withdraw its bid. Therefore, CHA should have attempted to obtain performance of the contract or retained the bid guarantee.

HUD Handbook 7460.8 REV-1 sets forth requirements for obtaining bid guarantees and provides procedures to be followed when the low bidder is allowed to withdraw a bid. Paragraph 4-14 (D) states that under the "firm bid" rule, one of the principles upon which sealed bidding is based, the bidder is legally bound by the bid, as submitted, after the bids have been opened. The only exception to this rule is an obvious mistake in the bid, such as a misplaced decimal. Paragraph 4-15 (F) further provides that withdrawal of a bid is permissible where there is an obvious error in the lowest bid, such as a math error or misplaced decimal, but the mistake must be readily apparent from the bid itself. A bidder may be permitted to withdraw a low bid if a mistake is clearly evident on the face of the bid document, but the intended correct bid is not

similarly evident, or the bidder submits written supporting evidence before allowing withdrawal by the bidder. If withdrawal is allowed by the housing authority, it should be without forfeiting the bid bond, upon verification of the error. Paragraph 4-15 (J) states that decisions to allow correction or withdrawal of mistakes in bids must be properly documented in the contract file. As a minimum, the Contracting Officer shall prepare a written determination, citing the reasons. Paragraph 4-16 (A) (2) states that if the contractor does attempt to renege on the contract, the surety for the bond is required to step in and take over performance of the contract, or the check tendered (bid guarantee) may be cashed.

The contract bids were opened and presented to the Board of Commissioners on November 16, 1999. The Board had questions about the bids and the contractors. Therefore, the contract was not awarded at that time, instead the Board required the Architect to satisfy its questions and report back for the final awarding of the contract. On December 9, 1999, the lowest bidder submitted a letter to CHA requesting to withdraw the bid because of an error in the bid formulation. However, the contractor did not identify the error in the bid. Based on the letter, the Board awarded the contract to the second lowest bidder for \$389,400.

The Architect said that it has been HUD's accepted industry practice for over 30 years to allow the Board of Commissioners of each local Authority to accept or deny the explanation of a bidder who requests release from a bid. He further said that HUD allowed each Board the discretion whether to retain or not retain the bid guarantee. However, the HUD Handbook permits the lowest bidder to withdraw the bid when specific criteria is met and it requires the Contracting Officer, as a minimum, to document the files with a written determination justifying the decision. CHA files did not include a determination explaining why the lowest bidder was not required to perform the contract or why the bid guarantee was not retained.

* * * * *

Overall, the deficiencies occurred because CHA staff did not adhere to the requirements, lacked knowledge of certain requirements, and the Board failed to adequately monitor the Authority's operations. The Board granted the Executive Director complete authority to make procurement decisions with little or no oversight.

In summary, CHA did not effectively manage its procurement function. Procurements were made without evidence of proper planning and authorization. Also, there was no assurance that goods and services were procured at the most favorable prices to CHA.

Excerpts from CHA's comments on our draft findings follow. Appendix B contains the complete text of the comments.

CHA comments

CHA generally agreed with the finding. The Authority was closed when the purchase order numbers were created. During any given fiscal year the Authority will issue 1,000 or more purchase orders covering purchases of maintenance materials. Only two did not have proper purchase order numbers, .002 percent of the total purchase orders. If the Authority had been open, these numbers would not have been needed. In the future, the Authority will review all purchase orders issued to ensure correctness of the numbers.

The Authority will closely follow the procurement procedures outlined in its procurement policy and other regulations as applicable.

OIG response

Because of the weakness in the Authority's purchase order system, we could not identify all purchases made with the created numbers. During the course of the review, the Executive Director ordered pre-numbered purchase orders for future use.

CHA is in the process of implementing steps toward correcting its procurement deficiencies. We believe these actions will bring about improvement in its procurement function.

Recommendations

We recommend that you require CHA to:

- 1A. Implement its procurement policies and procedures for purchase order administration to ensure proper oversight and effective monitoring of purchases.
- 1B. Properly segregate the duties over purchasing, so that the duties pertaining to authorization, payment, and receiving are not performed by the same individual.
- 1C. Submit for your review and approval policies and procedures on procurement and contract administration to ensure compliance with 24 CFR 85.36 and other HUD requirements.
- 1D. Advise the Board of Commissioners of their duties and responsibilities to ensure proper oversight and effective monitoring of the Authority.
- 1E. Obtain justification from the bidder explaining the bid error or reimburse the \$18,700 bid guarantee from non-Federal funds.

(This Page Left Blank Intentionally)

Internal Control Procedures Were Inadequate

The Cullman Housing Authority failed to maintain an adequate system of internal controls to safeguard its assets. The Authority did not adequately segregate duties over its assets. The Executive Director commingled business and personal affairs that resulted in CHA making payments of \$4,572 for cellular telephone charges which included charges incurred by the Executive Director's son and for the Executive Director's personal cellular phone. The Authority also made monthly payments for a storage building without a written contract which the Executive Director's son used. In addition, CHA did not: (1) properly select applicants for its housing units and paid ineligible housing assistance payments totaling \$4,115; (2) safeguard its equipment; (3) ensure controls were adequate to properly dispose of its surplus assets; (4) support cost allocations; and (5) obtain adequate fidelity bond coverage. This occurred because CHA officials lacked knowledge of certain requirements, and the Board of Commissioners did not effectively carry out its responsibilities. Also, the Executive Director was excessively involved in the Authority's decision making. As a result, HUD lacked assurance that CHA's resources were used to the maximum extent to benefit its residents.

Improper segregation of duties

CHA did not adequately segregate duties over its assets. The Executive Director performed various activities without adequate internal checks and balances. For example, the Executive Director had complete control over the Authority's assets. The Executive Director controlled the purchasing, receiving and disposing of assets. He signed and prepared checks; initiated and signed purchase orders; received goods; authorized accounting entries; and set the prices for and disposed of equipment. This occurred because the Executive Director was excessively involved in the Authority's decision making, and did not adequately delegate duties and responsibilities, as cited in a HUD on-site review. The HUD Alabama State Office performed an on-site review of the Authority in February and March 1998. The HUD Office observed that the Executive Director maintained an excessive amount of control and responsibility for the program administration and decision making. In addition, the Board of Commissioners did not effectively carry out its responsibilities. Proper internal controls should preclude the Executive Director from having access to various assets without internal checks and balances. As a result, CHA unnecessarily increased its susceptibility to program abuse.

HUD Handbook 7510.1G, Section II (3) states in part that effective control and accountability must be maintained for all cash, real and personal property, and other assets. The housing authority must adequately safeguard all such property and must assure that it is used solely for authorized purposes. The control techniques used to establish and maintain the system of internal controls include such things as separation of duties so that no one staff member has complete control over an asset and clearly defined staff responsibilities and job accountability.

The Executive Director commingled business and personal affairs

The Executive Director commingled CHA's affairs with his personal affairs. As a result, CHA made ineligible payments for cellular telephone charges and made monthly payments for a storage building without a written agreement.

CHA paid the cellular telephone costs for charges incurred by the Executive Director's son and for the Executive Director's personal cellular phone. Although the Executive Director reimbursed CHA monthly for the personal phone charges, the costs were not eligible expenses. CHA made payments to the cellular telephone provider totaling \$4,572 from January 1998 to December 1999. CHA files did not include adequate documentation to show whether the cellular phone usage was related to CHA business. The billings did not provide sufficient detail, such as phone numbers and locations of calls, etc., to identify CHA and non-CHA related calls.

Therefore, the Executive Director said the vendor was analyzing the calls to identify specific calls made by his son. Once the total amount is determined, he will pay CHA for the charges incurred by his son. He said his son mistakenly took the CHA cellular phone out of town thinking it was the Executive Director's personal cellular phone. He also said that he would have his personal cellular phone bills come directly to him for payment, rather than reimbursing CHA for the payments. The service for the phone mistakenly used by his son was canceled.

In June 1999, CHA made two cellular phone payments totaling \$978, which included \$693 of charges the Executive Director identified as possible charges incurred by his son. As a result, HUD and CHA lack assurance that funds were used properly.

Section 9 of the Annual Contributions Contract (ACC) requires that Housing Authorities may withdraw funds from the General Fund only for the payment of the costs of development and operation of projects under ACC with HUD.

In addition, the Authority obtained and paid for a storage building without a written agreement. CHA did not have a cost or price analysis relating to the procurement, and CHA's records did not document the necessity for the rental or the reasonableness of the rental rate paid. At various times, the Executive Director allowed his son to use and pay the owner for the same storage building. We observed that the storage building did contain property of the CHA.

Part 85.36 (f) (1) requires that grantees and subgrantees must perform a cost or price analysis in connection with every procurement action.

Procedures over
tenant placement
needs improvement

The Authority did not properly select applicants for its housing units. Also, payments were made for Section 8 units that did not meet Housing Quality Standards (HQS). As a result, eligible families were not timely provided housing assistance and tenants were deprived of decent, safe, and sanitary housing.

For 2 of 20 applicants who received conventional housing from November 1, 1998, to January 31, 1999, we determined that the applicants applied for housing one day and moved in the next day. There were 18 applicants ahead of one and 13 applicants ahead of the other, for the same size bedroom units when they moved into CHA housing. The applicants applied on December 28 and 29, 1998, respectively. Other eligible applicants were on CHA's waiting list with applications dating back to June 6, 1997.

HUD Handbook 7465.1, Public Housing Occupancy Handbook, paragraph 5-7 (a) states that in filling an actual or expected vacancy, the Public Housing Authority must offer the dwelling to an applicant needing that size and type of unit in that type of project. The Authority must make the offer in sequence until someone accepts it, in the order of the applicants' priority, based on the Public Housing Authority's tenant selection preferences and the date and time of application.

In addition, between November 1, 1998, to January 31, 1999, we determined that two of five applicants received Section 8 assistance prior to other eligible applicants with earlier application dates.

Title 24 CFR, parts 982.202 and 982.204 regarding HUD's Section 8 Programs states that except for special admissions, participants must be selected from the Authority's waiting list in accordance with HUD regulations and other requirements, and admission policies in the Housing Authority administrative plan. The Housing Authority admission policy must state the system of admission preferences that the Authority uses to select applicants from the waiting list, including any federal preferences, local preferences, and residency preference.

CHA did not have a tenant selection preference for its conventional or Section 8 Programs. The applicant's position on the waiting list was based on the date and time of the application.

Therefore, offers should have been made sequentially from the waiting list in the order of the date and time of the application.

The Executive Director said he favored one applicant over the others because he had compassion for the applicant. The applicant was recently released from the hospital and needed a place to stay; as a result, CHA offered him housing immediately.

The Administrative Assistant said attempts were made to contact some of the applicants; however, due to various reasons they were not offered housing. He could not explain why the other applicants were not offered housing.

Further, we determined that CHA allowed two Section 8 tenants to move into units that did not meet HQS. As of December 1, 1999, CHA had paid ineligible housing assistance payments totaling \$4,115 for substandard units. One unit still has not passed the HQS inspection; however, CHA continues to make the housing assistance payments. The HQS violations include a broken storm window in the living room, GFI plugs needed in the kitchen and bathroom, missing smoke detector in the dining room, and repair or replace the front door. The Authority also continues to make housing assistance payments on another unit that has not met HQS from inception to the time of our audit. The HQS violations include a missing GFI plug in the bathroom and no smoke detectors. As a result, CHA paid \$4,115 of ineligible housing assistance payments for substandard units.

Title 24 CFR, parts 882.108 (a) and 982.1 (a) require that Section 8 dwelling units be decent, safe, and sanitary. Part 982.401 (a) (3) states that all program housing must meet the HQS performance requirements both at commencement of assisted occupancy, and throughout the assisted tenancy.

CHA staff said that deficiencies in the operation of its Section 8 Programs were caused by the prior Section 8 Coordinator. The Authority staff agreed that improvements were needed in this area. Also, CHA staff said it was improving the procedures to ensure that Section 8 housing payments were not made for units with HQS violations.

Inventory records
were not properly
maintained

CHA did not maintain adequate perpetual inventory records of its equipment. We conducted spot inspections on 13 items and could not trace 11 of the items to CHA's inventory records. The items consisted of one refrigerator, three stoves, two electric generators, two heaters, two televisions and one video recorder. In addition, three of the items did not have the CHA inventory bar code label attached, or any markings identifying the equipment as CHA's. We also determined that of the 12 grills identified one was missing and another one was "on loan" to another agency. As a result, HUD has no assurance the equipment inventory was properly accounted for or safeguarded against loss, misuse, theft, or waste.

Section 15 of the ACC requires Housing Authorities to maintain complete and accurate books of accounts and records. Records must be kept of all personal property, including an annual inventory of equipment.

The Executive Director said the televisions and video recorder were not included in CHA's inventory because the cost was below the \$300 capitalization value. Also, due to various errors the other equipment was not properly included in CHA's inventory.

We obtained a copy of CHA's report identifying the inconsistencies between its inventory records and its physical inspection results. The report identified equipment that was:

- physically inspected; however, was not included on its inventory records;
- included in its inventory, but not located at the Authority; and
- located in different places from what was shown on its inventory records.

According to CHA's staff, inconsistencies were identified annually; however the causes for the inconsistencies were not addressed and the inventory results were not corrected.

The Executive Director agreed that CHA's inventory records were inaccurate. He said that the Authority would conduct a physical inspection of its property and equipment and adjust the records to reflect the actual results. He further stated that he would require the fee accountant, who provided the computer software and inventory procedures used to perform its inventory, to review the computer programs and procedures to determine the causes of the inaccuracies. Also, CHA will take the necessary actions to correct the inaccuracies and the causes for the recurring inaccuracies.

On September 14, 1999, CHA increased its capitalization value from \$300 to \$500. The Executive Director said that equipment valued below the capitalization amount such as televisions, video recorders, and grills, would be marked to

identify the items as property of the Authority. He also stated that CHA will start maintaining a list of its equipment and identify its location.

As a result of CHA not properly reconciling its physical inventory count to its book and records, and following up on the differences between the books and the actual count, there was no assurance that equipment was adequately safeguarded.

Inadequate disposition
controls:

CHA did not have adequate controls to ensure that its assets were properly disposed of and the best possible price was obtained for the disposals. CHA sold or gave away appliances without proper Board approval. The Board minutes documented general approval of items for disposal; however, specific items were not identified. As a result, CHA was unable to account for, or identify, assets disposed of. Also, CHA did not have adequate assurance that its assets were disposed of at the most favorable prices.

The Authority's disposition policy states that: (1) goods that can be written off, sold or traded must have Board approval for disposition prior to disposition; (2) goods which have become surplus, obsolete or unusable and have current values, shall not be sold or exchanged for less than their fair market value. Personal property in excess of the estimated fair value or \$1,000 shall be sold at public sale. The award shall be made to the highest bidder; (3) goods that have no real or scrap value shall be written off. Goods which have a value of \$350 or more shall be advertised and sold; and (4) the Authority shall maintain complete records relating to the disposition of all excess property.

The Board gave the Executive Director complete control over the disposition of assets. The Executive Director arbitrarily set amounts for the disposed items and gave items away. The disposed appliances were not always identified by serial or model numbers. The only records maintained for a disposal was a copy of the receipt from the sale proceeds. Some of the serial numbers were identified on the receipt. However, CHA could not identify the items given away. This data is needed to

CHA did not support its cost allocations

accurately adjust the Authority’s inventory records and substantiate the disposition. Due to the lack of accountability, we cannot determine the extent of the inadequate disposition.

CHA did not support the allocation of indirect costs for its programs. Neither the Executive Director nor the Administrative Assistant could explain the basis for allocating their salaries between the various programs. However, CHA operates three HUD programs and manages and collects rents for three units owned by Cullman Affordable Housing. As a result, neither HUD nor CHA had assurance that the indirect costs charged to the Authority’s various programs were adequately supported.

Title 24 CFR, part 85.22 (b) requires that State, local, and Indian tribal governments follow Office of Management and Budget Circular A-87, Cost Principles for State and Local Government.

Office of Management and Budget Circular A-87, Attachment A, states in part that State, local, and Federally-recognized Indian tribal governments shall establish principles to provide that Federal awards bear their fair share. Further, Attachment C of the Circular states in part that governments need a process whereby costs can be assigned to benefited activities on a reasonable and consistent basis. The cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that support the propriety of the costs assigned to Federal awards.

CHA’s budget for fiscal year ending September 30, 2000, showed that salary costs for the Executive Director and the Administrative Assistant were allocated between different programs. The salaries for the other employees were not allocated between the programs. The budget showed the following allocations:

<u>Employee</u>	<u>Management</u>	<u>Modernization</u>	<u>Section 8 Programs</u>
Executive Director	57%	19%	24%
Administrative Assistant	90%		10%

CHA did not have documentation to support the cost allocations. The Executive Director said the Fee Accountant determined how costs were allocated.

Fidelity bond coverage was not adequately supported

CHA did not have fidelity bond coverage for the Board Vice Chairperson, who is one of the Authority's check signers. In addition, CHA did not have support to verify the adequacy of the fidelity bond coverage for its employees.

The ACC, Part B, Attachment VII, Section 1, states that employee dishonesty insurance coverage is mandatory for all housing authorities. HUD Handbook 7401.5G, Public and Indian Housing Property/Casualty Insurance, Chapter 8 provides guidance on employee dishonesty coverage. Paragraph 8-13 states that the recommended minimum limit is based on the cash flow of the authority. The Department has developed a work sheet to measure the cash flow from which the required minimum limit is determined. The work sheet, Form HUD-5462, is included in the handbook.

CHA did not have criteria to support the adequacy of the fidelity bond coverage for its employees. The Authority relied on its independent auditor to determine the adequacy of its coverage. The auditor used the amount of fidelity bond coverage from other housing authorities in Alabama as the criteria for determining the adequacy of CHA's coverage

The Executive Director said he believed the coverage for the employees was not adequate. Therefore, he contacted the insurance company and requested an increase in the coverage for the employees and included the Vice Chairperson. The Executive Director increased the coverage for the check signing positions from \$100,000 to \$200,000 and the employees from \$25,000 to \$60,000. However, based on the cash flow of the Authority, the minimum bond limit for its employees was \$75,000. As a result, CHA employees were under insured by \$50,000 and remain under insured by at least \$15,000.

* * * *

In summary, establishing or improving internal controls is a crucial area of sound management. Internal controls should provide reasonable assurance fraud and abuse are prevented or detected. Internal controls should not be viewed as a reflection upon the honesty of employees responsible for overseeing disbursements of funds, but as a protective measure for establishing responsibility and accountability. Internal controls include such matters as documenting procedures, segregating duties, and maintaining adequate records. Inadequate internal controls increased the risk that cash and other assets could be diverted without proper detection, and resources were not effectively and efficiently used.

Excerpts from CHA's comments on our draft findings follow. Appendix B contains the complete text of the comments.

CHA comments

CHA generally agreed with the finding. The Authority will contact the HUD Office for guidance in establishing policies and procedures to be adopted that will ensure segregation of duties and responsibilities. Also, CHA will closely follow its disposition policy on future disposition of equipment.

OIG response

We believe CHA's action will strengthen controls over its procurement function.

Recommendations

We recommend that you require CHA to:

2A. Ensure the Board of Commissioners establishes and implements policies segregating the duties of the Executive Director among various employees. No employee should have complete control over a program area. The duties should be segregated to provide checks and balances on all work.

2B. Analyze the cellular phone charges for the past 2 years and provide support that all charges were necessary and reasonable for the operation of CHA or repay the \$4,572. All unsupported charges identified, including charges made by the Executive

Director's son, should be reimbursed from Executive Director's personal funds.

- 2C. Properly procure the storage building and document the necessity and reasonableness of the storage rate.
- 2D. Establish and implement policies and procedures for tenant selection to ensure compliance with HUD Handbook 7465.1 and Title 24 CFR 982.
- 2E. Repay the \$4,115 of ineligible housing assistance payments made for the units that did not meet HQS.
- 2F. Re-inspect the Section 8 units identified and require the owners to correct all of the HQS violations for the units.
- 2G. Update, reconcile and explain the differences between its actual inventory and the inventory records.
- 2H. Establish and implement policies and procedures which outline the proper steps required to control and account for its inventory.
- 2I. Implement its disposition policies and procedures.
- 2J. Maintain documentation to adequately identify assets when they are disposed of.
- 2K. Maintain documentation to support cost allocations in accordance with the Office of Management and Budget Circular A-87.
- 2L. Ensure fidelity bond coverage is sufficient based on the Authority's analysis of cash flow and exposure in accordance with HUD Handbook 7401.5G. Also, ensure that the Vice Chairperson is included on the fidelity bond coverage.

(This Page Left Blank Intentionally)

Management Controls

In planning and performing our audit, we considered CHA's management controls to determine our audit procedures and not to provide assurance on those controls. Management is responsible for establishing effective management controls to ensure that its goals are met.

Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

We determined the following management controls were relevant to our audit objectives:

- Compliance with Laws and Regulations
- Procurement and Contracting
- Safeguarding Resources
- Tenant Selection

We evaluated the relevant controls in place. To the extent possible, we obtained an understanding of CHA's procedures and HUD's requirements, assessed controls risk, and performed various substantive tests of the controls.

Significant Weaknesses

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed.

Based on our review, we believe CHA had significant weaknesses in the management controls tested. The specific weaknesses are discussed in the findings.

(This Page Left Blank Intentionally)

Follow-Up on Prior Audits

Our prior audit report (97-AT-202-1807) dated April 30, 1997, did not include any findings.

The last Independent Auditor's audit report was completed by Moody & Morgan, P.C., Certified Public Accountants, for the fiscal year ended September 30, 1998. The report was issued February 11, 1999, and contained one finding. Finding 98-1 related to CHA failing to calculate a Section 8 resident's subsidized rent properly. This issue was resolved at the time of our review.

(This Page Left Blank Intentionally)

Schedule of Questioned Costs

Recommendation	Ineligible ¹	Unsupported ²
1E		\$ 18,700
2B		4,572
2E	<u>\$ 4,115</u>	_____
Totals	<u>\$ 4,155</u>	<u>\$ 23,272</u>

¹ Ineligible costs are not allowed by law, contract, HUD or local agency policies or regulations.

² Unsupported costs are not clearly eligible or ineligible but warrant being contested because of the lack of documentation supporting the need to incur such costs.

(This Page Left Blank Intentionally)

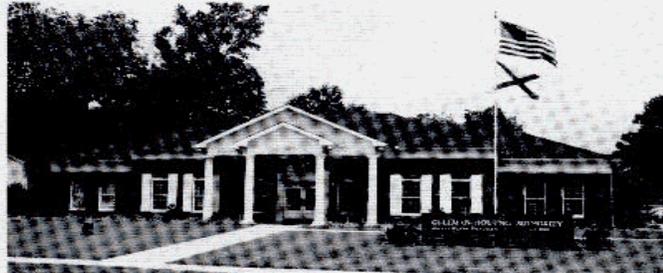
Auditee Comments

CULLMAN HOUSING AUTHORITY

ENTREKIN ADMINISTRATION BUILDING
Telephone 256-734-6171
Fax 256-737-0533

408 Cleveland Avenue, S.W.
Post Office Box 487
Cullman, Alabama 35056-0487

Larry J. Entrekin
EXECUTIVE DIRECTOR



August 1, 2000

Mrs. Nancy H. Cooper
District Office of the Inspector General
U.S. Department of Housing & Urban Development
Office of Audit, Box 42
Richard B. Russell Federal Building
75 Spring Street SW, Room 330
Atlanta, GA 30303-3388

Dear Mrs. Cooper:

Enclosed you will find our replies to the findings concerning the audit recently performed by Mr. Herman Stewart of your office. After writing these replies, we found some documentation, which was misplaced by previous auditors, to support these replies and which we have included for your review. I am grateful to you for extending our time in answering the findings, due to the fact that this is a very busy time of the year, with employees being off for vacation, sickness or personal reasons. We certainly hope and pray that this will clear this matter expeditiously. If you have any questions, please do not hesitate to contact me.

Sincerely,

Larry J. Entrekin
Executive Director

LJE/ks

enclosures

Reply to Finding Number 1a

The housing Authority office was closed when the purchase orders numbers were created. Maintenance employees were called out on two after hour calls, materials were needed to complete the service calls. Vendors in the locality require purchase order numbers on commercial accounts; therefore since the housing authority office was closed, a number had to be assigned to the purchased in order for the maintenance personnel to get these materials. Maintenance personnel have been instructed to use the phone number or street address of the housing authority. In both instances one or the other number was used on these purchases; however, thru oversight the authority failed to issue a purchase order number the following work day in each instance. During any given fiscal year the authority will issue 1,000 or more purchase orders covering purchases of maintenance materials, only two not having proper purchase order numbers .002 percent of total purchase orders not having correct numbers. If the authority office had been open, these numbers would not have been needed.

In the future the authority will review all purchase orders issued to ensure correctness of the numbers. We have also issued a blanket purchase order to local vendors on a monthly basis where purchases of nature can be obtained without having to use such numbers as per recommendation from representatives of your office.

Reply Finding Number 1b

Architectural – In all modernization projects the authority has secured proposals from architects interested in the modernization work at the authority. The authority files are documented with newspaper clippings and copies of letters sent to architects expressing interest in this work. Architectural services are secured by projects. Proposals were obtained for Project A152-4 and it covered two modernization phases; therefore the same architect was used for the second phase, as this was a continuation of the modernization of A152-4. We saw no need to secure architectural services for the second phase as it was a continuation to the first phase and the fee for the services did not exceed HUD Guidelines.

Consulting – The Board of Commissioners wanted a person outside of the authority to assist the Executive Director in conjunction with recording minutes at board meetings and controlling modernization funds and payments. The Board also wanted this person to have previous housing authority experience in these areas. The Executive Director was able to locate one retired Executive Director living in the Cullman area. This person agreed to work for a fixed hourly basis and the authority attorney prepared and executed a contract for these services. Each payment to this consultant is documented with an invoice for services rendered.

Legal – The authority files are documented with proposals from three other law firms. The authority attorney hourly rates and monthly retainer does not exceed rates charged by other law firms.

Accounting – Under current HUD requirements the Authority has to convert its books and records from HUD Accounting to GAAP Accounting. We contacted with our auditor who had recently completed the audit of our books and records to perform the GAAP conversion of the books and records. The reasoning for this decision to go with the auditor was he was familiar with our records and could perform the expedience conversion and at a reasonable rate. Furthermore, the timing of the HUD requirement concerning GAAP conversion and the due date of REAC reports made necessary for a timely conversion. For these reasons the authority decided to use the auditor to perform these services.

From discussions with other authorities, this payment was in line with amounts they paid for GAAP conversion services.

In the future the authority will closely follow the procurement procedures outlined in its procurement policy and other regulations as applicable.

Reply to Finding Number 1c

The Authority files are documented with pertinent information concerning the withdrawal of lowest bidder. A copy is attached to these replies.

Reply to Finding Number 2**2A:**

The Executive Director does not prepare checks or receive goods. The Executive Director does approved purchase orders and the payment of bills. The Executive Director and the Chairman or another commissioner signs checks in absence of the Chairman. All checks have invoices attached for review by the Chairman. A fee accountant maintains all books and records including reconciliation of general fund bank accounts.

The authority will contact the HUD Office for guidance in establishing policies and procedures to be adopted by the authority board that will ensure segregation of duties and responsibilities.

2b. All funds questioned in this finding has been reimbursed to the authority. A detailed analysis has been conducted for the past two years on this matter. No further personal calls were detected. The cellular phone will not be used for personal use in the future.

2c. The authority has obtained a contract for the storage building and it will be used only for authority use. A copy is attached to these replies.

2d. A procedure has been implemented whereby each application is date and time stamped at time application is made and a waiting list is made of those who qualify. Units are now being rented in accordance with HUD Handbook requirements.

2e. The authority will repay the ineligible housing assistance payments in the amount of \$4,114 from the unused administrative reserves of the program.

2f. The authority has re-inspected units in question and all deficiencies have been corrected

2g. The authority has updated its computer software whereby inventory records can be correctly maintained. Authority personnel are now inputting into the system all inventory of materials and equipment. A physical is being taken of all inventory items and will be reconciled to the inventory records.

2h. The authority has assigned one employee the responsibility for receiving and controlling inventory as well as maintain inventory records.

2i. The authority is unable to locate in its records where equipment was given away. Our records indicate that identification numbers were on sales receipts of equipment sold. The Executive Director was given approval by the board to dispose of these items. Items were sold to individuals since the small number of equipment items disposed did not warrant mass sale.

The authority will closely follow its disposition policy on future disposition of equipment.

2j. Documentation is on file to adequately identify assets when sold.

2k. Time records are now being maintained on employee working on all programs. These records are used for cost allocations between programs.

2l. The Authority has increased it fidelity bond coverage which adequately covers its cash flow and will monitor going forward its cash flow making changes as needed in its fidelity bond coverage. The Vice Chairman is now on the fidelity bond.

(This Page Left Blank Intentionally)

Distribution

Executive Director, Cullman Housing Authority, Cullman, Alabama
Deputy Secretary, SD (Room 10100)
Chief of Staff, S (Room 10000)
Special Assistant to the Deputy Secretary for Project Management, SD (Room 10100)
Acting Assistant Secretary for Administration, S (Room 10110)
Assistant Secretary for Congressional and Intergovernmental Relations, J (Room 10120)
Senior Advisor to the Secretary, Office of Public Affairs, S (Room 10132)
Deputy Assistant Secretary of Administrative Services/Director of Executive Secretariat, AX
(Room 10139)
Director of Scheduling and Advance, AL (Room 10158)
Counselor to the Secretary, S (Room 10234)
Deputy Chief of Staff, S (Room 10226)
Deputy Chief of Staff for Operations, S (Room 10226)
Deputy Chief of Staff for Programs and Policy, S (Room 10226)
Director, Office of Special Actions, AK (Room 10226)
Deputy Assistant Secretary for Public Affairs, W (Room 10222)
Special Assistant for Inter-Faith Community Outreach, S (Room 10222)
Executive Officer for Administrative Operations and Management, S (Room 10220)
Senior Advisor to the Secretary for Pine Ridge Project, W, (Room 10216)
General Counsel, C (Room 10214)
Director, Office of Federal Housing Enterprise Oversight, O (9th Floor Mailroom)
Assistant Secretary for Housing/Federal Housing Commissioner, H (Room 9100)
Office of Policy Development and Research, R (Room 8100)
Inspector General, G (Room 8256)
Assistant Secretary for Community Planning and Development, D (Room 7100)
Assistant Deputy Secretary for Field Policy and Management, SDF (Room 7108)
Government National Mortgage Association, T (Room 6100)
Assistant Secretary for Fair Housing and Equal Opportunity, E (Room 5100)
Chief Procurement Officer, N (Room 5184)
Assistant Secretary for Public and Indian Housing, P (Room 4100)
Chief Information Officer, Q (Room 3152)
Director, Office of Departmental Equal Employment Opportunity, U (Room 5128)
Director, Office of Departmental Operations and Coordination, I (Room 2124)
Chief Financial Officer, F (Room 2202)
Director, HUD Enforcement Center, X, 1250 Maryland Avenue, SW, Suite 200
Director, Real Estate Assessment Center, X, 1280 Maryland Avenue, SW, Suite 800
Director, Office of Multifamily Assistance Restructuring, Y, 1280 Maryland Avenue, SW, Suite
4000
Deputy Chief Financial Officer for Finance, FF (Room 2202) (2)
Director, Office of Budget, FO (Room 3270)

Distribution

Secretary's Representative, 4AS
State Coordinator, Alabama State Office, 4CS
Director , Office of Public Housing, 4CPH
Audit Liaison Officer, 3AFI
Audit Liaison Officer, Office of Public and Indian Housing, PF (Room P8202)
Departmental Audit Liaison Officer, FM (Room 2206)
Acquisitions Librarian, Library, AS (Room 8141)
Counsel to the IG, GC (Room 8260)
HUD OIG Webmanager-Electronic Format Via Notes Mail (Cliff Jones@hud.gov)
Public Affairs Officer, G (Room 8256)
Director, Housing and Community Development Issue Area, U.S. GAO, 441 G Street N.W.,
Room 2474, Washington DC 20548 ATTN: Judy England-Joseph
The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs,
United States Senate, Washington DC 20510-6250
The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs,
United States Senate, Washington DC 20510-6250
The Honorable Dan Burton, Chairman, Committee on Government Reform,
United States House of Representatives, Washington DC 20515-6143
The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform,
United States House of Representatives, Washington, DC 20515-4305
Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212,
O'Neil House Office Building, Washington, DC 20515-6143
Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17th Street, NW,
Room 9226, New Executive Office Bldg., Washington, DC 20503
Sharon Pinkerton, Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug
Policy and Human Resources, B373 Rayburn House Office Bldg., Washington, DC 20515

