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Audit Case Number	96-CH-202-1008

TO: Richard B. Kruschke, Director, Office of Public Housing, Illinois State Office

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Rock Island Housing Authority
Low-Income Housing Program
Rock Island, Illinois

We completed an audit of the Rock Island Housing Authority. We conducted the audit at the request of HUD's Illinois State Office. Our audit objectives were to determine whether the Authority administered its housing activities in an efficient, effective, and economical manner and in compliance with the terms and conditions of the Annual Contributions Contract, applicable laws, HUD regulations, and other applicable directives. The audit did not include the Section 8 Program.

While the Rock Island Housing Authority is striving to improve its procedures, the Authority can do more to improve the administration of its programs and ensure compliance with the Annual Contributions Contract and other HUD requirements. This report addresses issues related to the Authority's: (1) inadequate progress in meeting its established goals for the Vacancy Reduction Program; (2) untimely preparation of units for occupancy; and (3) inadequate safeguarding of inventories.

Within 60 days, please give us, for each recommendation made in the report, a status report on: (1) the corrective action taken; (2) 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 your staff have any questions, please have them contact me at (312) 353-7832.

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Executive Summary

We completed an audit of the Rock Island Housing Authority. Our audit objectives were to determine whether the Authority administered its housing activities in an efficient, effective, and economical manner and in compliance with the terms and conditions of the Annual Contributions Contract, applicable laws, HUD regulations, and other applicable directives. The audit did not include the Section 8 Program.

While the Authority is striving to improve procedures, additional improvements are needed in its administrative practices to assure compliance with the Annual Contributions Contract and HUD requirements and to increase the efficiency, effectiveness, and economy of its operations. The Authority needs to correct the following problems.

The Authority May Not Meet Its Established Goals for the Vacancy Reduction Program

The Rock Island Housing Authority has not made reasonable progress in meeting the goals it established for the Vacancy Reduction Program. The Authority has only completed repairs for 51 of the 235 units funded, has not submitted plan revisions to HUD as required, and has not leased the completed units timely. We attribute the reasons for the Authority not progressing with its goals to the inadequate Vacancy Reduction Program staffing levels and, delays by the Occupancy Department in leasing the units.

The Authority Did Not Prepare Units For Occupancy Timely

The Rock Island Housing Authority allowed units to remain vacant for extended periods of time. The Authority did not prepare and lease its vacant units within 30 calendar days. The Authority's 1995 Public Housing Management Assessment Program annual average turnaround time for vacant unit preparation was 159 days. HUD requires the Authority to maintain an average turnaround time for vacant units of 30 calendar days, with a goal of 10 days. The Authority did not adequately use its Maintenance staff and lacked sufficient staffing in its Occupancy Department to meet the 30 calendar days requirement.

The Authority Did Not Adequately Control Its Inventories

The Rock Island Housing Authority did not adequately safeguard its inventory of parts and supplies. Specifically, the Authority did not: (1) maintain adequate inventory records of the parts and supplies; and (2) ensure that warehouse stock was properly safeguarded. The Director of Administration said the Authority did not have policies and procedures to control its warehouse inventory system.

Recommendations

We recommend that the Director of Public Housing, Illinois State Office, assures that the Authority takes actions to correct the weaknesses cited in this report.

We gave our draft findings to the Executive Director and HUD's Illinois State Office during the audit. We held an exit conference with the Executive Director on April 22, 1996. The Executive Director provided written comments to our findings and recommendations. Excerpts from the comments are included in each finding and Appendix A contains the complete comments.

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Introduction

The Rock Island Housing Authority, a non-profit corporation, was formally organized in 1941, under the provisions established by the first U.S. Housing Act passed into law in 1937 to develop, acquire, and operate low rent housing programs. The Authority is governed by a Board of Commissioners consisting of five unpaid members who formulate and direct the Housing Authority's policies. The Chairman of the Board is Anne Liggitt. The Executive Director, Mark Stephenson, is responsible for the day-to-day operations.

The Authority manages 606 units, of which 359 units are designed for the elderly. The current Section 8 allotment for all programs is 167. In fiscal year 1995, HUD awarded the Authority \$2,267,366 in Vacancy Reduction Program funds.

The Authority's books and records are located at its central office at 111 20th Street, Rock Island, Illinois. The tenant files are maintained at each development and the unit files are maintained at the Authority's warehouse.

Audit Objectives

The audit objectives were to determine whether the Authority administered its housing activities in an efficient, effective, and economical manner and in compliance with the terms and conditions of the Annual Contributions Contract, applicable laws, HUD regulations, and other applicable directives.

Audit Scope and Methodology

To achieve the objectives, we interviewed HUD and Authority staff to evaluate internal controls and obtain information relating to the Authority's operations. We reviewed the following Authority records: (1) Public Housing Management Assessment Program certifications for adequate documentation and support; (2) Cooperation Agreement to assure the Authority was not paying for services normally received through the Agreement; (3) maintenance and occupancy files for compliance with applicable requirements and the effectiveness of the programs' execution; (4) inventory ledgers to ensure that its inventory is safeguarded and secure; and (5) Vacancy Reduction Program grant files for proper program execution.

The audit covered the period October 1, 1992 to September 30, 1995. We expanded the coverage as necessary. We performed the audit between November 1995 and March 1996 at the Authority.

We conducted our audit in accordance with generally accepted government auditing standards.

We provided a copy of our report to the Authority's Executive Director.

The Authority May Not Meet Its Established Goals for the Vacancy Reduction Program

The Rock Island Housing Authority has not made reasonable progress in meeting the goals it established for the Vacancy Reduction Program. The Authority has only completed repairs for 51 of the 235 units funded, has not submitted vacancy plan revisions to HUD as required, and has not leased the completed units timely. We attribute the reasons for the Authority not progressing with its goals to inadequate Vacancy Reduction Program staffing levels, and delays by the Occupancy Department in leasing the units. As a result, the Authority cannot assure HUD that it will complete the required work before the program completion date. Additionally, low-income and elderly individuals were deprived of adequate housing.

HUD Requirements

24 CFR Part 968 contains regulations for housing authorities to follow while implementing their Vacancy Reduction Programs. Part 968.401 states it is the policy of the Department that public housing agencies should maximize the use of housing resources, using every reasonable means to achieve and maintain high levels of occupancy by eligible families in public housing authority-owned or operated housing.

Part 968.422(3)(b) states that HUD expects most work items funded under the Vacancy Reduction Program to be completed within one year. Work items must be completed within two years from the date of funding.

Article IX, paragraph 4, of the Vacancy Reduction Program Grant Agreement requires the Authority to inform HUD immediately, in writing, of any problems, delays, or adverse conditions which will impair materially the Authority's ability to comply with the Vacancy Reduction Plan, as the same may be revised from time to time as required by HUD or with HUD's approval. Such disclosure must include a statement of action taken, or proposed to be taken, and any assistance needed to resolve the situation.

The Authority's Vacancy Reduction Program Grant Agreement

The Rock Island Housing Authority received a \$2,267,366 Vacancy Reduction Program grant in December 1994 to repair 235 vacant units within two years. The purpose of the grant was to assist the Authority with preparing units for occupancy, which would lead to a reduction in the Authority's vacancy rate. The grant also allowed for management improvements to assist the Authority with its marketing strategies.

The Authority Has Not Repaired Vacancy Reduction Units Timely

The Authority's Vacancy Reduction Program grant provided the Authority funds to repair 235 vacant units between December 1994 and December 1996. As of February 29, 1996, the Authority had only completed 51 units, or 21 percent of the repairs.

The Maintenance Supervisor said the easiest units were completed first. The Assistant Director said the Authority is in the process of obtaining bids for contract labor to finish the remaining units because those units will be more difficult to complete. The Assistant Director felt this would help the Authority meet the program goals.

The Authority's Vacancy Reduction Program Plan stated the Authority would utilize a combination of additional employees and contract labor to coordinate, supervise, and carry out the Vacancy Reduction Program initiatives. However, the Authority did not hire the proposed number of employees or contract labor to carry out the initiatives as required.

The Authority budgeted \$717,297 in its Vacancy Reduction Program to hire 13 additional employees. However, as of February 1996, the Authority had only hired eight of the 13 employees for the Vacancy Reduction Program. The Authority did not hire three maintenance aides and two preventive maintenance specialists that it had budgeted. In addition, the Authority did not hire the contract labor as it had originally budgeted. The Director of Administration said the Authority was in the process of hiring two maintenance employees. The Assistant Director said the Authority plans to hire the three Vacancy Reduction maintenance aides in the future.

The Vacancy Reduction Program budget included a crew supervisor. At the beginning of the grant period, the Authority had a vacancy crew supervisor and a normal maintenance supervisor. However, the Authority fired the

supervisor responsible for normal maintenance. Instead of hiring another person for the position, the Authority eliminated the position. The Assistant Director said it would have taken too long to hire another supervisor. In September 1995, the vacancy reduction supervisor was promoted to be the supervisor for both normal maintenance and the Vacancy Reduction Program. Prior to becoming the Authority's only maintenance supervisor, the vacancy reduction supervisor worked along with the vacancy reduction crew. The Maintenance Supervisor acknowledged that productivity had slowed down in the vacancy reduction work after his promotion.

The Executive Director said he felt the Authority was keeping up with its schedule and some of the delays were probably caused by an inefficient start-up process. We believe the size of the Authority's vacancy reduction maintenance staff was not sufficient to meet the workload, which resulted in units not being repaired timely during the 14 months that has expired on the grant. The Authority has 7 months to complete the remaining 184 units. Based upon the length of time it took the Authority to complete 51 units, we believe the Authority will not meet its goal of completing 235 units by December 1996 unless it contracts out some of the work and HUD approves all of the Authority's Vacancy Reduction Plan revisions.

The Authority Did Not Submit Vacancy Reduction Plan Revisions to HUD As Required

The Authority did not request the necessary Vacancy Plan revisions from HUD for its Vacancy Reduction Program grant. The Executive Director said the Authority was in the process of obtaining HUD's approval to reprogram Vacancy Reduction funds for the disposition of seven units and the demolition of 28 units. The Authority is required to inform HUD immediately of any problems, delays, or adverse conditions which will impair the Authority's ability to comply with the Vacancy Plan. The Authority has a budget revision for the disposition of seven units pending at HUD. The Authority reported the demolition plans in its December 31, 1995 Vacancy Reduction Program quarterly report, but the Authority did not request HUD's approval to demolish the 28 units until March 1996. The approval is still pending at HUD.

The Executive Director said the Authority completed 78 units under the Lead Based Paint Program. He was under the impression that the 78 units counted toward the 235 vacancy reduction units to be completed by December 1996. HUD's Central Office Vacancy Reduction Specialist said the Authority must repair 235 units with the Vacancy Reduction Program grant funds and cannot substitute other program funded units to count towards the 235 units to be completed without HUD's approval. The Authority submitted a revision to HUD in March 1996 requesting that funds from the lead based paint units be reprogrammed into management improvements. HUD's approval of the revision would allow the Authority to reallocate Vacancy Reduction Program funds from the repair of the lead based paint units to Authority wide physical improvements such as outdoor lighting and playground equipment.

The Authority Did Not Lease Units In a Timely Manner

The Authority completed 51 units under the Vacancy Reduction Program between March 1995 and February 1996. The Authority spent \$227,577 to complete the units. However, the Authority did not lease 37 of the units in a timely manner. The number of days the units remained vacant ranged from 31 days to 216 days as follows:

Number of Days Vacant	Number Of Units
31 days to 49 days	7
50 days to 99 days	16
100 days or longer	14

On February 29, 1996, seven of the 51 units were still vacant. Three of the units were vacant for one day; three were vacant from 61 to 72 days; and the last unit was vacant 149 days. The Director of Housing said the majority of the vacant units were designed for handicapped persons and the units were difficult to lease. She said the Authority may offer non-handicapped applicants a unit designed for a handicapped person. However, she must also tell them that if a handicapped applicant is approved for a unit, the non-handicapped person may be transferred to another unit. Most non-handicapped applicants decide to wait for a standard unit. As of February 29, 1996 13 of the

Authority's 88 housing applicants waiting for approval indicated they were disabled.

Handbook 7460.7 Rev-1, Field Office Monitoring of Public Housing Agencies, paragraph 5-2(c) states that the Authority should complete vacant unit turnaround in an average of no more than 30 calendar days, but preferably not more than 10 days.

The Executive Director said in 1995 the vacancy reduction crew repaired numerous units in short periods of time. He was aware some units would remain vacant for a short period of time, but felt the Authority needed to get the units back on-line.

The Director of Housing said the units were leased as maintenance informed her of the available units. The Maintenance Department's Facilities Assistant informs the Director of Housing when units are ready for occupancy. The Director of Housing said in the past, the Maintenance Department did not forward the unit information to her in a timely manner. She also said some delays occurred because of delays in processing the housing applications such as obtaining police reports and income verifications.

The Authority's Housing Assistant is responsible for handling the majority of the occupancy functions. Due to the Housing Assistant's workload the applicants were required to setup an appointment one week after they initially came to apply for housing. The Housing Assistant said the process allowed her to schedule time to devote to the applicant, instead of having them wait for her to finish other duties before she could assist them. The Housing Assistant said she processes the applications as quickly as possible, but that is not her only responsibility. She also had to prepare and disseminate official notices, prepare occupancy and other reports, answer telephone calls, route incoming mail, receive rent payments, and greet visitors to the Authority. These other duties take up to 33 percent of her time and prevent her from immediately processing applications. She said if she had less general responsibilities, she could begin processing applications sooner and the application process would be completed

quicker. As a result, the applicants screening and certification process was lengthy.

Auditee Comments

Excerpts from the Executive Director's comments on our draft findings follows. The complete text of his comments is included in Appendix A.

The Authority agrees with this finding. The Authority is currently utilizing increased contract labor for painting and cleaning of vacant apartments to supplement in-house labor and a contractor for turnkey unit preparation to increase the output of units available for rental. HUD's approval of disposition, demolition, and conversion of some apartments will further reduce the number of apartments that must be readied. The Authority believes this approach will allow Vacancy Reduction Program goals to be met by the end of the grant period.

The Authority will submit future revisions to the Vacancy Reduction Plan when appropriate.

The Authority has improved applicant processing to less than 30 days in most cases. Revised procedures for improved communication between maintenance and management staff now in effect will help ensure units are rented without undue delay after they become available. In addition, the Authority will continue to implement its comprehensive marketing strategy in an effort to make sure there is a sufficient pool of qualified applicants at all times to whom newly renovated apartments can quickly be rented.

Recommendations

We recommend that the Director of Public Housing, Illinois State Office, assure that the Rock Island Housing Authority:

- 1A. Ensures that the proposed contract labor and the current level of vacancy reduction crew members are sufficient to meet the goals of the program.

- 1B. Submits future revisions immediately to HUD requesting approval for changes in the Vacancy Reduction Program grant agreement.
- 1C. Leases units repaired under the Vacancy Reduction Program within a reasonable length of time.
- 1D. Maintains ongoing coordination between the Maintenance and Housing Departments regarding the status of the units in its Vacancy Reduction Program.
- 1E. Strengthens its procedures to ensure that applicants are approved for housing in a timely manner.

We also recommend that the Director of Public Housing, Illinois State Office:

- 1F. Coordinate with the Vacancy Reduction Specialist in Central Office to assure the Housing Authority's requested revisions to the Vacancy Reduction Program grant agreement are reviewed and acted upon in a timely manner.

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The Authority Did Not Prepare Units For Occupancy Timely

The Rock Island Housing Authority allowed units to remain vacant for extended periods of time. The Authority did not prepare and lease its vacant units within 30 calendar days. The Authority reported in its 1995 Public Housing Management Assessment Program certification that the annual average turnaround time for vacant unit preparation was 159 days. HUD requires the Authority to maintain an average turnaround time for vacant units of 30 calendar days, with a goal of 10 days. The Authority did not adequately use its maintenance staff and lacked sufficient staffing in its Occupancy Department to meet the 30 calendar days requirement. As a result, the Authority did not maximize rental income and deprived low-income and elderly individuals of housing.

HUD Requirements

Handbook 7460.7 Rev-1, Field Office Monitoring of Public Housing Agencies, paragraph 5-2(c) states that the Authority should complete vacant unit turnaround in an average of no more than 30 calendar days, but preferably not more than 10 days.

The unit turnaround time is also used as an operations indicator under Handbook 7460.5, Public Housing Management Assessment Program. Paragraph 6-2 E 10(b) defines the turnaround time as including the time a unit is vacated until a new lease is in effect. Under the Assessment Program, unit turnaround is one of the seven performance indicators that public housing agencies must certify to HUD.

Excessive Time was Taken to Prepare and Lease Vacant Units

The Rock Island Housing Authority allowed units to remain vacant for more than 30 calendar days before the units were prepared for occupancy and leased. The Authority certified to HUD that for the fiscal year ended September 30, 1995, the average time used to prepare units for re-rental was 159 days.

We reviewed the vacant unit information for the Authority's five developments as of February 29, 1996. At that time, the Authority had 92 vacant units that were not part of the

Vacancy Reduction Program. Of the 92 vacant units, 88 (97 percent) were vacant an average of 321 days, ranging from 35 to 1,531 days; and four had been vacant less than 30 calendar days. Of the 88 units vacant more than 30 calendar days, the Authority had completed the maintenance work needed to prepare 12 units for occupancy. The following table shows the number of days it took to get its 12 vacant units ready for occupancy and the total number of days the units were vacant:

Unit	Date Vacated	Date Completed	Days to Finish	Days Since Finished	Days Vacant as of 2/29/96
1	09-30-	12-08-94	434	448	882
2	93	09-14-95	83	168	251
3	06-23-	10-31-95	61	121	182
4	95	01-05-96	189	55	244
5	08-31-	02-28-96	1,387	1	1,388
6	95	02-02-96	422	27	449
7	06-30-	02-23-96	1,525	6	1,531
8	95	12-20-95	426	71	497
9	05-12-	12-29-95	67	62	129
10	92	02-28-96	116	21	137
11	12-07-	02-27-96	459	2	461
12	94	12-28-98	351	63	414
	12-20-				
	91				
	10-20-				
	94				
	10-23-				
	95				
	10-15-				
	95				
	11-25-				
	94				
	01-11-				
	95				

It took from 61 to 1,525 days to complete the maintenance work on these 12 units. Although the 12 units were in rentable condition, they remained vacant an additional one to 448 days after the maintenance work was completed. The remaining 76 units were not repaired and were vacant an average of 285 days, ranging from 35 to 861 days.

The Authority did not prepare vacant units for turnaround in a timely manner. We inspected 30 of the 76 unrepaired

The Authority Took Excessive Time to Prepare Vacant Units For Occupancy

units which were vacant for more than 30 calendar days, to determine the condition of the units and the estimated time needed to prepare the units for occupancy. The Maintenance Supervisor accompanied us on the inspections. The units were randomly selected from the Authority's five developments. The 30 units inspected were vacant from 35 to 861 days.

The Maintenance Supervisor estimated the number of hours needed to prepare the units for occupancy as follows:

Estimated Number of Hours to Complete	Number of Units
8 Hours or less	4
Between 9 and 40 Hours	11
60 Hours	4
80 Hours	5
Between 100 and 250 Hours	6

The Authority has 13 maintenance employees to prepare vacant units that were not designated as part of the Vacancy Reduction Program. However, the Authority did not use its maintenance staff to their full capacity for preparing vacant units.

The Assistant Director said the Authority has a maintenance crew of four employees designated to perform unit turnaround because it was the most efficient use of their skill levels. The four employees are assigned to work specifically on unit turnarounds. Five other maintenance employees are responsible for work orders and assisting on the unit turnarounds as their schedules allow. Three other employees are responsible for cleaning out units. The remaining employee is responsible for ground maintenance. The Assistant Director said the maintenance crews only prepare units that are expected to be occupied in the near future. The Director of Housing informs her of the type and quantity of units needed based on her estimate of approved applicants from the applicant waiting list. However, as of February 29, 1996, the Authority had 88 applicants for all types of housing units. Because of delays in processing the

applications only a small number of applicants requiring housing were approved by the Authority.

The Assistant Director acknowledged that many of the vacant units only require minor work, but she said the maintenance crew did not have the time to repair units that the Director of Housing did not currently need for occupancy. She said in the near future the Authority will hire outside contractors to complete such work as painting and tile replacement which will allow units to be prepared for occupancy in a more timely manner.

The Authority Took
Excessive Time to Lease
Vacant Units

The Authority did not lease its vacant units in a timely manner. Once the Authority completed the maintenance work on 12 units, the units remained vacant for an excessive amount of time. As of February 29, 1996, the 12 units remained vacant, but ready for occupancy, from one to 448 days. For example, Unit 3 was ready for occupancy on October 31, 1995. As of February 29, 1996, the unit was still vacant. Therefore, the unit has been vacant for 121 days since the Authority completed the maintenance work. The Director of Housing said the delays in renting the finished units resulted from delays in processing applications for housing. The major delays are obtaining police reports from the City of Rock Island and previous landlord information.

According to the Authority's February 29, 1996 waiting list the Authority had 88 applicants who could have filled all 12 units. However, the Director of Housing said the waiting list did not represent approved housing applicants. It was a listing of people who applied for housing and are still being processed and pending approval. Therefore, the waiting list could not be used to determine if any of the 88 applicants could have actually filled the 12 vacant units.

The HUD Occupancy Standards Handbook, 7465.1 Rev-2 requires a public housing agency to keep waiting lists organized in a way that easily identifies each applicant's priority and preferences and the date and time of the application. The waiting lists also must be easily reviewable by HUD.

The Authority's Housing Assistant is responsible for handling the majority of the occupancy functions. The Housing Assistant maintains an automated waiting list. However, the list did not contain enough information for selecting applicants. It did not show whether the applicant was ready to be housed. An applicant is not ready to be housed until the Authority receives and approves all required information such as police reports, credit reports, and income verifications. The waiting list also ranked applicants by pre-application date instead of the date the applicant became eligible.

The Housing Assistant is responsible for accepting applications for housing, maintaining the applicant waiting lists, screening applicants, notifying applicants of their housing status, preparing occupancy reports, and office receptionist duties. Most housing authority's have more than one person performing these various duties.

Due to the Housing Assistant's workload the applicants were required to setup an appointment one week after they initially came to apply for housing. The Housing Assistant said the process allowed her to schedule time to devote to the applicant, instead of having them wait for her to finish other duties before she could assist them. The Housing Assistant said she processes the applications as quickly as possible, but that is not her only responsibility. She also had to prepare and disseminate official notices, prepare occupancy and other reports, answer telephone calls, route incoming mail, receive rent payments, and greet visitors to the Authority. These other duties take up to 33 percent of her time and prevent her from immediately processing applications. She said if she had less general responsibilities, she could begin processing applications sooner and the application process would be completed quicker. As a result, the applicants screening and certification process was lengthy.

After the required information is received from the applicant, the information is forwarded to the Director of Housing for review. The Director of Housing makes the final decision to offer the applicant an unit. The Director of Housing said the units remained vacant for long periods of time because of various delays in processing the

applications for housing, such as obtaining police criminal reports and previous landlord verifications. She said the length of the approval process varies for each applicant. Some people were unwilling to answer requests for information and the Authority needed to follow up with second and third requests for information. The Director of the Housing Authority said that in the past, an applicant could be on the waiting list as long as 90 days.

Auditee Comments

Excerpts from the Executive Director's comments on our draft findings follows. The complete text of his comments is included in Appendix A.

The Authority agrees with the finding. The Authority has implemented a revised procedure which will reduce combined maintenance and leasing turnaround time for newly vacated units to the HUD standard of 30 days or less. Also, an additional employee has been hired to assist with processing of new applicants. The automated waiting list has been enhanced so that each applicant's status is more easily determined.

Management has determined the single most significant delay is caused by the time it takes to obtain criminal history checks from the State of Illinois. Alternative means of obtaining criminal background information are being utilized to reduce dependence on the State for this critically important information.

Recommendations

We recommend that the Director of Public Housing, Illinois State Office, assure that the Rock Island Housing Authority:

- 2A. Establishes procedures and controls to ensure that average unit turnaround time for vacant units is brought within acceptable limits.

- 2B. Redesigns and updates the automated waiting lists to provide sufficient information to identify an applicant's status easily.
- 2C. Performs an analysis of the application, screening, and certification process to determine where delays occur and implements procedures to shorten the process including beginning the processing steps earlier in the cycle.

The Authority Did Not Adequately Safeguard Its Inventories

The Rock Island Housing Authority did not adequately safeguard its inventory of parts and supplies. Specifically, the Authority did not: (1) maintain adequate inventory records of the parts and supplies; and (2) ensure that warehouse stock was properly safeguarded. The Director of Administration said the Authority did not have policies and procedures to control its warehouse inventory system. As a result, HUD has no assurance the warehouse inventory was properly accounted for or safeguarded against loss, misuse, theft, or waste.

Requirements and Regulations

Section 309 of the Annual Contributions Contract requires Housing Authorities to maintain complete and accurate books of accounts and records. Records must be kept of all personal property, including an annual inventory of equipment.

HUD Handbook 7510.1, The Low Rent Accounting Handbook, Chapter 7, paragraph 5(g) requires local Authorities to inventory equipment and supplies annually and compare the inventory results with inventory records. Housing authority records must be adjusted for any differences.

Inventory Records Were Not Properly Maintained

The Rock Island Housing Authority did not maintain adequate inventory records of the parts and supplies stored at its warehouse. It did not maintain a perpetual computerized or manual inventory listing of its parts and supplies during the year. The Authority conducted an annual physical inventory count at year end, however, the physical count was not accurate. During the 1995 physical count, the Authority failed to account for an entire section of cleaning supplies. Because the Authority did not maintain perpetual or periodic inventory records, the error was not noticed. The supplies not accounted for was later estimated to be valued at \$2,713, approximately 10 percent of the inventory at the warehouse.

Additionally, the Authority improperly included several used items such as toilets and lighting fixtures in the year end inventory count. These items were priced out as new items and included in the year end inventory total of new items. The Inventory Manager said she was verbally instructed to do this by Authority management. However, Authority management could not explain why they gave these instructions.

Since inventory records were not maintained, the Inventory Manager physically examined the parts bins to determine if certain parts were in stock or if adequate inventories were maintained. The Inventory Manager said she had general knowledge of the quantity of popular parts on hand at any given time. However, if the actual quantity on hand of the popular parts was different than she estimated, the difference could not be explained. She had to physically inspect the supplies that were used only occasionally as she had little or no knowledge of what to estimate for quantities on hand. If fire or theft occurred, the Authority could not estimate with any certainty the value of the loss due to poor inventory records.

The Authority Lacked
Adequate Physical
Safeguards For Inventory

The Authority did not properly safeguard its inventory. The inventory of parts and supplies maintained at the warehouse were not safeguarded by any type of physical barrier such as a locked inventory cage. The inventory was kept in the center of the warehouse which allowed all maintenance personnel full access to the inventory. While there was a verbal policy prohibiting maintenance personnel from accessing the inventory, the Inventory Manager acknowledged that maintenance personnel did have access to the supplies and parts inventory in the warehouse. According to the Inventory Manager, although theft of parts and supplies was not common at the warehouse, it occasionally occurred.

In a memo dated July 1994, from the Inventory Manager to the Authority's Assistant Executive Director, the Inventory Manager said maintenance employees were taking supplies from the warehouse without her knowledge. Additionally, the Inventory Manager could not readily determine which supplies were taken, or the exact quantities missing, because the Authority had inadequate inventory records.

This lack of control over the supplies resulted in adequate quantities not being available when needed.

Also, during January 1995, leather work gloves were stolen from a locked file cabinet in the Inventory Manager's office. The Inventory Manager said if it was possible to break into her locked cabinet, the unlocked inventory is also at risk.

Authority officials cited a short term lease as the reason they did not invest funds to safeguard its inventory through physical barriers. If the warehouse lease was not renewed, the funds spent safeguarding the inventory could not be recouped.

Many warehouse parts bins were not labeled with a part number or description. If parts were placed in the wrong bins, the Authority's employees would not notice the error until the parts were counted or needed for a repair. Also, parts were stored on the warehouse floor, putting the parts at risk for loss or physical damage.

The Authority's five project sites maintain approximately a two week supply of parts required for daily maintenance. The five project sites stock items such as cleaning, plumbing, and electrical supplies. The Inventory Manager said the status of the sites is similar to the warehouse, because inventory control systems and physical safeguards are not properly maintained.

As a result of the Authority inadequately safeguarding its inventory, we were unable to verify that supplies were actually received and used only for the intended purposes.

The Authority's Lack of Written Procedures or Policies Resulted in Inadequate Inventory Controls

The Authority's Director of Administration explained the lack of inventory controls as follows: (1) there were no written procedures controlling the warehouse inventory system for parts and supplies; (2) the Authority did not have procedures for properly conducting a year end physical count, accounting for inventory, reconciling the physical count with the book records, or maintaining records of inventory on hand; (3) the Authority installed a new computer system two years ago, however, the system does not have software available to adequately control the inventory; and (4) the Inventory Manager may lack the

formal training to properly control the inventory. The Inventory Manager had requested training in the past, however, the Authority did not respond to the requests. The Director of Administration said the Authority will pursue training for the Inventory Manager in the near future. Additionally, she said the Authority may hire an inventory consultant to set up an adequate inventory control system.

The Authority recently established a written policy restricting access to the warehouse inventory to four individuals, the Inventory Manager, Maintenance Supervisor, Assistant Director, and the Facilities Assistant. The current policy carries penalties ranging from written warnings to termination of employees who do not follow it. Previously, a verbal policy existed which restricted access to these individuals, however, the verbal policy was not enforced.

Auditee Comments

Excerpts from the Executive Director's comments on our draft findings follows. The complete text of his comments is included in Appendix A.

The Rock Island Housing Authority agrees with the finding. The Authority established a written procedure to restrict access to the warehouse to only those employees with immediate business to conduct. All visitors (including employees) must log in and out of the building and have supervisory-approved business to conduct. Additional procedures are currently under review to restrict access to the maintenance "shops" located at each development site.

Also, the Authority issued a request for proposal to obtain a qualified consultant to develop and implement a comprehensive inventory management system. The request for proposal requires the consultant to develop formal procedures, assess the current software's ability to meet the inventory management need, and provide staff training to allow for ongoing operation that is in compliance with HUD requirements and sound management practices.

Recommendations

We recommend that the Director of Public Housing, Illinois State Office, assure that the Rock Island Housing Authority:

- 3A. Establishes policies and procedures which outline the proper steps required to control and account for the inventory. The procedures should include controlling the inventory through physical safeguards or barriers such as a locked safety cage. The policies and procedures should also ensure that all parts are properly labeled with a part number and description.
- 3B. Provides training to its employees for properly controlling warehouse inventory.

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Internal Controls

In planning and performing our audit, we considered the internal controls of the Rock Island Housing Authority to determine our auditing procedures and not to provide assurance on internal controls. Internal controls consist of the plan of organization, methods, and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Relevant Internal Controls

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

- Management philosophy and operating style.
- Oversight body.
- Methods of assigning authority.
- Management monitoring methods.
- Completeness of accounting systems.
- Segregation of duties.
- Safeguards over access to and use of assets and records.
- Independent verifications and reconciliations
- Policies and procedures.

We assessed all the relevant controls identified above.

Significant Weaknesses

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

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

- Safeguards over access to and use of assets. The Authority did not adequately safeguard its inventory of parts and supplies (see Finding 3).
- Authority policies and procedures. The Authority is not meeting its established goals for the Vacancy Reduction Program (see Finding 1) and is not following its own verbal policies regarding occupancy (see Finding 2) and inventory (see Finding 3).

Follow Up On Prior Audits

This is the first OIG audit of the Rock Island Housing Authority.

The Authority's last Single Audit Report was for the Fiscal Year ended September 30, 1994. The report contained six findings, of which two were repeated from the prior year's audit report. None of the findings are related to this audit.

Appendix B

Distribution

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