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# AUDIT REPORT



## INDEPENDENCE HOUSING AUTHORITY INTERNAL CONTROL REVIEW

INDEPENDENCE, MISSOURI

01-KC-202-1001

OCTOBER 24, 2000

OFFICE OF AUDIT, GREAT PLAINS  
KANSAS CITY, KANSAS

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Issue Date	October 24, 2000
Audit Case Number	01-KC-202-1001

TO: Andrew L. Boeddeker, Director, Office of Public Housing, 7APH

FROM: Roger E. Niesen, District Inspector General for Audit, 7AGA

SUBJECT: Housing Authority of Independence  
Internal Control Review  
Independence, Missouri

We completed an audit of the Housing Authority of Independence. We selected the Authority based on input from HUD that indicated the Authority lacked adequate internal controls. The overall objectives of our audit were to evaluate the Authority's internal controls and to determine whether the Authority complied with applicable laws and regulations.

We found that the Authority did not always have policies and procedures for its operations; and where policies and procedures did exist, they were not always complete, approved by the Board of Commissioners, or enforced. We identified deficiencies in the Authority's control over its assets, procurement process and Section 8 program; and determined the Authority had not resolved deficiencies in its financial statements for fiscal year ended March 31, 1999. We also determined the Board of Commissioners had not always complied with a State statute, and that the Authority needs to improve its human resources function.

Within 60 days please give us, for each recommendation in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or you staff have any questions, please contact me at (913) 551-5870.

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# Executive Summary

We completed an audit of the Housing Authority of Independence. We selected the Authority based on input from HUD that indicated the Authority lacked adequate internal controls. The overall objectives of our audit were to evaluate the Authority's internal controls and to determine whether the Authority complied with applicable laws and regulations related to disbursements, receivables and cash, procurement, inventory, investments, human resources, grant administration, Board of Commissioners' oversight, application processes, public housing evictions, maintenance, and the management information system. We assessed the Authority's efforts to resolve deficiencies identified in its financial statement audit for fiscal year ended March 31, 1999. We also assessed the Authority's actions regarding a Section 8 Management Review conducted by HUD in 1999, and two consultant reviews also conducted in 1999. Further, we evaluated the Authority's compliance with the "Housing Opportunity Program Extension Act of 1996."

We found that the Authority did not always have policies and procedures for its operations; and where policies and procedures did exist, they were not always complete, approved by the Board of Commissioners, or enforced. Also, the Authority lacked an acceptable system of controls over its assets; did not resolve deficiencies identified in its financial statement audit for fiscal year ended March 31, 1999; did not ensure Board of Commissioners meetings complied with a Missouri statute; lacked adequate controls over its procurement process; and lacked an acceptable system of controls over its Section 8 program. Further, the Authority needs to improve its human resources function.

Because of the lack of controls, HUD has minimal assurance the Authority adequately controlled its operations and conducted business in the most efficient and effective manner.

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## Authority Lacked Policies and Procedures

The Authority did not always have written policies and procedures for its operations. Additionally, when policies and procedures did exist, they were not always complete, approved by the Board of Commissioners, or enforced (see Finding 1).

## Authority Lacked Control Over Assets

The Authority did not have an acceptable system of controls over its assets. The Authority did not: (1) have adequate policies and procedures for investments, (2) properly disclose or monitor its investments; (3) segregate duties for the collecting, recording and depositing of receipts; (4) segregate duties for the control of its fixed asset inventory; and (5) maintain documentation to support its physical inventory count and valuation of fixed asset inventory (see Finding 2).

## Authority Did Not Resolve Deficiencies in Financial Statements

The Authority did not resolve deficiencies identified in its financial statement audit for fiscal year ended March 31, 1999. The independent auditor reported that the account

balances for three tenant-related subsidiary accounts did not agree with the general ledger account balances at the end of the fiscal year (see Finding 3).

Board of Commissioners  
Did Not Always Comply  
with Missouri Statute

The Authority's Board of Commissioners did not always comply with regulations of a Missouri statute that governs the conduct of public meetings. For example, the Board discussed issues in closed sessions that were not appropriately identified, or identified at all, in the notices of public meetings. The Board also conducted business in a way that could be perceived as improper. For example, the Board held closed sessions on days other than when holding regular or special Board meetings, and conducted telephone voting polls outside of Board sessions to make decisions on Authority business (see Finding 4).

Authority Needs to  
Improve Controls Over  
Procurement

The Authority did not have adequate controls over its procurement process. Specifically, the Authority did not: 1) require adequate competition; 2) develop formal independent cost estimates to evaluate bids received; 3) formally delegate authority for making purchases; 4) use contracts for goods and services that protected its interests; 5) use written contract modifications; 6) adequately document procurement histories; and 7) use a central contract register to maintain control of all contracts in force (see Finding 5).

Authority Lacked Control  
Over Section 8 Program

The Authority did not have an acceptable system of controls over its Section 8 program. The Authority did not: 1) have policies and procedures to ensure that Housing Assistance Payments made to landlords were appropriate; 2) timely update its Section 8 eligibility/waiting list; 3) adjust its books and records to properly reflect Section 8 checks returned to the Authority; and 4) follow up on outstanding Section 8 checks (see Finding 6).

Authority Needs to  
Improve Human Resource  
Function

The Authority needs to improve its human resource function by: 1) updating job descriptions; 2) taking a proactive approach to employee training needs; 3) tracking training attended; and 4) improving communication and flow of information among its staff (see Finding 7).

We recommend that the Director, Office of Public Housing, ensure the Authority establishes adequate internal controls for all areas of its operation, including developing and implementing Board-approved policies and procedures. We

also recommend the Office of Public Housing ensure that the Authority takes appropriate action on all other concerns addressed in this report.

We provided our draft findings to the Authority's Executive Director throughout the period of September 6, 2000 through October 3, 2000. The Executive Director provided written comments to our draft findings on several occasions, with the last response received on October 6, 2000. We included excerpts of the comments with each finding. The complete text of the comments are included in Appendix B. We conducted an exit conference with the Authority's Executive Director on October 10, 2000.

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# Table of Contents

---

Management Memorandum	i
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Executive Summary	iii
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---

Introduction	1
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## Findings

1. The Authority Lacked Policies and Procedures for Its Operations	3
2. The Authority Lacked Control Over Its Assets	11
3. The Authority Did Not Resolve Deficiencies in Its Financial Statements	20
4. The Board of Commissioners Did Not Always Comply with Missouri Statute	23
5. The Authority Needs to Improve Controls Over Its Procurement Process	27
6. The Authority Lacked Adequate Control Over Its Section 8 Program	38
7. The Authority Needs to Improve Its Human Resource Function	43

---

Management Controls	49
---------------------	----

---

Follow Up On Prior Audits	51
---------------------------	----

  
Appendices

A	Schedule of Questioned Costs	52
B	Audit Comments	53
C	Distribution	65

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# Introduction

On September 5, 1961, the City Council of Independence, Missouri adopted a City ordinance that created the Housing Authority of the City of Independence, Missouri. The ordinance declared the need for a housing authority in the City of Independence, based on stipulations of “The Housing Authorities Law” of the State of Missouri. The Mayor of Independence proceeded to appoint five persons to serve as Commissioners of the Authority. The current Board of Commissioners also consists of five persons.

The Authority contracts with HUD to provide low and moderate income individuals with safe and sanitary housing through rent subsidies. The Authority administers 532 public housing units and 686 Section 8 units. The Authority’s central office is located at 210 South Pleasant, Independence, Missouri.

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## Audit Objectives

The overall objectives of our audit were to evaluate the Authority’s internal controls and to determine whether the Authority complied with applicable laws and regulations related to disbursements, receivables, procurement, inventory, investments, human resources, grant administration, application processes, public housing evictions, maintenance, and the management information system. We also assessed the Board of Commissioners’ oversight and the Authority’s compliance with the “Housing Opportunity Program Extension Act of 1996.”

## Audit Scope and Methodology

We performed our on-site work from March through September 2000.

We interviewed HUD program staff to obtain background information on the Authority, and Authority employees to gain an understanding of the Authority’s operational processes. We also interviewed the Authority’s fee accountant to obtain financial data, and Section 8 landlords to verify tenancy and subsidy payments data.

To determine whether the Authority complied with applicable laws and regulations, we analyzed HUD files, consultant reports, Board of Commissioner meeting minutes, the Commissioners’ Handbook, organizational charts, employee orientation packets, personnel and payroll records, policies and procedures, Authority internal memorandums, bank statements and blank/canceled/voided checks, cash reconciliations, cash receipts and deposits, cash disbursements and invoices, journal vouchers, vendor

files and contracts, purchase orders, maintenance work orders, year-end inventory count sheets and fixed asset inventory lists, investment records, management information system manuals, grant files, Section 8 landlord files, tenant files and account ledgers, training records, and lease agreements. We also analyzed the Authority's year-end financial statements for the period ended March 31, 1999, and monthly financial statements, as applicable. In addition, we reviewed the Authority's Administrative Plan, Admissions and Continued Occupancy Plan, and 5-Year Plan for Fiscal Years 2000 - 2004 / Annual Plan for Fiscal Year 2000.

Further, we conducted surprise cash counts of three petty cash funds and verified the accuracy of a sample of the fixed assets from the Authority's fixed asset inventory list.

The audit covered the period from January 1999 through September 2000, and was adjusted as necessary. We conducted the audit in accordance with generally accepted government auditing standards.

We provided a copy of this report to the Authority's Executive Director and the Chairman of the Board of Commissioners.

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# The Authority Lacked Policies and Procedures for Its Operations

The Housing Authority of Independence did not always have written policies and procedures for its operations. Additionally, where policies did exist, they were not always complete, approved by the Board of Commissioners, or enforced. Policies and procedures were lacking because management did not fulfill its responsibility to establish, implement and maintain effective internal controls. Written policies and procedures that are current help ensure Authority personnel conduct business according to applicable regulations and guidelines, and manage operations efficiently and effectively.

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## HUD Requirements

Section 4 of the Consolidated Annual Contributions Contract states that housing authorities at all times should operate projects in a manner that promotes serviceability, economy, efficiency, stability of the projects, and the economic and social well-being of tenants. Section 9, paragraph (C) states that a housing authority must maintain records that identify the source and application of funds in such a manner as to allow HUD to determine that all funds are and have been expended in accordance with each specific program regulation and requirement. Section 15, paragraph (A) says that the Authority must maintain complete and accurate records to permit timely and effective audits.

HUD Handbook 7460.8, paragraph 4-4 (C) says that the Executive Director should establish procedures for periodic audits of the petty cash fund operation.

HUD Directive Number 96-33, paragraph 2 says housing authorities are required to establish cash management procedures, which include maximizing the yield from the investment of temporarily surplus funds.

24 CFR Part 85.20 states that the financial management systems of other grantees and subgrantees must meet internal control standards. The regulation also says that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard

all such property and must assure that it is used solely for authorized purposes.

24 CFR Part 85.32 (d)(1) requires grantees of federal funds to maintain property records for equipment that includes a description of the property, serial number or identification number, source of the property, titleholder, acquisition date, cost of the property, federal participation in the cost of the property, location, use and condition of the property, and any ultimate disposition date, including the date of disposal and sales price of the property. Paragraph (d)(2) requires grantees to conduct a physical inventory of the property and reconcile results with property records at least once every two years.

24 CFR Part 85.42 and related HUD directives state that financial records and supporting documents pertinent to an award should be retained for a period of three years from the date of submission of the quarterly or annual financial report, as authorized by HUD.

24 CFR Part 85.22 (b) requires State, local, and Indian tribal governments to follow the Office of Management and Budget Circular A-87, Cost Principles for State and Local Governments. A public housing authority is a local government according to 24 CFR Part 85.3.

Office of Management  
and Budget Requirements

Office of Management and Budget Circular A-87, Attachment A, paragraph A(2)(a)(1) states that housing authorities are responsible for the efficient and effective administration of federal awards through the application of sound management practices.

Other Guidance

The Committee of Sponsoring Organizations of the Treadway Commission published a report, "Internal Control Integrated Framework," that outlines the components of an organization's control environment. One of those components addressed the need for effective assignment of authority and responsibility.

The Treadway report pointed out that the assignment of responsibility, delegation of authority and establishment of related policies provide a basis for accountability and control, and set forth individuals' respective roles.

Policies and Procedures Were Nonexistent, Incomplete, Unapproved, or Not Enforced

The Authority did not always have written policies and procedures for its operations. Additionally, where the Authority had policies and procedures, these policies and procedures were not always complete, approved by the Board of Commissioners, or enforced.

The following table categorizes our findings for the areas of operation reviewed.

Area of Operation Reviewed	Nonexistent Policies and Procedures	Incomplete or Inadequate Policies and Procedures	Unapproved Policies and Procedures	Policies and Procedures Not Enforced
Disbursements		X		
Receivables/Cash	X			
Inventory		X		
Investments		X		
Human Resources		X		
Grant Administration		X	X	
Board of Commissioners		X		
Management Information Systems		X		
Tenant Services		X	X	
Procurement				X

Policies and Procedures Did Not Exist

The Authority did not have policies and procedures for 1 of 10 major areas of its operation: receivables/cash. The Authority lacked policies and procedures for receiving, reporting, and depositing receipts (tenant and non-tenant); collecting debts owed to the Authority; and reporting unpaid debts to credit bureaus (see Finding 2). Current policies and procedures are needed for all areas to provide the Authority and HUD assurance that operations are efficient and effective, and conducted according to regulations.

Policies and Procedures Were Incomplete or Inadequate

The Authority’s policies and procedures were incomplete or inadequate for 8 of 10 major areas of its operation. The following list describes specific functions within the major areas of operation which were performed with incomplete or inadequate policies and procedures:

1) Disbursements

- **Policies and procedures were incomplete, lacking policies and procedures for:**
  - disbursing Authority funds for public housing activities, and
  - disbursing Section 8 assistance payments (also see Finding 6).
  
- **Policies and procedures were inadequate for petty cash funds.** The policies and procedures for the petty cash funds addressed only the Central Office fund. However, the Authority used two other petty cash funds and had Board of Commissioner authorization for a total of seven such funds. The policies and procedures for the Central Office fund were adequate except that they did not assign control and responsibility for the fund to a specific Authority employee/position.

2) Inventory

- **Policies and procedures were incomplete, lacking policies and procedures for:**
  - verifying inventory adjustments made to the management information system, and
  - retaining records according to federal requirements.
  
- **Policies and procedures were inadequate to meet the Authority's needs.** The Authority had an Operations Procedures Manual; however, the Authority did not rely on it because it was not adequate to meet the Authority's needs. According to the Director of Operations, the Authority had been working with a consultant for the past two years to improve its inventory and maintenance operations, and efforts were still ongoing. These efforts included documenting the Authority's policies and procedures for inventory and maintenance functions, and developing a preventive maintenance plan.

### 3) Investments

- **Policies and procedures were inadequate to protect the Authority's interests.** The Authority had an Investment Policy, but the policy authorized the Executive Director to make all investment purchase and transfer decisions, without Board of Commissioner approval. In addition, the policy did not provide investment dollar limits or instructions for redeeming investments.

### 4) Human Resources

- **Policies and procedures were incomplete, lacking policies and procedures for:**
  - verifying payroll computations (also see Finding 7),
  - identifying and tracking training (also see Finding 7), and
  - providing timely performance evaluations (also see Finding 7).

### 5) Grant Administration

- **Policies and procedures were incomplete, lacking policies and procedures for:**
  - ensuring grant activities and expenses complied with grant stipulations.

### 6) Board of Commissioners

- **Policies and procedures were incomplete, lacking policies and procedures for:**
  - conducting Board of Commissioner meetings within applicable State statutes (also see Finding 4).

### 7) Management Information Systems

- **Policies and procedures were incomplete, lacking policies and procedures for:**
  - controlling overall data integrity and security of the computer system.

### 8) Tenant Services

- **Policies and procedures were inadequate for tenant evictions.** The Authority's Admissions and Continued Occupancy Policy, revised March 21, 2000, provided basic guidelines for

tenant evictions; however, the policies and procedures did not address responsibility for evictions. The Admissions and Continued Occupancy Policy addressed the reasons for eviction, timing of notices for evictions, language to be used in eviction notices, and mode of delivery and timing of the notices. However, the policy did not define which Authority employees were responsible for performing the eviction functions and whether senior management approval was necessary before eviction procedures began. Not having proper approval levels documented could unnecessarily put the Authority at risk of legal actions.

New Policies and  
Procedures Need Board  
Approval

The Executive Director implemented policies and procedures to better control two functions of the Authority's operations. Although we considered these policies and procedures to be adequate to control their respective functions, the policies and procedures had not been approved by the Board of Commissioners.

On February 25, 2000, the Executive Director issued a memo which addressed the need for an audit trail to support drawdown of grant funds from HUD's Line of Credit Control System. The memo requires Authority staff to use a detailed "Line of Credit Control System Backup Documentation Form" which the Executive Director must approve by signature and date before the drawdown is made. The form details the nature and dollar amount of each expense included in the drawdown. The memo applies to all Line of Credit Control System drawdowns and requires adequate support before the Executive Director will approve the drawdown.

On June 14, 2000, the Executive Director issued another memo that addressed the need for improvement in taking applications from potential public housing and Section 8 tenants. The policies and procedures for these two areas should be adequate to control the respective operations. However, the Board of Commissioners needs to approve all policies and procedures to ensure they are adequate and meet intended objectives.

Policies and Procedures  
Need Enforced

The Authority had implemented a Procurement Policy, but did not enforce its requirements. The Authority did not follow its policies and procedures regarding solicitation for bids, development of independent cost estimates, issuance of formal delegations of authority, use of written contract modifications, and maintenance of adequate procurement histories (see Finding 5).

Auditee Comments

Excerpts from the Executive Director's comments on our draft finding follow. Appendix B contains the complete text of the comments.

The Authority concurs that there are several major areas of operation within which policies and implementing procedures need to be developed. The majority of the agency's deficiencies in policies and/or procedures are addressed within responses to other specific OIG findings. To summarize, the Authority will develop, adopt and implement policies and procedures to address all areas of deficiency. Deficient areas the Authority will address include disbursements, receivables and cash, inventory, investments, human resources, grant administration, Board of Commissioners, Management Information Systems, and any other deficiencies that come to light during this process.

The Authority will also evaluate and amend, as appropriate, existing policies and procedures. All new or revised policies and procedures will be presented to the Board of Commissioners for consideration of approval, including any such changes implemented by Executive Order. However, as it is the Executive Director's responsibility to ensure that the Authority operates in compliance with all applicable Federal, State and local rules, regulations and ordinances, he will not delay implementing changes in policy or procedure until formal Board approval has taken place where clear violations of any such rules, regulations or ordinances may be occurring. Likewise, the Executive Director will not be compelled to implement any policy or procedure adopted by the Board of Commissioners that would, if implemented, clearly be in violation of any such rule, regulation or ordinance, or that would not be ethical.

The Executive Director acknowledges also having the responsibility to keep Commissioners informed regarding applicable rules, regulations and ordinances, and any potential conflicts proposed policies or procedures may have with those rules, regulations or ordinances. It is the Executive Director's responsibility to enforce Board policies. The Executive Director acknowledges that there are several instances where the agency's procurement policies have not been followed appropriately. The Executive Director is taking steps to ensure future compliance with policy.

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**OIG Evaluation of  
Auditee Comments**

The actions the Authority has taken and planned should correct the problems identified in this finding if the actions are followed through to completion.

We originally included a recommendation in this finding that addressed enforcement of the Authority's Procurement Policy. Because we fully addressed this issue in Finding 5, we removed the recommendation from this finding.

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**Recommendations**

We recommend the Director, Office of Public Housing, ensure the Housing Authority of Independence:

- 1A. Develops and implements Board-approved policies and procedures that adequately address the functions of each major area of operation.
- 1B. Evaluates and amends, where appropriate, the policies and procedures already in place.
- 1C. Obtains approval from the Board of Commissioners for policies and procedures already implemented through Executive Director memorandums.

## The Authority Lacked Control Over Its Assets

The Housing Authority of Independence did not have an acceptable system of controls over its assets. The Authority did not: (1) have adequate policies and procedures for investments; (2) properly disclose or monitor its investments; (3) segregate duties for the collecting, recording and depositing of receipts; (4) segregate duties for the control of its fixed asset inventory; and (5) maintain documentation to support its physical inventory count and valuation of fixed asset inventory. These weaknesses occurred because the Authority's management did not fulfill its responsibility to establish and implement effective internal controls. Effective controls are necessary to protect against loss or misuse of assets. The lack of control over investments caused the Authority to misrepresent its assets on its financial statements and lose accountability over investment funds. Also, HUD and the Authority lack assurance that the valuation presented in the financial statements accurately reflects the fixed asset inventory.

### HUD Requirements

Section 9, paragraph (C) of the Consolidated Annual Contributions Contract requires the Authority to maintain records that identify the source and application of funds in such a manner as to allow HUD to determine that all funds are and have been expended in accordance with each specific program regulation and requirement. Section 15, paragraph (A) states that the Authority must maintain complete and accurate books of account for the projects of the Authority in such a manner to permit the preparation of statements and reports in accordance with HUD requirements, and to permit timely and effective audits.

HUD Directive Number 96-33, paragraph 2 says housing authorities are required to establish cash management procedures, which includes maximizing the yield from the investment of temporarily surplus funds. Paragraph 6(e) states that an investment register or other record must be maintained by the Authority or its agent. The register/record must be maintained in such a manner that a determination can be made as to the amount of investment securities purchased from each fund and at a minimum provide for recording a complete description of investment instrument, date of purchase, purchase price, interest rate, and applicable date of sale or maturity. The investment register/record may also be used to identify the source of funds invested (i.e. modernization or development funds, tenant security deposit funds, operating funds).

Paragraph 6(f) requires housing authorities to implement the following internal controls to assist in controlling investments and preventing loss or misuse:

- Investment transactions must be authorized by the housing authority governing board and documented in the board minutes.
- Investment documents shall be kept in a safe fire-resistant locked file cabinet, safe deposit box, or other similarly secured location.
- Individuals responsible for custody of securities must be someone other than an individual maintaining the accounting records.
- Investments must be maintained in a custodian or trust account.
- Investments must be in the name of the housing authority.
- Investments must be recorded in detail in an investment ledger.
- A system must be in place to ensure that all interest earned is collected and credited to the appropriate housing authority records.
- Investments must be reconciled periodically to the detailed record (investment ledger).

24 CFR Part 85.20 states that the financial management systems of grantees and subgrantees must meet internal control standards. The regulation also says that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. This Section also requires the financial management systems of grantees and subgrantees to meet financial reporting standards. The financial reporting must be accurate, current, and provide complete disclosure of the financial results of financially assisted activities, in accordance with the financial reporting requirements of the grant or subgrant. Further, grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated

balances, assets, liabilities, outlays or expenditures, and income.

24 CFR Part 85.32 (d)(1) requires grantees of federal funds to maintain property records for equipment that includes a description of the property, serial number or identification number, source of the property, titleholder, acquisition date, cost of the property, federal participation in the cost of the property, location, use and condition of the property, and any ultimate disposition date, including the date of disposal and sales price of the property. Paragraph (d)(2) requires grantees to conduct a physical inventory of the property and reconcile results with property records at least once every two years.

24 CFR Part 85.22 (b) requires State, local, and Indian tribal governments to follow the Office of Management and Budget Circular A-87, Cost Principles for State and Local Governments. A public housing authority is a local government according to 24 CFR Part 85.3.

Office of Management  
and Budget Requirements

Office of Management and Budget Circular A-87, Attachment A, paragraph A(2)(a)(1) states that housing authorities are responsible for the efficient and effective administration of federal awards through the application of sound management practices.

Authority Lacked  
Adequate Policies and  
Procedures for  
Investments

As previously mentioned in Finding 1, the Authority did not have adequate policies and procedures governing investments. The Authority's Investment Policy authorized the Executive Director to make all purchase and transfer decisions without Board of Commissioner approval. The policy also did not provide investment dollar limits or instructions for redeeming investments.

Further, the Authority's documentation for Certificates of Deposit (Certificates) was incomplete or inadequate, making it difficult to ascertain the history of each Certificate. Only the signature of the former Executive Director was present on documentation in the files, such as on redemption certifications when Certificates were redeemed or on deposit forms when Certificates were purchased.

Authority Did Not Properly Disclose or Monitor its Investments

Adequate policies and procedures are needed to provide HUD and the Authority assurance investments are adequately safeguarded against loss, and are managed in an efficient and effective manner.

The Authority did not properly present investments on its financial statements, and did not monitor the investments to ensure effective cash management. Further, the Authority maintained savings accounts that were unused except for drawing minimal interest revenue, and failed to close out escrow accounts when the related activities were completed.

The Authority's financial statements defined its investments as savings and money market accounts, escrow accounts and Certificates. The Authority did not efficiently manage or accurately account for such investments. Specifically:

- A public housing savings account was opened in 1984, and the only transactions since July 1993 were to record interest. The balance on April 30, 2000 was \$11,771.
- A public housing escrow account was opened in 1997 with funds held in dispute regarding a construction contract. The Authority settled the dispute, but paid the settlement from a different source and failed to close the escrow account and repay the other fund. The only transactions since the escrow account was opened were to record interest. The balance on April 30, 2000 was \$15,063.
- A public housing account for \$97,898 shown on the March 31, 1999 year-end financial statements as an Authority investment was actually the employee pension account that was a restricted fund (liability) account. The Authority included it as an investment because it was cash held in a bank account. However, including the pension fund as an investment overstated the Authority's assets.
- Another public housing escrow account was opened in March 1999 with funding to pay for entry doors at one of the Authority's properties. The Authority

had a dispute with the contractor and eventually settled the dispute in July 1999. The Authority paid the contractor a lesser amount than originally agreed upon, leaving part of the original funding in the account. Since the payoff of the contractor, the only transactions have been to record interest. The Authority failed to close the escrow when its purpose ended. The balance on April 30, 2000 was \$6,776. In addition, the escrow account had a balance of \$37,254 on March 31, 1999, but was not included in the year-end financial statements.

- A Section 8 Certificate for \$51,925 was improperly included on the March 31, 1999 year-end financial statement. The Authority liquidated the Certificate and re-invested \$4,206 in another Certificate prior to March 31, 1999, but failed to remove the original Certificate from its investment records. As a result, the Section 8 assets were overstated by \$47,719 (\$51,925 original Certificate amount less the \$4,206 re-investment Certificate). In addition, the failure to remove the original Certificate from the investment records caused the Authority to include \$48,500 of the original Certificate on the April 30, 2000 month-end financial statement, thereby overstating the Section 8 assets by this amount in 2000.
- A Section 8 Certificate was improperly duplicated when the Authority reported the same Certificate on both the Section 8 and public housing month-end reports of April 30, 2000. The Authority correctly reported the \$4,206 Certificate as a Section 8 asset, but incorrectly duplicated the Certificate as a public housing asset. The Authority recorded the Certificate on the public housing report at a value of \$4,400 (\$4,206 plus interest). This caused an overstatement of public housing assets by \$4,400.
- A \$61,936 Certificate was improperly recorded on the April 30, 2000 month-end financial statement. The financial statement reflected an erroneous Certificate number and did not identify the correct bank holding the Certificate.

- The Authority failed to include a Section 8 Certificate on its financial statements even though it had held the Certificate since October 16, 1998, thereby understating the Section 8 assets on both the March 31, 1999 and April 30, 2000 financial statements. The Certificate was valued at \$12,421 on March 24, 2000.

In summary, the incorrect reporting of investments caused the public housing assets to be overstated by \$60,644 for fiscal year ended March 31, 1999, and \$4,400 for the month ended April 30, 2000. Also, the Section 8 assets were overstated by \$35,298 for fiscal year ended March 31, 1999, and \$36,079 for the month ended April 30, 2000.

Further, the lack of monitoring and proper cash management caused \$33,610 in cash resources to remain in bank accounts, drawing minimal interest revenue, when these funds could have been put to better use. For example, by combining the funds in the dormant savings and escrow accounts, the Authority could invest the funds in a Certificate or Money Market account and earn a higher yield than the savings accounts.

The Authority's process of reconciling investment account information to its general ledger was not adequate to ensure that investments were accurately recorded and reported. Although the Authority performed reconciliation procedures, the employee performing the reconciliation process was not provided sufficient investment information to adequately reconcile the accounts. The former Executive Director controlled investment transactions and related documentation, but did not properly notify the Accounting department when changes were made to investments. Without proper reconciliation guidelines and processes, HUD and the Authority have no assurance that investments will be accurately recorded and reported.

We also determined that the Authority did not have an investment register to track investment activity. The Authority's former Executive Director maintained all investment documentation in files in his office. The files were incomplete, making it difficult to ascertain the history of the Certificates. To help ensure proper recording and

reporting of investments, the Authority needs to establish an investment register and keep it continually updated.

Authority Did Not  
Segregate Duties  
Regarding Receipts

The Authority did not segregate the duties of collecting, recording and depositing rent and other receipts. One Authority employee was solely responsible for collecting, recording and depositing all tenant-related receipts. This employee collected the rent and other tenant charges for all three public housing properties, then recorded the receipts to the individual tenant accounts, and deposited the receipts. Another employee was solely responsible for the same duties for all non-tenant receipts. Although we did not determine any assets were missing, proper segregation of duties is important to provide HUD and the Authority assurance that resources are properly controlled. The Authority's inadequate segregation of duties increases its susceptibility to the misuse of funds without detection.

Authority Did Not  
Segregate Duties  
Regarding Fixed Asset  
Inventory

The Authority did not adequately segregate the duties of tracking fixed asset inventory, approving disposals of such inventory, and making fixed asset adjustments to the Authority's computer records. One Authority employee was responsible for all of these functions. We did not determine any fixed assets were missing; however, as previously mentioned, proper segregation of duties is important to provide HUD and the Authority assurance that assets are properly controlled.

The Authority was not able to provide documentation to support its year-end physical inventory of fixed assets for fiscal year ended March 31, 2000. Although Authority employees said the inventory was taken, the Authority could not provide supporting documentation. Therefore, HUD and the Authority have no assurance that the fixed asset inventory valuation included in its financial statements is accurate.

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## Auditee Comments

Excerpts from the Executive Director's comments on our draft finding follow. Appendix B contains the complete text of the comments.

The Authority concurs that the agency's cash management strategies and Board-approved policies (i.e., Investment

Policy dated April 14, 1994) and procedures need to be upgraded and implemented as soon as possible. Staff is currently drafting revised policies and procedures for Board approval. Staff and the Fee Accountant are currently researching the histories of existing investment accounts and are setting up each investment in an interactive Excel spreadsheet ledger. The entire history of each current investment is being entered into this ledger, which will, when completed, be able to portray the agency's investment portfolio. All agency savings and escrow accounts are being set up in the ledger and will be evaluated/dissolved as appropriate. The ledger will serve as our investment register.

Policies and procedures are in draft whereby the duties of collecting, recording and depositing tenant and non-tenant receipts will be divided between three staff members. This process has been instituted on a temporary basis pending Board approval. Written procedures will be in place by December 31, 2000, which will segregate responsibilities and control of the fixed asset inventory, and implement the Disposition Policy. Further, written policies and procedures are in development that will ensure proper documentation of annual inventory counts as well as provide an accurate audit trail.

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OIG Evaluation of  
Auditee Comments

We were not provided a copy of an investment policy during our audit and, therefore, concluded one did not exist. In its comments, the Authority indicated that it had an investment policy dated in 1994, but that it needed to be upgraded and implemented. We evaluated the Authority's Investment Policy of 1994 and changed our finding to state that the Authority did not have adequate policies and procedures rather than had no policies and procedures for investments.

The actions planned and taken by the Authority should correct the problems identified in the finding if the actions are followed through to completion.

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Recommendations

We recommend the Director, Office of Public Housing, ensure the Housing Authority of Independence:

- 2A. Develops and implements cash management strategies and Board-approved policies and procedures to ensure that cash management decisions are in the best interest of HUD and the Authority. These policies and procedures should include guidance for purchasing, tracking, adjusting, and liquidating investments; and address reconciliation of the investment accounts to ensure accurate recording and reporting.
- 2B. Researches all investment accounts, resolves any discrepancies and makes appropriate adjustments to its books to accurately reflect its investments.
- 2C. Researches its savings and escrow accounts and dissolves those that are no longer needed.
- 2D. Develops and implements an investment register to track all Authority investments from origination, through investment transactions, to ultimate disposition to ensure all investment records reconcile to the general ledger and are adequately accounted for at any time.
- 2E. Properly segregates the duties of collecting, recording and depositing of tenant and non-tenant receipts.
- 2F. Properly segregates the responsibilities and control of fixed asset inventory.
- 2G. Maintains appropriate documentation of physical inventory counts and valuations to provide an adequate audit trail.

# The Authority Did Not Resolve Deficiencies in Its Financial Statements

The Housing Authority of Independence did not resolve deficiencies identified in its financial statement audit for fiscal year ended March 31, 1999. The independent auditor reported that the account balances for three tenant-related subsidiary accounts did not agree with the general ledger account balances at the end of the fiscal year. The Authority and its fee accountants disagreed about the reason for the discrepancies, leaving the deficiencies unresolved. Without proper reconciliation between subsidiary and general ledger accounts, HUD and the Authority have no assurance the financial reporting mechanisms are functioning properly and providing accurate information.

## HUD Requirements

Section 9, paragraph (C) of the Consolidated Annual Contributions Contract requires the Authority to maintain records that identify the source and application of funds in such a manner as to allow HUD to determine that all funds are and have been expended in accordance with each specific program regulation and requirement. Section 15, paragraph (A) says that the Authority must maintain complete and accurate books of account for the projects of the Authority in such a manner to permit the preparation of statements and reports in accordance with HUD requirements, and to permit timely and effective audit.

24 CFR Part 85.20 states that the financial management systems of grantees and subgrantees must meet internal control standards. The regulation also states that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. This Section also says that the financial management systems of grantees and subgrantees must meet financial reporting standards. The financial reporting must be accurate, current, and provide complete disclosure of the financial results of financially assisted activities, in accordance with the financial reporting requirements of the grant or subgrant. Further, grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining

to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

#### Deficiencies Existed in Financial Statements

The Authority did not resolve deficiencies identified in its financial statement audit for fiscal year ended March 31, 1999. The independent auditor alerted the Authority of the deficiencies on November 14, 1999. The auditor reported that account balances for three tenant-related subsidiary accounts did not agree with the general ledger account balances at the end of the fiscal year. The auditor determined the Authority failed to maintain an accurate detail of these accounts and did not have procedures in place to reconcile the detailed accounts to the general ledger. The Authority's management did not agree with the cause for the discrepancies, but believed there was a problem with its fee accountants' accounting software system. The Authority did not resolve the deficiencies by the end of our review.

In addition, the independent auditor reported the Authority had incorrectly recorded a transaction regarding Federal Financing Bank Notes and Housing Agency Bonds Issued. The auditor recommended the Authority make a \$225,486 adjusting entry to correct the Authority's records. However, the Authority's fee accountants did not make the adjusting entry because the fee accountants considered the entry unnecessary due to the Authority's anticipated conversion to generally accepted accounting principles beginning with the next fiscal year (beginning on April 1, 2000). Upon conversion to generally accepted accounting principles, the Bank Notes and Agency Bonds accounts would not be included on the Authority's financial statements. As a result, the fee accountants saw no need to adjust accounts that were going to be removed from the financial statements in the coming months. The two accounts remained misstated throughout the remainder of the fiscal year ended March 31, 2000.

#### Auditee Comments

Excerpts from the Executive Director's comments on our draft finding follow. Appendix B contains the complete text of the comments.

### Finding 3

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The deficiencies noted in the Fiscal Year Ended 1999 independent audit have been resolved. The independent auditor will verify this fact during the Fiscal Year Ended 2000 audit in November.

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#### OIG Evaluation of Auditee Comments

The actions the Authority has taken and planned should resolve the deficiencies in this finding.

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#### Recommendations

We recommend the Director, Office of Public Housing, ensure the Housing Authority of Independence:

- 3A. Resolves the deficiencies noted in the independent audit report for fiscal year ended March 31, 1999, and ensures that the subsidiary and general ledgers balance in the future.

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## The Board of Commissioners Did Not Always Comply with Missouri Statute

The Board of Commissioners for the Housing Authority of Independence did not always comply with regulations of a Missouri statute that governs the conduct of public business. Missouri Housing Authorities are required to comply with the statute commonly known as the “Missouri Sunshine Law.” We believe the noncompliance occurred because Board members were not adequately trained. The noncompliance caused the Authority to be in violation of a State statute. Continued noncompliance could lead to sanctions from the State of Missouri and a public perception that the Authority’s Board is conducting business improperly.

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### State Requirements

The Housing Authority of Independence was established in 1961 as a public governmental body under “The Housing Authorities Law” of the State of Missouri, and therefore must follow the laws of the State of Missouri.

Missouri Statute, Title 39, “Conduct of Public Business,” (commonly known as the “Missouri Sunshine Law”) Chapter 610, Sections 610.020 through 610.023 state the following:

Section 610.020, says all public governmental bodies shall give notice of the time, date, and place of each meeting, and its tentative agenda, in a manner reasonably calculated to apprise the public of that information. It also states that notice conforming with all of the requirements of this section shall be given at least twenty-four hours prior to the commencement of any meeting of a governmental body unless for good cause.

Section 610.021 says that except to the extent disclosure is otherwise required by law, a public governmental body is authorized to close meetings, records and votes, to the extent they relate to the following: (1) legal actions, (2) leasing, purchasing or sale of real estate, and (3) hiring, firing, disciplining or promoting an employee of a public governmental body, etc. (law lists 15 specific exceptions).

Section 610.022, states that a public governmental body proposing to hold a closed meeting or vote shall give notice of the time, date and place of such closed meeting or vote and the reason for holding it by reference to the specific

exception allowed under the provisions of Section 610.021. It also says that any meeting or vote closed pursuant to Section 610.021 shall be closed only to the extent necessary for the specific reason announced to justify the closed meeting or vote. Public governmental bodies shall not discuss any business in a closed meeting, record, or vote which does not directly relate to the specific reason announced to justify the closed meeting or vote.

Authority Requirements and Guidance

The Authority's Personnel Policies and Procedures contained minimal references to Board responsibilities. These policies and procedures offered only basic information on the Board's responsibilities as they related to employee issues and the overall operations of the Authority.

The Authority's Commissioner's Handbook contained the various policies, procedures and plans of the Authority. Although the handbook made references to conducting open and closed sessions, it did not provide specific guidance on conducting meetings in accordance with the "Missouri Sunshine Law" that governs the conduct of meetings of governmental bodies of the State of Missouri.

Board of Commissioners

The Housing Authority of Independence operates under a Board of Commissioners consisting of five individuals. The Mayor of Independence appoints each member to the Board. The Board holds monthly meetings and, when needed, holds special meetings to act on specific issues of an urgent nature.

Board of Commissioners Did Not Always Comply with the "Missouri Sunshine Law"

The Authority's Board of Commissioners did not always follow the regulations of the "Missouri Sunshine Law." Our review of the Board meeting minutes for January 1999 through March 21, 2000 indicated the Board conducted business in a manner inconsistent with the Missouri statute. For example, the Board discussed issues in closed sessions that were not appropriately identified, or identified at all, in the notices of public meetings. Further, the Board conducted business in a way that could be perceived as improper. For example, the Board held closed sessions on days other than when holding regular or special Board meetings, and conducted telephone voting polls outside of Board sessions to make decisions on Authority business.

We also found that the Authority records did not always indicate that notices of public meetings were posted;

therefore, there is no assurance proper notification was given to the public.

We believe the noncompliance with the Missouri statute resulted from lack of training of Board members. Proper training is necessary to ensure Board members do not violate the State law. Training is also necessary to ensure Board members do not conduct business in a way that leads to a public perception of impropriety.

Our review of the Commissioner's Handbook determined that the Authority's copy of the handbook had not been updated to contain the most recent policies, procedures and plans. The Administrative Assistant to the Executive Director said she had updated the Board members' copies in December 1999, but did not update the Authority's copy. The Assistant said there were no procedures in place to ensure that the handbooks were updated properly and timely. It is important for the Authority to update all handbooks timely so that Board members rely on correct information when making decisions.

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### Auditee Comments

Excerpts from the Executive Director's comments on our draft finding follow. Appendix B contains the complete text of the comments.

The Authority concurs with the recommendations regarding the need for Commissioner training in conducting business under the "Missouri Sunshine Law" and the need for written procedures for routinely auditing and updating the Commissioner's Handbook. Further, the development and implementation of a written Commissioner orientation and training policy will expedite education of new Commissioners on all aspects of their responsibilities.

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### OIG Evaluation of Auditee Comments

The Authority has taken and planned actions that should correct the problems identified in this finding if the actions are followed through to completion.

Recommendations

We recommend the Director, Office of Public Housing, ensure the Housing Authority of Independence:

- 4A. Provides training for its Board members, including but not limited to, training specific to proper Board conduct and the “Missouri Sunshine Law.”
- 4B. Develops and implements Board-approved policies and procedures to ensure Board meetings comply with the “Missouri Sunshine Law.”
- 4C. Updates all Commissioner’s Handbooks, including the Authority’s copy, and develops a procedure to ensure the continuous updating of the handbooks when any contents are amended or new items developed.
- 4D. Includes specific guidance in its Commissioner's Handbook regarding conducting Board meetings within the rules of the “Missouri Sunshine Law.”

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# The Authority Needs to Improve Controls Over Its Procurement Process

The Housing Authority of Independence did not have adequate controls over its procurement process. Specifically, the Authority did not: 1) require adequate competition; 2) develop formal independent cost estimates to evaluate bids received; 3) formally delegate authority for making purchases; 4) use contracts for goods and services that protected its interests; 5) use written contract modifications; 6) adequately document procurement histories; and 7) use a central contract register to maintain control of all contracts in force. These weaknesses occurred because the Authority's management did not fulfill its responsibility to establish and implement effective internal controls. Adequate controls are needed to ensure the Authority receives the best prices and quality for goods and services.

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## HUD Requirements

HUD Handbook 7460.8, paragraph 2-3 says that for small purchases, housing authorities should use simplified small purchase procedures. Typically this involves obtaining oral or written quotations from at least three sources. After evaluating the quotations, the housing authority normally awards a purchase order to the lowest acceptable quoter. Paragraph 2-6 says that the standard for housing authority procurement is to conduct all procurement by full and open competition, to allow all responsible sources to compete.

Paragraph 3-2 (A) states that Authority Board of Commissioners should designate the Executive Director as the person responsible for carrying out its policy. The Executive Director should have the authority to formally delegate the responsibility for certain functions to positions/individuals based on the organization of the housing authority and its staffing. The Board of Commissioners should state in the minutes of a Board meeting that the Executive Director, and/or where appropriate other staff members, are appointed as Contracting Officers. The Board should also designate which members of the staff are empowered to make purchases or sign purchase orders, and the dollar limit each is allowed.

Paragraph 3-3 (A) and (B) say that the Executive Director may delegate authority to sign contracts to other housing authority employees only if granted such permission by the

Board of Commissioners. If the Executive Director decides to appoint an employee of a housing authority as a Contracting Officer, such appointment should be made in writing, stating clearly the limitations on the appointee's procurement authority.

Paragraph 3-4 (D) says that only an individual who serves as a Contracting Officer may obligate procurement funds on behalf of a housing authority. Each contract, modification, cooperative purchasing agreement, purchase order, or other purchase should bear the Contracting Officer's signature, typed or printed name, and position title. A housing authority contract is not valid unless an authorized Contracting Officer has signed it.

Paragraph 3-6 recommends that in all but the smallest housing authorities, a formal training program should be established to provide training in public contracts to housing authority employees with procurement responsibilities. It is recommended that no person be appointed as a Contracting Officer without training in public contracts/procurement.

Paragraph 4-3 (A) says housing authorities must ensure that the price paid for small purchases is fair and reasonable. The most effective way of accomplishing this task is to solicit competitive price or rate quotes from an adequate number of qualified sources. It is recommended that at least three sources be solicited. Paragraph (B) states that housing authorities need not solicit competition if a single quoted price within a specified dollar limitation is known to be reasonable; for housing authorities, this dollar limitation should normally be \$1,000. Such purchases should be distributed among qualified sources or rotated to promote competition and avoid repeated use of the same supplier.

24 CFR Part 85.36 (b)(9) states that grantees and subgrantees must maintain records sufficient to detail the significant history of a procurement.

24 CFR Part 85.36 (c) and (d) state that all procurement transactions must be conducted in a manner providing full and open competition. Procurement for small purchase procedures, purchases that do not cost more than \$100,000, shall be conducted by obtaining price or rate quotations from an adequate number of qualified sources.

24 CFR Part 85.36 (f) says that grantees and subgrantees must perform a cost or price analysis in connection with every procurement action, including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals.

24 CFR Part 85.36 (i) provides thirteen specific clauses that government-funded contracts are required to contain, including contracts for goods and services purchased by housing authorities.

#### Authority Requirements

The Authority's Procurement Policy, Section II, paragraph A states that all procurement transactions shall be administered by the Contracting Officer, who shall be the Executive Director or other individual he or she has authorized in writing. Paragraph C says that the Board appoints and delegates procurement authority to the Executive Director and is responsible for ensuring that any procurement policies adopted are appropriate for the Authority.

Section II, paragraph B.2. says that the Executive Director shall ensure that purchase orders, contracts and contract modifications are in writing, supported by appropriate documentation clearly specifying the desired supplies, services, or repair/construction work, as well as the method of procurement, selection of contract type, and basis for the purchase or contract price. Paragraph B.4. requires the Executive Director to ensure that solicitation procedures are conducted in full compliance with Federal standards stated in 24 CFR 85.36. Paragraph B.5. requires the Executive Director to ensure that an independent estimate is prepared for each procurement.

Section III, paragraph B.4. states that for purchases less than \$25,000, only one quotation need be solicited if the price received is considered reasonable. Such purchases must be distributed equitably among qualified sources. Paragraph B.5. says that for procurement transactions valued at more than \$25,000 and less than \$100,000 three offerers shall be solicited to submit price quotations, which may be obtained orally, by telephone, or in writing. Award shall be made to the offerer providing the lowest acceptable price, unless justified in writing based on other specified factors. The

Lack of Adequate Competition

names and addresses of the offerers and other persons contacted, and the date and amount of each price quotation shall be recorded and maintained as a public record.

The Authority did not always follow its own or HUD’s procurement requirements to ensure adequate competition. The Authority’s Procurement Policy requires the Authority to solicit bids from three sources for procurement transactions valued at more than \$25,000 and less than \$100,000. HUD also recommends solicitation of at least three bids before selecting a contractor.

We analyzed the Authority’s procurement process using both contracts and purchase orders. To analyze the Authority’s use of contracts, we reviewed the three largest dollar value contracts completed between January 1, 1999 and August 31, 2000. The following table identifies the contracts reviewed:

Contract Identification	Service Performed	Total Paid to Contractor
Contract A	Repair retaining wall	\$50,049
Contract B	Renovate tenant mail room	\$37,646
Contract C	Provide office furniture	\$30,984

Our review of the three contracts disclosed that the Authority did not follow its own procurement requirements in soliciting bids for 1 of the 3 contracts. The Authority obtained at least three bids for Contracts A and C; however, the Authority entered into Contract B without soliciting at least three bids. In addition, the Authority did not develop an independent cost estimate to determine whether the bid received for Contract B was reasonable, as discussed later in this Finding.

The Authority’s contract file indicated the Modernization Coordinator directly contacted only two potential bidders, and only one provided a bid. The other potential contractor was unable to bid on the contract due to its inability to perform the work at that time. Therefore, the Authority effectively obtained only one bid for the services, and the solicitation was not advertised to the public even though the nature of the work indicated it could have been performed by any qualified construction contractor. Adequate competition and independent cost estimates are necessary to ensure the

Authority obtains the best prices and quality for goods and services.

We also analyzed the Authority's procurement process through the use of purchase orders. We reviewed five purchases made between January 1, 2000 and August 30, 2000, ranging in value from \$19 to \$645. We found the Authority properly prepared, documented management approval, and paid for these purchases. Although the purchase orders did not indicate the Authority solicited more than one bid, the items were within HUD's recommended threshold of \$1,000, allowing only one bid if the bid is deemed reasonable.

Independent Cost  
Estimates Not Always  
Used to Evaluate Bids

The Authority did not always use formal independent cost estimates to evaluate bids. The Authority's Procurement Policy requires the Executive Director to ensure that an independent estimate is prepared for each procurement. Further, federal regulations require housing authorities to perform a cost or price analysis in connection with every procurement action, including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, housing authorities must make independent estimates before receiving bids or proposals.

As previously mentioned, the Authority's documentation for Contract B did not contain an independent cost estimate. The Modernization Coordinator told us he prepared an informal estimate, and expected the services to cost about \$30,000; however, he did not prepare a written estimate for the contract file. Formal independent cost estimates are necessary to help ensure bids received are properly evaluated, particularly for those purchases where only one bid is received or those under \$25,000 for which the Authority's Procurement Policy requires only one bid to be received if the amount bid is deemed reasonable.

For Contract A, the Authority hired an engineering firm to provide a study of needed repairs to a retaining wall, and to offer recommendations and cost estimates for the repair. The contract file contained the study and the related cost estimates for the three options of repair recommended by the engineering firm. The estimates ranged from \$16,600 to \$129,100 depending on the extent of work performed.

Although the Authority relied on the engineering firm to evaluate the bids received, the Authority's file did not contain documentation of the comparison of the contractors' bids to the engineering firm's cost estimates. Authority contract files should contain such information when using an agent to purchase goods and services.

The Authority's documentation for Contract C, showed the Authority received bids from three companies to provide office furniture. We believe the Authority should have prepared an estimate of the cost to ensure the amount paid was reasonable.

Formal Delegations of Authority Not in Place

The Authority did not formally delegate procurement authority to any employee other than the Executive Director; however, other employees purchased items without the Executive Director's signature on the related purchase orders and contracts. According to the Authority's own Procurement Policy, the Executive Director is the designated Contracting Officer and can delegate such authority, but only through written delegations. In addition, HUD requirements state the Authority's Board of Commissioners should designate which members of the staff are empowered to make purchases or sign purchase orders, and the dollar limit each is allowed for a single purchase.

We determined that neither the Authority's current or former Executive Director issued written delegations of authority for procurement of goods and services. Further, the Authority's Procurement Policy did not specifically address the purchasing and dollar limit delegations to other employees, as recommended by HUD.

For the five purchase orders analyzed, we found that the Director of Operations approved the purchases, but had not been given a formal delegation to perform the purchasing activities. For the three contracts, in each case the Modernization Coordinator signed the contract as the Authority representative; however, the Modernization Coordinator had not been given a formal delegation to enter into contracts for the Authority. HUD requirements also state that a housing authority contract is not valid unless an authorized Contracting Officer has signed it. Therefore, these contracts could be considered invalid. Formal delegations of authority, including dollar limitations, are

necessary to ensure Authority staff perform their procurement functions within the limits prescribed by the Board of Commissioners and/or the Executive Director. Further, proper delegations are necessary to protect HUD, the Authority, and Authority employees in the case of any legal actions related to the purchases.

Contracts Did Not Protect  
Authority's or HUD's  
Interests

For all three contracts reviewed, the Authority made the purchases using the contract provided by the vendor instead of a contract developed by the Authority. None of these contracts contained or made reference to the clauses required by federal regulations when federal funds are used to contract for goods and services. Standard contracts that meet federal requirements are necessary to ensure the Authority's and HUD's interests are properly protected.

Written Contract  
Modifications Not Used

The Authority increased the scope of work to be performed and the related costs without proper contract modifications. According to both the Authority's and HUD's requirements, contract modifications must be in writing and properly approved. We found that the Authority increased the scope of work and related costs for 2 of the 3 contracts, but did not document the increases in formal contract modifications.

For Contract B, the contract file indicated the Authority significantly increased the scope of services and related costs, but did not document the increases in formal contract modifications. In addition, the contract file did not contain an explanation for the increases or the related costs. The original contract was issued for renovation of a tenant mail room, at an agreed upon price of \$28,792. The Authority ultimately paid the contractor \$37,646. According to the Modernization Coordinator, the contractor encountered unforeseen problems that increased the scope of work and related costs. Also, the Authority increased the scope of services and related costs to include renovation of a manager's office. Therefore, the contract was increased significantly without formal contract modifications.

For Contract A, the contract file indicated the Authority significantly increased the scope of services and related costs, but did not document the increases in formal contract modifications. As in Contract B, the Authority's documentation did not contain an explanation for the increases or the related costs. The original contract stated the

agreed upon price was \$30,925. The Authority paid the contractor this amount in July 1999, but paid the contractor an additional \$19,124 (\$9,562 in October and \$9,562 in November 1999) under the same contract. The contract file contained a certification from the engineering firm acting as the Authority's agent that referred to contract modifications, but the Authority's file did not contain any formal modifications. The only documentation supporting the additional work and costs was a basic invoice from the contractor that totaled the additional costs of \$19,124. Even though the Authority used an agent on this purchase, the Authority remained responsible for approving increases in services and related costs through contract modifications. Formal contract modifications are needed to ensure the additional work is necessary, related costs are reasonable, and competition is not circumvented.

Procurement Histories  
Were Inadequate

The Authority's contract files did not contain adequate histories of the procurements, although required by both the Authority's Procurement Policy and federal regulations. As previously mentioned, for Contract A, the Authority enlisted the assistance of an engineering firm to accomplish the repairs needed on a retaining wall. The engineering firm, as the Authority's agent, performed a significant portion of the contracting process for the Authority. However, the Authority's documentation for the contract should have provided a complete history of the procurement, but did not.

The firm originally solicited bids from three contractors, but informed the Authority it received no response from two contractors and a negative response from the third. The Authority's files did not contain a copy of the refusal letter from the one responding contractor; therefore, the Authority has no assurance the response was indeed negative. Although the firm recommended a fourth contractor, the Authority's files did not contain documentation of the firm's evaluation and recommendation of the fourth contractor. In addition, the scope of work and related costs were increased, but the file did not contain justification for these increases. An increase of nearly \$20,000 should have been fully explained and properly approved in the Authority's documentation; however, the file did not contain a formal contract modification.

The contract file for Contract B was also incomplete. As previously mentioned, the file did not contain an independent cost estimate used in evaluating the bids. The file also did not contain formal contract modifications when the scope of services and related costs were increased. Complete procurement histories are critical to effective management of the Authority's procurement process to ensure the procurement was conducted within the applicable requirements and guidelines.

#### Lack of Central Contract Register

The Authority did not have a central contract register available to monitor all contracts in force at any point in time. During our review, the Modernization Coordinator prepared a contract register, but the register included only those contracts within the Coordinator's responsibility. The Executive Director told us that the Authority had not implemented a centralized contract register. Central contract registers help the Authority monitor its contracts to ensure it is rotating contractor selections, therefore practicing full and open competition. A centralized contract register can also help monitor contract data, such as the timeframes and amounts of all contracts.

#### Auditee Comments

Excerpts from the Executive Director's comments on our draft finding follow. Appendix B contains the complete text of the comments.

The Authority concurs with the facts of this finding and intends to become fully compliant with the rules and regulations governing public procurements and the agency's procurement policies as soon as possible. Each deficient area will be addressed by the development of written procedures and identification/provision of staff training needs. The Authority will practice full and open competition on all procurements and will develop and include an independent cost estimate in each procurement file, whenever possible. The Authority also will: develop, adopt and institute the use of a standard construction contract form; use a formal means of contract modification effective immediately and develop, adopt and institute the use of a standard form; develop, adopt and institute the use of a standard procurement file checklist; and develop a central contract register that provides basic information on all contracts in force.

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OIG Evaluation of  
Auditee Comments

The actions the Authority has taken and planned should correct the problems identified in this finding if the actions are followed through to completion.

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Recommendations

We recommend the Director, Office of Public Housing, ensure the Housing Authority of Independence:

- 5A. Adequately trains procurement personnel and requires them to follow all applicable procurement policies, procedures and regulations.
- 5B. Is practicing full and open competition by enforcing solicitation of at least three bids for procurements over \$25,000.
- 5C. Requires development and use of independent cost estimates for evaluating bids received, whenever possible.
- 5D. Develops and implements formal delegations of authority for procurement, including dollar limits for each delegation.
- 5E. Uses a standard contract which includes the necessary information required by federal regulations, including the required procurement clauses.
- 5F. Enforces the use of formal contract modifications for any changes in scope of work and/or increases in related costs.
- 5G. Develops and implements a checklist of all documents to be maintained in individual contract files to present a complete history of the procurement.

- 5H. Develops and implements a central contract register that provides basic information on all contracts in force.

# The Authority Lacked Adequate Control Over Its Section 8 Program

The Housing Authority of Independence did not have an acceptable system of controls over its Section 8 program. The Authority did not: 1) have policies and procedures to ensure that Housing Assistance Payments made to landlords were appropriate; 2) update its Section 8 eligibility/waiting list timely; 3) adjust its books and records to properly reflect Section 8 checks returned to the Authority; and 4) follow up on outstanding Section 8 checks. These weaknesses occurred because the Authority's management did not fulfill its responsibility to establish and implement effective internal controls over the Section 8 program. This lack of effective controls caused the Authority to overpay landlords, forced unnecessary delays on potential Section 8 tenants, and allowed outstanding disbursements to remain unresolved. Adequate controls are necessary to ensure Section 8 payments are proper and the Authority's books and records accurately reflect Section 8 financial information.

## HUD Requirements

24 CFR Part 85.20 (b)(3) requires financial management systems of other grantees and subgrantees to provide effective control and accountability for all grant and subgrant cash, real and personal property, and other assets.

24 CFR Part 85.22 (b) requires State, local, and Indian tribal governments to follow the Office of Management and Budget Circular A-87, Cost Principles for State and Local Governments. A public housing authority is a local government according to 24 CFR Part 85.3.

## Office of Management and Budget Requirements

Office of Management and Budget Circular A-87, Attachment A, paragraph A(2)(a)(1) states that housing authorities are responsible for the efficient and effective administration of federal awards through the application of sound management practices.

## Authority Overpaid Section 8 Landlords

The Authority did not have policies and procedures to ensure that Section 8 Housing Assistance Payments to landlords ceased when the tenants moved out of the subsidized units. To test the appropriateness of Housing Assistance Payments, we analyzed the Authority's move-out data and Section 8 subsidy payments for 15 former tenants. These tenants moved out of the subsidized units between January 1, 1999 and August 14, 2000. We found that the Authority overpaid landlords for 2 of the 15 former

tenants because it continued to provide subsidy payments after the tenants moved out of the units. The Authority continued to make subsidy payments for two months for one former tenant and one month for the other former tenant, causing a total overpayment of \$879. As of the end of our review, the Authority had begun efforts to recoup the overpayments. Policies and procedures are needed to ensure the Authority does not provide subsidy payments that are not owed to landlords.

Authority Did Not Timely Update Eligibility/Waiting List

The Authority did not have policies and procedures to ensure it updated its eligibility/waiting list for potential Section 8 tenants in a timely manner. We analyzed the Authority's move-out and eligibility/waiting list data for the 15 former tenants previously mentioned, and found that the Authority did not remove 2 of the 15 individuals from the eligibility/waiting list in a timely manner. In one case, the Authority allowed the former tenant to remain on the list for 10 months longer than necessary, and 3 months for another tenant. Waiting lists should be timely updated to avoid delays caused when attempts are made to contact individuals who should not be on the list.

Authority Did Not Adequately Resolve Section 8 Checks Returned to Authority

The Authority did not adequately resolve Section 8 checks that were returned uncashed. When the Section 8 department received returned checks, the employees placed the uncashed checks in the Section 8 vault without notifying the Accounting department. As a result, these checks remained on the Authority's books and records as outstanding even though they were in the Authority's possession.

From the May 31, 2000 list of outstanding Section 8 checks, we selected and reviewed 25 checks outstanding more than two months after issuance. We found that 8 of the 25 were returned to the Authority uncashed and held in the Section 8 department vault. Of these eight, we found that three were returned because the tenant no longer lived in the unit, one was returned by the landlord because the tenant's lease was not renewed, and one was returned but reissued under another check number. We could not determine the reason the remaining three checks were returned uncashed.

Although the Section 8 supervisor did not ensure the checks were voided from the Authority's books, the supervisor made manual adjustments to the related landlord accounts

Authority Did Not Follow  
Up On Outstanding  
Section 8 Checks

to reflect that the landlord did not negotiate the check. She made the landlord account adjustments to ensure that the Internal Revenue Service Forms 1099 correctly reported the Authority's payments to the individual landlords. However, the Authority's accounting system is set up to automatically adjust landlord payment histories when checks are properly voided. Therefore, when the Authority properly voids the checks, the system will automatically duplicate the adjustments to individual landlord accounts and understate the payments made. Proper controls over returned checks are necessary to ensure disbursements are properly recorded on the Authority's books and records.

The Authority's fee accountant performed the monthly bank reconciliation for the Section 8 bank account and provided a list of outstanding checks to the Authority. However, the Authority did not research and resolve the outstanding checks. We found that checks outstanding more than two months nearly doubled from July 31, 1999 through May 31, 2000. The number and value of outstanding checks increased from 60 checks totaling \$10,549 to 113 checks totaling \$20,674.

As previously mentioned, we analyzed 25 Section 8 checks included on the May 31, 2000 outstanding checks list. We analyzed checks that had been outstanding for more than two months. In addition to the eight checks that were returned uncashed, we found:

- 6 were never received by the landlords;
- 4 remained outstanding as of July 31, 2000;
- 4 had "stop payment" orders issued by the Authority, but the Authority had not properly voided the check in its accounting system; and
- 2 were negotiated after the May 31, 2000 bank reconciliation and were no longer outstanding.

We were unable to determine the reason the remaining check was outstanding. As a result, we concluded the Authority lacked adequate control over its Section 8 payments.

We also noted that the Authority's checks did not contain a notice to the payee that the checks were valid for a limited period of time. Therefore, payees were not encouraged to cash the checks in a timely manner. Policies and

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procedures are needed to ensure the Authority researches and resolves the outstanding checks, and does not miss an opportunity to possibly identify internal control problems that have allowed the issuance of improper payments.

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### Auditee Comments

Excerpts from the Executive Director's comments on our draft finding follow. Appendix B contains the complete text of the comments.

Policies and procedures are in draft that will ensure elimination of overpayments to landlords and timely removal of families from the waiting list. Staff will conduct an in-house audit of landlord payment data as compared to tenant move-out data for the fiscal years ended 1999, 2000 and 2001, and, when applicable, take steps to recoup overpayments. Policies and procedures will be developed and implemented to provide for adequate review of monthly bank reconciliations, a follow-up process on outstanding disbursements, and coordination between the Section 8 and Accounting departments regarding any returned disbursements. Staff will adjust the agency's books and records to properly account for the voided disbursements held in the Section 8 vault and will develop and implement written procedures for processing future voided disbursements. When ordering replacement check stock, we will ask the printer to imprint an expiration date on the checks that reflects the policy of the subject bank.

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### OIG Evaluation of Auditee Comments

The actions the Authority has taken and planned should correct the problems identified in this finding if the actions are followed through to completion.

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### Recommendations

We recommend the Director, Office of Public Housing, ensure the Housing Authority of Independence:

- 6A. Develops and implements Board-approved policies and procedures that ensure elimination of overpayments to landlords and removal of tenants from the eligibility/waiting list in a timely manner.

- 6B. Compares move-out data to landlord payment histories for years 1998 through 2000, and recoups overpayments.
- 6C. Develops and implements Board-approved policies and procedures that adequately address resolution of outstanding checks. These policies and procedures should include requirements to review the monthly reconciliations and follow up on outstanding checks, and coordinate efforts between the Section 8 and Accounting departments regarding any returned checks.
- 6D. Properly adjusts its books and records for the voided checks held in the Section 8 vault and adjusts the individual landlord accounts accordingly.
- 6E. Encourages timely redemption of checks by limiting the time period for which a check is valid.

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# The Authority Needs to Improve Its Human Resource Function

The Housing Authority of Independence needs to improve its human resource function by: 1) updating job descriptions; 2) taking a proactive approach to employee training needs; 3) tracking training attended; and 4) improving communication and flow of information among its staff. Efficient and effective human resource functions are essential to an organization's success. An effective human resource function helps ensure key employees who are instrumental in operating the Authority's programs are properly trained and retained.

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## HUD Guidance

HUD Guidebook 7460.9G, is not required of housing authorities, however, housing authorities are encouraged to use the guidebook to conduct self-evaluations of their operations. Section 1.A. of the guidebook states that organization, management and personnel are functions that lead and direct the activities of the housing authority, providing the framework within which the other functions are performed. These functions help assure that the housing authority meets its fundamental objective of serving its customer, the residents. Section 2.C. says that management must ensure that critical tasks are completed timely and properly. A housing authority's operational activity can be viewed as a series of processes. Housing authorities need to be able to manage processes by managing the interface between departments to ensure the departments work together to complete the processes.

Section D.2. says that management must ensure housing authority employees have the skills necessary for the authority to succeed. This section also says that evaluation of employees by their supervisors, usually in the form of some periodic, at least annual, performance report is an important function for ensuring accountability and assessing and addressing employee skills development needs. The housing authority should ensure that employee evaluations are based on identifiable targets and that evaluations are fair. In addition, accurate descriptions of the duties of positions in the organization are necessary for purposes of recruitment and employee evaluation.

Other Guidance

The Committee of Sponsoring Organizations of the Treadway Commission published a report, “Internal Control Integrated Framework,” that outlines the components of an effective control environment.

One of these components addresses the entity’s commitment to competence. The report points out that management must specify the level of competence needed for particular jobs and translate the desired levels of competence into requisite knowledge and skills. Management may specify the competence needed in formal or informal job descriptions.

A second component, organizational structure, addresses the need for adequate definitions of key managers’ responsibilities and their understanding of these responsibilities. Further, managers must have the required knowledge, experience and training to perform their duties. Also part of this component, an effective organizational structure facilitates the flow of information upstream, downstream and across all business activities.

A third component, assignment of authority and responsibility, addresses the need for assignment of responsibility, delegation of authority and establishment of related policies to provide a basis for accountability and control, and defining individuals’ respective roles.

In addition, a fourth component, human resource policies and practices, addresses the need for supervisory personnel to meet periodically with employees to review job performance and suggestions for improvement.

Finally, a fifth component, management’s philosophy and operating style, points out that an effective control environment includes frequent interaction between senior management and staff, such as through group or divisional management meetings.

Authority Needs to Update Job Descriptions

The Authority did not always have job descriptions in place that accurately reflected the duties performed by its employees. We interviewed seven key employees, and three expressed concerns that their job descriptions did not adequately describe the duties they performed. Two of the employees said additional responsibilities were added to their job duties, but their job description had not been

updated to include the additional responsibilities. The third employee said she was hired to fill a newly created position and the job description was no longer accurate because the job duties had evolved over time.

Although job descriptions should be general enough to define basic job duties, the descriptions must be detailed enough to provide adequate guidance for employees to perform the duties within their realm of responsibility. Accurate job descriptions eliminate confusion as to assigned duties and help ensure employees are evaluated on their assigned responsibilities when undergoing performance evaluations.

#### Proactive Approach to Training Needed

The Authority did not have formal procedures to identify the training needs of its employees, but relied on an informal process. The process in place consisted of managers identifying training opportunities and offering the training to staff, or staff identifying training and requesting approval to attend. Although this process provided an avenue to training, it did not ensure necessary training was identified and made available. Three of the seven key employees had not been fully trained on the HUD programs they administered or on the computer programs used by the Authority. Formal procedures to identify and obtain needed training provides the Authority and HUD assurance that employees are adequately trained to properly administer HUD programs.

#### Proper Tracking of Training Needed

The Authority did not have formal procedures to track training attended by its employees. We reviewed the personnel files of 12 employees (7 current and 5 former) and determined the files were not complete. The Authority's annual report for the period April 1, 1996 through March 31, 1998 listed training taken by the 12 employees; however, not all of the training was reflected in the employees' personnel files.

During our review, the Administrative Assistant to the Executive Director developed a process to track training; however, the process was not implemented as a formal procedure. Accurate and up-to-date training records provide the Authority and HUD assurance that Authority employees are qualified to perform their job duties and are provided continuing education to stay abreast of new regulations and information.

Communications and  
Flow of Information Need  
Improvement

The newly hired Executive Director has improved communications and flow of information. For example, recently implemented departmental meetings have improved coordination of Authority operations among employees. In addition, the current Executive Director provides detailed financial information to the Board of Commissioners at the monthly Board meetings, a practice not followed by the former administration. The Executive Director also has implemented a policy of allowing employee feedback on Authority operational issues. This has improved employee morale by making them more a part of the management team.

Although the current administration improved communication and the flow of information, the Authority needs to continue to expand such improvements. For example, communication between senior management and the staff needs to be improved. Department managers had differing opinions on whether attendance at the monthly Board of Commissioner meetings was mandatory. Two of the five key management employees said they did not attend Board meetings and did not consider attendance at the meetings mandatory. However, the other managers believed the meetings were mandatory for management personnel. The confusion over attendance at Board meetings occurred because the current administration did not clarify the last administration's practice of limited attendance.

Since managers of various areas need to be aware of the Authority's overall direction, we believe participation in monthly Board meetings is essential to effective operations. Additionally, joint meetings help ensure managers work together as a team to accomplish the Authority's goals.

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**Auditee Comments**

Excerpts from the Executive Director's comments on our draft finding follow. Appendix B contains the complete text of the comments.

Review of all job descriptions is underway at this time. Thus far, every employee has been provided a copy of their job description and asked to submit feedback to management regarding what they feel needs to be changed. Written policies and procedures setting forth the processes to be

followed by supervisory and administrative staff for identifying and fulfilling employee training needs will be adopted and implemented. As noted by the OIG audit staff in the finding, the Administrative Assistant to the Executive Director has developed temporary procedures for tracking and scheduling staff training needs, and documentation that the training was attended. Formal policies and procedures will be adopted and implemented. We agree that regular joint management staff meetings help ensure managers work together as a team to accomplish the agency's goals and will continue that practice. In fact, each program manager is also holding regular meetings of their staff for the same reasons. We also agree that frequent effective communication between staff levels and between management and the Board is vital to the success of the organization. However, as we believe that mandatory management staff attendance at all monthly Board meetings is an option for the Board to consider, we are not prepared to state at this time that this requirement will be adopted as policy.

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## OIG Evaluation of Auditee Comments

Our review showed that employees were performing major functions that were not included in their job descriptions. For example, the Accounting Assistant had been performing major functions for the last year that were previously performed by the site managers. These additional job duties were not included in the employee's job description in effect at the time.

In its comments, the Authority indicated it is the Board's decision as to whether attendance of key managers at the Board meetings should be mandatory. We believe key managers gain valuable information and experience from attending Board meetings and feel part of the team when participating in high-level management meetings. Therefore, we recommend that the Authority require attendance by management when feasible.

The actions planned and taken by the Authority should correct the problems identified in the finding if the actions are followed through to completion.

Recommendations

We recommend the Director, Office of Public Housing, ensure the Housing Authority of Independence:

- 7A. Updates job descriptions to reflect the actual duties performed, and develops a procedure to keep job descriptions current.
- 7B. Develops and implements Board-approved policies and procedures to identify and fulfill the training needs of employees.
- 7C. Develops and implements Board-approved policies and procedures to track training attended, including requirements for proper documentation that training was attended.
- 7D. Requires key managers to attend Board of Commissioners meetings.

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# Management Controls

In planning and performing our audit, we considered the management controls of the Housing Authority of Independence to determine our auditing procedures, not to provide assurance on the controls. 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.

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## Relevant Management Controls

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

- Developing and implementing policies and procedures that reasonably ensure programs meet objectives.
- Assuring effective management information and accounting systems.
- Assuring compliance with laws and regulations.
- Assuring appropriate expenditure of federal funds.
- Safeguarding resources.

We assessed the relevant controls identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

## Significant Weaknesses

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

- The Authority did not always have written policies and procedures for its operations. Additionally, where policies did exist, they were not always complete, approved by the Board of Commissioners, or enforced (see Finding 1).

- The Authority did not properly disclose or monitor its investments, causing incorrect reporting of its financial condition. Specifically, public housing assets were overstated \$60,644 for fiscal year ended March 31, 1999, and Section 8 assets were overstated by \$35,298 for fiscal year ended March 31, 1999 and \$36,079 for the month ended April 30, 2000 (see Finding 2). In addition, the Authority did not resolve deficiencies identified in its financial statement audit for fiscal year ended March 31, 1999. The independent auditor reported that the account balances for three tenant-related subsidiary accounts did not agree with the general ledger account balances at the end of the fiscal year (see Finding 3).
- The Authority's Board of Commissioners did not always comply with regulations of a Missouri statute that governs the conduct of public meetings (see Finding 4).
- The Authority did not have an acceptable system of controls over its Section 8 program; and, as a result, overpaid landlords and allowed outstanding checks to remain unresolved (see Finding 6).
- The Authority did not practice proper cash management, causing \$33,610 in cash resources to remain in bank accounts, drawing minimal interest revenue, when these funds could have been put to better use. In addition, the Authority did not segregate duties for the collection, recording and depositing of receipts, or for the control of its fixed asset inventory (see Finding 2).

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# Follow Up On Prior Audits

This is the first Office of Inspector General audit of the internal controls of the Housing Authority of Independence, Missouri.

# Schedule of Questioned Costs

<u>Issue</u>	<u>Type of Questioned costs</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
Section 8 Overpayments (Finding 6)	\$879	

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract or Federal, State or local policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

# Auditee Comments

**THE HOUSING AUTHORITY**  
OF  
THE CITY OF INDEPENDENCE, MISSOURI



October 10, 2000

Ms. Kim Randall – Senior Auditor  
Office of Inspector General  
U.S. Department of Housing  
And Urban Development  
Gateway Tower II – 5<sup>th</sup> Floor  
400 State Avenue  
Kansas City, KS 66101-2406

**RE: CERTIFICATION OF AUDIT FINDING RESPONSES**

Dear Ms. Randle:

The purpose of this letter is to certify that the seven electronic files forwarded to your office labeled "Finding 1 Response" through "Finding 7 Response" represent the Independence Housing Authority's responses to all of the Office of Inspector General's audit findings and are true and accurate statements, to the best of my knowledge.

I would like to thank you and your team members for your courtesy and professionalism during the audit process. As always, please do not hesitate to call or e-mail with any questions or concerns regarding this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward F. Miller", is written over a horizontal line.

Edward F. Miller  
Executive Director

*Central Office  
210 South Pleasant  
Independence, Missouri 64050  
Telephone: (816) 836-9200 FAX: (816) 833-4890*

## Finding No. 1. – The Authority Lacked Policies and Procedures for Its Operations

### PHA Response

- 1A. The PHA concurs that there are several major areas of operation within which policies and implementing procedures need to be developed. The majority of the agency's deficiencies in policies and/or procedures are addressed within responses to other specific OIG findings. To summarize, the PHA will develop, adopt and implement policies and procedures to address all areas of deficiency by March 31, 2001. Deficient areas the PHA will address include disbursements, receivables and cash, inventory, investments, human resources, grant administration, Board of Commissioners and Management Information Systems, and any other deficiencies that come to light during this process.
- 1B. The PHA will evaluate and amend, as appropriate, existing policies and procedures by March 31, 2001.
- 1C. All new or revised policies and procedures will be presented to the Board of Commissioners for consideration of approval, including any such changes implemented by Executive Order, no later than March 31, 2001. However, as it is the Executive Director's responsibility to ensure that the PHA operates in compliance with all applicable Federal, State and local rules, regulations and ordinances, he will not delay implementing changes in policy or procedure until formal Board approval has taken place where a clear violation of any such rules, regulations or ordinances may be occurring. Likewise, the Executive Director will not be compelled to implement any policy or procedure adopted by the Board of Commissioners that would, if implemented, clearly be in violation of any such rule, regulation or ordinance, or that would not be ethical. The Executive Director acknowledges also having the responsibility to keep Commissioners informed regarding applicable rules, regulations and ordinances, and any potential conflicts proposed policies or procedures may have with those rules, regulations or ordinances.
- 1D. It is the Executive Director's responsibility to enforce PHA Board policies. The Executive Director acknowledges that there are several instances where the agency's procurement policies have not been followed appropriately. The Executive Director is taking steps to ensure future compliance with policy.

## Finding No. 2. – The Authority Lacked Control of Assets

### PHA Response

- 2A. We concur that the agency's cash management strategies and Board-approved policies (i.e.; Investment Policy dated 4/14/94) and procedures need to be upgraded and implemented as soon as possible. Staff is currently drafting revised policies and procedures for Board approval. The revised policies and procedures will include standardized guidance for purchasing, tracking, adjusting and liquidating investment accounts, all designed to ensure accurate recording and reporting, as well as to maximize investment income. These policies and procedures will be in place no later than 1/16/01.
- 2B. Staff and the Fee Accountant are currently researching the histories of existing investment accounts in order to resolve discrepancies and facilitate appropriate adjustments to the agency's books to accurately portray its investment portfolio. Some of this research and resulting adjustments were accomplished during the time the OIG audit team was on site. Staff is currently setting up each investment in an interactive Excel spreadsheet ledger. The entire history of each current investment is being entered into this ledger, which will, when completed, be able to portray the agency's investment portfolio and position at any given point in time (within the limits of the aforementioned history). This spreadsheet ledger will be completed no later than 11/17/00. The independent auditor will be able to verify this accomplishment in November.
- 2C. All agency savings and escrow accounts are being set up in the above noted spreadsheet and will be evaluated/dissolved as appropriate during this process.
- 2D. The aforementioned spreadsheet will serve as our investment register, as the entire history of each investment will appear on that investment's ledger sheet.
- 2E. Policies and procedures are in draft whereby the duties of collecting, recording and depositing tenant and non-tenant receipts will be divided between three staff members, with each person's work verified by at least one of the other three persons. PHA management has already instituted this process on a temporary basis, pending Board approval of the final policies and procedures. We plan to have the final policies and procedures approved by 12/31/00.
- 2F. Written procedures will be in place by 12/31/00, which properly segregate the responsibilities and control of fixed asset inventory, and adequately implement the Disposition Policy adopted by the Board in 1996.
- 2G. Written policies and procedures are in development that will insure proper documentation of annual physical inventory counts as well as provide an accurate audit trail. These policies and procedures will be in place by 1/31/01.

### Finding No. 3. – The Authority Did Not Resolve Deficiencies in its Financial Statements

#### PHA Response

- 3A. The deficiencies noted in the FYE 1999 independent audit have been resolved, meaning that as of the compilation of FYE 2000 (March 31, 2000) Tenant Accounts Receivable data, the general ledgers maintained locally and by the fee account balanced. The independent auditor will verify this fact during the FYE 2000 audit in November.

### Finding No. 4. - Board of Commissioners Did Not Always Comply With Missouri Statute

#### PHA Response

We concur with the recommendations regarding the need for Commissioner training in proper Board conduct of business under the “Missouri Sunshine Law” and the need for written procedures for routinely auditing and updating the Commissioner’s Handbook, including updating the office copy of the Handbook. Further, we believe educating new Commissioners on all aspects of Commissioner responsibilities will be expedited by developing and implementing a written Commissioner orientation and training policy.

Specifically, the OIG recommendations have been and/or will be addressed as follows:

- 4A. Each Commissioner was hand delivered a copy of this OIG audit finding and a copy of the “Missouri Sunshine Law” on Friday, September 8, 2000. In addition, a qualified professional will be commissioned to provide the Board with “Sunshine Law” training as soon as practical, but no later than December 31, 2000. Written policies and procedures regarding new Commissioner orientation and training will be developed and implemented as soon as practical, but no later than December 31, 2000.
- 4B. The agency’s By-Laws will be revised to incorporate the Board policy of conducting meetings in compliance with the “Sunshine Law” as soon as practical, but no later than December 31, 2000.
- 4C. Written policies and procedures regarding updating Commissioner’s Handbook, including the office copy of the handbook, will be developed and implemented as soon as practical, but no later than December 31, 2000.

- 4D. The Commissioner's Handbook will be revised to include a copy of the law and written guidance regarding the conduct of Board meetings in compliance with the "Sunshine Law," no later than December 31, 2000.

General

The Administrative Assistant to the Executive Director will establish a written method of tracking these tasks and reporting achievement, no later than October 31, 2000.

## Finding No. 5. – The Authority Needs to Improve Controls Over Its Procurement Processes

### PHA Response

#### **General**

The PHA concurs with the facts of this finding and intends to become fully compliant with the rules and regulations governing public procurements and the agency's procurement policies as soon as possible. The current administration believes that virtually all of the issues raised in this finding directly relate to the absence of written procurement procedures designed to ensure, when followed to the letter, full compliance with such rules, regulations and policies, and/or to the apparent lack of knowledge of acceptable procurement processes/documentation on the part of involved staff. Therefore, whether stated or not in the following individual responses, each deficient area will be addressed by the development of written procedures and identification/provision of staff training needs.

#### **Individual Responses**

- 5A. The PHA will identify the training needs of each staff member involved in any procurement activity and will ensure that those training needs are met as soon as practical. Although the majority of this training will most probably need to be accomplished on-site, the PHA will make every effort to find and procure formalized training from public procurement "experts" for specialized staff to attend by no later than March 31, 2001.
- 5B. The PHA will practice full and open competition on all procurements from this day forward, including requiring at least three bids or quotations (as appropriate to the solicitation) on procurements over \$25,000. The Executive Director (Contracting Officer), on October 6, 2000, issued a written directive to key management staff requiring full compliance with procurement policies. (directive attached)
- 5C. From this day forward, the PHA will develop and include an independent cost estimate in each procurement file, whenever possible. (see directive)
- 5D. The Board has adopted a policy (attached) that establishes the Executive Director's procurement approval authority at up to \$25,000, and requires Board approval for any procurement exceeding that amount, except in cases of emergency. The Executive Director will evaluate the approval levels necessary to allow each key management member to accomplish their jobs as efficiently as possible and formally delegate such authority by November 30, 2000.
- 5E. The PHA will develop, adopt and institute the use of a standard construction contract form by November 30, 2000.

- 5F. The PHA will use a formal means of contract modification effective immediately and will develop, adopt and institute the use of a standard form for this purpose by November 30, 2000.
- 5G. The PHA will develop, adopt and institute the use of a standard procurement file checklist by November 30, 2000.
- 5H. The PHA will develop a central contract register by December 31, 2000, that provides basic information on all contracts in force.

October 6, 2000

**TO: RICHARD FUGATE, DAWN RUTH, DOROTHY BUCK  
JOE ANN DAUGHERTY AND DON WAKEFIELD**

**FROM: ED MILLER**

**SUBJECT: DIRECTIVE REGARDING PROCUREMENT ACTIVITIES**

**Background**

Attached you will find two documents: a draft of the OIG auditor's finding regarding deficiencies in our past procurement activities and a copy of my response to the OIG on this finding. If you haven't already, I please read the draft finding in detail so you understand the issues and problem areas, and then read the response. Note that I have made several commitments on behalf of the agency, not the least of which is that we will accomplish our procurements legally now and in the future. Specifically note the response to item 5B, wherein I state that staff is being directed to fully comply with the procurement policies. The following is that directive.

**Directive**

All key management staff members are hereby directed to familiarize themselves with the agency's procurement policies and to conduct, and ensure their subordinates conduct, any and all procurement activities in full compliance with those policies. If you do not have a copy of the policies, you may request a copy from Kelly Creek. If you find any process or requirement in those policies that you do not understand, request direction from me before proceeding with any purchase.

**Closing**

As I am sure you will note in the response, we are committed to accomplishing several task within a specified time line, including developing written procurement procedures by March 31, 2001. I will be communicating with management staff over the next few weeks as we progress toward accomplishing each of those tasks.

Thank you in advance for your cooperation in complying with this directive.

**RESOLUTION NO. 938**

**A RESOLUTION OF THE BOARD OF COMMISSIONERS OF THE HOUSING AUTHORITY OF THE CITY OF INDEPENDENCE, MISSOURI, REVISING THE HAI PROCUREMENT POLICY ADOPTED BY RESOLUTION NO. 573 AND PREVIOUSLY REVISED BY RESOLUTION NO. 822.**

**WHEREAS**, the agency’s current Procurement Policy delegates all purchasing authority to the Executive Director and establishes no approval level threshold above which procurements must be approved by the HAI Board; and

**WHEREAS**, the HAI Board desires to establish an approval threshold for the Executive Director:

**NOW, THEREFORE, BE IT RESOLVED BY THE HAI GOVERNING BODY that the HAI Procurement Policy shall be revised as follows:**

1. Subparagraph 9. is hereby added to section II. paragraph B., such subparagraph to state: “The Executive Director shall have the authority to approve and/or delegate the authority to approve any single procurement action totaling less than \$ 25,000.”; and
2. The sentence “The Board must approve any and all single procurement actions totaling \$25,000 or more, except in cases where the exigencies of an emergency situation do not allow adequate time for the Executive Director to secure Board approval prior to committing the HAI to contracts in excess of \$25,000, in which cases the Executive Director shall make timely full disclosure to the Board the justifications and costs of such procurements.” shall be added to the existing language appearing at section II, paragraph C.

**THIS RESOLUTION IS ADOPTED** this 27<sup>th</sup> day of June, 2000, and is effective immediately upon its adoption.

\_\_\_\_\_  
Cathleen Cackler-Veasey, Chairperson

Attest:

\_\_\_\_\_  
Edward F. Miller, Secretary

SEAL

Finding No. 6. – The Authority Lacked Adequate Control Over Its Section 8 Program

PHA Response

- 6A. Policies and procedures are in draft that will ensure elimination of overpayments to landlords and timely removal of families from the waiting list. These policies and procedures will be implemented as soon as possible, but no later than December 31, 2000.
- 6B. Staff will conduct an in-house audit of landlord payment data as compared to tenant move-out data for the FYE 1999, 2000 and 2001 fiscal years, and, when applicable, take steps to recoup any overpayments to landlords. The audit will be completed by February 28, 2001, and, if necessary, the process to recoup any overpayments will be implemented by March 31, 2001.
- 6C. Policies and procedures will be developed and implemented as soon as possible, but no later than December 31, 2000, to provide for adequate review of monthly bank reconciliations, a follow-up process on outstanding disbursements and coordination between the Section 8 department and Accounting regarding any returned disbursements.
- 6D. Staff will adjust the agency's books and records, including the applicable landlord accounts, to properly account for the voided disbursements held in the Section 8 vault by October 31, 2000, and will develop and implement written procedures for processing future voided disbursements that will prevent discrepancies in the future.
- 6E. When ordering replacement check stock, we will ask the printer to imprint an expiration date on the checks that reflects the policy of the subject bank. This cannot be totally implemented until all check stock has been replaced, which we anticipate to occur over the next six to nine months.

## Finding No. 7. – The Authority Needs to Improve Its Human Resource Function

### PHA Response

#### General

We agree that to be most efficient an employer must have current job descriptions, identify employee training needs, ensure that those training needs are met, and require employees to be accountable for attending training sessions.

However, we also believe it is counterproductive to attempt to include every possible task assignment in a person's job description or to represent to staff that all potential task assignments appear in their job description. In order to function effectively, any manager must have the authority and flexibility to temporarily assign subordinates tasks that do not appear on their job description. We can envision no other employee statement more detrimental to management authority, over-all employee morale or agency efficiency than "I don't have to do that because it's not in my job description."

Further, there are occasions where an employee's tasks are changed on a test basis, to determine whether the changes should be made permanent. It would be unreasonable to expect that job description to be changed and then changed again, when the change(s) in task assignment prove unsuccessful. First we see if the change works, then we revise the job description. This agency has been testing several of these types of staff responsibility reassignments for the past few months. Virtually all of these test changes are being evaluated as potential improvements in either staff efficiency or customer service, or both. We will agree that the entirety of some peoples' assigned tasks do not exactly match their "approved" job description. We don't agree that it's always wrong, however.

Our responses to the individual components of this finding are:

- 7A. Review of all job descriptions is underway at this time and should be completed by November 30, 2000. Thus far, every employee has been provided a copy of their job description and asked to submit feedback to management regarding what they feel needs to be changed. To date, we have received feedback from about 75% of all employees. Procedures will be developed and implemented by February 28, 2001, wherein job descriptions are annually reviewed at the same time that the annual evaluation of job classifications and pay ranges are under review.
- 7B. Written policies and procedures setting forth the processes to be followed by supervisory and administrative staff for identifying and fulfilling employee training needs will be adopted and implemented by February 28, 2001.

- 7C. As noted by the OIG audit staff in the finding, the Administrative Assistant to the Executive Director has developed temporary procedures for tracking and scheduling staff training needs, and documentation that the training was attended. Formal policies and procedures will be adopted and implemented by February 28, 2001.
- 7D. We agree that regular joint management staff meetings help ensure managers work together as a team to accomplish the agency's goals and will continue that practice. In fact, each program manager is also holding regular meetings of their staff for the same reasons. We also agree that frequent effective communication between staff levels and between management and the Board is vital to the success of the organization. However, as we believe that mandatory management staff attendance at all monthly Board meetings is an option for the Board to consider, we are not prepared to state at this time that this requirement will be adopted as policy.

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