AUDIT REPORT

OMAHA HOUSING AUTHORITY
HOUSING AUTHORITY OPERATIONS
OMAHA, NEBRASKA

00-KC-201-1001

DECEMBER 3, 1999

OFFICE OF AUDIT, GREAT PLAINS
KANSAS CITY, KANSAS

audit report
Office of Inspector General

Issue Date
December 3, 1999
Audit Case Number
00-KC-201-1001

TO: Michael A. Williams, Director, Troubled Agency Recovery Center, PB1

Roger E. Niesen

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

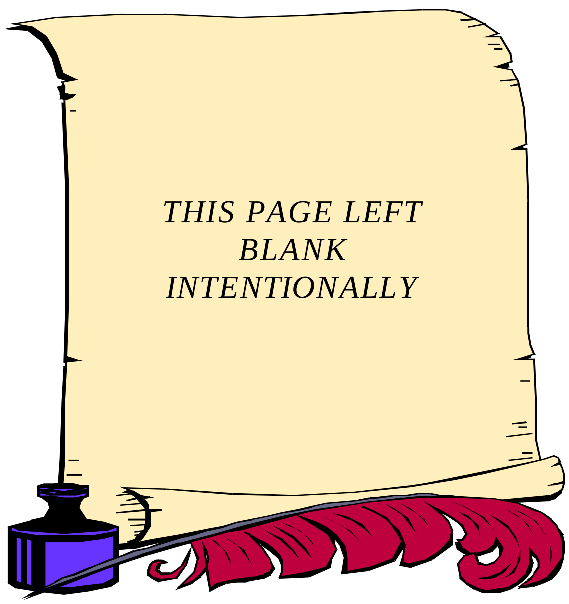
SUBJECT: Omaha Housing Authority
Housing Authority Operations
Omaha, Nebraska

We completed an audit of the Omaha Housing Authority. We conducted the audit at the request of HUD and to follow up on issues identified in a January 1999 independent public accountant report. The overall objective of our audit was to determine whether the Authority complied with applicable laws and regulations related to cash handling procedures, identity-of-interest non-profit entities, procurement and contracting, inventory procedures, management information systems, Special Purpose Grants, the Section 8 program, and accounting procedures. We also assessed the Authority's staffing and organizational structure and the Authority's compliance with the "Housing Opportunity Program Extension Act of 1996."

The Authority did not maintain an effective control environment, lacked adequate cash controls, used $1,082,992 in federal funds to pay unallowable expenses or expenses it could not support, did not follow federal or its own procurement regulations, conducted an inadequate year-end inventory for 1998, did not exercise adequate control over implementation of its management information system, did not follow federal regulations regarding a Special Purpose Grant, did not properly administer its Section 8 program, and did not properly account for cable television revenues. We also determined the Authority's organizational structure and staffing were comparable to other housing authorities of similar size, and the Authority substantially complied with the "Housing Opportunity Program Extension Act of 1996."

Within 60 days, please provide 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 your staff have any questions, please contact me at (913) 551-5870.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Executive Summary

We completed an audit of the Omaha Housing Authority. We conducted the audit at the request of HUD and to follow up on issues identified in a January 1999 independent public accountant report. The overall objective of our audit was to determine whether the Authority complied with applicable laws and regulations related to cash handling procedures, identity-of-interest non-profit entities, procurement and contracting, inventory procedures, management information systems, Special Purpose Grants, the Section 8 program, and accounting procedures. We also assessed the Authority's staffing and organizational structure and the Authority's compliance with the "Housing Opportunity Program Extension Act of 1996."

The Authority did not maintain an effective control environment, lacked adequate cash controls, used $1,082,992 in federal funds to pay unallowable expenses or expenses it could not support, did not follow federal or its own procurement regulations, conducted an inadequate year-end inventory for 1998, did not exercise adequate control over implementation of its management information system, did not follow federal regulations regarding a Special Purpose Grant, did not properly administer its Section 8 program, and did not properly account for cable television revenues. We also determined the Authority's organizational structure and staffing were comparable to other housing authorities of similar size, and the Authority substantially complied with the "Housing Opportunity Program Extension Act of 1996."

Because of the problems identified, HUD lacks assurance the Authority used its resources to the maximum extent to benefit low and moderate income tenants.

Authority Did Not Have An Effective Control Environment

The Authority exhibited deficiencies in six of seven components the Committee of Sponsoring Organizations of the Treadway Commission defines as necessary for an effective control environment. The Authority had deficiencies in: integrity and ethical values, commitment to competence, board of directors or audit committee, management philosophy and operating style, assignment of authority and responsibility, and human resource policies and procedures (see Finding 1).

Authority Lacked Adequate Cash Controls

The Authority did not have adequate controls over cash. The Authority maintained a change fund on its premises that reached as much as $50,000, did not complete timely cash reconciliations, and did not adequately segregate its employees' duties (see Finding 2).

Authority Paid Unallowable And Unsupported Expenses

The Authority inappropriately used $1,082,992 in federal funds to pay ineligible or unsupported expenses. The Authority paid $21,877 for travel expenses to track meets even though regulations did not allow such payments, could not support that related entity debts and expenses totaling $905,225 were reasonable and necessary for the Authority's public housing program, paid $6,190 for Section 8 forms that were available from HUD at no cost, and paid $149,700 for a non-qualified supplemental continuation plan (see Finding 3). The Authority also hired a federal lobbyist and did not ensure the lobbyist was paid $11,475 from non-federal funds (see Finding 10).

Authority Did Not Follow Proper Procurement And Contracting Procedures

The Authority did not always solicit competitive bids; made payments to vendors without a valid contract in place; entered into a contract drafted by the vendor, which contained no definitive ending date and had an automatic renewal clause; and procured goods and services exceeding $1,000 without issuing a written contract (see Finding 4).

Authority's Inventory Process Was Not Adequate

The Authority's year-end inventories for 1998 were unreliable. The Authority did not have formal procedures for conducting the inventory counts, did not have adequate records to support the value assigned to its fixed assets, and did not always assign a knowledgeable employee to oversee inventory counts. Further, the Authority has no assurance a $688,386 inventory adjustment made at the end of 1998 is accurate (see Finding 5).

Authority Did Not Adequately Implement Its Management Information System

The Authority did not establish a comprehensive system implementation plan to identify the scope, tasks, activities, and resources needed to effectively and efficiently manage the implementation of its new management information system (see Finding 6).

Authority Did Not Follow Regulations Regarding A Special Purpose Grant

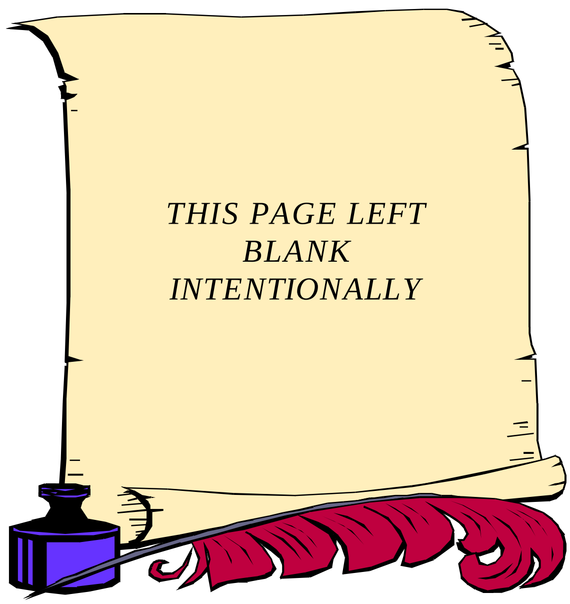
The Authority violated federal requirements regarding a Special Purpose Grant it received to construct a training facility and provide job training for tenants. The Authority did not request disposition instructions from HUD when the Authority ceased using the facility for the authorized purpose. As a result, HUD lost the use of $130,500 (see Finding 7).

Authority Did Not Properly Administer Its Section 8 Program

The Authority did not properly administer its Section 8 program, allowing its program expenses to exceed earned fees and reserves (see Finding 8).

Authority Did Not Properly Account For Cable Television Revenues

The Authority did not properly account for funds it collected for cable television services. From January 1996 through January 1999, the Authority failed reimburse its public housing program for $79,918 of public funds used to pay for cable television services (see Finding 9).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Introduction

On May 21, 1935, the Nebraska Legislature passed the Metropolitan Cities Housing Authorities Law in response to national efforts to revitalize economically depressed communities and finance low-rent housing. To initiate housing efforts in Omaha, the City of Omaha passed a resolution establishing the Omaha Housing Authority on May 28, 1935. The Authority contracts with HUD to provide low and moderate income individuals with safe and sanitary housing through rent subsidies. The Authority administers 2,708 public housing units and 3,787 Section 8 units. A five member Board of Commissioners governs the Authority. The Authority's central office is located at 540 South 27th Street, Omaha, Nebraska, 68105.

In recent years, HUD expressed concerns about the Authority's operations. To address these concerns, the Authority contracted with an independent public accounting firm, KPMG Peat Marwick LLP, in 1998 to conduct a review of its operations. KPMG issued a report in February 1999 detailing many deficiencies in the Authority's operations. In June 1999 HUD designated the agency as "troubled" in accordance with HUD's Public Housing Management Assessment Program. HUD then assigned oversight of the Authority's public housing programs to its Troubled Agency Recovery Center in Cleveland, Ohio. The Troubled Agency Recovery Center began working with the Authority to correct operational deficiencies in August 1999. In October 1999 HUD also assigned oversight of the Authority's Section 8 program operations to the Troubled Agency Recovery Center.

Audit Objectives

The overall objective of our audit was to determine whether the Authority complied with applicable laws and regulations related to cash handling procedures, identity-of-interest non-profit entities, procurement and contracting, inventory procedures, management information systems, Special Purpose Grants, the Section 8 program, and accounting procedures. We also assessed the Authority's staffing and organizational structure 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 1999 through September 1999 to determine whether the Authority complied with applicable laws and regulations related to cash handling procedures, identity-of-interest non-profit entities, procurement and contracting, inventory procedures, management information systems, special purpose grants, the Section 8 program, accounting procedures, staffing and organizational structure, and compliance with the "Housing Opportunity Program Extension Act of 1996." We interviewed HUD staff, current and former Authority staff, and the vendor for personnel benefit packages. We analyzed: HUD files, Board of Commissioner meeting minutes, organizational charts, policies and procedures manuals, bank statements and canceled checks, cash reconciliations, cash receipts and deposits, cash disbursements and invoices, cash flow and budget variance reports, legal files, journal vouchers, personnel and payroll records, vendor files and contracts, year-end inventory count sheets and fixed asset inventory lists, management information system planning and testing records, grant files, Section 8 files, the cost allocation plan, homeownership files, tenant files, tenant account ledgers, travel vouchers, and lease agreements.

Further, we tested employee access to the Authority's on-site change fund, conducted a surprise cash count, 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 1991 through September 1999, 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.

The Authority Did Not Have An Effective Control Environment

The Omaha Housing Authority did not have an effective control environment. We identified deficiencies in six of the seven areas outlined as necessary to achieve an effective control environment according to the Committee of Sponsoring Organizations of the Treadway Commission. As a result, the Authority could not provide HUD assurance regarding the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

Requirements

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. The components include: integrity and ethical values, commitment to competence, board of directors or audit committee, management's philosophy and operating style, organizational structure, assignment of authority and responsibility, and human resource policies and practices.

Authority Did Not Have An Effective Control Environment

The Authority did not have an effective control environment. We determined the Authority exhibited deficiencies in six of the seven areas outlined by the Treadway Commission. The Authority had weaknesses in the following control areas: integrity and ethical values, commitment to competence, board of directors or audit committee, management philosophy and operating style, assignment of authority and responsibility, and human resource policies and procedures. We also performed a limited review of the area of organizational structure and found no indications of deficiencies.

The control environment sets the tone of an organization. In our opinion, tone includes both an entity's actual environment and employees' perceptions of the environment. An effective control environment fosters shared values and teamwork in pursuit of the entity's objectives. Our discussions with current and former Authority staff revealed there were, at a minimum, perceptions that were harmful to the control environment. Six key current and former employees expressed concerns that senior management did not share the same values or foster teamwork in the manner necessary to achieve the Authority's objectives. For example, the employees said:

- Senior management expressed unwillingness to fully cooperate with groups reviewing the Authority's operations, including the Board of Commissioners. In regard to our review, staff were told to answer only those questions specifically asked, provide only those documents specifically requested, and refrain from offering any unsolicited information. In regard to Board of Commissioner meetings, staff were told to refrain from answering any questions from the Board or adding any information to senior management comments unless specifically asked to do so.

- Senior management instructed staff members to accomplish a task, then later questioned the staff as to why they performed the task. The staff interpreted this as lack of top-level support and poor communication.

- The Authority has a reputation of issuing Requests for Proposals for goods and services; then, after vendors bid, they cancel the Request for Proposals and give the task to the vendor of choice.

As previously stated, the control environment sets the tone of an organization. Tone includes an entity's actual environment as well as employees' perceptions of that environment. Our review of the Authority disclosed a lack of shared values and teamwork between senior management and staff, and among staff members. As a result, the Authority's control environment had significant deficiencies that need immediate attention.

Integrity And Ethical Values

An entity's objectives and the way they are achieved are based on preferences, value judgments and management styles that translate into standards of behavior and reflect management's integrity and its commitment to ethical values. Integrity and ethical values are essential elements of the control environment, affecting the design, administration and monitoring of other internal control components. Senior management plays a key role in determining the organization's culture. The Executive Director is usually the dominant personality in a public housing authority and should set the example for ethical tone.

Management must convey its commitment to acceptable business practices, avoidance of conflicts of interest, and compliance with standards of ethical and moral behavior. Our review disclosed that management did not follow acceptable business practices in regard to adequate competition among vendors serving the Authority's needs. Authority personnel confirmed the Authority used the same vendors exclusively for certain services. Although the Authority believed these vendors were the only vendors that could perform the services**,** the general nature of the services (electrical, plumbing, heating and cooling, and paint supplies) and the large size of the Omaha metropolitan area indicate otherwise. Intentional avoidance of adequate competition among vendors indicates controls were lacking in the area of integrity and ethical values. In addition, lack of competition is unfair to area businesses and provides no assurance quality goods and services are acquired at the lowest price.

Another element of integrity and ethical values is whether management appropriately deals with signs that problems exist. We determined the Authority did not heed concerns expressed by outside parties regarding the Authority's operations. HUD issued a Section 8 management report to the Authority in January 1997 that included concerns regarding the Section 8 program operating in a deficit position. As of the end of our review in September 1999, nearly three years after HUD notified the Authority of its concerns, the Authority still had not eliminated the deficits.

Also important to integrity and ethical values is whether management follows the same guidelines it imposes on employees. We identified one example in which the Authority's policies and procedures contained different rules specific to Executive Director travel. The Executive Director could approve his/her own travel estimates and also approve the resulting voucher for reimbursement. All other employees were required to obtain a second level of approval before travel could be taken and expenses reimbursed. While we did not find any indication of improprieties regarding Executive Director travel, it is still important for management's guidelines to be the same as all other employees.

Commitment To Competence

Competence should reflect the knowledge and skills needed to accomplish tasks that define an individual's job. How well these tasks need to be accomplished is generally a management decision that should be made considering the entity's objectives and management's strategies and plans for achievement of objectives. Management needs to specify the competence levels for particular jobs and translate those levels into requisite knowledge and skills.

One way management illustrates its commitment to competence is by making clear the specific job duties expected of each employee. Formal or informal job descriptions or other means of defining tasks that comprise particular jobs is important in demonstrating management's commitment to employees' competence. We determined the Authority's general job descriptions and information on detailed tasks expected from each position were outdated and needed revision. Since the last revision of the job descriptions in 1996, the Authority reorganized and significantly changed job descriptions and duties. In addition, position duties and operational processes recently changed with the implementation of its new management information system.

Conducting periodic analyses of knowledge and skills needed to perform the jobs adequately is another element of management's commitment to competence. The Authority conducted annual performance evaluations of its employees and used the evaluations as an avenue for employees and their supervisors to identify training needs for improving employees' performance. Although the Authority conducted periodic reviews, it placed employees in key positions without the employees having the needed training to perform the job effectively.

For example, an employee, with no procurement background and no formal training, was placed in the position of processing and approving daily procurement transactions. In another instance, the Authority tasked a maintenance supervisor with conducting the 1998 year-end fixed asset inventory. The supervisor and his crew had no experience in conducting a fixed asset inventory and did not understand what was considered to be a fixed asset. These employees did not receive training or formal instructions before conducting the inventory. As a result, there is no assurance as to the accuracy of the inventory.

In our opinion, a lack of commitment by management to clearly define duties expected of employees and the assignment of duties to employees for which they have not been trained causes unrealistic expectations by management, frustration among employees, and the possibility of critical deficiencies in the entity's operations.

Board Of Directors Or Audit Committee

The control environment and "tone at the top" are influenced significantly by the entity's Board of Directors or Audit Committee. Factors include the Board or Audit Committee's independence from management, experience and stature of its members, extent of its independence and scrutiny of activities, and the appropriateness of its actions. Another factor is the degree to which difficult questions are raised and pursued with management regarding plans or performance. An active and involved Board of Directors is critical to effective internal control.

An effective board constructively challenges management's strategic initiatives and major transactions and probes for explanations of past results. The Authority operates under a Board of Commissioners consisting of five individuals. The Board holds monthly meetings and, when needed, holds special meetings to act on specific issues of an urgent nature. We determined the Authority's Board made significant strides in paring down the Authority's various initiatives and operations toward returning to its core mission of providing housing to low income families. However, the Board did not exercise adequate oversight in other areas, specifically the Authority's financial situation.

The Authority suffered from a negative cash flow throughout 1999. To meet its minimum obligations, the Authority liquidated investments, borrowed funds from land sales earmarked for other housing initiatives, borrowed from identity-of-interest entities, and made arrangements with vendors to pay outstanding debts on extended schedules. The Authority provided the Board budget variance analyses; however, the Board did not take direct actions to evaluate the situation and identify causes.

Another element important to an effective board is the action it takes to correct problems. An effective board should issue directives to management detailing specific needed actions then oversee and follow up to ensure the directives are followed. As previously stated, HUD issued a Section 8 management report in January 1997 outlining deficiencies in the Authority's operation of the Section 8 program. One of the major deficiencies detailed in this report related to the Authority operating the program in a deficit position. Although the Board continually asked questions of management regarding the on-going deficit in the Section 8 program, it took no major steps to resolve the problem.

Management's Philosophy And Operating Style

Management's philosophy and operating style affect the way an entity is managed. Elements of management's philosophy and operating style include attitudes toward financial reporting, conservative or aggressive selection from alternative accounting principles, conscientiousness and conservatism in which accounting estimates are developed. This includes attitudes toward data processing, accounting, and personnel.

A key indicator of an acceptable management philosophy and operating style is the level of personnel turnover in key functions of an organization, particularly in management or supervisory positions. The Authority experienced significant turnover of six key positions in four of seven departments under the current Executive Director. The Legal Counsel, Development Director, Purchasing Coordinator, Computer Services Manager, and Human Resources Director positions turned over once, and the Finance Director position twice. Two former employees said they resigned because they did not believe management gave them the authority to perform their jobs and did not support their efforts to improve the Authority's operations.

Another important element of management's philosophy and operating style is management's attitude toward the data processing and accounting functions, and concerns about reliability of financial reporting and safeguarding of assets. For example, management should view the accounting function as a vehicle for exercising control over the entity's various activities, not just as a means of simply recording the entity's transactions. Although the Authority's Finance Department continually provided financial reports to senior management, no continuous actions were taken as a result of the reports. We commend senior management's initiative to reduce administrative spending in April 1999 by eliminating several full-time and temporary positions and allowing only critical spending. However, administrative costs quickly returned to previous levels because of salary increases above the approved budget, purchases of non-critical goods and services, and failure to release a highly-compensated employee when funding for the position ended. The employee was transferred to a newly-created position.

Management's attitude toward financial reporting is another crucial element of philosophy and operating style. Does management select accounting principles used in financial statements that always result in the most favorable presentation of the entity's financial information? Does management ensure accounting principles have not been misapplied, important financial information is disclosed, or records are not manipulated or falsified? We identified actions that indicate management's philosophy and operating style regarding financial reporting was contradictory to a successful control environment.

The Authority took actions that caused its financial statements to understate tenant receivables. One Authority practice was to remove outstanding balances from its books when tenants moved out of their units, even though the Authority made little or no effort to collect the debts. The Authority did not use an outside collection agency but, instead, performed its own limited collection efforts. As a result, potential income was lost and the personal credit rating of former tenants was not updated by credit bureaus to reflect poor payment records.

A second Authority practice was to remove outstanding balances from its books for current tenants that needed additional time to pay their debts. The Authority removed debts from the tenants' accounts; this ultimately removed the debts from total tenant receivables reported, even though the debts were still owed and considered collectible. As the Authority removed the debts from its books, it entered into promissory note agreements with tenants to pay their outstanding debts either in lump-sum or payments allocated throughout future months. The Authority re-recorded the debts on the tenants' accounts in either the following month or future months depending on the terms of the promissory notes. Although this practice occurred throughout the year, the removal practice increased in December 1998. The outstanding debts were then re-recorded in 1999. As a result, the 1998 year-end financial statements understated tenant receivables. The Executive Director said this practice was used when the normal eviction process was not deemed appropriate. We believe tenant debts did not have to be removed from the books for the Authority to have followed an alternative eviction process.

Management's attitude toward safeguarding assets is another important element of a successful control environment. We identified problems with the Authority's controls over cash and its accounting of fixed assets. Specifically, the Authority did not properly safeguard cash held in its Accounts Receivable Department (see Finding 2) and did not have reliable records to identify and locate fixed assets the Authority had recorded on its books (see Finding 5).

The Authority's treatment of its homeownership program promissory notes is another indicator that assets were not adequately safeguarded. The Authority operated the homeownership program from 1990 through 1996, selling 22 homes. In cases where the purchaser did not qualify for a loan large enough to meet the full sales price, the Authority entered into a promissory note agreement for the remainder. The Authority was not able to provide promissory notes, valued at approximately $60,000 for three of their home sales. As a result, the Authority has no record it is owed the $60,000 and, possibly, no legal basis to collect the debt when the homeowner disposes of the property.

Assignment Of Authority And Responsibility

The assignment of authority and responsibility for operating activities includes establishment of reporting relationships and authorization protocols. This also includes the degree to which individuals and teams are encouraged to use initiative in addressing issues and solving problems, as well as limits of their authority. This component also addresses policies describing appropriate business practices, knowledge and experience of key personnel, and resources provided for carrying out duties.

The alignment of authority and accountability often is designed to encourage individual initiatives, within limits. Delegation of authority, or "empowerment," means surrendering central control of certain business decisions to lower echelons - to the individuals who are closest to everyday business transactions. The control environment is greatly influenced by the extent to which individuals recognize that they will be held accountable. This holds true all the way to the Executive Director, who has ultimate responsibility for all activities within an entity, including the internal control system.

Assignment of responsibility and delegation of authority is important at all levels of an organization. These elements are necessary to deal with organizational goals and objectives, operating functions and regulatory requirements, including responsibility for information systems and authorizations for change. An organization must ensure employees at the "right" level are empowered to correct problems or implement improvements, and empowerment is accompanied by appropriate levels of competence and boundaries of authority.

Although these concepts are important to a successful organization, we determined the Authority's senior management did not support the empowerment concept. Staff expressed concerns and frustrations that they were not allowed to make decisions that were within their authority and expertise. For example, a former Finance Director tasked with resolving the Authority's cash flow problems said his recommendations were ignored and overridden by senior management. Under the former Finance Director's guidance, the Finance Department made arrangements with the Authority's utility suppliers to repay substantial, overdue debts in a scheduled plan the Authority could afford under its strained cash flow situation. The Finance Department also evaluated other outstanding debts and based future cash flow activity on paying the oldest debts first. Although this Finance Director kept senior management advised of the cash flow situation and efforts to regain control of spending, senior management continually ignored the plan and brought invoices to the Finance Department for immediate payment. These payments effectively overrode the responsibility and efforts of the Finance Department to get control of the Authority's cash flow situation. The former Finance Director resigned from the Authority shortly after joining the staff, in part due to his belief that senior management did not truly support the efforts being made by staff to resolve the Authority's problems.

In addition, two former Purchasing Coordinators said efforts to improve the Purchasing Department were not supported by senior management. The Coordinators said they were not given the authority to make needed changes to ensure the Authority received quality goods and services at the best prices. One Coordinator said he provided procurement training to Authority personnel on proper procurement procedures. However, senior management did not give him the authority and was reluctant to discuss ways to enforce the use of the proper procedures.

Human Resource Policies And Practices

Human resource practices send messages to employees regarding expected levels of integrity, ethical behavior and competence. Such practices relate to hiring, orientation, training, evaluating, counseling, promoting, compensating and remedial actions. It is essential that personnel be equipped for new challenges. Hiring of competent people and one-time training are not enough. The education process must be ongoing.

One element of the human resource component is the extent to which policies and procedures for hiring, training, promoting, and compensating employees are in place. The Authority had detailed human resource policies and procedures in place. Specifically, the Authority's Policy and Procedure Manual contained detailed information on general job performance standards, employee performance appraisals, and guidelines for disciplinary actions. Authority employees either had a personal copy of the manual or ready access to a copy.

Another important element of human resource practices is an organization's efforts to ensure new employees are made aware of their responsibilities and management's expectations of them. In addition, supervisory personnel should meet periodically with employees to review job performance and make suggestions for improvement. The Authority prepared new employees through an orientation process conducted by human resource personnel and the new employee's supervisor. The Authority also provided an orientation packet to the new employee containing copies of the human resource policies and procedures, performance appraisal forms, compensation and benefits information, information on the Authority's organization, notices specific to the employee's area of work, and multiple notices regarding specific areas of conduct (i.e., use of Authority vehicles and electronic mail services). The Authority's policies and procedures also require annual performance appraisals of employees. We determined the Authority completed these annual performance appraisals.

The level of attention given to recruiting and training is an important indicator of management's support of employees. The Authority's employee training procedures state that the primary development of knowledge and skills is to take place in the employee's working environment through supervisory coaching and on-the-job training. These procedures allow for outside training, if approved by appropriate officials. The procedures also state that employee development needs, as indicated on the employee's performance appraisals, are the combined responsibility of the employee, the employee's supervisor and the Human Resources Department.

Although the Authority's approach to training is adequate, we identified examples of employees placed in key positions without the needed training to conduct the job effectively. We previously noted an example of a procurement official who had no training in procurement before being placed in the position. The employee received no formal training but received on-the-job training and read literature related to procurement. Because the employee had the responsibility of properly procuring goods and services with federal funds, the employee should have had formal training in federal procurement procedures.

Another part of an effective human resource function is accurate job descriptions. The Authority had not updated its job descriptions and detailed job tasks since 1996, even though the Authority had reorganized and changed job duties.

Weaknesses In The Control Environment Had A Negative Impact

Because the Authority did not have an adequate control environment, its personnel did not: follow appropriate contracting procedures; effectively implement new initiatives; prepare accurate financial records and statements; and paid expenses that were ineligible or unsupported. Additionally, the Authority could not identify an independent accounting firm (as of September 5, 1999) that would accept an engagement to audit the Authority's records and provide annual financial statements.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix C, page 113, contains the complete text of the comments.

The first area of an "effective control environment" is an area the Board of Commissioners, the Executive Director, Authority staff, and the HUD Troubled Agency Recovery Center team has spent considerable time, effort, and money to improve. Starting with the KPMG Management Analysis Study and Report of January 29, 1999 and the Authority's response to that report in April 1999, the Authority has made consistent, steady and marked improvements in strengthening its internal control environment.

We have implemented corrections in these areas:

a. Cash Receipts
b. Procurement/Disbursement
c. Asset Accountability Procedures
d. Human Resources/Payroll Process
e. Grants Management
f. Inventory of Fixed Assets
g. Internal Control Monitoring System (PHAS related)
h. Developing a Strategic Plan
   - Comprehensive Plan for PHAS
   - Five-Year Plan for Operations

Some of the corrective actions were made near the end of the period of the Inspector General audit. The Inspector General allegation that the Authority did not have an effective control environment must also be refuted factually. The Authority has always encouraged staff to cooperate and denies the allegation that Request for Proposals were cancelled to give the task to the vendor of choice.

OIG Evaluation of Auditee Comments

We evaluated the Authority's control environment after the KPMG Management Study and found it was not adequate. As we stated in the finding, we believe the control environment includes both an entity's actual situation and employees' perceptions. Our findings contain examples of control weaknesses provided by Authority employees. These examples suggest, at a minimum, that key employees were operating under assumptions and beliefs indicative of a deficient control environment.

Auditee Comments

<u>Integrity and Ethical Values</u>

A Request for Proposal system is currently in place that meets or exceeds federal procurement standards as of October 1999. A member of the Troubled Agency

Recovery Center team assisted the Authority in the computer and Management Information System area to establish the proper procurement and contract process. This procurement process will be incorporated into the Authority's policies and procedures. In addition, a procurement supervisor and supply specialist have been hired to control procurement and to support work-orders, supply controls, and maintenance. A fixed asset inventory system will be done on a year-round cyclic basis. Competitive bids and a competitive contracts system is now in place.

The Authority has worked very hard to address the Section 8 issues. First with the local HUD office, then later in 1998 with Abt Associates, and in 1998 and in early 1999 with a consultant to resolve problems associated with Section 8 Housing Assistance Payments and program administration. Factually, the program was operating in a deficit position. However, this was an approved strategy to allow the use of the reserve account from the Section 8 funds. The facts also indicate the Authority's use of the Section 8 reserve and many other HUD-approved measures were undertaken to provide needed housing vouchers and at the same time resolve budget issues. In no way were any illegal or unethical measures used to address the Section 8 problem.

The Authority will revise its policy by the end of this year to require such travel requests be approved by the Chairman of the Board or the Board of Commissioners.

OIG Evaluation of Auditee Comments

The Authority actions taken or planned in relation to its procurement system should correct control weaknesses identified in this finding, if these plans and actions are effectively implemented and consistently followed.

We found no illegal or unethical actions on the part of the Authority in the operation of its Section 8 program. The Authority did not identify Section 8 program problems that caused it to operate in a deficit position. Operating reserves are to be used to fund the program in abnormal situations when the costs of operations exceeds funds available to operate the program. The use of operating reserves should not be a long-term strategy to fund operations. In January 1997, HUD issued a Section 8 Management Report that showed the Authority's Section 8 program was operating at a deficit.

The Authority also needs to include in its revised travel policies the requirement for the Chairman of the Board or the Board of Commissioners to approve the Executive Director's travel reimbursement vouchers.

Auditee Comments

Commitment to Competence

The interview process for all positions includes completion of an interview rating sheet for each applicant. The interview rating sheet includes the minimum knowledge, skills and abilities, and physical demands required for the position. Individuals are hired or promoted based on their interview rating sheet scores and a recommendation by the interviewing supervisor to the Executive Director.

In 1996 the human resources staff interviewed individuals in all job classifications and revised every job description in the organizational structure. Job descriptions have been updated or changed regularly in accordance with changes in procedures or to meet grant goals and objectives. However, the Authority organizational structure does include a number of skilled trade positions. These job descriptions have not been updated and there has been no indication that they need revisions.

The report indicates the Authority does not promote a team approach. The Authority in fact has done a number of things over the last two years that indeed promote a team concept.

OIG Evaluation of Auditee Comments

The Authority says it has an effective interview process and its job descriptions are current. We did not review the Authority's interview process; however, we did determine that employees were placed in key positions without the needed training to effectively perform the job. We also determined the Authority's general job descriptions and information on detailed tasks expected from each position were outdated.

Our finding does not discuss whether the Authority promoted a team approach. We did say that a lack of commitment by management to clearly define duties expected of employees and the assignment of tasks to employees who have not been adequately trained, causes unrealistic expectations by management and frustration among employees.

Auditee Comments

Board of Directors or Audit Committee

The actions the Board of Commissioners took to resolve the budget deficit crisis are outlined in the Emergency Board meeting in September 1999. The Authority cut staff, over 33 positions, for the second time in 1999. The cutting of staff and the Board involvement in the approval of a positive cash flow budget in the year 2000 demonstrates the Board's involvement in the deficit issue. Throughout the year, the Board has put in countless volunteer hours in every major concern.

The Troubled Agency Recovery Center Memorandum of Agreement reflects the agreed upon changes being instituted by the Authority Board of Commissioners and staff. The Authority will provide a list detailing Board activities to the Troubled Agency Recovery to substantiate the proactive involvement of the current Board of Commissioners.

OIG Evaluation of Auditee Comments

The Authority's comments address Board actions taken place after completion of our on-site audit work. We commend the Board for these actions. During our review, the Board discussed many Authority problems, but did not take proactive steps to direct actions, even after problems persisted. For example, HUD notified the Board the Authority's Section 8 program was operating at a deficit in January 1997. It continued to operate in a deficit through the end of our review. We found the Board continually asked questions of management about the deficit, but took no major steps to resolve the problem.

Auditee Comments

Management's Philosophy and Management Style

The draft report referenced a staff member hired "because a grant expired." We believe this is an unfounded charge without substantive merit. The Grant Coordinator was a highly qualified applicant for the Planning Technician position that she applied for prior to grant transfer and she received the job on the basis of merit.

The draft Inspector General report includes incorrect statistics regarding key senior staff changes under the current Executive Director.

a. The Authority did not employ a Development Director until February 1999.
b. The Computer Services Manager resigned in November 1998 because her spouse was relocated.
c. There has been only one Human Resources Director leave during this period. The individual resigned to begin a business venture with the previous Executive Director.
d. Under the supervision of the current Executive Director, the Inspector General report indicates that three Finance Directors have left the Authority. This statement is not accurate. The Finance Director resigned in May 1997 and the previous Executive Director promoted a Senior Accountant to Acting Finance Director. The current Executive Director determined the individual did not have the ability to perform the tasks required. The individual moved back to his previous position as a Senior Accountant in April 1998. The Authority hired a Finance Director in February 1999. The audit report says the new Finance Director left because the Authority did not follow through with the intended repayment schedules or adhere to the cash flow activity as planned. This is not accurate; the Authority is now current with all utilities and all invoices through August 1999.
e. Purchasing Coordinator - The report indicates there were continual problems with the procurement methods and daily purchases. This finding is a direct result of the individuals in the Purchasing Coordinator positions daily work. There is sufficient documentation that indicates they were held responsible for their actions.

Management has completed the work to fully implement the public housing automated system.

The Authority does not understate tenant receivables when tenants move out of their units.

The Authority, under the law, had the power to remove debts, establish a promissory note system or forgive the debts due to individual hardship. In no case were any of the procedures the Inspector General outlined against the law.

Homeownership promissory notes were found for the three homes. The $60,000 of promissory notes has now been reconciled to show the legal liability of each property owner, where appropriate.

OIG Evaluation of Auditee Comments

We did not question the qualifications of the person that filled the Planning Technician position. Our point was that senior management did not take the opportunity to reduce administrative expenditures when funding for the Grant Coordinator position stopped. A new position was created during a time the Authority was in a critical financial crisis and was having difficulty finding funds to pay its routine bills.

The part of our draft finding regarding personnel turnover was not clearly worded and lead to misinterpretation by the Authority. We revised the finding to show that the Legal Counsel, Development Director, Purchasing Coordinator, Computer Services Manager and Human Resources Director positions turned over once, and the Finance Director twice. It is true the Authority did not employ a Development Director until February 1999; however, it had previous positions with different titles that performed similar functions. We included the Acting Finance Director as part of the turnover, since he was the Authority’s most knowledgeable accountant at the time the Executive Director removed him. Therefore, the Finance Director position was vacant for nearly a year. The large amount of turnover is an indicator there is, at a minimum, a perceived problem with management’s philosophy and/or operating style.

The Authority’s policy to remove receivables from its books with limited collection efforts when tenants vacated units understates tenant receivables. Until adequate collection efforts are made, the debts should be reflected as a tenant receivable on the Authority's books.

The Authority's practice of removing outstanding balances from the books for current tenants that needed additional time to pay their debt understated the Authority's tenant receivables in the 1998 year-end financial statements. We did not say that procedures violated the law. What we said is, the practice was contradictory to a successful control environment.

Auditee Comments

Assignment of Authority and Responsibility

The Authority's Board of Commissioners and the Authority's Executive Director support the assignment of authority within certain limitations, and also support the delegation of authority and "empowerment" where appropriate. It is not valid to suggest that an employee who took the Finance Director job for a brief 10-week period knew enough, or worked in depth enough to make valid, long-term decisions about the Authority or its long-term needs, strategic planning, or staffing.

OIG Evaluation of Auditee Comments

Although the Authority's response stated it supports delegation of authority and empowerment, Authority staff expressed concerns and frustrations that they were not allowed to make decisions within their authority and expertise. We agree the Finance Director may not have had sufficient knowledge of the Authority to make long-term decisions. However, he was hired as a qualified individual to help resolve the Authority's financial problems. He stated he resigned because he was not given the authority to adequately perform his job.

Auditee Comments

Human Resource Policies and Practices

The Authority has updated the job descriptions and responsibilities of all employees to reflect the staff reductions and new management changes.

The Authority will work with the Troubled Agency Recovery Center team to place more staff training into the year 2000 budget.

OIG Evaluation of Auditee Comments

The Authority's effort to update job descriptions and responsibilities and increase training should improve human resource's policies and practices. The Troubled Agency Recovery Center needs to verify that job descriptions were accurately updated.

Recommendations

We recommend the Director, Troubled Agency Recovery Center, ensures the Omaha Housing Authority:

1A. Develops and implements a plan with specific objectives and timeframes to improve controls over the Authority's operations and, if the plan is not successfully accomplished within an agreed-upon timeframe, revises the Authority's current senior management structure;

1B. Amends its policies and procedures to require Board approval, on a per trip basis, for the Executive Director's travel requests and reimbursement vouchers;

1C. Updated its general job descriptions and specific tasks for each position so employees have a clear understanding of their job requirements;

1D. Evaluates the capabilities of staff to perform their job duties, provides appropriate training to any employee where a need is identified, or reassigns the individual to a more appropriate position;

1E. Establishes and implements policies and procedures for an intensive tenant receivables collection process, including a method of reporting uncollected debts to credit bureaus, or contracts with a collection agency to recover tenant debts;

1F. Properly records tenant receivables so financial reports accurately reflect all outstanding tenant receivables at all times;

1G. Researched and adequately resolved the situation related to the three missing homeownership program promissory notes;

1H. Uses cash flow analyses and budget variance reports to control spending and works toward reversing the Authority's current financial constraints.

The Authority Lacked Adequate Cash Controls

The Omaha Housing Authority did not have an acceptable system of controls over cash. The Authority did not: (1) properly safeguard cash, (2) ensure timely completion of cash reconciliations, and (3) adequately segregate employees' duties. These weaknesses occurred because the Authority's management did not fulfill its responsibility to establish and implement effective internal controls over cash. This lack of effective controls caused the Authority to lose accountability over cash funds and subjected the funds to increased risk of loss or misuse.

HUD's Requirements

Section 4 of the 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 15, Paragraph A of the Annual Contributions Contract states housing authorities must maintain complete and accurate records to permit timely and effective audits.

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 the 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.

OMB's 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 Did Not Properly Safeguard Cash

The Authority did not properly safeguard cash from loss or misuse. The Authority maintained a change fund that held as much as $50,000 on its premises.

The change fund was maintained in an unsecured cash box accessible by three Accounts Receivable personnel. The Authority's Executive Director said the fund was maintained for the sole purpose of cashing checks, such as Social Security and subsistence checks, so tenants could pay their rents. She also said similar change funds were routinely maintained by other housing authorities. However, in our experience, this is not the case. In fact, HUD encourages housing authorities to retain as little cash as possible on premises and set up a tenant payment system directly with a bank when feasible.

As of June 18, 1999, the Authority was holding an additional $7,620 in checks and cash in its Accounts Receivable Department that were not adequately safeguarded. Of this amount, the Authority maintained $6,424 in a card file for new tenant move-ins. The Accounts Receivable Department held the cash and checks until another department entered the new tenants into the computer system. Accounts Receivable personnel held the remaining $1,196 in their desks because sector managers requested the payments be held, not deposited. These funds were payments made by social service organizations toward various tenants' rents. The sector managers requested that the Accounts Receivable Department hold all funds received for each tenant supported by service agencies until all agencies submitted their assistance payments.

Further, the Authority received a $6,855 Section 8 on May 1, 1999 but did not deposit it until June 8, 1999. The Interim Finance Director maintained the check in a locked box in her office. The Interim Finance Director said, in general, deposits were delayed because of staff reductions. In our opinion, the Authority had adequate staff to make daily deposits; not to do so represents imprudent use and oversight of Authority resources.

Authority Did Not Ensure Timely Completion Of Cash Reconciliations

The Authority did not complete timely reconciliations of cash resources. The Authority conducted business through twenty accounts at three different banks. As of August 12, 1999, the Authority's last complete reconciliation of all accounts was for the month ended January 1999. It is prudent business practice to perform timely reconciliations in order to obtain an accurate assessment of cash resources. In July 1999, the Authority hired temporary staff to complete the reconciliations. The Authority needs to make permanent arrangements to ensure reconciliations are performed timely.

T.O.C.

Exit

In order to test the accuracy of the Authority's cash account, we attempted to reconcile bank accounts as of May 31 and June 18, 1999. The accounts were out of balance, checks were received and deposited but not recorded, and outstanding checks had been carried on the Authority's books since 1997. Based on the condition of the records and lack of past reconciliations, we were unable to confirm the Authority's actual cash position. As a result, HUD and the Authority lack assurance the Authority's recorded cash position is accurate and cash has not been lost or misused.

Authority Did Not Adequately Segregate Duties

The Authority did not adequately segregate employees' responsibilities regarding opening and recording of receipts obtained by mail, control of the Accounts Receivable change fund, and tenant rent collections.

Four employees opened and recorded all receipts obtained by mail. Since certain employees performed both duties, those employees had the opportunity to divert unrecorded receipts.

The Accounts Receivable Supervisor was solely responsible for the change fund. The Supervisor performed all reconciliations of the fund without a second level of review. Because the Supervisor had total control of the fund, she could have diverted funds by providing an inaccurate count and erroneously completing the reconciliation.

The Accounts Receivable Department collected tenant rent payments and posted the funds to tenant accounts. In addition, the department was responsible for making adjustments to tenant accounts. As a result, an employee in the department could divert funds without detection by collecting rent payments, not recording the full amount collected, and then making an adjusting entry to prevent a delinquency notice to the tenant.

Proper segregation of duties is important to provide HUD and the Authority assurance that resources are not misused or that any misuse will be promptly detected. The Authority's inadequate segregation of duties increased its susceptibility to the misuse of funds without detection.

Authority Did Not Have Formal Cash Procedures

The Authority's management did not fulfill its responsibility to establish and implement effective internal controls over cash.

The Authority did not have written policies regarding cash receipts, check cashing, deposits, change funds, bond receipts, or Section 8 receipts. This contributed to the Authority's poor controls and lack of adequate records. For example, the Annual Contributions Contract says that housing authorities must maintain complete and accurate records to permit timely and effective audits. The Authority destroyed its tenant receipts after six months. 24 CFR requires housing authorities to maintain appropriate documentation for three years to facilitate audits.

Further, the Authority tracked Section 8 portables (money owed to the Authority by other housing authorities) on a basic spreadsheet. However, there were no written procedures to explain the spreadsheet process and only one accounting clerk knew how to use the spreadsheet.

Written procedures are important to ensure consistency in operations and provide an information trail for personnel turnover.

Authority Was Subjected To An Increased Risk

The Authority's lack of procedures to adequately safeguard and control cash and checks subjected the Authority to an increased risk that funds could be lost or misused without detection. We did not find that any funds were diverted; however, as previously mentioned, based on the condition of the records and the lack of past reconciliations, we were unable to confirm the Authority's actual cash position. Further, the large amount of cash kept on premises subjected the Authority's residents and employees to unnecessary danger and risk of armed robbery. The Authority also lost interest income it could have earned had funds not been held in the vault.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix C, page 110, contains the complete text of the comments.

The Authority Lacked Adequate Cash Controls

Although the Authority does not destroy its tenant receipts after six months, the Authority agrees with the need to maintain complete and accurate records to permit timely and effective audits.

The Authority is in the process of:

1) Discontinuing the change fund and establishing a system for tenant rent collections;
2) Establishing and implementing procedures to deposit all receipts daily;
3) Establishing and implementing procedures that require monthly bank reconciliations;
4) Establishing and implementing cash handling procedures and record retention practices; and
5) Implementing all necessary policies and procedures to assure proper cash management controls.

OIG Evaluation of Auditee Comments

The Authority could not provide the tenant receipts we requested. The Accounts Receivable Supervisor said tenant receipts were destroyed after six months.

The Authority's planned actions should correct the problems we identified, if the actions are completed. The Authority needs to ensure the implementation of all necessary policies and procedures includes proper segregation of duties.

Recommendations

We recommend the Director, Troubled Agency Recovery Center, ensures the Omaha Housing Authority:

2A. Discontinues the change fund and establishes a system for tenant rent collections with a bank;

2B. Establishes and implements procedures to deposit all receipts daily;

2C. Establishes and implements procedures that require a monthly reconciliation of all bank accounts;

2D. Segregates employee duties so that no employee has complete control of a transaction, fund, or account; and

2E. Establishes and implements cash handling procedures that include proper requirements regarding record retention.

The Authority Used Federal Funds To Pay Expenses That Were Not Allowed Or It Could Not Support

The Omaha Housing Authority inappropriately used $1,082,992 of federal funds to pay ineligible and unsupported expenses. The Authority: (1) paid $21,877 for travel expenses to track meets even though applicable regulations did not allow such payments; (2) could not support related entity debts and expenses totaling $905,225 were reasonable and necessary for the Authority's public housing program; (3) paid $6,190 for Section 8 forms available through HUD at no cost; and (4) paid $149,700 for a non-qualified supplemental continuation plan. As a result, the Authority had less funds to operate its public housing program.

HUD's Requirements

24 CFR Part 85.20 requires a housing authority to maintain adequate accounting records to identify the source and application of funds. The CFR specifies that accounting records must be supported by such source documentation as canceled checks, paid bills and payroll records.

Section 9, paragraph (C) of the Annual Contributions Contract states that the Authority must maintain records that identify the source and application of funds in such a manner as to allow HUD to determine all funds are and have been expended in accordance with each specific program regulation and requirement.

HUD Handbook 7401.7, Public Housing Agency Personnel Policies Handbook, requires all private retirement plans to be qualified under the Internal Revenue Code of 1986.

24 CFR Part 85.22 (b) requires State, local, and Indian tribal governments to follow 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.

OMB's Requirements

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

Circular A-87, Attachment A, paragraph C(1)(a), says all costs must be necessary and reasonable for proper and efficient performance and administration of federal awards. Paragraph C(1)(j) says all costs must be adequately documented. Attachment A says a cost is reasonable if, in its nature and amount, it does not exceed an amount that would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. Paragraph E(2)(d) says travel expenses are an allowable direct cost of an award if the expenses are incurred specifically to carry out the award. Attachment B, paragraph 18, says costs of entertainment, including amusement, diversion, and social activities, and any costs directly associated with such costs (such as transportation and gratuities) are unallowable.

Authority Paid Ineligible Travel Expenses

From 1994 through 1997, the Authority paid $21,877 for residents and Authority staff to travel to three out-of-state track meets. We were unable to determine why the Authority made the payments because of personnel turnover and the Authority could not provide any support for the payments. Office of Management and Budget Circular A-87 specifically states that the costs of entertainment, including amusement, diversion, and social activities, and any expenses directly associated with such costs are unallowable.

Authority Transactions With Related Entities Were Not Supported

The Authority established accounts in its general ledger system for inter-company transactions involving Housing In Omaha, Inc.; Omaha Housing Authority Foundation, Inc.; and Gateways of Opportunity, Inc. However, the Authority could not provide documentation to support the reasonableness and necessity of many of the transactions to the public housing program.

From 1991 through 1997, the Authority made entries in an inter-company account that showed the Authority owed its related entity, Housing in Omaha, $70,810. The inter-company account also showed the Authority owed the Omaha Housing Authority Foundation $180,834. However, the Authority did not provide adequate documentation to support these debts or show that they were reasonable and necessary public housing program expenses.

Further, as of December 31, 1998, the Authority's records showed Gateways of Opportunity owed the Authority $653,581. The amount represented expenses incurred by the Authority on behalf of Gateway. However, the Authority did not provide adequate documentation to support these debts or show that they were reasonable and necessary public housing program expenses. Federal regulations require that costs be necessary, reasonable and adequately documented.

Current Authority accounting staff could not explain why past transactions were not adequately supported, nor could they provide justification for the entries. As a result, HUD lacks assurance the Authority spent $905,225 for purposes that benefited the public housing program.

Authority Purchased Unnecessary Forms

During 1998, the Authority spent $6,190 for publications and forms that were available at no cost through HUD's Directive Distribution System. The Authority's Section 8 manager confirmed that HUD publications and forms could have been obtained from HUD at no cost, but said she ordered them from the local vendor because they were backordered and not available from HUD. She said she only ordered small quantities to last until the forms and publications could be provided by HUD. We determined the Authority did not order forms and publications as only a stop-gap measure. For example, the Authority ordered 12,000 copies of HUD 52580, Inspection Checklist, in 1998. For the number of units at the Authority, this quantity was enough to last several years.

The Authority also ordered forms from the local vendor in which the only difference from the HUD form was the Authority customized the form to include the Authority's name and address. The Authority's use of scarce funds to pay for printing HUD forms was not prudent and necessary.

Authority Paid A Supplemental Retirement Benefit That Was Not Approved By HUD

From 1994 through 1996 the Authority made three payments of $49,900 ($149,700 total) for a non-qualified supplemental continuation plan. The Authority established the plan to pay supplemental retirement benefits to its former Executive Director. The Authority did not follow HUD's Handbook 7401.7 which required plans to be qualified. Qualified plans are more restrictive than non-qualified plans and require the Authority to follow Section 401(a) of the Internal Revenue Code. Section 401(a) provides the plan's sponsor and participants significant tax advantages. Also, the Authority did not obtain HUD's approval for the plan as required by the HUD handbook.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix C, page 119, contains the complete text of the comments.

The response to the finding will be submitted to the Troubled Agency Recovery Center within 30-45 days. This will allow the Authority adequate time to reconstruct financial records and provide proper supporting documentation.

OIG Evaluation of Auditee Comments

The Director of the Troubled Agency Recovery Center needs to ensure reconstructed records are supported by original invoices, vouchers, contracts, and/or waivers that predate ineligible and unsupported expenditures. Expenditures that do not have adequate supporting documentation need to be repaid to HUD.

Recommendations

We recommend the Director, Troubled Agency Recovery Center, ensures the Omaha Housing Authority:

3A. Repays HUD $21,877 from non-federal sources for ineligible travel expenses paid for track meets;

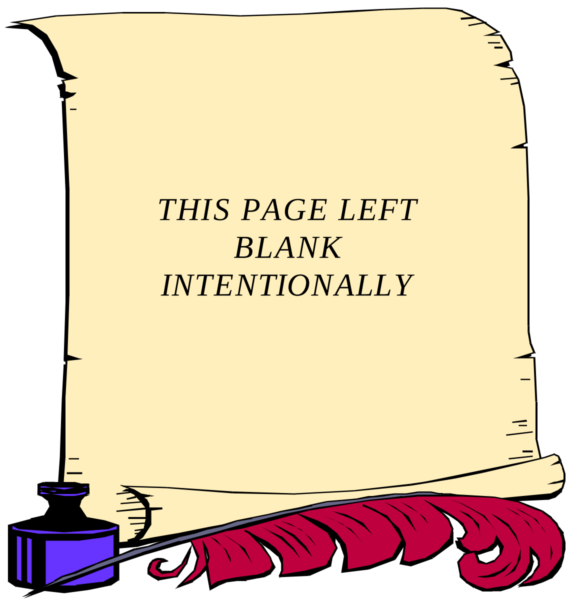
3B. Provides documentation to support $70,810 in debts owed to Housing in Omaha or removes from the Authority's books the amount of debt that cannot be supported;

3C. Provides documentation to support $180,834 in debts owed to the Omaha Housing Authority Foundation or removes from the Authority's books the amount of debt that cannot be supported;

3D. Provides documentation to support that $653,581 in expenses paid by the Authority for Gateways of Opportunity was reasonable and necessary to the public housing program or repays HUD from non-federal funds the amount that cannot be supported;

3E. Provides support that the quantity of HUD forms printed for $6,190 was reasonable and necessary or repays HUD from non-federal funds the amount that cannot be supported; and

3F. Repays HUD $149,700 from non-federal funds for payments made to the supplemental continuation plan without HUD approval.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The Authority Did Not Follow Its Procurement Procedures Or HUD Regulations In Contracting For Goods And Services

The Omaha Housing Authority did not adhere to its own policies or federal regulations when procuring goods and services. The Authority did not properly plan and manage its contracting process to ensure each procurement followed required procedures and was based on adequate competition. Specifically, the Authority: (1) did not always solicit competitive bids, thus making sole source procurements without HUD's approval; (2) paid vendors without a valid contract; (3) entered into a contract drafted by the vendor, that contained no definitive ending date and had an automatic renewal clause; and (4) procured goods and services exceeding $1,000 without issuing a written contract. As a result, HUD and the Authority have no assurance the best prices and quality goods and services were received.

Authority's Requirements

The Authority's November 1998 procurement policies and procedures require that all transactions provide full and open competition and procurements of equipment, materials, supplies and services be documented. Policies and procedures require all contracts in excess of $1,000 be in writing and contain all required terms and conditions, including signature of the appropriate Authority official. The Authority must also obtain written price quotations from a minimum of three suppliers, if available, and record the quotations on a Tabulation of Bids for purchases and contracts from $250 to $20,000 in the aggregate. Further, the Authority must solicit an adequate number of sealed bids through advertising, in accordance with State laws and HUD regulations, for purchases in excess of $20,000. Any purchases and contracts over $20,000 in the aggregate must also be approved by the Board of Commissioners.

HUD's Requirements

24 CFR Parts 85.36 (c) and (d), state that all procurements must be conducted in a manner that allows full and open competition with proposals solicited from an adequate number of qualified sources. The CFR also requires the Authority to maintain sufficient records to detail significant history of a procurement. The detail must include the rationale for the method of procurement, selection of contract type, rejection or selection of each bidder, and basis for the contract price.

Authority Did Not Adhere To Its Own Procurement Policies Or HUD's Regulations

The Authority did not properly plan and manage its contracting process to ensure each procurement followed required procedures and was based on adequate competition. The Authority did not always solicit competitive bids when required; allowed vendors to perform services without a valid contract; entered into a contract drafted by the vendor that contained no definitive ending date and had an automatic renewal clause; and made procurements exceeding $1,000 without a written contract. To evaluate contracting procedures, we judgmentally selected for review 6 of 29 procurements initiated from December 1998 through July 1999, as listed on the Authority's contract list, and all 1999 purchase orders in excess of $1,000.

The following table outlines our review results of the six selected procurements:

Sample Number	Value Of Services	No Bids	No Contract	Vendor Drafted Contract	No End Date
1	$ 5,550				
2	$ 4,900	X	X		
3	$ 643			X	X
4	$ 10,972	X			
5	$134,723	X	X		
6	$ 94,819	X	X		

1) The Authority extended portions of the 1998 lawn maintenance contract from April 15 to July 14, 1999, when it issued a new contract. The contract was a fee-for-service type and the value was based on billings from July 14 to September 16, 1999.
2) As of August 16, 1999, the consulting contract was drafted but not signed. The value assigned was the maximum amount allowed under the draft contract.
3) The contract was a fee-for-service type and the value was based on all billings for fire extinguisher services from April 28 to September 16, 1999.
4) The contract was a fee-for-service type and the value was based on billings for snow removal from November 18, 1998 to April 15, 1999.
5) The billings were based on hourly rates of service and the value was based on all billings from August 29, 1998 to August 9, 1999.
6) The billings were based on hourly rates of service and the value was based on all billings from December 5, 1997 to October 15, 1998.

Authority Did Not Solicit Competitive Bids

The Authority awarded four of the six procurements we reviewed without the Authority having solicited and received bids from an adequate number of qualified bidders. Additionally, the Authority could not document it received HUD's approval prior to awarding what amounted to sole-source procurements. One procurement was for a consultant under a drug elimination grant. The Authority believed HUD's approval of the grant application, showing the consultant's involvement, was tantamount to HUD's approving the method used to procure the services. However, HUD's Public Housing officials, having specialized knowledge of the drug elimination program, said the approval of a grant application does not release the Authority from following required procurement policies when obtaining goods and services required by the grant application.

Consultants Performed Services Without A Contract

The Authority allowed three consultants we reviewed to perform services without a fully executed contract. As of mid-August 1999, the Authority had paid $101,029 for services of one consultant from August 1998 through mid-August 1999, and had not yet paid another $33,694 billed for the same period. The Authority also paid $94,819 for a second consultant's services without a contract during the same period. These are also two of the four procurements in our sample for which the Authority did not solicit competitive bids for the services procured. The Authority allowed the third consultant to perform services without a contract. However, the consultant had not yet billed the Authority during our review.

Authority Entered Into A Vendor Drafted Contract With An Automatic Renewal Clause

The contract agreement for one of the six procurements was drafted by the vendor on the vendor's letterhead. The agreement did not contain clauses required by 24 CFR 85.36. One clause stated that the agreement was initially in effect for one year, but allowed the contract to automatically renew and in effect run in perpetuity unless terminated by one party. The vendor billed the Authority $643 under this contract in 1999.

Authority Procured Goods And Services Without A Written Contract

The Authority did not have a written contract to support purchase orders exceeding $1,000. The Authority's 1998 procurement policy required that all contracts in excess of $1,000 be in writing. We identified 119 purchase orders issued from January through mid-July 1999 for procurements exceeding $1,000, none of which had a written contract. Further, three individual purchase orders exceeded $20,000, the threshold in which competitive, sealed bids should have been obtained. One of the purchase orders exceeded $198,000.

The following table shows the value range for the 119 purchase orders:

$ Range of Procurements	*Number of Purchase Orders*
$100,000 and over	1
$20,000 - $99,999	2
$ 5,000 - $19,999	14
$ 2,500 - $ 4,999	14
$ 1,000 - $ 2,499	88
Total	119

We selected 15 purchase orders to review the Authority's compliance with its bidding procedures. We were not provided any documentation on four purchase orders. The Authority considered three purchase orders to be emergency purchases. However, one of the purchases was for a foreseeable service and, with proper planning, would not have been an emergency purchase. Of the remaining eight purchase orders, the Authority obtained the minimum required three bids on only three.

Authority Did Not Follow Procurement Procedures In Previous Years

A previous review of the Authority's procurement process also determined the Authority was not following its policies and procedures. KPMG Peat Marwick LLP performed a review of the Authority's procurement function from January through June 1998 and reported that the Authority had not followed its procurement policies and procedures. Specifically, KPMG reported the Authority did not follow its bidding procedures for 33 of 36 procurements reviewed.

The Authority issued revised procurement policies and procedures in November 1998 as a result of the KPMG review. However, the Authority was not following their revised policies and procedures. We were unable to determine why the Authority did not follow the proper procurement procedures. The Executive Director did not explain the situation, saying she chose to not place responsibility for any deficiencies. We believe responsibility for an effective procurement process rests with senior management and that assigning responsibility is an important step in being able to control the process.

Authority's Procurement Policies Are Confusing

The Authority's Finance Department paid for goods and services based on an approved invoice and a signed purchase request from the Purchasing Department or other department supervisors. The Purchasing Department approved requests over $1,000 without contracts because the wording in the Authority's procurement policies was confusing. The policies required all contracts expected to exceed $1,000 to be set forth in writing. Because most purchase requests over $1,000 were not in the form of a contract, purchasing personnel did not believe the policy requiring written contracts to be applicable. The Authority's policies should have said "all purchases of goods and services exceeding $1,000 shall be set forth in a written contract."

Because the Authority did not follow proper procurement procedures, HUD and the Authority lack assurance they are getting the best product for the least cost. The Authority is also open to public criticism that it circumvented policies and procedures.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix C, page 111, contains the complete text of the comments.

The Omaha Housing Authority is taking corrective action on procurements that did not follow the Authority's procurement policies and procedures, including Procurements 5 and 6. However, the Authority disagrees with the finding in other instances.

The Authority secured services of Procurement 1 under its emergency purchase procedures and, therefore, believes the procurement was proper. For Procurement 2, the Authority maintains its belief that the national search for the consultant, the consultant's expertise, and the Authority's disclosure of the use of the consultant in its application to HUD for the drug elimination grant was sufficient to satisfy bidding regulations. In addition, the Authority believes HUD's subsequent approval of the application constituted HUD's approval of the consultant. For Procurement 3, the Authority believes both HUD and the Authority are adequately protected by the executed contract and the Authority contractually could and would end the contract in one year. For Procurement 4, the

Authority says it properly solicited for bids and executed the contract by placing notices in the local newspapers, soliciting more than 10 potential contractors, receiving two bids, and selecting the contractor prior to executing the service contract.

The Authority believes we interpreted its procurement policies and procedures in a manner not initially contemplated by the Authority in relation to contracts expected to exceed $1,000. The Authority says it was not the intent of its policies and procedures to require written contracts for all purchases of goods and services exceeding $1,000. Therefore, the 119 purchase orders did not necessarily require written contracts. The Authority added that the three larger transactions were procured by sealed bid and approved by the Board of Commissioners; and therefore, the Authority received the desired results

The Authority is reviewing all transactions to assess the concerns identified in order to develop a procurement policy that balances proper internal controls with the demanding needs of the organization.

OIG Evaluation of Auditee Comments

We commend the Authority for evaluating its procurement process and developing new policies and procedures to address concerns. However, we believe our observations and conclusions remain valid. The following further clarifies our position.

For Procurement 1, our review showed the Authority did not properly plan for the needed services, causing it to invoke emergency procedures to acquire services until it selected a contractor. The Authority originally treated this as a normal procurement and issued a Request for Proposals. However, by the time the Authority determined that the proposals it received were non-responsive, the lawn maintenance season had begun and the Authority had no contractor to perform the services. For Procurement 2, the disclosure of the use of an expert consultant in a grant application to HUD, and HUD's subsequent approval does not constitute grounds for ignoring federal procurement regulations. For Procurement 3, we maintain that the contract allows for perpetual continuation of the contract. The contract states: "This Agreement shall be for an initial term of one year and shall automatically be renewed for one (1) year and from year to year thereafter unless either party notifies the other in writing, of its intention to terminate this agreement, not less than sixty (60) days prior to the expiration of original term or any renewal term thereof." Therefore, there is no assurance the contract would end one year from its effective date. For Procurement 4, the Authority was unable to provide documentation that it properly solicited bids for snow removal services. The Authority's Legal Counsel informed us on August 16, 1999 that he had provided everything in the contractor's file and that if there was no bid information, then he would conclude that the bid process was not followed.

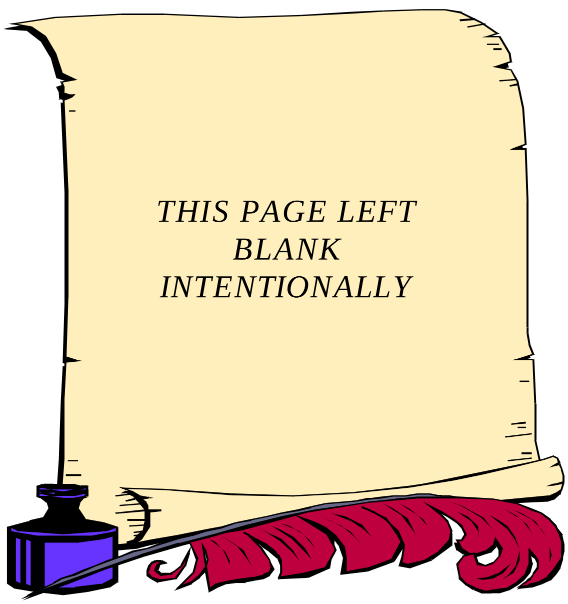
Although we agree the $1,000 requirement may be too restrictive, we conducted our review based on the language of the Authority's written policies and procedures and assurance from its Legal Counsel that our understanding of the language was correct. Procuring goods and services without written contracts leaves the Authority and HUD without assurance that the Authority could legally enforce purchasing agreements when disputes arise. Therefore, the Authority needs to evaluate this requirement and clarify its policies and procedures accordingly.

Recommendations

We recommend the Director, Troubled Agency Recovery Center, ensures the Omaha Housing Authority:

4A. Develops and implements procedures that ensure the Authority's written procurement policies and HUD's procurement regulations are strictly followed; and

4B. Clarifies its procurement policies and develops and implements procedures that ensure invoices are not paid unless a written, properly executed contract is in place per the Authority's directives and HUD's requirements.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The Authority's Inventory Process Was Not Adequate

The Omaha Housing Authority did not have accurate fixed asset and materials and supplies inventories for its December 31, 1998 financial statements. The inventories were unreliable because the Authority did not have formal procedures for conducting the inventory counts, and did not have adequate records to support the value assigned to its fixed assets. Additionally, the Authority did not always assign an employee knowledgeable of the inventory process to oversee the counting of year-end inventory. As a result, HUD lacks assurance the Authority adequately safeguarded assets and a $688,386 year-end adjustment to reduce the materials and supplies inventory was appropriate.

HUD's Requirements

Section 4 of the Annual Contributions Contract states that housing authorities should, at all times, operate projects in a manner that promotes serviceability, economy, efficiency, and stability of the projects, and the economic and social well-being of the tenants.

Section 15, paragraph (A), of the Annual Contributions Contract states that housing authorities must maintain complete and accurate records to permit timely and effective audits.

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 other 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 data, 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.

OMB's Requirements

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

Fixed Asset Inventory Was Not Accurate

The Authority did not maintain reliable fixed asset inventory records, nor did the Authority conduct an accurate inventory of its fixed assets for its December 31, 1998 financial statements. To test the accuracy of the fixed asset inventory list, we selected 11 fixed asset purchases from 1995 through 1998 and 19 purchases in 1999. For the purchases from 1995 through 1998, we could not match 1 of 4 cooking stoves; 1 of 6 dishwashers; and 13 of 52 refrigerators from invoices to the fixed asset inventory list. We could not match the items because the inventory list did not contain sufficient identifying information, such as serial numbers.

For the 1999 acquisitions, only 5 of the 19 fixed assets appeared on the June 9, 1999 inventory list. Authority staff was not certain how the new system tracked fixed assets or who was responsible for recording purchases in the new management information system. As a result, fixed asset purchases made in 1999 were not consistently placed on the fixed asset inventory list. This could result in inaccurate information on the 1999 financial statements if the Authority relies on the inventory list.

Materials and Supplies Inventory Was Not Accurate

The Authority's year-end inventory count of its materials and supplies was not accurate. As of December 31, 1998, the Authority had 26 maintenance vehicles that carried an inventory of materials and supplies. HUD nor the Authority could rely on the inventory count of these materials and supplies because maintenance employees inventoried their own vehicles without evidence of supervision. The Authority could not provide documentation that inventory counts were taken for 13 of the 26 vehicles. In addition, the computer consultant responsible for recording the inventory counts in the Authority's management information system said the 13 count sheets provided to us were the only vehicle inventory counts included in the Authority's materials and supplies inventory for maintenance vehicles.

We also tested the Authority's tracking of its maintenance vehicles. The Authority's management information system records did not agree with the records maintained by individual maintenance warehouses. The discrepancies included differing vehicle identification and license plate numbers on the two sets of records. Also, one vehicle was assigned to a different maintenance location than shown on the Authority's records. Accurate identification and location information is important to ensure all assets are properly controlled and accurately accounted for on inventories.

Inventory Procedures Were Not Adequate

The Authority did not have written instructions for its fixed asset inventory. The Interim Finance Director set up basic guidelines for the year-end count, but she did not oversee the process or the results. The Authority charged a maintenance supervisor and his staff with the responsibility of conducting the fixed asset inventory count, even though they had no experience in this process and no expertise in the financial field. The supervisor said he and his crew conducted the inventory without having an understanding of what items qualified as fixed assets. His team counted and tagged every item they believed was not materials and supplies. For example, they counted staplers and paper punches as fixed assets. The Authority's computer consultant recognized the inclusion of improper items and eliminated them from count sheets before entering detailed inventory information into the Authority's management information system. However, because the Authority conducted their fixed asset inventory in this manner, HUD and the Authority lack assurance the resulting inventory list and valuation was accurate.

We also tested the Authority's efforts to track its computer equipment. We selected 16 computer equipment purchases from 1997 and 1998. All 16 items were at the Authority. However, the location of the equipment was incorrect on the fixed asset inventory list for 14 of the 16 items. An accurate tracking of computer equipment, as well as any other fixed asset, is an essential control to ensure the Authority's assets are accurately accounted for and protected.

Records Supporting Inventories Were Not Adequate

The Authority also could not provide assurance the value assigned to its fixed asset purchases before 1999 was accurate. Values assigned to the 1999 purchases agreed with actual costs on invoices. The Authority could not provide any documentation to show how it determined the value of its fixed assets purchased before 1999. The Interim Finance Director said the Authority valued older fixed assets, those purchased before 1998, at 50 percent of the current cost of a like item. The Purchasing Agent said the Authority used a valuation method based on a depreciation schedule. Without documentation of the method used to value inventory, HUD and the Authority lack assurance the inventory valuation is accurate.

New Control Procedures Could Work

The Authority's Development Director proposed new property and inventory control procedures on August 18, 1999. These procedures appear adequate to properly control the Authority's future inventory process if the Authority ensures personnel are properly instructed and held accountable to following the procedures. Effective inventory procedures provide assurance that the Authority's assets are accurately recorded. Also, an accurate inventory with proper accountability helps fix responsibility for lost or misused equipment.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix C, page 118, contains the complete text of the comments.

The Authority is correcting this deficiency. By October 1999, all elements of the deficiency were either corrected, or a plan and timetable to fix the deficiencies had been established.

OIG Evaluation of Auditee Comments

Authority actions taken and planned should correct the Authority's inventory process if the actions are effectively implemented and followed.

Recommendations

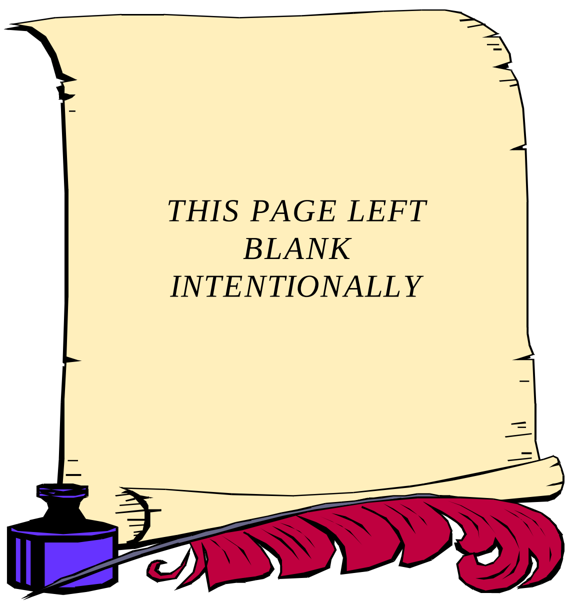
We recommend the Director, Troubled Agency Recovery Center, ensures the Omaha Housing Authority:

5A. Develops and implements formal procedures to record all purchases of fixed assets on the Authority's inventory list;

5B. Develops and implements formal procedures for conducting accurate inventories. These procedures should include required training for inventory team members and supervisory responsibilities;

5C. Develops and implements a formal method to establish value for its fixed asset inventory; and

5D. Conducts a complete inventory of all assets and makes appropriate adjustments to properly reflect quantities, descriptions and locations of items.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The Authority Did Not Exercise Adequate Control Over Implementation Of Its Management Information System

The Omaha Housing Authority did not exercise adequate management controls over implementation of its new management information system. The Authority did not establish a comprehensive system implementation plan to identify the scope, tasks, activities, and resources needed to effectively and efficiently manage the implementation process. The Authority implemented modules of the new system without adequate oversight, testing and user feedback. The Authority also did not implement the general ledger module, a key component to their financial operations. Further, the Authority did not have effective procedures to manage and control user requests to resolve system problems. These problems occurred because the Authority lost key management and contractor personnel during the management information system implementation and did not replace them with personnel knowledgeable of the system. As a result, the system was not used as intended and was not efficient. The Authority had to rely on manual records to manage and control financial operations.

Authority Implemented A New Management Information System

On March 17, 1998, the Authority executed a licensing agreement with Data Processing Solutions, Inc. for a new management information system that used the Public Housing Authority Software, a commercial off-the-shelf package. The agreement required Data Processing Solutions to install all modules, except payroll, onto the Authority's minicomputer, and convert data from existing systems to the new system. The new system went into operation on January 11, 1999.

The Authority implemented the new system without an implementation plan. In addition, the Authority did not adequately test the new system prior to implementation and did not have a consistent process to manage and control user requests to resolve problems.

Authority Lacked An Implementation Plan

The Authority did not establish a comprehensive system implementation plan to identify the scope, tasks, activities, and resources needed to effectively and efficiently manage the implementation of the Public Housing Authority Software system. Under the licensing agreement, the Data Processing Solutions' Project Manager was responsible for developing and executing a comprehensive system implementation plan. However, an implementation plan was not prepared. The only planning documents used were Gantt charts that provided timelines for various tasks and activities. Gantt charts are not sufficient by themselves in that they do not identify the full scope of activities nor the needed resources.

New System Was Not Adequately Tested

The Authority implemented the Public Housing Authority Software system without adequate testing. The Authority did not have a test plan for the system conversion. System testing was limited to reviewing the accuracy of converted data. However, at the time of the testing not all modules had received converted data. For example, the Financial Module conversion was not completed at the time of testing. The Authority did not test data produced by the new system and did not document user acceptance.

Additionally, the system was implemented without the general ledger module installed, a key module for recording and tracking financial information. Financial users were able to enter data into subsidiary financial modules, but the reports generated were inaccurate or did not provide users with needed information. Because of these problems, Authority staff were unable to use the general ledger module. Instead, they created spreadsheets to record and reconcile financial data, a task that should have been automated.

The Authority's staff said the Authority implemented the Public Housing Authority Software to meet deadlines promised to the Board of Commissioners. The computer services staff did not know of any outstanding issues and believed the system was functional, since users had not reported any problems. Additionally, the staff said they were concerned the old system was not Year 2000 compliant and needed to be replaced. However, we believe there was sufficient time to properly test and implement the system before the year 2000.

Authority Lacked Formal Procedures To Resolve System Problems

The Authority did not have effective procedures to manage and control user requests to resolve system problems. User requests were not adequately prioritized, documented or tracked. Users submitted work orders to the Authority's Computer Department to resolve system problems or called in problems over the telephone. However, records were not consistently made to document telephone requests.

Automated software programs are available to help agencies manage their user-support workload. These automated programs provide a structured and controlled approach to prioritize and track system problems and determine the appropriate level of resources that should be dedicated to help users and resolve system problems.

Key Personnel Were Lost And Not Adequately Replaced

The Authority lost key personnel while planning the implementation of its new Public Housing Authority Software system. The Authority's Computer Department Manager resigned in November 1998 and was not replaced. The Manager was in charge of the computer function for several years. She was involved in the selection and procurement of the new system and was knowledgeable of the previous system. During this same period, the Authority also lost a key contractor employee. The employee was replaced by another contractor employee. However, the new employee did not have experience with either the previous system or the Public Housing Authority Software system. Management of the implementation was left to one full-time computer assistant and two contract staff. None of these individuals had the necessary experience or qualifications to effectively manage the implementation of the new system.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix C, page 105, contains the complete text of the comments.

<u>The Authority Did Not Exercise Adequate Control Over the Implementation of Its Management Information System</u>

The Authority disagrees with the finding and believes it exercised adequate management controls over the implementation of its new management information system. The Authority said it contracted with industry experts on the AS400 and the Public Housing Authority Software system to assure that all issues related to the scope, tasks, activities, and resources needed were in place to effectively and efficiently manage the implementation process of the new system. The Authority discussed the Office of Inspector General's findings with the two contractors (Data Processing Solutions and KALOS) responsible for the Public Housing Authority Software and AS400 implementation.

The Authority incorporated the contractors' comments in its response. In reference to the general ledger module, the Authority allocated a full-time contract accountant to "set up" a general ledger to assure the module was executed appropriately, but was unsuccessful in this portion of the implementation plan. The implementation plan provided for an alternative solution, i.e., allowing the accounting modules for the "old" system to remain online and using "manual" records to manage and control the financial operation. An operational decision was made by the Authority to use this solution. However, the Authority believes that using this solution is not sufficient grounds to determine the entire Public Housing Authority Software implementation was inadequate.

In general, the Authority believes the implementation plan was adequate and properly identified the scope and tasks of activities necessary to complete the implementation of the new system.

OIG Evaluation of Auditee Comments

After reviewing the comments and information provided by the Authority, we believe our observations and conclusions remain valid. The following clarifies our position.

Our finding focused on the overall management controls over the implementation of the Public Housing Authority Software system and whether the system was used as intended. The criteria used to measure whether effective management controls were put in place and used were based on industry-accepted best project management practices and HUD's system development methodology, which incorporated these same best management practices. The implementation plan is a critical and key document used by management to ensure successful implementation of a system and to minimize the risk of it not meeting users' needs. This plan establishes the implementation project strategy, processes, tools and techniques for project plan execution. Project strategy includes determining organizational roles and responsibilities for the project team, scope of the project, and resources needed to accomplish project objectives. The project team must have the appropriate set of general management (e.g., leadership and communication) and technical skills and knowledge. Additionally, an effective and efficient overall control process must be established to ensure project scope changes are necessary, properly authorized and approved.

The implementation plan provided during our review, and included as part of the Authority's response, consisted of only a GANTT chart schedule that identified the tasks, dates, resources, and milestones for the Public Housing Authority Software implementation. It did not describe organizational roles and responsibilities, implementation strategy, scope, and the resources needed to accomplish the tasks. For example, the plan did not provide any information on who or what department was responsible for overseeing and approving completed tasks. Also, the data conversion tasks in the plan showed a total of 32 days to complete the tasks and that they were to be performed by Data Processing Solutions. However, the plan did not reflect the volume of records to be examined, or the strategy, process, tools, and techniques to be used to conduct the analysis, perform the necessary programming, and test and validate the converted data.

Auditee Comments

The Authority Implemented a New Management Information System

The Authority said its selection of Data Processing Solutions as a vendor and Public Housing Authority Software as the new system was based on a competitive bid process to select the "best" system and software vendor on the market that could address the majority of the Authority's needs for a fully-integrated system. The Authority's position is that the process used to select and implement the system was appropriate and the processes for testing and managing user requests were more than adequate. However, without specific examples of what led the Office of Inspector General to believe the testing and

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management was inadequate, the Authority is in no position to substantiate its assessment.

OIG Evaluation of Auditee Comments

We neither agree nor disagree with the Authority's position that the process used to select the system was appropriate. Our scope of review did not include an assessment of the adequacy of the Authority's selection process. However, we disagree with the Authority's position that their processes for testing and managing user requests were more than adequate.

Industry-accepted best practices require a system testing strategy be documented and included in a Verification, Validation, and Test Plan. This test plan provides for acceptance testing of all components of the system, including detailed requirements for all tests, testing methods and tools, test evaluation criteria, and test resources. Additionally, the user should be a key player in this process as the user is responsible for reviewing and confirming the testing strategy.

As part of our review, we interviewed several Authority and contractor personnel to determine the amount and extent of testing performed during system conversion and implementation and whether users were involved in the testing process. We were informed by Authority personnel that the Authority did little testing before the system went into production. The extent of testing was limited to having three department managers view their converted data to evaluate its accuracy. These managers did not test the modules by entering new data. This lack of testing was also confirmed by the contractor, who explained that they loaded a new module on the system and waited for the users to use it and provide feedback about any problems. The Authority could not provide a test plan that contained the testing strategy for system acceptance testing. Proper testing of the system should have identified the type of problems outlined in the April 30, 1999 memo, Computer Problems and Concerns (see page 120), included with the Authority's comments.

Auditee Comments

The Authority Lacked an Implementation Plan

It is the Authority's position that through a competitive bidding process, the best vendor and software system was selected. Data Processing Solutions, as a successful Public Housing Authority Software implementation specialist, provided the Authority with their standard Public Housing Authority Software implementation plan, used to successfully implement ten versions of Public Housing Authority Software with other housing authorities, and a data conversion schedule that included analyzing, programming, testing, validating, and receiving/converting the Authority's data.

In addition, Data Processing Solutions developed a comprehensive training schedule that included over 30 days of on-site training with a 30-day lead time for each department to work with the software prior to going "live" with a given module. In regard to the sufficiency of the Data Processing Solutions implementation plan, both Data Processing Solutions and KALOS computer implementation experts said this plan is at least a standard plan/process used in the industry and may be the only plan available for the Public Housing Authority Software. The Authority believes the Office of Inspector General should take these facts and supporting information into consideration prior to stating that the implementation plan was not sufficient.

OIG Evaluation of Auditee Comments

As previously stated, we believe the Authority's implementation plan was not sufficient to adequately manage and control the implementation of Public Housing Authority Software. The implementation plan provides a schedule of tasks and milestones. However, it did not provide details about the scope, the Authority's and the contractor's roles and responsibilities, or resources needed to complete the Public Housing Authority Software implementation. Accordingly, our recommendations remain the same. We provided the Authority documentation that establishes what constitutes an adequate project plan.

Auditee Comments

The New System was not Adequately Tested

Data Processing Solutions was contracted to develop a conversion plan that would adequately test ten new modules prior to "full" implementation. Data Processing Solutions was also responsible for data conversion services to convert the Authority's existing files to the Public Housing Authority Software format for six of the ten modules. Data Processing Solutions completed a full analysis, programmed, tested, validated, and reviewed the conversion with the Authority in reference to the data conversion of the modules. Not only were these modules fully converted and tested prior to "live" implementation, but have been fully operational since the first quarter of 1999. Notwithstanding a few system enhancements and modifications, the majority of the modules were successfully implemented.

In relation to the general ledger/budgets, the Authority was responsible for the Public Housing Authority Software accounting system conversion issues. The Authority assessed its Finance Department and made a determination to employ a contract accountant to take on the responsibility of the general ledger conversion. This contractor worked on the project for approximately 60 days. During the process, this contractor outlined a conversion plan, listed prioritized conversion issues, and set up over 9,000 accounts on the "Chart of Accounts." However, in April of 1999, the Finance Department informed the Computer Services Department of a number of outstanding issues. Based on this feedback, Authority management determined that the general ledger issues needed additional resources beyond the scope of the initial general ledger project and retained the KALOS Group to complete the conversion started by the contract accountant in November of 1998.

Notwithstanding the fact that the system was implemented without the general ledger, a "key module," the statement that the whole system implementation plan and process was "inadequate" is not only unfair but an inaccurate statement. In addition, the Office of Inspector General said the Executive Director "hurried" the implementation of the system because she was concerned that the previous system was not Year 2000 compliant and that she did not know that the system was not “fully” tested because she relied on the Computer Services Department. These statements allegedly made by the Executive Director are outlined as the foundation for this finding and are completely inaccurate. Therefore, these inaccurate statements relied on by the Inspector General investigation team should warrant a review of the Office of Inspector General data gathering process. This review would assess the validity of the statements or documents that were relied on by the Office of Inspector General in formulating these conclusions.

OIG Evaluation of Auditee Comments

Our conclusion that the system implementation plan and process was inadequate is valid. We agree that the lack of implementation of the general ledger module, in itself, does not support that the system implementation plan and process were inadequate. However, as previously stated, we believe the lack of management controls over project planning and testing of the Public Housing Authority Software system contributed to the project being behind schedule and not fully implemented. As indicated in the Authority’s response, problems with the general ledger module implementation efforts still exist and are currently being addressed. Statements made to us by Authority staff were erroneously attributed to the Executive Director. We revised that portion of our finding to show the correct source of the information.

Auditee Comments

The Authority Lacked Formal Procedures to Resolve System Problems

The Authority has in place a standard procedure for documenting all computer-related problems. This procedure is to be followed by all employees for any issues ranging from the need for Personal Computer diskettes to system related problems on the AS400. In discussions with Data Processing Solutions and KALOS about the implementation process, the Authority decided to use the process that staff was comfortable with and knowledgeable of in relation to the formal procedures to resolve system problems. All user requests were prioritized and tracked. If the request was submitted in writing, then it was properly tracked and prioritized.

For instance, on April 30, 1999, the Finance Department provided a full description of problems that they had encountered, in writing, to the Computer Department. These issues became the Authority's top system enhancement priority. Authority management procured the expert services of the KALOS Group, after a full review established a need for more manpower and expertise to get the General Ledger operational. The KALOS Group is actively addressing the General Ledger issue and is working with Authority staff to establish a realistic implementation plan for this final module of the Public Housing Authority Software.

OIG Evaluation of Auditee Comments

We commend the Authority's efforts to actively address the General Ledger issue and establish a realistic implementation plan for the final module of the Public Housing Authority Software. However, we believe the Authority needs to do more to better manage and control user requests. As we previously stated, the "standard" procedure used for documenting all computer-related problems was the use of a work order processed by the user and submitted to the Authority's Computer Department. However, Computer Department personnel told us this process was not formalized, completely documented or consistently used. We recognize that actions taken on problems reported by the Finance Department are a step in the right direction. But, without a formal, documented process for resolving all user problems, the Authority cannot ensure that problems are resolved timely and efficiently.

Auditee Comments

<u>Key Personnel were Lost and not Adequately Replaced</u>

Although this statement is true, the loss of the personnel mentioned was taken into consideration during the planning stage. In fact, the concern from the Authority processing side was not whether the loss of an individual would impact the implementation, but whether the problem tracking system the employee had put in place was adequate. Notwithstanding, the Office of Inspector General's assessment that it was not, the Authority believes the problem tracking system implemented by the Computer Department was adequate, and regardless of whether a particular employee was "here," the success or failure of the implementation would be based on the system in place.

As this issue relates to the contract employees, the Authority contracted with KALOS, Inc. to provide on-site AS400 support and programming as needed. All contract employees working with the Authority at the time of the conversion were qualified AS400 programmers and system analysts. In fact, the employees on site had implemented multiple Data Based Management Systems for the AS400. In addition, the "lost" contract employee has been available to the on-site employee as needed. Therefore, the Authority still believes the team in place was qualified to oversee and effectively manage the implementation of the new system. In fact, 90 percent of the modules were successfully implemented. In relation to the one module that still needs "development," the Authority has contracted with KALOS to provide the necessary support to complete the converting, testing, and final "implementation." The facts that have been cited by the OIG investigation team to substantiate the position that the system implementation plan was not adequate appear to need further corroboration.

OIG Evaluation of Auditee Comments

The intent of our finding was to show that management direction and authority were absent during a critical period of the Public Housing Authority Software implementation. We believe the facts support our conclusion. The accounting software is not yet fully implemented and KALOS told us they could not make the Finance Department perform their tasks and meet their deadlines. Specifically, they were unable to implement and test the general ledger module because the Finance Department changed its system requirements and did not complete its assigned tasks of entering the chart of accounts and vendor information.

We recognize the Authority has a contractual relationship with the KALOS Group to ensure that the Public Housing

Authority Software system is fully implemented. However, the KALOS Group, as the contractor, has no direct control over Authority employees to ensure the tasks and deadlines are met. When the former Computer Department Manager resigned, the Authority's management of the implementation project was left to a computer assistant with no experience in project management and no line of authority to ensure that the Public Housing Authority Software system was fully implemented within established deadlines.

Auditee Comments

In general, based on the Authority's review of the Office of Inspector General findings, the facts utilized by the investigation team should at least be substantiated or corroborated by not only supporting documentation, but interviews with the subject matter experts involved in the Public Housing Authority Software implementation. This should provide the Office of Inspector General with a full understanding of the actual scope of work and how the Authority intends to implement the remaining module. In reference to the "tracking" system, we are open to the Office of Inspector General's suggestions on a more formal process than the current system that requires users to submit computer problems in writing via interoffice mail or electronic work orders.

However, the Authority is committed to "fully" integrating Public Housing Authority Software into the operations of this organization. The Authority has contracted with KALOS for a team of programmers and accountants to complete the conversion of the General Ledger module not in operation and to complete user requested system enhancements. This team is in the process of assessing the problems with the general ledger/budgets and will report to the Executive Director weekly on the status of the contracted work. The team plans to provide the Authority with a scope of work that will include all tasks, activities, and testing needed to effectively complete the Public Housing Authority Software implementation. This supplemental plan will ensure user involvement, user sign-off and integration testing to assure a smooth transition of the General Ledger module.

OIG Evaluation of Auditee Comments

If the Authority follows its planned actions and remains committed to fully integrating the Public Housing Authority Software into its operations, the problems identified in this finding should be resolved.

Recommendations

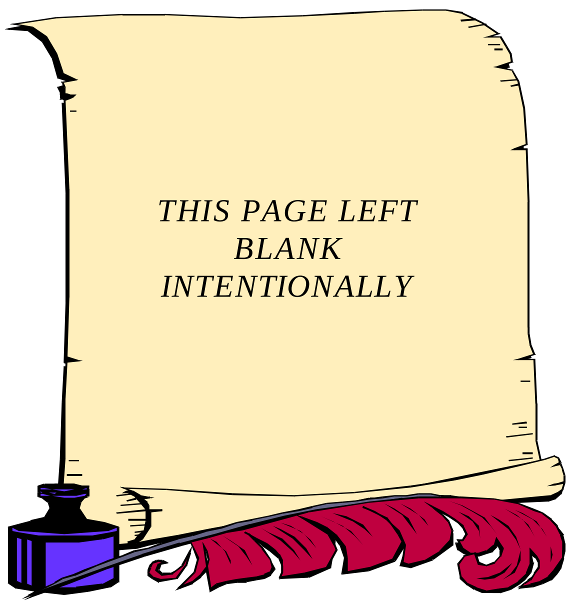
We recommend the Director, Troubled Agency Recovery Center, ensures the Omaha Housing Authority:

6A. Assigns an individual with the necessary skills, knowledge and experience to oversee completion and full operation of the Public Housing Authority Software system;

6B. Prepares a project plan describing the scope, tasks, activities, and resources needed to effectively complete their Public Housing Authority Software implementation;

6C. Develops a test plan for system implementation and enhancements, and assures users are involved in this process and approve the results of the tests; and

6D. Develops a formal process to assure system problems reported by users are properly and adequately managed and controlled. Consideration should be given to automating the process for a more efficient medium to minimize and control system problems.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The Authority Did Not Follow Federal Regulations Regarding A Special Purpose Grant

The Omaha Housing Authority violated of federal requirements regarding a Special Purpose Grant used to construct a facility and provide job training for residents. The Authority did not request disposition instructions from HUD when the Authority ceased using the training facility for the authorized purpose. As a result, HUD lost the use of $130,500.

HUD's Requirements

24 CFR Part 85.31, which establishes administrative requirements for grants and cooperative agreements, requires that real property be used for the originally authorized purposes as long as needed for those purposes. Real property means land, including improvements, structures and appurtenances thereto. When real property is no longer needed for the originally authorized purpose, the grantee must request disposition instructions from the awarding agency. The instructions provide for the grantee to: (1) retain title after compensating the agency, (2) sell the property and compensate the agency, or (3) transfer title to the agency or to a third party designated or approved by the agency. In the first two alternatives, the agency's compensation is determined by applying the awarding agency's percentage of participation in the cost of the original purchase to the fair market value or sales price of the property. In the third alternative, the agency pays the grantee an amount determined by applying the grantee's percentage of participation in the purchase of the property to the current fair market value.

Authority Received A Special Purpose Grant

On August 2, 1993, HUD executed a grant agreement with the Authority awarding it a Special Purpose Grant of $600,000. The grant funded a plan to provide "Step Up" training in connection with the Authority's Gateways of Opportunity training program. HUD awarded the grant pursuant to the Authority's application for $350,750 to renovate a building for use as a training center and $249,250 to provide training in construction trades.

The Authority acquired the site for the training facility through a corporate donation in October 1993. A 1992 appraisal valued the site at $53,000. The appraisal included the land and one building on the site.

The Authority originally intended to renovate the building. However, it later determined renovation was not feasible. The Authority obtained HUD approval to use $14,500 of the grant renovation funds to demolish the building and the remaining $336,250 to construct a new building.

Authority Did Not Follow Federal Regulations

In late 1997, the Authority terminated its Gateways of Opportunity training program. The Authority also discontinued the training program established by the Special Purpose Grant. The Authority did not request disposition instructions from HUD for the training facility, as required by federal regulations. Instead, the Authority used the building as a storage facility and workshop.

The Authority's participation in the Special Purpose Grant building project was $53,000, the appraised value of the donated land and building. HUD's participation was $350,750. Therefore, the Authority had a 13 percent interest ($53,000 ÷ ($350,750 + $53,000)). HUD had an 87 percent interest ($350,750 ÷ ($350,750 + $53,000)). Under federal regulations, HUD is entitled to 87 percent of the current fair market value of the building. A February 1998 appraisal valued the property at $150,000.

Because the Authority did not follow federal regulations, an asset valued at $130,500 ($150,000 x 87 percent) was not used for the maximum benefit of HUD's programs.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix C, page 113, contains the complete text of the comments.

The Authority will work with the Troubled Agency Recovery Center Director to assure, if applicable, that disposition instructions from HUD are secured and followed.

OIG Evaluation of Auditee Comments

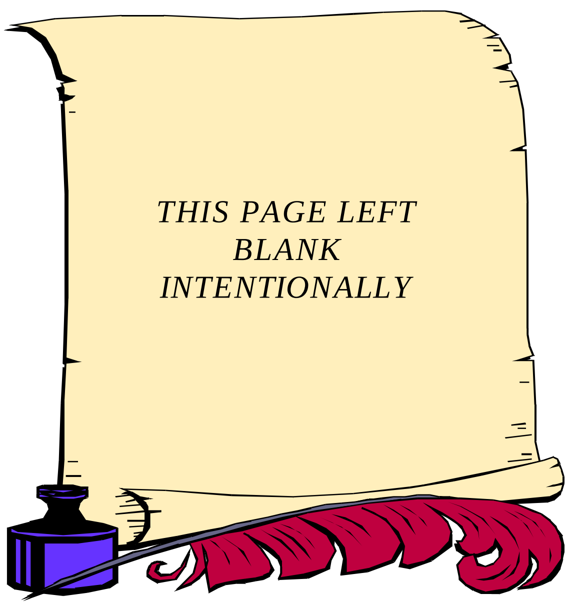
24 CFR Part 85.31, which establishes administrative requirements for grants, says when real property is no longer needed for the originally authorized purpose, the grantee must request disposition instructions from the awarding agency. The

issues in this finding will be resolved when the Authority requests disposition instructions from HUD and complies with them.

Recommendation

We recommend the Director, Troubled Agency Recovery Center, ensures the Omaha Housing Authority:

7A. Seeks disposition instructions from HUD for the closed training facility and complies with the instructions.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The Authority Did Not Properly Administer Its Section 8 Program

The Omaha Housing Authority did not properly administer its Section 8 program. The Authority allowed its costs to exceed its earned fees and reserves. In a 1997 management review of the Section 8 program, HUD warned the Authority it needed to control and properly allocate Section 8 costs. However, the Authority did not adequately address the issues that HUD brought to its attention. As a result, neither HUD nor the Authority have assurance that costs allocated to the program were reasonable.

As of December 31, 1998, the Authority had a Section 8 operating reserve deficit of $615,872.

HUD's Requirements

HUD Handbook 7420.7, Administrative Practices for the Section 8 Program, states that the operating reserve is to be credited with earned administrative fees that exceed expenditures for program administration during the year. The operating reserve must then be used to pay Section 8 administrative costs exceeding earned administrative fees in future years. The Authority must ensure that projected administrative fees and the operating reserve will cover all projected costs for efficient and effective administration of the program. The administrative fee is the funding source for ongoing administrative expenses.

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.

OMB's Requirements

Office of Management and Budget Circular A-87, Attachment A, paragraph C(3)(a), states that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to the cost objective in accordance with relative benefits received.

HUD Performed A 1997 Management Review

The HUD Office of Public and Indian Housing issued a Section 8 management review report in January 1997. The report stated, for most housing agencies during most fiscal years, administrative fees exceed the actual cost of operation. These excess fees are recorded in the Section 8 operating reserve and are available to meet future cost increases. HUD evaluated the Authority's 1995 year-end balances and determined operating reserves were small when compared with administrative costs for the Section 8 programs. The operating reserves appeared inadequate to meet future needs. HUD recommended the Authority: 1) evaluate its allocation of costs to ensure that a reasonable allocation of cost was being made to the individual Section 8 programs, 2) increase its fee income through leasing additional certificates and vouchers, and 3) examine its total cost of administering its Section 8 program. HUD concluded that, even with a reasonable allocation of costs made in accordance with Office of Management and Budget Circular A-87, it may prove necessary to reduce the Authority's overall costs for administering the program. The Authority did not address HUD's recommendation in its response.

Section 8 Costs Exceeded Authority Resources

The Authority did not adequately address HUD's concerns. It did not ensure that projected administrative fees and available operating reserves would cover all projected costs of program administration. As a result, in 1998, half of the Authority's Section 8 projects operated at a deficit and the Section 8 operating reserve was not sufficient to cover the deficits.

Costs Were Not Reasonably Allocated To The Section 8 Program

In response to the 1997 review, the Authority submitted a cost allocation plan to HUD, which HUD approved. The plan specified that cost allocations would be based on three elements: 1) staffing analysis/level of effort, 2) revenues from the Section 8 program versus public housing program, and 3) number of Section 8 units versus public housing units.

The Authority did not completely follow the plan when it allocated 1998 costs. The plan stated that the Authority would conduct time analyses of employees' work on various programs. However, the Authority relied on the judgment of consultants for determining this element. Neither the Authority nor the consultant conducted a time analysis. If the Authority had conducted actual time analyses, the allocations would have been more accurate.

Also, allocating costs based on revenues and units would not necessarily allocate costs equitably. According to HUD, Section 8 programs should provide more revenue to housing authorities because administrative and maintenance costs are less than those in public housing programs. Therefore, there is not a equal basis between Section 8 revenues or units and Section 8 costs.

Section 8 salary and sundry expenses substantially increased from 1997 to 1998 even though the Authority's Section 8 program size did not significantly increase. We believe these increases occurred, at least in part, because the Authority did not allocate costs based on actual time spent on the Section 8 program, but instead used the consultant's recommended factors. This, in conjunction with the weaknesses in allocating costs based on revenues and units caused costs to exceed earned fees and reserves.

Section 8 Costs Are Greater Than Costs At Other Authorities

We compared the Omaha Housing Authority's 1998 Section 8 administrative expenses to two high-performing housing authorities with similar sized Section 8 programs. The Omaha Housing Authority spent an average of $66 more per unit (approximately $265,000) on administrative expenses than the other housing authorities. Because the Omaha Housing Authority's cost allocation method was not based on analyses of actual costs incurred, we could not determine if the higher expenses were solely attributable to the cost allocation method or if they indicate program inefficiencies.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix C, page 119, contains the complete text of the comments.

The response to this finding will be submitted to the Troubled Agency Recovery Center within 15-30 days. This will allow the Authority adequate time to reconstruct financial records and provide proper supporting documentation.

OIG Evaluation of Auditee Comments

The Director of the Troubled Agency Recovery Center should ensure that reconstructed financial records are supported by verifiable, original documentation. The Authority needs to develop a cost allocation plan based on actual expenses and ensure its Section 8 program is operated within available revenues.

Recommendations

We recommend the Director, Troubled Agency Recovery Center, ensures the Omaha Housing Authority:

8A. Develops a cost allocation plan based on actual data to equitably allocate costs to the Section 8 program.

8B. Turns the Section 8 program over to a contract administrator if it cannot operate the program with available Section 8 revenues.

The Authority Did Not Properly Account For Funds Collected For Cable Television Services

The Omaha Housing Authority collected cable television service fees from tenants, then deposited collections in its public housing or identity-of-interest entities' bank accounts. The Authority disbursed the deposits from the public housing account directly to the cable company or the Omaha Housing Authority Foundation. The Foundation then paid the cable company. However, from January 1996 through January 1999, the Authority disbursed $79,918 more public funds to the Foundation and the cable company than it had deposited in the public housing account.

In addition, the Authority erroneously recorded on its books a $36,594 cable-related payable to the Foundation. The Authority recorded the debt according to its usual procedure, intending to transfer the cable funds to the Foundation. However, in this instance, the Authority paid the cable company directly.

The Authority ceased cable operations at the end of January 1999.

Authority Non-Profit Used For Cable Service Operations

On August 5, 1986, the Authority entered into an agreement with a cable television company to pay a monthly fee for cable services provided to its tenants. On September 9, 1986, the Authority assigned its rights under the cable contract to the Omaha Housing Authority Foundation. The Foundation was a non-profit entity created by the Authority to provide charitable services to the Authority and its tenants. The Foundation used profits generated from the cable contract to provide those services. The contract was canceled at the end of January 1999.

Authority Overpaid The Foundation

The Authority disbursed more in funds to the Foundation and the cable company than it deposited in its public housing accounts. As a normal operating procedure, the Authority collected cable fees from tenants, and depending on where the tenants lived, deposited the fees into the public housing account or the accounts of Northampton Arms or Housing in Omaha. Those funds were then transferred to Foundation's account by check. However, in the case of the final payment covering November 1998 through January 1999, the Authority paid the funds to the cable company directly from its public housing account.

The Authority did not ensure the amount of checks written to the Foundation reconciled to actual deposits of collections. The Authority provided checks to the Foundation that were rounded to the nearest thousand dollars. In addition, the Authority did not ensure that cable collections deposited in its identity-of-interest entities' bank accounts were transferred to the Authority's public housing account when making payments to the cable company or the Foundation. The Authority did not transfer any of Northampton's collections and transferred only 42 percent of Housing in Omaha's collections to the public housing account and/or the Foundation.

As a result, the Authority overpaid the Foundation $79,918 of public housing funds. The overpayment consisted of $32,164 erroneously transferred to the Foundation because the Authority failed to reconcile checks to actual deposits of cable collections. The remaining $41,337 of Northampton Arms receipts and $6,417 of Housing in Omaha receipts should have been transferred to the public housing account or the Foundation, but were not.

Authority Had An Incorrect Payable On Its Books

The Authority incorrectly recorded a payable on its books to the Foundation for November and December 1998 cable collections. The payable represented funds the Authority collected for cable fees that were to be transferred to the Foundation so the Foundation could, in turn, pay the cable company. However, in this instance, the Authority used the funds to pay the cable company directly. As a result, the $36,594 recorded as a payable to the Foundation is in error and needs to be removed from the Authority's records to prevent inappropriate use of public housing funds.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix C, page 111, contains the complete text of the comments.

The Authority will collect $41,337 from Northampton Arms, $32,164 from the Foundation, and $6,417 from Housing in Omaha and deposit the amounts in the Public Housing accounts. In addition, the Authority will remove the recorded $36,794 (sic) payable to the Foundation from the Housing Authority's records.

OIG Evaluation of Auditee Comments

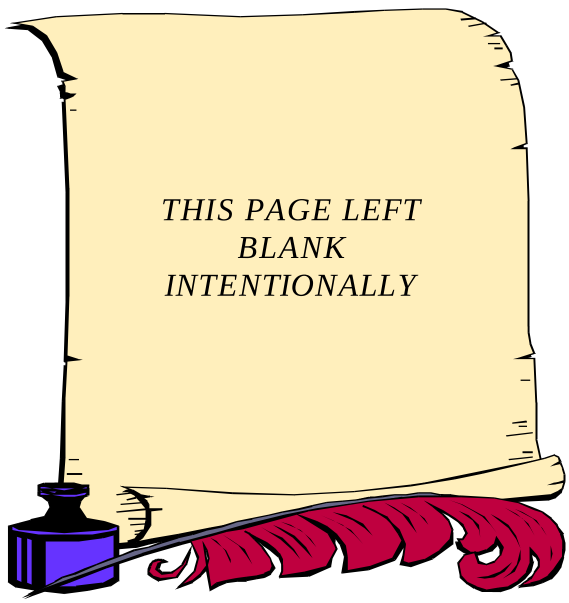
When completed, the Authority's planned actions will resolve the problems identified in this finding.

Recommendations

We recommend the Director, Troubled Agency Recovery Center, ensures the Omaha Housing Authority:

9A. Collects $41,337 from Northampton Arms, $32,164 from the Foundation and $6,417 from Housing in Omaha; and deposits the $79,918 to the public housing account; and

9B. Removes the erroneously recorded $36,594 payable from Authority records.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The Authority Hired A Federal Lobbyist

The Authority hired an individual to perform federal lobbying services under a December 1998 Request for Proposal and did not ensure the lobbyist was paid from non-federal funds. The Authority determined it could use the lobbyist in accordance with Office of Management and Budget Circular A-122. However, the Circular does not apply to public housing authorities. As a result, HUD lacks assurance that $16,725 billed to the Authority for services performed by the lobbyist were not used in violation of HUD Handbook 7570.1, Public and Indian Housing Lobbying.

HUD's Requirements

HUD Handbook 7570.1, Public and Indian Housing Lobbying, states that the use of any federally appropriated funds to influence or attempt to influence federal officials in connection with any federal contract, grant, loan, or cooperative agreement is prohibited. The Byrd Amendment, included in the handbook, states that all public housing authorities that have applied for or received a grant exceeding $100,000 are required to certify that no federally appropriated funds will be or have been used to influence federal employees, Members of Congress and Congressional staff regarding specific grants or contracts.

Authority Used Federal Funds To Pay A Federal Lobbyist

The Authority could not support that it used other than public housing funds to pay for federal lobbying services. The Authority hired a federal lobbyist to perform federal lobbying services under a December 2, 1998 Request for Proposal. The Request for Proposal stated that the successful candidate needed to: 1) lobby the United States Congress on behalf of the Authority; 2) provide regular written reports on all legislation of interest to the Authority; 3) provide office and conference facilities in Washington, DC; and 4) provide research to the Authority on legislation or existing laws.

As a result of the Request for Proposal, the Authority hired a firm. In its response, the firm reported that the principles in its firm were registered federal lobbyists and, if retained by the Authority, would register with Congress as a federal lobbyist on behalf of the Authority. The company began providing services in January 1999.

When we questioned the legality of federal lobbying during our review, the Authority acknowledged that the use of federal funds to pay for federal lobbying was prohibited. They then cited the Office of Management and Budget Circular A-122 as stating: "... costs may be charged to a grant if incurred in connection with providing a technical and factual presentation of information on a topic directly related to the performance of the grant, contract, or other agreement…in response to a documented request of a cognizant staff member … provided such information is readily put in deliverable form …." However, the Office of Management and Budget Circular A-122 does not apply to housing authorities.

As of July 15, 1999, the firm had billed the Authority $16,725, and the Authority had paid $11,475 of that amount. The firm billed the Authority for five meetings with a United States Senator and/or the Senator's staff regarding lead-based paint grants. The invoices indicated the firm performed research regarding lead-based paint as well as other issues. The Authority did not have documentation that payments to the firm were for other than federal lobbying services. In our opinion, when an Authority retains a firm as a federal lobbyist and reimburses the firm with federal funds, at a minimum, the Authority must maintain detailed documentation with its invoices that shows payments to the firm were not for federal lobbying.

As a result of the Authority's actions, HUD lacks assurance that $16,725 billed to and $11,475 paid by the Authority for services performed by the firm were not in violation of HUD Handbook 7570.1, Public and Indian Housing Lobbying.

Auditee Comments

Excerpts from the Authority's comments on our draft finding follow. Appendix C, page 111, contains the complete text of the comments.

The Authority issued two Request for Proposals for State and Federal Lobbying on or about December 2, 1998. However, Authority staff only recommended to the Board for approval one firm to provide State Lobbying. This firm was registered with the State and paid completely from private sources of income as required by State and Federal law.

However, it is the Authority's official position that a Federal Lobbyist was never recommended to the Board, or approved by the Board to provide services in any form or fashion to OHA. The use of the "selected firm's" services was based on a need for specific legal advice for Board members that were charged with addressing specific tasks as it relates to HUD matters. Once the use of the firm's services came to the Executive Director's attention, she had the Authority's legal counsel review the vendor's invoices and work product, which clearly established that the nature of said services were related to researching Authority legal or program matters.

Notwithstanding the fact that the services of the firm were not Federal Lobbying services, the Authority is in the process of reimbursing the operating account for all monies paid to the firm.

OIG Evaluation of Auditee Comments

The Authority's Request for Proposal stated that the successful candidate needed to: 1) lobby The United States Congress on behalf of the Authority; 2) provide regular written reports on all legislation of interest to the Authority; 3) provide office and conference facilities in Washington, DC; and 4) provide research to the Authority on legislation or existing laws. The firm billed the Authority for five meetings with a United States Senator and/or the Senator's staff regarding lead-based paint grants. The Authority did not have documentation showing that payments to the firm were for other than federal lobbying services.

The Authority's plan to reimburse the operating account will resolve the issue identified in this finding.

Recommendation

We recommend the Director, Troubled Agency Recovery Center, ensures the Omaha Housing Authority:

10A. Reimburses its operating account $11,475 from non-federal funds for the questioned services provided by a lobbying firm and does not use its operating account for the additional $5,250 ($16,725-$11,475) billed but not paid as of July 15, 1999.

Additional Issues

We noted five issues that did not warrant an audit finding, but require management attention. The Authority had not taken actions to: 1) segregate tenant security deposits for a related entity, 2) dispose of vacant lots disapproved by HUD for development of replacement housing, 3) amend its admission and occupancy policies and procedures to comply with federal regulations, 4) properly report distributions from a supplemental continuation plan established for the former Executive Director, and 5) spend homeownership sales proceeds in accordance with its Homeownership Plan.

These issues do not warrant a finding at this time. However, management needs to review the issues and take appropriate actions to prevent the issues from becoming significant problems.

Authority Did Not Segregate Tenant Security Deposits

Housing in Omaha, Inc. is a related, non-profit entity administered by the Authority. Housing in Omaha owns and operates 56 housing units under HUD's Section 8 program. Housing in Omaha's Housing Assistance Payments Contract with HUD (#KC-79-201, dated June 28, 1979) is in effect for 30 years. According to the contract, HUD agrees to make housing assistance payments to Housing in Omaha on behalf of low-income families as long as Housing in Omaha maintains the units in a decent, safe and sanitary manner. The contract also requires Housing in Omaha to maintain all tenant security deposits in a segregated bank account with a balance equal to the deposits collected from all tenants occupying units.

The Authority did not maintain a segregated bank account for Housing in Omaha's tenant security deposits. The Authority's Interim Finance Director was not aware of the requirement until our review, but agreed that tenant security deposits were not correctly segregated. As of May 31, 1999, tenant security deposits totaled $16,408. Housing in Omaha had sufficient cash flow to fund the tenant security deposits. However, there were no controls to ensure security deposits would remain fully funded without separate bank accounts. The Authority should establish a separate bank account for tenant security deposits and fully fund that account.

Authority Did Not Dispose Of Disapproved Development Sites

On June 13, 1997, HUD denied approval of Authority use of 14 vacant lots as development sites for replacement housing because the lots were located in impacted areas and were not suitable as sites for construction of replacement housing. The Authority acquired the lots through donation or purchase before HUD denied their use as replacement housing sites. Although HUD disapproved the lots in June 1997, the Authority still owned 13 of the 14 lots as of July 1999. Because the Authority can not use the lots for development of replacement housing and the lots continue to cost the Authority maintenance fees, the Authority should dispose of the lots and return any sales revenue to the appropriate accounts.

Authority Did Not Fully Comply With Federal Act

Public Law 104-120, the "Housing Opportunity Program Extension Act of 1996," enacted March 28, 1996, requires Authorities to establish more stringent screening, lease and eviction procedures. Section 9 of the Act, "Safety and Security in Public and Assisted Housing," requires Authorities to establish standards to prohibit admission and terminate tenancy in public and assisted housing for any persons illegally using controlled substances or abusing alcohol. HUD provided specific guidance to Authorities, requiring them to amend their admission and occupancy policies and procedures for public housing and administrative plan for the Section 8 program to implement the Act's provisions.

The Authority's "Admission and Continued Occupancy Policy" for public housing, revised January 1999, complied with the Act except that it did not contain a provision regarding termination of tenancy for alcohol abuse. The policy addressed denial of admission for alcohol abuse but did not address termination of tenancy for the same offense.

The Authority's "Administrative Plan for the Section 8 Certificate, Voucher, and Modernization Rehabilitation Program," revised February 1997, complied with the Act except that it did not contain provisions to deny admission and terminate tenancy for alcohol abuse. The Authority was not aware its admission and occupancy policies and procedures did not meet federal regulations.

The Authority should specifically include provisions regarding alcohol abuse in its admission and occupancy policies for both public and assisted housing.

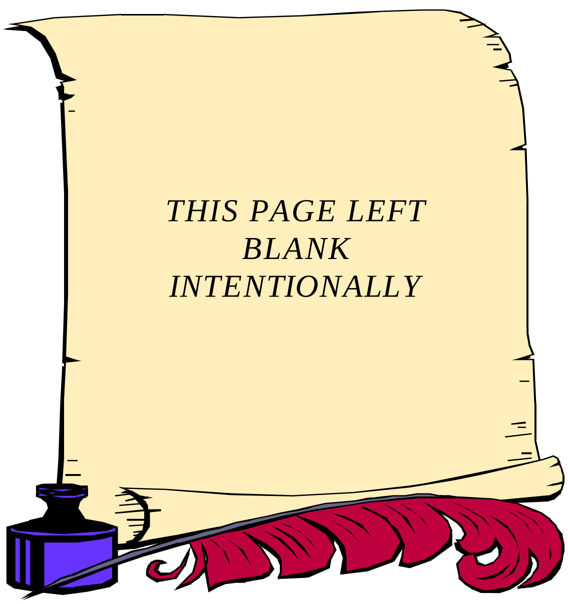
Authority Did Not Properly Report Distributions

The Authority did not properly report distributions from the supplemental continuation plan established for the former Executive Director. The Authority incorrectly reported the distributions on Internal Revenue Service Forms 1099-R. It should have reported them on Internal Revenue Service Forms W-2. As a result, the Authority did not withhold the proper federal taxes on distributions from the supplemental continuation plan. According to the Authority's outside counsel, the Authority could be held liable for the federal taxes that should have been withheld from the distributions. The Authority notified the former Executive Director it expected him to repay the Authority for any taxes that should have been withheld from the distributions. The former Executive Director's spouse responded to the Authority that they had reported the distributions and paid the required taxes.

According to the Authority's outside counsel, the Authority mistakenly assumed it was not responsible for any tax withholding. The Authority should follow up with the former Executive Director and assure the tax problem has been resolved.

Authority Did Not Follow Homeownership Plan

We reviewed the Authority's use of proceeds from homeownership program sales. The Authority's Homeownership Plan stated that sales proceeds were to be used to acquire additional homes for low-income families. However, federal regulations governing HUD's homeownership program are not as restrictive. 24CFR Part 906, "Section 5(h) Homeownership Program," allows public housing authorities to retain sales proceeds for use in providing housing assistance to low-income families. The regulation provides examples of permissible uses, including maintenance and modernization, augmentation of operating reserves, protective services, and resident services. The Authority used a majority of its sales proceeds for Authority operations unrelated to homeownership sales. Its use of the proceeds for typical public housing authority operations is allowable under the federal regulations but is not consistent with its Homeownership Plan. Local HUD officials told us the Plan would not have been approved if it showed the proceeds would be used for other than home purchases. Therefore, the Authority should seek HUD's advice on how to resolve this inconsistency.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Management Controls

In planning and performing our audit, we considered the management controls of the Omaha Housing Authority 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.

Relevant Management Controls

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

- Environment established to ensure efficient and effective operations.
- Safeguarding resources.
- Assuring appropriate expenditure of federal funds.
- Assuring compliance with laws and regulations.
- Assuring effective management information and accounting systems.

We assessed all of 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 are significant weaknesses:

- The Authority did not have an effective control environment (see Finding 1).
- The Authority maintained a change fund on its premises that reached as much as $50,000, did not complete timely cash reconciliations, and did not adequately segregate its

employees duties (see Finding 2). The Authority did not have accurate fixed asset and supplies and materials inventories for its December 31, 1998 financial statements (see Finding 5).

- The Authority inappropriately used $1,082,992 in federal funds to pay ineligible and unsupported expenses (see Finding 3).

- The Authority did not adhere to its own policies and federal regulations when procuring goods and services (see Finding 4). The Authority was in violation of federal requirements regarding a special purpose grant it received to construct a training facility and provide job training for residents (see Finding 7). The Authority hired an individual to perform federal lobbying services under a December 1998 Request for Proposal and did not ensure the lobbyist was paid from non-federal funds (see Finding 10).

- The Authority did not exercise adequate management controls over the implementation of its new management information system (see Finding 6). The Authority did not properly administer its Section 8 programs (see Finding 8). The Authority did not properly account for funds collected for cable television services (see Finding 9).

Follow Up On Prior Audits

The Office of Inspector General issued an audit report on April 6, 1989 regarding the Omaha Housing Authority's Section 8 Moderate Rehabilitation Program. The report contained two findings. The recommendations for the two findings were closed.

The Authority contracted with an independent public accounting firm, KPMG Peat Marwick LLP, in 1998 to conduct a review of its operations. KPMG issued a report in January 1999 detailing many deficiencies in Authority operations. KPMG separated its report into two time periods: January 1991 through December 1997 and July through December 1998. See Appendix A for a summary of the report, including our comments, on operations from 1991 through 1997.

KPMG reported on the following areas for the period July through December 1998: internal control, cash receipts process, procurement/disbursement process, asset accountability procedures, human resources/payroll process, and grants management process. Our review also included testing in these areas. The Authority was still evaluating KPMG's recommendations when we completed our field work.

Following is a summary of KPMG's findings and the results of our review.

Internal Control

KPMG reported:

- *The Authority's entity-wide goals and objectives were not clearly communicated in writing to the staff and management, nor did the Authority prepare and manage budgets on a cost center basis;*
- *Confusion existed among the staff regarding lines of authority and responsibility;*
- *Distrust existed between and among senior leadership, management and line employees; and*
- *In late 1998, the Authority made a good faith effort to improve controls.*

We identified similar problems in the Authority's control environment (see Finding 1).

Cash Receipts Process

KPMG reported no exceptions in its testing of 47 general deposits and 12 grant deposits made from July through December 1998. However, KPMG noted that any recommendations for improvement were addressed in its evaluation of 1991 through 1997 (see Appendix A).

We determined the Authority did not have adequate controls over cash (see Finding 2) and did not properly account for cable television fees (see Finding 9).

Cash Disbursements/Procurement Process

KPMG tested 32 public housing and Section 8 transactions totaling $147,732.90 and three travel transactions from July through December 1998 and reported:

- *Disbursements totaling $14,469.52 were not properly supported in accordance with the Authority's policies and procedures;*
- *Support for purchases totaling $18,038.06 was completed after the date of service or after the goods were received;*
- *Purchases totaling $24,666.21 were not completed in accordance with the Authority's bidding procedures;*
- *Support could not be provided for one Authority check in the amount of $4,541.84;*
- *Actual receipts for airline travel expenses charged to credit cards were not available; and*
- *In general, controls in place within the overall procurement and disbursements process needed improvement.*

We determined the Authority lacked adequate controls over cash (see Finding 2), used federal funds to pay unallowable or unsupported expenses (see Finding 3), did not follow its procurement procedures or HUD's regulations when contracting for goods and services (see Finding 4), and did not ensure it paid a federal lobbyist from non-federal funds (see Finding 10).

Asset Accountability Process

KPMG reported:

- *The Authority's physical inventory of fixed assets, conducted in December 1998, was the first in several years and internal controls over fixed assets were not in place or operating effectively before December 1998;*
- *Instructions for the December 1998 inventory count of materials and supplies were not effectively communicated to employees, nor were the instructions complete or followed;*
- *Testing of eight materials and supplies inventory transactions revealed one transaction for $50,000 was incorrectly coded to materials and supplies inventory, and five transactions totaling $16,221.18 were recorded to the incorrect materials and supplies account;*
- *Internal controls over materials and supplies were not in place or operating effectively before December 1998; and*
- *Procedures for requisition of materials and inventory supplies were not in place.*

We determined the Authority's inventory process was not adequate to properly account for either fixed assets or materials and supplies inventories (see Finding 5).

<u>Grants Management Process</u>

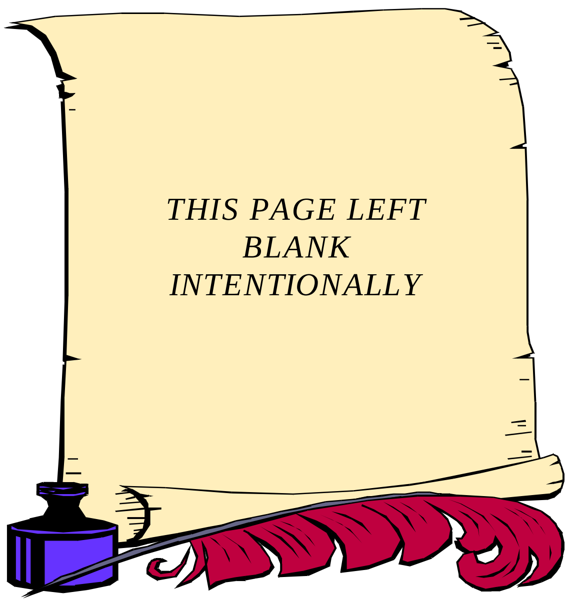
KPMG reported:

- *Testing of ten invoices revealed the Authority was unable to provide documentation to provide assurance that cash draws of federal funds were only for immediate needs, and interest earned on excess funds was credited back to the federal government; and*
- *As of September 30, 1998, indirect costs, other than payroll charged to the grants, were not in accordance with the HUD-approved cost allocation plan.*

We also determined the Authority was not able to provide adequate support for cash draws of federal funds before 1999, but is assembling support for those draws.

The Authority did provide proper support for cash draws made in 1999. In our opinion, the Authority's current procedures are adequate to ensure future cash draws are supported.

As it related to the Section 8 program, we determined the Authority did not comply with the HUD-approved cost allocation plan (see Finding 8).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Independent Review

OMAHA HOUSING AUTHORITY
EXECUTIVE SUMMARY
1991 THROUGH 1997

Below are excerpts from the executive summary of the report issued by KPMG Peat Marwick LLP, an independent public accounting firm. OIG comments follow each section as they relate to the KPMG review. During our audit, we concentrated on the status of the Authority's current operations and did not necessarily repeat KPMG's analyses. However, we assessed each area in the KPMG report and performed additional audit work to determine if there was evidence of intentional irregularities.

Employee Compensation - *We (KPMG) obtained a listing of all expenditures relating to compensation and benefits of all employees classified as level one and above for the years 1991 through 1997. We examined supporting documentation and determined if the Authority had complied with rules and regulations, when and if the Board approved compensation, and whether the stated expenditures were correctly reported and documented on the books of the Authority. The summary of the results and findings are as follows:*

- *Authority records indicate that compensation for the President & Chief Executive Officer was routinely determined by applying a percentage increase for merit and inflation to the current salary (not including any discretionary bonus). In 1990, the Authority's records indicate that the President & Chief Executive Officer's salary was increased by 15 percent over its 1989 level. In addition, a $5,000 discretionary bonus was paid and deposited in the President & Chief Executive Officer's deferred compensation plan. Beginning in 1990, the President & Chief Executive Officer's base salary used to calculate his future compensation included the discretionary contribution to the deferred compensation plan. The result of this was to overstate base compensation and provide annual increases in compensation that included both the discretionary bonus, now paid as salary, and an increase in such bonus annually. The Authority was unable to produce records that demonstrated any executive approval of this practice nor were any Board actions discovered approving this method of determining compensation. As a result, we were unable to substantiate $58,165.85 of compensation paid during the period from 1991 through 1997.*

- *Authority records indicate that salaries paid by the Authority to certain level one employees exceeded the local average for public employees for each year from 1991 through 1997.*

- *Authority records indicate that salaries and related benefits paid to certain level one employees exceeded the Board and HUD approved budgets for each year from 1991 through 1997.*

- *The Authority did not report any amount on the Internal Revenue Service Form W-2 for group term life insurance and personal use of the company automobile for 1996 and 1997.*

- *The Authority did not issue a Form 1099-R for the distribution of $92,500 of deferred compensation for 1997 to the President & Chief Executive Officer.*

- *Authority accounting records at December 31, 1997 reflect an asset of $149,700 which represents the amount the Authority paid for the former President & Chief Executive Officer's Supplemental Continuation Plan. As of December 31, 1997, the Authority received $92,500 from the plan which, in turn, was paid to the former President & Chief Executive Officer. On February 2, 1998 the Authority received and on February 5, 1998, paid out $95,587.66, the final amount due under the plan. At December 31, 1997, the Authority's assets were overstated by $149,700.*

- *The Authority did not reflect interest earnings of $80,679.33 for the split dollar life insurance policy and salary expense of $80,679.33 for the President & Chief Executive Officer on its books.*

OIG Comments

Executive Director Compensation Overpayment

We determined the documentation supporting the salary increase and contribution to the deferred compensation plan did not convey how the increase was to be calculated. Additionally, the documentation did not indicate whether the contribution to the deferred compensation plan was a bonus or an increase to salary. As a result, we could not confirm the Executive Director's compensation was overstated.

Salaries Exceeded Local Average

We agree that salaries paid from 1991 through 1997 to certain level one employees exceeded the local average for public employees. HUD Handbook 7401.7, "Public Housing Agency Personnel Policies," required that all administrative salaries be comparable to other local public organizations. The handbook also stated HUD retained the right to disallow salaries if they jeopardized the efficiency of the Authority's operations. HUD established the handbook in October 1987, but abolished it in January 1995. Therefore, the handbook only applied to years 1991 through 1994, and HUD had no specific requirements for subsequent years. Consideration of what is comparable is a judgmental decision to be made by HUD. HUD had the ability to disallow salaries if it believed the salaries were detrimental to the Authority's operations.

Salaries Exceeded Board and HUD-Approved Budgets
KPMG used proration methods to distribute salaries and benefits in reaching their conclusions. We could not verify KPMG's determination that salaries exceeded Board and HUD-approved budgets because the Authority did not have accurate and reliable cost allocation plans (see Finding 8).

Failure to Report Life Insurance and Car Usage on Internal Revenue Service Form W-2
We performed no additional testing in this area because it did not impact HUD funds.

Failure to Issue Internal Revenue Service Forms 1099-R for Payment of Deferred Compensation
We agree the Authority did not file Internal Revenue Service Forms 1099-R regarding two payments to its former Executive Director relating to the supplemental continuation plan. After notification of the error, the Authority filed the forms for the two payments. In December 1998, after the Forms 1099-R were filed, the Authority's outside counsel reviewed the two payments and informed the Authority it should have filed Internal Revenue Service Forms W-2 instead of the Forms 1099-R. Because of the error, the Authority failed to withhold taxes from the payments and could be held liable for future payment of the taxes (see Additional Issues - page 81).

Overstatement of Assets
We reviewed the Authority's general ledger at December 31, 1998 and determined the Authority recorded adjusting entries to remove the $149,700 asset from its books.

Interest Earnings for the Split Dollar Life Insurance Policy
We agree the Authority did not reflect interest earnings of $80,679.33 related to the former Executive Director's split dollar life insurance policy. However, we determined the former Executive Director, not the Authority, owned the life insurance policy. The Nebraska Insurance Commission confirmed that the policy was an individual policy and any interest earnings were owned by the former Executive Director and not the Authority. Therefore, the Authority should not have recorded the interest earnings on its books.

> **Computer System Expenditures** - *We requested but the Authority did not provide copies of all consulting and lease agreements for its computer system for 1991 through 1997. We obtained a listing of related expenditures in excess of $500 for the Authority's computer system for 1991 through 1997. We examined supporting documentation, the sources of funds used to procure said system, and supporting services. The summary of the results and findings are as follows:*
>
> - *The Authority's records reflect expenditures totaling $2,093,000.51 which were not supported by all of the necessary documentation required by its policies and procedures.*
>
> - *The Authority's records reflect expenditures totaling $1,937,304.18 which were not approved in accordance with its policies and procedures.*

- *The Authority's records reflect expenditures totaling $2,171,044.44 which were paid without evidence that the Authority's bidding processes were followed.*

- *The Authority's records reflect payment by checks totaling $588,692.76 that did not have proper signatures in accordance with polices and procedures.*

OIG Comments

We reviewed the Authority's computer system expenditures from 1993 through 1998 and identified concerns regarding lack of documentation for expenditures, inability to track the physical location of computer equipment, and consulting agreements missing key control elements. We performed additional testing in these areas and determined the Authority could not always provide the necessary documentation to support expenditures (see Finding 3), did not adequately track fixed asset inventory (see Finding 5), and did not adhere to its own policies and procedures or federal regulations when procuring goods and services (see Finding 4).

Travel Expenses - *We obtained a listing of all non-local travel expenses incurred by the Authority for 1991 through 1997. We examined supporting documentation. We determined if all expenses were in accordance with the Authority's procurement policies and HUD's rules and regulations. We have provided a listing in the detailed report which includes such information as the traveler/payee, travel destination, duration, purpose, and the amount(s) of such payments. The summary of the results and findings are as follows:*

- *We examined travel related transactions totaling $590,248.81 which includes 136 deposits.*

- *Travel related expenditures totaling $440,252.82 were not supported and/or documented in accordance with Internal Revenue Service regulations.*

- *Travel vouchers totaling $150,931.72 were not returned for reimbursement within 10 days as required by Authority policies and procedures.*

- *Travel reimbursements totaling $131,632.01 were paid in excess of General Services Administration 1997 per diem rates.*

- *Travel related expenditures totaling $122,359.16 were reimbursed without receipts.*

T.O.C.

Exit

- *Hotel reimbursements totaling $111,251.88 were in excess of General Services Administration 1997 per diem rates.*

- *The Authority reimbursed $60.60 for mileage in excess of Board-approved rates for one travel voucher.*

- *The Authority was unable to locate travel related checks that totaled $21,190.14.*

- *The Authority's records indicate that credit card finance charges and late fees of $1,718.38 were paid in violation of Office of Management and Budget Circular A-87.*

- *The Authority was unable to match 746 credit card charges to travel reimbursement requests.*

- *Travel for all but three entries was not pre-approved on Form E-33 by the Executive Director as required by Authority policies and procedures.*

- *Authority records indicate 2 instances where Authority employees traveled first class in violation of Authority policy.*

- *Travel expenditures and related reimbursements were not always reflected in the year in which the travel occurred.*

- *We noted that the Authority's President & Chief Executive Officer approved his own travel.*

OIG Comments

KPMG performed an extensive review of non-local travel. Therefore, we performed limited testing to determine whether intentional irregularities occurred. We did not identify any such irregularities. We agree the Authority was unable to provide complete documentation for travel expenditures and did not always follow its own policies and procedures. We also agree that the former Executive Director approved his own travel. The Authority's policies and procedures allowed this practice and we recommended the Authority change its policies and procedures to require Board approval for all Executive Director travel on a per trip basis (see Finding 1). As for the travel-related checks totaling $21,190.14 that the Authority could not locate for KPMG, the Authority provided us with adequate documentation for $20,562.96 of that amount. The Authority was unable to locate proper documentation for the remaining $627.18. However, we considered this amount immaterial.

Further, we found the Authority paid ineligible travel expenses of $21,877 for residents and staff to travel to three out-of-state track meets (see Finding 3). We also tested the Authority's adherence to its policies and procedures for travel pre-approval and reimbursement. We tested all travel from January 1 through July 26, 1999 and found the Executive Director had pre-approved all travel, reimbursement requests contained proper documentation, and all travel costs were within the Authority's approved budget.

> **Materials Inventory** - *We obtained a listing of all inventory material expenditures over $1,000 for 1991 through 1997. We examined supporting documentation. We determined if the Authority complied with rules and regulations, if the Board approved such expenditures, and whether the stated expenditures were correctly reported and documented on the books. The summary of the results and findings are as follows:*
>
> - *The Authority could not locate supporting documentation for 708 expenditures.*
> - *A second signature on original check, as required by Authority policies and procedures was missing for 129 expenditures.*
> - *The Authority was unable to locate checks for 266 expenditures.*
> - *Less than three bids were obtained as required by Authority policies for 768 transactions.*
> - *For 58 expenditures the supporting bid sheet was not approved or had an unauthorized approval.*
> - *The Authority was unable to provide us with 178 bid sheets.*
> - *Thirty-six expenditures were recorded in the wrong general ledger account.*

OIG Comments

We tested materials inventory to evaluate the Authority's process of conducting the physical inventory count at December 31, 1998. The Authority did not have accurate materials and supplies inventories for 1998 year-end financial statements (see Finding 5). We also reviewed KPMG's work related to the 266 expenditures not supported by canceled checks. There were actually 266 purchases, but many were from common vendors so the Authority often paid for more than one purchase with one check. Therefore, the actual number of checks was significantly less than 266. KPMG's documentation did not consistently identify the check numbers. Therefore, we could not determine the actual count of checks nor the check numbers the Authority could not locate. Because of difficulties in identifying the checks, we did not perform additional work in this area. From the documentation available, we identified no indications that the inability to locate the canceled checks was intentional.

> **<u>Year-end Journal Voucher Entries</u>** - *We requested but the Authority could not provide a listing of all year-end journal voucher entries for fiscal years 1991 through 1997. For the journal entries the Authority provided, we examined supporting documentation. Because of the lack of supporting documentation, we could not determine if the Authority complied with rules and regulations. We could not determine if the Board approved such entries, and we could not determine if stated entries were correctly reported and documented on the books. In light of the deficiencies in the records, we suspended our procedures in this area.*

<u>OIG Comments</u>

We performed no specific testing in this area because we tested journal voucher entries and related documentation throughout our review while testing specific areas of the Authority's operations. For the journal vouchers we reviewed, we found problems similar to those reported by KPMG.

> **<u>Interrelated Entity Expenditures</u>** - *We obtained a listing of all expenditures in excess of $500 to the Authority's interrelated entities, including Gateways of Opportunity, Inc. (Gateway); Woolworth Housing Development Corporation (Woolworth); Omaha Housing Development Corporation; Omaha Housing Authority Foundation, Inc. (the Foundation); Restore 2 Community Development Corporation (Restore); and Housing in Omaha, Inc. for 1991 through 1997. We examined supporting documentation. We determined if the Authority complied with rules and regulations, if the Board approved expenditures, and whether the stated expenditures were correctly reported and documented on the books. The summary of the results and findings are as follows:*
>
> - *Board minutes for Woolworth, Restore, and Housing in Omaha were unsigned.*
> - *The Authority was unable to provide Board minutes for the Foundation or Gateway.*
> - *During 1991 through 1997, there were no transactions between the Authority and Woolworth, Omaha Housing Development Corporation, and Restore.*
> - *The Foundation cable television revenue may be considered unrelated business income by the Internal Revenue Service and be subject to income taxes. In addition, the cable television revenue was income that was related to ownership of HUD property and should have been recorded as Authority revenue.*

- *The Authority routinely provided management and accounting services to the Foundation, however, a monthly fee for services provided was not charged to the Foundation. The Authority was unable to provide documentation that costs were equitably allocated to the Foundation.*

- *Foundation deposited reimbursements of travel expenses of $1,703.57 and honorariums for speaking fees of $4,462.45. The Authority was unable to provide documentation that the original related expenses were paid by the Foundation.*

- *A deposit of $1,125.06 was credited to the Foundation for rental rehabilitation. The Authority was unable to provide documentation that the Foundation incurred rental rehabilitation expenses.*

- *We examined a deposit of $75,000 to the Foundation in 1992 written to the Authority from the Surdna Foundation, Inc. The documentation provided by the Authority indicates that the deposit should have been credited to the Authority.*

- *The Authority was unable to obtain supporting documentation for entries totaling $1,004,094.77 with the Foundation.*

- *The Authority was unable to provide supporting documentation for entries totaling $1,679,721.31 with Housing in Omaha.*

- *The Authority was unable to provide financial statements for Gateway.*

- *Authority records indicate that the tax returns for Gateway filed by the Authority contained incomplete information.*

- *The original contribution of the Gateway building and property donated by Lozier Corporation was not recorded on the Authority's books and records.*

- *The improvements to the Gateway building were funded by a $500,000 grant from The United States Department of Commerce directly to the Authority. The Authority did not reflect contribution income or improvements of $500,000. The grant requires the Authority to pay back the grant if not used for its intended purpose. Gateway has ceased operations. A liability of $500,000 is not reflected on the Authority's books.*

- *Authority records did not reflect the grant for improvements to the Gateway building from the Peter Kiewit Foundation.*

- *Transactions with related companies were not authorized by the Board and did not go through the bidding procedures as required by the Authority's policies and procedures.*

<u>OIG Comments</u>

We agree Board minutes for Housing in Omaha were unsigned and that the Authority could not provide Board minutes for the Foundation or Gateway. We also did not identify any transactions between the Authority and Woolworth, Omaha Housing Development Corporation, and Restore.

<u>Foundation Activities</u>
We concentrated our review of the Foundation on collection, recording and payment for cable television services administered by the Foundation. We did not review the validity of KPMG's concerns regarding violations of Internal Revenue Service rules because it did not impact HUD funds.

We agree the Authority did not allocate costs for providing management and accounting services to the Foundation. However, we could not determine the value of services provided because the Authority did not monitor the amount of time spent by its employees in providing management and accounting services. We also determined the Foundation ceased its administration of the cable television services at the end of January 1999. The Foundation has had minimal activity since January 1999. Therefore, we believe reimbursement to the Authority for its management and accounting services in 1999 is not necessary. However, if the Foundation activity increases, it should equitably reimburse the Authority for its efforts.

Further, we agree the Authority could not document that the Foundation paid original expenses related to travel and honorarium reimbursements. We also agree the Authority could not document supporting the Foundation's right to a reimbursement for $1,125.06 for rental rehabilitation. KPMG reported the Foundation received a deposit from the Surdna Foundation in 1992 that should have been credited to the Authority instead of the Foundation. Our review disclosed the Authority recognized the error and made the correcting adjustments in November 1992. Therefore there is no longer a concern regarding this deposit.

KPMG reported the Authority was unable to obtain supporting documentation for $1,004,094.77 in inter-company transactions between the Authority and the Foundation. We determined the net effect of these transactions represented an Authority debt to the Foundation of $892,395.71. Although the Authority was able to provide the journal voucher for 16 of the 30 transactions, the vouchers did not contain additional supporting documentation. Further, we determined $661,561.75 of the net amount pertained to cable television receipts and deemed such transactions as needing no additional support because they were legitimate, ongoing transactions between the Authority and the Foundation. Also, $50,000 of the net amount was a transfer of funds from the Foundation to the Authority for which there are no restrictions. Therefore, no additional documentation was necessary. As a result, we reported the remaining $180,834 as unsupported (see Finding 3). We also reported that the Authority did not properly account for funds collected for cable television services (see Finding 9).

Housing in Omaha Activities

KPMG reported that the Authority was unable to obtain supporting documentation for $1,679,721.31 in inter-company transactions between the Authority and Housing in Omaha. We determined the Housing Assistance Payments contract between the Authority and Housing in Omaha did not place restrictions on Housing in Omaha expenditures, as long as the property was maintained. Therefore, we did not question any charges to Housing in Omaha by the Authority. The Authority provided journal vouchers for 15 of the remaining 22 inter-company transactions. However, the vouchers did not contain additional supporting documentation. As a result, we determined the Authority could not support $70,809.64 in inter-company transactions (see Finding 3).

Gateway Activities

We agree the Authority was unable to provide financial statements for Gateway. We also agree the Authority's files indicated the tax returns for Gateway contained incomplete information. The files indicated problems with Gateway's records, causing the Authority to file incorrect Internal Revenue Service Forms 990, "Return of Organizations Exempt From Income Tax," for years 1995 and 1996.

We agree the original contribution of the Gateway building and property was not recorded on the Authority's books and records. We also agree the Authority did not record The Unites States Department of Commerce grant and resulting liability, or the Peter Kiewit Foundation grant. As of August 12, 1999, the Authority had not recorded any of these transactions because, according to the Interim Finance Director, it is evaluating how to completely remove Gateway from the Authority's books and records.

Further, we determined the Authority could not support the inter-company transactions that, as of December 31, 1998, Gateway owed the Authority $653,581 (see Finding 3). Also, the Authority did not adhere to its own policies or federal regulations when procuring goods and services, and did not properly plan and manage its contracting process to ensure that each procurement followed required procedures and was based on adequate competition (see Finding 4).

> **Computer System** - *We conducted an information risk management review of the Authority's computer system currently in place. Our objectives were to identify risks facing the Authority arising from the use of technology and the controls in place to minimize these risks. Based on our review, specifically security access, it appears that the Authority's controls, when considered with other features of the internal control structure, are ineffective in achieving adequate security. The Authority is in the process of implementing a new computer system. We did not review the new system.*

Our review, including the limited inquiries we made in connection with Year 2000 issues, was not designed to, and do not, provide any assurance that Year 2000 issues which may exist have been identified, on the adequacy of the Authority's Year 2000 remediation plans regarding operational or financial systems, or on whether the Authority's systems are or will become Year 2000 compliant on a timely basis.

The Authority is in the process of converting to a new financial accounting system. Because it is not yet operational, we did not assess the new computer system.

OIG Comments

We reviewed the management information system the Authority placed into operation in January 1999. We determined the Authority did not exercise adequate controls over the implementation of the new system. As a result, the system was not used as intended and was not efficient (see Finding 6).

Procurement Procedures - *We documented and tested the Authority's procurement procedures through June 1998 and determined if procedures complied with applicable rules and regulations. The summary of findings and results are as follows:*

- *Approximately 89 percent of the transactions examined were not supported in accordance with Authority policies and procedures.*
- *Approximately 92 percent of the transactions examined were not approved in accordance with Authority policies and procedures.*
- *Approximately 92 percent of the transactions examined were not in accordance with Authority bidding procedures.*
- *Throughout our engagement, we noted instances where internal controls were overridden and supporting documentation was created after the receipt of material.*

OIG Comments

We reviewed the Authority's adherence to its policies and procedures and federal regulations for procuring goods and services. We determined the Authority did not adhere to its own guidelines or federal regulations (see Finding 4).

Fixed Assets - *We documented and tested the fixed asset accountability procedures in place from January 1998 through July 1998 and have made recommendations for improvements. Some of our findings are as follows:*

- *The Authority was unable to provide us with a fixed asset inventory listing at December 31, 1997, therefore, we were unable to verify assets owned at January 1, 1998. For assets selected for detailed testing, the Authority was unable to provide supporting documentation for 25 percent of items examined primarily because the Authority's records had not been maintained with detail data.*

- *Some of our recommendations are as follows:*

- *The Authority should use a mechanized accounting system for fixed asset accountability rather than property cards.*

- *A physical inventory of all fixed assets should be taken.*

- *We suggest the Authority increase its capitalization policy to $1,000.*

- *We suggest the Authority develop a formal, written plan for taking inventory.*

OIG Comments

We reviewed the Authority's process of conducting the December 31, 1998 year-end inventory of fixed assets and its tracking of fixed assets. We determined the Authority did not have: 1) accurate fixed asset inventories for year-end 1998, 2) formal procedures for conducting the inventory count, or 3) adequate records to support the value assigned to its fixed assets (see Finding 5).

Home Ownership Program - *We documented and tested the Authority's Home Ownership Program for 1991 through 1997. We obtained a listing of the proceeds of the sales of Authority property. We tested compliance with the approved home ownership plan. We determined how the proceeds of sales were expended and if the expenditures of the proceeds of sales were in accordance with HUD rules and regulations and the home ownership plan. The summary of the results and findings are as follows:*

- *The Authority sold 19 homes for $1,164,000. The Authority did not remove the cost from its records when the properties were sold.*

- *The Authority was unable to provide promissory notes for six of the properties sold.*

T.O.C.

Exit

- *Files provided by the Authority were incomplete and were missing documentation.*

- *The Authority was delinquent in paying the taxes on one property sold on contract for which they received escrow payments.*

- *The Authority did not include the husbands' income on the original application for two properties when the husbands were on the mortgage and deeds.*

- *The Authority's records indicate that 22 homes were sold under the Home Ownership Program from 1991 through 1997. The Authority produced detailed records supporting 19 home sales in the aggregate amount of $1,164,000.*

- *The Authority received net cash of $935,517.69 from the sales of the property. Of this amount received, $209,484.06 was deposited to Gateway; $112,330.96 was used for computer contract labor, $41,207.26 was used for development site improvements; $65,725.45 was for development interior renovations, $60,000 was used for maintenance salaries, $18,000 was used for fringe benefits, and $39,784.57 was used for ground maintenance. The remaining balance of $187,926.77 was held in a suspense account. None of the funds received were used to purchase additional scattered-site housing for low income families as provided by the plan.*

OIG Comments

Although KPMG identified only 19 home sales totaling $1,164,000, we determined the Authority sold 22 homes under the homeownership program for $1,359,000. We agree that the Authority did not remove the cost of these properties from its books when sold. As of November 18, 1999, the Authority had not removed the assets from its books. According to the Interim Finance Director, the Authority had not made the adjusting entries because an independent public accounting firm is reviewing the Authority's financial statements and will make adjusting entries as deemed necessary, including those identified in our and the KPMG report.

KPMG reported the Authority was unable to provide promissory notes for six of the properties sold. During our review, the Authority provided promissory notes on all but 3 of the 22 properties (see Finding 1). We also agree the Authority's files were incomplete and missing documentation. We randomly selected seven homeownership sales files to review for eligibility and completeness. The Authority's files indicated income limits were exceeded on two sales, and two files in the sample did not contain eligibility information.

At the time of KPMG's review, the Authority provided detailed records on 19 home sales. At the time of our review, the Authority produced documentation on all 22 home sales. In addition to reviewing the files, we reviewed the Authority's recording of proceeds from the sales. We agree the Authority used a majority of the sales proceeds for Authority operations unrelated to homeownership sales. The Authority's Homeownership Plan stated that sales proceeds were to be used to acquire additional homes for low-income families, However, federal regulations governing HUD's homeownership program are not as restrictive. 24CFR Part 906, "Section 5(h) Homeownership Program," allows public housing authorities to retain sales proceeds for use in providing housing assistance to low-income families. The regulation allows use of the proceeds, at the discretion of the public housing authority, for any of the uses defined in the regulation. These uses include any purposes authorized for the use of operating funds under the Annual Contributions Contract and applicable provisions of other HUD regulations as included in the HUD-approved operating budgets. The regulation provides examples of permissible uses, including maintenance and modernization, augmentation of operating reserves, protective services, and resident services. In our opinion, the Authority's use of the proceeds for Gateway operations, computer contract labor, development site improvements, development interior renovations, maintenance salaries, fringe benefits, and ground maintenance are typical public housing authority operations and allowable under the federal regulations. Although the Authority did not follow the specifics of its Plan, the Authority did not violate federal regulations (see Additional Issues).

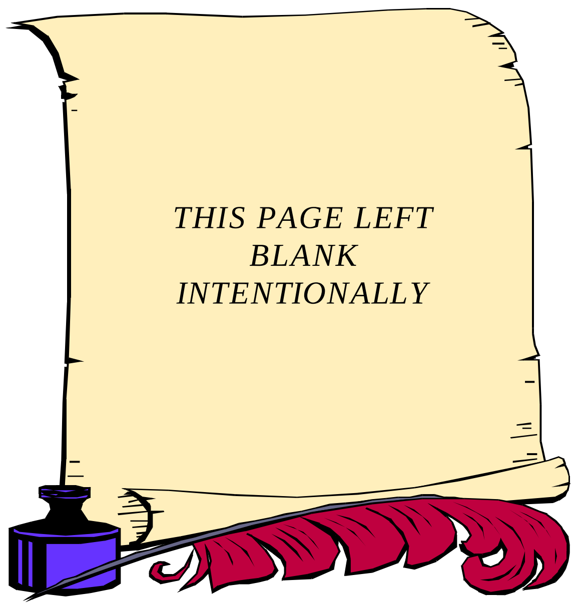
In addition, we agree the Authority had the remaining sales proceeds recorded in a suspense account. As of December 31, 1998, the suspense account balance was $186,670.04. The Authority should resolve the balance in this account.

Schedule of Questioned Costs

Recommendation Number	Type of Questioned Costs: Ineligible 1/	Type of Questioned Costs: Unsupported 2/
3A	$ 21,877	
3B		$ 70,810
3C		180,834
3D		653,581
3E		6,190
3F	149,700	
9A	79,918	
9B	36,594	
10A	16,725	
	$304,814	$911,415

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.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Auditee Comments

November 5, 1999

BY FACSIMILE (913) 551-5877
& U.S. MAIL

Mr. Roger E. Niesen
U.S. Department of Housing and Urban Development
Great Plains Office of Director of Inspector General
for Audit, 7AGA
Gateway Tower II, 5th Floor
400 State Avenue
Kansas City, Kansas 66101-2406

RE: Response to Draft Audit Findings

Dear Mr. Niesen:

The purpose of this correspondence is to provide the U.S. Department of Housing and Urban Development, Office of the Inspector General with the Omaha Housing Authority's responses to the draft audit findings. Pursuant to your request, the responses are being provided to your agency electronically and in hard copy.

AUGUST 5, 1999 FINDINGS
(Previously submitted)

Finding: The Authority Did Not Exercise Adequate Control Over the Implementation of Its Management Information System.

OHA Response:
OHA not only exercised adequate management controls over the implementation of our new management information system, but contracted with industry experts on the AS400 and the Public Housing Authority Software (PHAS) system to assure that all issues in relation to the scope, task, activities and resources needed were in place to effectively and efficiently manage the implementation process of the new system. OHA has discussed these allegations with Data Processing Solutions (DPS) and KALOS (consultants on the PHAS & AS400 implementation), and we are confident that the implementation plan was sufficient and provided adequate oversight, testing and user feedback (see attached memorandum).

In reference to the General Ledger module, OHA allocated a full-time contract accountant to "set up" the general ledger in order to assure this module was executed appropriately. This component of the implementation plan was not successful. However, the implementation plan provided for an alternative solution for this component. The solution allowed the accounting modules of the “old” system to remain online. In the event the Finance Department could not set up the general ledger by the estimated implementation date, OHA could continue to function until all the accounts were adequately converted, tested and implemented.

The Finance Department evaluated the multiple options provided to them by the implementation team and decided to use “manual” records to manage and control the financial operation. Unfortunately, the HUD IG disagrees with the decision made by the Finance team on which option was most appropriate. However, OHA’s position is that this operational decision, in and of itself, is not grounds to determine that the entire PHAS implementation was not adequate. Therefore, notwithstanding the ongoing issue with the account ledgers, the system was and is being used as intended and as a functioning system. The implementation team (which consists of OHA staff, KALOS and Data Processing Solutions) is more than confident that the system is efficient.

OHA, in general, believes that the implementation plan was adequate and properly identified the scope and tasks of activities necessary to complete the implementation of the new system.

The remainder of this document will address each finding specifically as outlined in your draft document.

Finding: **The Authority Implemented a New Management Information System**

OHA Response:
It is OHA’s position that through a competitive bidding process, the best vendor and software system was selected. DPS, as a successful PHA software implementation specialist, provided OHA with their standard PHAS implementation plan, has successfully implemented ten versions of PHAS with other housing authorities, and a data conversion schedule which included analyzing, programming, testing, validating, and receiving/converting OHA’s data (see attached). In addition, DPS developed a comprehensive training schedule which included over 30 days of on-site training with a 30-day lead time for each department to work with the software prior to OHA going “live” with a given module (see attached). In regard to the sufficiency of the DPS implementation plan, both DPS and KALOS, computer implementation experts, stated that this plan is at least a standard plan/process used in the industry and may be the only plan available for the PHAS software. OHA believes that the IG should take these facts and supporting information into consideration prior to stating that the implementation plan was not sufficient.

Finding: The Authority Lacked an Implementation Plan

OHA Response
As previously stated, OHA contracted with DPS to develop a conversion plan that would adequately test all new modules prior to “full” implementation. This conversion included modules for: 1) the general ledger/budgets; 2) accounts payable; 3) fixed assets; 4) application/wait list; 5) tenant accounting; 6) Section 8 accounting; 7) maintenance work orders; 8) maintenance inventory; 9) purchase orders; and 10) CIAP/Comp. Grant

DPS was responsible for data conversion services to convert OHA's existing data files to the PHAS format for the OHA modules listed below:

- Accounts Payable
- Fixed Assets
- Applications/Wait List
- Tenant Accounting
- Section 8 Accounting
- Maintenance Inventory

DPS completed a full analysis, programmed, tested, validated, and reviewed the conversion with OHA in reference to the data conversion of the aforementioned modules. Not only were these modules fully converted and tested prior to "live" implementation, but have been fully operational since the first quarter of 1999. Notwithstanding a few system enhancements and modifications, the majority of the modules were successfully implemented.

In relation to the general ledger/budgets, OHA was responsible for the PHAS accounting system conversion issues. OHA assessed its Finance Department and determined to employ a contract accountant to take on the responsibility of the general ledger conversion. This contractor worked on this project for approximately 60 days. During this process, this contractor outlined a conversion plan, listed and prioritized conversion issues, and set up over 9,000 accounts on the "Chart of Accounts" (see attached). However, in April of 1999, the Finance Department informed the Computer Services Department of a number of outstanding issues (see attached). Based on this feedback, OHA management determined that the general ledger issues needed additional resources beyond the scope of the initial general ledger project and retained The KALOS Group to complete the conversion started by the contract accountant in November of 1998.

Notwithstanding the fact that the system was implemented without the general ledger, "a key module the statement that the whole system implementation plan and process was "inadequate" is not only unfair but is inaccurate. In addition, the IG stated that the Executive Director "hurried" the implementation of the system because she was concerned that the previous system was not Year 2000 compliant and that she did not know that the system was not "fully" tested because she relied on the Computer Services Department. These statements allegedly made by the Executive Director are outlined as the foundation for this finding and are completely inaccurate. Therefore, these inaccurate statements relied on by the IG investigation team should warrant a review of the IG data gathering process. This review would assess the validity of the statements or documents that were relied on by the IG in formulating these conclusions.

Finding: The New System Was Not Adequately Tested

OHA Response:
As you stated, on March 17, 1998 OHA executed a licensing agreement with DPS for a new management information system called the PHAS, a commercial off-the-shelf package. As a primary public housing software implementation vendor, DPS was engaged to install all the PHAS modules and assist in the conversion from the existing systems to the new PHAS system. The

installation, data conversion, implementation and, ultimately, operations conversion was to begin July 1998 and be fully executed in order to “go live” on January 11, 1999. OHA’s selection of DPS and PHAS as a vendor and software system was based on a competitive bid process to select the ‘best’ system and software vendor on the market that could address the majority of OHA’s needs in relation to obtaining a fully integrated system. OHA’s position is that the process used to select and implement this system was appropriate and the processes for testing and managing user-requests were more than adequate. However, without specific examples of what led the IG to believe that said testing and management was inadequate, OHA is in no position to substantiate its assessment.

Finding: The Authority Lacked Formal Procedures to Resolve System Problems

OHA Response:
OHA has in place a standard procedure for documenting all computer-related problems. This procedure is to be followed by all employees for any issues ranging from the need for PC diskettes to system related problems on the AS400. In discussions with DPS and KALOS about the implementation process, OHA decided to use the process that staff was comfortable with and knowledgeable of in relation to the formal procedures to resolve system problems. All user requests were prioritized, and tracked; if said request was submitted in writing, then it was properly tracked and prioritized.

For instance, on April 30, 1999, the Finance Department provided a full description of problems it had encountered, in writing, to the Computer Department. These issues became OHA’s top system enhancement priority. OHA management procured the expert services of The KALOS Group, after a full review established a need for more manpower and expertise to get the General Ledger operational. The KALOS Group is actively addressing the General Ledger issue and is working with OHA staff to establish a realistic implementation plan for this final module of the PHAS.

Finding: Key Personnel Were Lost and Not Adequately Replaced

OHA Response:
Although this statement is true, the loss of the personnel mentioned was taken into consideration during the planning stage (see attached correspondence). In fact, the concerns from the OHA processing side was not whether the loss of an individual would impact the implementation, but whether the problem tracking system the employee had put in place was adequate. Notwithstanding the IG’s assessment that it was not, OHA feels the problem tracking system implemented by the Computer Department was adequate and, regardless of whether a particular employee was “here the success or failure of the implementation would be based on the system in place.

As this issue relates to the contract employees, OHA contracted with KALOS to provide on-site AS400 support and programming as needed. All contract employees working with OHA at the time of the conversion were qualified AS400 programmers and system analysts. In fact, the employees on site had implemented multiple DBMS for the AS400. In addition, the “lost” contract employee has been available to the on-site employee as needed (see attached information). Therefore, OHA still believes that the team in place was qualified to oversee and effectively manage the implementation of the new system. In fact, 90% of the modules were successfully implemented. In relation to the one module that still needs “development,” OHA has contracted with KALOS to provide the necessary support to complete the converting, testing, and final “implementation” (see attached). The facts that have been cited by the IG investigation team to substantiate the position that the system implementation plan was not adequate appear to need further corroboration.

RECOMMENDATIONS:
We recommend that the Director, Troubled Agency Recovery Center ensure the Omaha Housing Authority:

1A. **Assigns an individual with the necessary skills, knowledge and experience to oversee the completion and full operation of the Public Housing Authority Software system;**

1B. **Prepares a project plan that describes the scope, task, activities, and resources needed to effectively complete the Public Housing Authority software implementation;**

1C. **Develops a test plan for system implementation and enhancements, and ensures that users are involved in this process and sign off on the results of the tests; and**

1D. **Develops a formal process to ensure that the system problems reported by users are properly and adequately managed and controlled. Consideration should be given to automating the process to provide a more efficient medium to minimize and control system problems.**

OHA RESPONSE TO RECOMMENDATIONS
In general, based on OHA’s review of the IG findings, the facts utilized by the IG investigation team should at least be substantiated or corroborated by not only supporting documentation, but interviews with the subject matter experts involved in the PHAS implementation. This should provide the IG with a full understanding of the actual scope of work and how OHA intends to implement the remaining module. In reference to the OHA “tracking” system, we are open to the IG’s suggestions on a more formal process than the current system that requires users to submit computer problems in writing via interoffice mail or electronic work orders.

However, OHA is committed to “fully” integrating PHAS into the operations of this organization. OHA has contracted with KALOS for a team of programmers and accountants to complete the conversion of the General Ledger module not in operation and to complete user requested system enhancements. This team is in the process of assessing the problems with the general ledger/budgets and will report to the Executive Director weekly on the status of the contracted work. The team plans to provide OHA with a scope of work, which will include all tasks, activities, and testing needed to effectively complete the PHAS implementation. This

T.O.C.

Exit

supplemental plan will ensure user involvement, user sign-off and integration testing to assure a smooth transition for the General Ledger module.

Finding: The Authority Lacked Adequate Cash Controls

OHA Response:
Based on feedback from HUD, OHA has decreased the amount of funds on hand in the "change fund." In addition, OHA has officially posted a notice stating that effective November 1, 1999, the Accounts Receivable payment window will no longer exist. OHA is in the process of developing policies and procedures which will include a drop box for tenant payments, as well as a formal relationship with a local FDIC banking institution to assist in the collection of tenant rents. The cash box is now secured with new hinges and locks with limited access to OHA employees. OHA has implemented additional controls to assure all checks and cash in its Accounts Receivable department are accounted for daily. This daily report along with additional controls that will be presented to the board after TARC review should assure proper processing of all checks and cash in the Accounts Receivable department.

OHA has completed the reconciliations and updated all twenty bank accounts at the separate banks. OHA is committed to implementing prudent business practices to perform timely reconciliations in order to obtain an accurate assessment of cash resources. OHA has committed to the TARC to provide up to date reconciliations on requested accounts and will develop an ongoing procedure within the Finance department to assure that all accounts are reconciled on a consistent bases. Although OHA does not destroy its tenant receipts after six months, OHA does agree with the need to maintain complete and accurate records to permit timely and effective audits. Therefore, OHA is working with the TARC to develop new written procedures to address the concerns in relation to Public Housing and Section 8.

In closing, OHA is in the process of:
1) Discontinuing the change fund and establishing a system for tenant rent collections;
2) Establishing and implementing procedures to deposit all receipts daily;
3) Establishing and implementing procedures that require monthly bank reconciliations;
4) Establishing and implementing cash handling procedures/record retention practices;
5) Implementing all necessary policies and procedures to assure proper cash management controls.

Finding: The Authority Hired a Federal Lobbyist

OHA Response:
As stated to representatives of the HUD IG team, OHA issued two RFPs for State and Federal Lobbying on or about December 2, 1998. However, OHA staff only recommended to the Board for approval one firm to provide State Lobbying on LB 108. This firm was registered with the State and paid completely from private sources of income as required by State and Federal law.

However, it is OHA's official position that a Federal Lobbyist was never recommended to the Board, or approved by the Board to provide services in any form or fashion to OHA. The use of the "selected firm's" services was based on a need for specific legal advice for board members that were charged with addressing specific tasks as it relates to HUD matters. Once the use of the firm's services came to my attention, I had OHA's legal counsel review the vendor's invoices and work product, which clearly established that the nature of said services were related to researching OHA legal or program matters.

Notwithstanding the fact that the services of the firm were not Federal Lobbying services, OHA is in the process of reimbursing the operating account for all monies paid to Mr. Hultman.

Finding: The Authority Did Not Properly Account for Funds Collected for Cable Television Services

OHA Response:
Based on the HUD OIG's comments, OHA will collect $41,337 from Northampton Arms, $32,164 from the Foundation, and $6,417 from Housing in Omaha; and deposit the amounts in the Public Housing accounts. In addition, OHA shall remove the recorded $36,794 payable to the Foundation from the Housing Authority's records.

OCTOBER 1, 1999 FINDINGS

Finding: The Authority Did Not Follow Its Procurement Procedures and HUD Regulations in Contracting for Goods and Services.

OHA Response:
Based on preliminary feedback from KPMG during their 1998 engagement, OHA modified the procurement policy and procedure in order to improve internal controls in four ways.

1) To develop a process to assure adequate documentation for transactions.
2) To develop a process to assure said documentation was properly approved.
3) To assure OHA bidding procedures were followed.
4) To assure checks paid were approved in accordance with OHA policies and procedures.

Thus, OHA is aware that there are some outstanding transactions, such as procurement 5 & 6, as identified by KPMG that may not have followed the Board approved OHA procurement policies and procedures. In addition, the TARC team is aware of these transactions and we are taking corrective actions on each contract at this time. However, most of the noted procurement transactions were in compliance with OHA policies and procedures. For instance, in reference to procurement 1, OHA procured the services of established vendors at the 1998 bid price under an emergency purchase procedure. This process was recommended and approved by the appropriate department head and the Finance Director to assure OHA policy compliance. Further, the services ran from April 15 through July 15, 1999 when the Board approved the 1999 service contracts. Further, in reference to procurement 4, OHA placed a notice in the *Omaha World*

Herald and *Omaha Star*, solicited more than 10 potential contractors, received two bids and selected the contractor prior to executing the service contract.

Procurement 3 may need to be clarified, but OHA's analysis of said contract resulted in a finding that both OHA and HUD were adequately protected by the executed contract and contractually could and would end in one year. Finally, the use of Dr. Roneck, a national expert on Crime Statistics, as OHA's expert on crime statistics gathering was based on a national search and recommendation. Dr. Roneck was included in the PHDEP budget and his role was fully explained in the substantive section of the application. Therefore, OHA staff contracted with Dr. Roneck based on the approval of the PHDEP grant. Based on OIG's comments, OHA reviewed the use of Dr. Roneck's services and is confident that the procurement of said services was appropriate and, at least, in the best interest of the tenants that the PHDEP grant is established to serve.

In relation to contracts expected to exceed $1000, the OIG appears to have interpreted OHA policy and procedures in a manner not initially contemplated by the OHA staff. OHA procurement policy and procedure outlines the requirements for "purchases" and/or "contracts". However, the interpretation that all "purchases" require a drafted contract is not the intent of the drafted policy or procedure. More importantly, it was never the intent of OHA to implement such a restrictive practice.

As explained to OIG investigators, OHA placed the additional "contract" language in the policy and procedure in order to force all employees involved in procurement to access multiply purchase order transactions. Thus, allowing OHA to identify vendors that had multiple transactions and then in turn properly bid these services pursuant to the required threshold. Therefore, the identified 119 purchase orders did not necessarily require a "written contract" to support them. In fact, OHA would need to review all 119 transactions mentioned to appropriately respond to this allegation. However, OHA was able to identify the three larger transactions mentioned. In the case of these three individual purchase orders mentioned, OHA has found that each transaction was procured by sealed bid and approved by the Board of Commissioners. That being the case, OHA policy did achieve the desired result. Based on this finding OHA is in the process of reviewing the remaining transactions and will incorporate any findings into the new procurement policy.

OHA is requesting that the IG provide OHA Executive Management with copies of the 15 purchase orders and questionable procurement transactions reviewed in order for OHA to address the prohibited internal control problems identified. OHA management is reviewing all transactions to assess the concerns expressed by KPMG and the OIG in order to develop a procurement policy that balances proper internal controls with the demanding needs of the organization. As you know, during the OIG's engagement, these issues were addressed with the staff of the Finance Department and the proper steps have been put into place to assure all payments have the required supporting documentation. The Legal Staff, Finance Staff and TARC subject matter experts are in the process of modifying the procurement policy and procedure to more clearly express the desired procurement procedures and assure that all employees are held responsible for following said procedures when procuring goods and services.

Finding: The Authority Must Follow Federal Regulations for Disposition of the Gateway Annex Property.

OHA Response:
Based on the HUD OIG comments, OHA will work with the TARC Director to assure, if applicable, that disposition instructions from HUD are secured and followed. However, based on the HUD OIG comments on the Gateway building and Annex presented in the draft findings from October 1 and a different draft finding from October 7, OHA will provide the HUD OIG with a detailed explanation on the Gateway Project for the purpose of factually outlining the disposition of the Gateway building and Annex and provided supporting financial information within 30-45 days.

OCTOBER 7, 1999 FINDINGS

Finding: The Authority Did Not Have an Effective Control Environment

OHA Response:
The first area of an "effective control environment" is an area the Board of Commissioners, the Executive Director, OHA staff, and the TARC-HUD team has spent considerable time, effort, and money to improve. Starting with the KPMG Management Analysis Study and Report of January 29, 1999 and the OHA response to that report in April 1999, OHA has made consistent, steady and marked improvements in strengthening its internal control environment.

The KPMG study tested the controls in place from July 1998 through December 1998. Control activities are the policies and procedures that help provide assurance that management's directives are carried out. They help assure that necessary actions are taken to address risks in achieving OHA's goals. As referenced in the KPMG Management Study, on page 7, KPMG stated, "that evidence reflects that the internal controls over grants management and human resources, and payroll, were operating effectively over the test period." The internal controls analysis by KPMG was the basis of OHA's corrective action plan and we have implemented corrections in these areas:

a. Cash receipts
b. Procurement/Disbursement
c. Asset Accountability Procedures
d. Human Resources/Payroll process
e. Grants Management
f. Inventory of fixed assets
g. Internal Control Monitoring System (PHAS related)
h. Developing a Strategic Plan
   - Comprehensive plan for PHAS
   - Five Year plan for Operations

Some of the corrective actions were made near the end of the period of the Inspector General audit. The IG allegation that the Authority did not have an effective control environment must also be refuted factually. OHA has always encouraged staff to cooperate and denies the allegation that RFPs were cancelled to give the task to the vendor of choice.

Integrity and Ethical Values.

An RFP system is currently in place that meets or exceeds federal procurement standards as of October 1999. Mr. Bill Sabalburo, a member of the TARC team, has assisted OHA in the computer and MIS area in establishing the proper procurement and contract process. This procurement process will be incorporated into OHA Policy and Procedure and with the assistance of the TARC at the December Board meeting. In addition, a Procurement Supervisor and supply specialist (under the Finance Director) have been hired (realigned) to control procurement and to support work-orders, supply controls, and maintenance. A fixed asset inventory system will be done on a year round cyclic basis. Competitive bids and a competitive contracts system is now in place. Vendors are selected on the basis of an open competitive bidding process and purchases are done on the basis of price and quality.

The IG also raised the question of Section 8 issues in this category. OHA has worked very hard to address the Section 8 issues. First with the local HUD office, then later in 1998 with Abt Associates, and in 1998-early 1999 with Jack Blosky (HUD consultant) to resolve problems associated with Section 8 HAP payments and program administration. Factually, the program was operating in a deficit position. However, this was an approved strategy to allow the use of the Reserve account from the Section 8 funds. An administrative ruling in 1999 which abruptly ended this process was HUD's decision. However, the facts also indicate that OHA's use of the Section 8 Reserve and many other *HUD approved* measures were undertaken to provide needed housing vouchers and at the same time resolve budget issues. In no way were any illegal or unethical measures used to address the Section 8 problem. Instead, OHA sought expert help, HUD assistance, and constant guidance from HUD to resolve the issues.

The IG report expressed concerns regarding the Executive Director's ability to approve his/her travel requests. OHA will revise its policy by the end of this year to require such travel requests to be approved by the Chairman of the Board or the Board of Commissioners.

Commitment to Competence.

OHA Human Resources Department has addressed the knowledge skills and abilities of OHA employees in the following ways:

- *Assignment of authority and responsibility* – The interview process for all positions includes completion of an interview rating sheet for each applicant. The interview rating sheet includes the minimum knowledge, skills and abilities and physical demands required for the position. Individuals are hired or promoted based on their interview rating sheet scores and recommendation by the interviewing supervisor to the Executive Director.

- *OHA Revised Job Descriptions* – In 1996 the human resources staff interviewed individuals in all job classifications and revised every job description in the organizational structure. This process included the completion of a job analysis interview for each position. Following reorganization in January 1998, a request was made for supervisors to review all job descriptions with the appropriate staff and to make recommendations regarding needed changes. The Human Resources Director reviewed the recommendations with each OHA Department Director and job descriptions were revised as required. In addition, job descriptions have been updated or changed regularly in accordance with changes in procedures or to meet grant goals and objectives. However, the OHA organizational structure does include a number of skilled trade positions. These job descriptions have not been updated and there has been no indication that they need revisions.

- *OHA Work Environment* - The report indicates that OHA does not promote a team approach. OHA in fact has done a number of things over the last two years that indeed promote a team concept. Thirty management staff participated in a Board Retreat in June 1998 and forty management staff participated in a Strategic Planning Training Session in June 1999. In addition, management staff meet regularly every Tuesday at 7:30 a.m. At the weekly management meetings, staff is provided the same information regarding current issues at the housing authority. Very frequently staff are paired into team groups to address issues and develop solutions. This opportunity has allowed management staff to interact with management in all departments at the housing authority. The utilization of individuals with a variety of expertise has enabled the housing authority to implement some very creative solutions over the last two years. An excellent example is the completion of the OHA 5-year and annual plans. In addition all OHA staff participate in a monthly staff meeting. This opportunity allows senior staff to communicate organization changes to the entire group. It also enables staff to ask questions or express any concerns that they might have. Department directors also meet with their staff on a weekly basis and more often if there is a need.

Board of Directors or Audit Committee.

The actions the Board of Commissioners took to resolve the budget deficit crisis are outlined in the Emergency Board meeting in September 1999. The OHA cut staff over 33 positions, for the second time in 1999. The cutting of staff and the Board involvement in the approval of a positive cash flow budget in the year 2000 demonstrates the Board's involvement in the deficit issue. Throughout the year, the Board has put in countless volunteer hours in every major concern.

The TARC Memorandum of Agreement with the attached goals and timetables reflects the agreed upon changes being instituted by the OHA Board of Directors and OHA Staff.

List of Board Activities, 1999:

List of Board Management Actions to Reduce Deficits:

Within 30-45 days, OHA will provide the TARC a set of copies reflecting Board activities to substantiate the proactive involvement of the current Board of Commissioners.

Management's Philosophy and Management Style.

The draft report indicated that appropriate personnel policies were in place, and at the same time referenced a staff member hired "because a grant expired". We believe this is an unfounded charge without substantive merit. OHA chose to transfer the Healthy Start grant to the Charles Drew Center in Omaha. The Grant Coordinator was a highly qualified applicant for the Planning Technician position that she applied for prior to grant transfer and she received the job on the basis of merit.

OHA has had in excess of 50 lay-offs and staff changes due to mandated budget downsizing, and audit recommendations. Many of these changes occurred from April to September 1999. It is obvious that large personnel turnover adversely effected OHA morale.

The draft IG report includes incorrect statistics regarding key senior staff changes under the current Executive Director.

a) The housing authority did not employ a Development Director until February 1999.
b) The Computer Services Manager resigned in November 1998 because her spouse was relocated.
c) There has been only one Human Resources Director leave during this period. The individual resigned to begin a business venture with the previous Executive Director.
d) Under the supervision of the current Executive Director, the IG report indicates that three Finance Directors have left OHA. This statement is not accurate, following the resignation of the Finance Director in May 1997; the previous Executive Director promoted a Senior Accountant to Acting Finance Director. The current Executive Director clearly documented that this individual did not have the ability to perform the tasks required and did not display a willingness to incorporate changes as recommended by KPMG. This individual moved back to his previous position as a Senior Accountant in April 1998. OHA did hire a Finance Director in February 1999. The report indicates that he left OHA because he had developed a cash flow activity to pay old debts and made arrangements with utility companies to repay overdue debts. He did in fact meet with representatives from the Utility Companies and other vendors. However, this occurred following recommendations from the Executive Director. He indicated that OHA did not follow through with the intended repayment schedules or adhere to the cash flow activity as planned. This is again not accurate; OHA is now current with all utilities and all invoices through August 1999.
e) Purchasing Coordinator - The report indicates two very different issues regarding this position. That the individuals left because they were not allowed to do their jobs effectively. However, the report clearly indicates that there were continual problems with the procurement methods and daily purchases. This finding is a direct result of the individuals in the Purchasing Coordinator positions daily work. There is sufficient documentation that indicates they were held responsible for their actions. In many situations, these individuals chose not to follow OHA policy.

Management has completed through the use of highly skilled CPA and computer consultants the work to fully implement the public housing automated system.

Other IG allegations that must be addressed are as follows:

- OHA does not understate tenant receivables when tenants move out of their units.
- OHA did not fail to release a highly paid employee after a grant had terminated, and did not place that employee into a job because of grant funding termination.
- Finance and accounting data are not falsified, but reported as accurately as the old system allows. A new MST Software PHA system will be implemented by December 31, 1999. Human errors are the causes of mistakes in the old system. There is no pattern of willful non-compliance of the statement of finance records in the OHA now, or at anytime in 1999.
- The Authority under the law had the power to remove debts, establish a promissory note system or forgive the debts due to individual hardship. In no case were any of the procedures the IG outlined against the law; OHA viewed these actions as an administrative action ethically neutral. Under QHWRA of 1998, hardship rent forgiveness may be reviewed or continued every 90 days.
- Homeownership Promissory Notes were found for the three homes cited by the IG. The $60,000 of promissory notes has now been reconciled to show the legal liability of each property owner, where appropriate.

Assignment of Authority and Responsibility.

The Housing Authority Board of Directors and the Housing Authority's Executive Director support the assignment of authority within certain limitations, and also support the delegation of authority and "empowerment" where appropriate. It is not valid to suggest that an employee who took the Finance Director job for a brief 10-week period knew enough, or worked in depth enough to make valid, long-term decisions about the Authority or its long-term needs, strategic planning, or staffing.

Human Resource Policies and Practices.

The Omaha Housing Authority has updated the job descriptions and responsibilities of all employees to reflect the staff reductions, and new management changes.

The OHA will work with the TARC team to place more staff training into the year 2000 budget.

In addition, large staff reductions were made to meet budget goals, and significant improvements were made in redesigning the procurement systems in August 1999, improved Safety and Security, and improved management information systems developed.

Finding: The Omaha Housing Authority Inventory Process Was Not Adequate.

The deficiency is acknowledged. OHA is correcting this deficiency. By October 1999, all elements of this deficiency were either corrected, or a plan and timetable to fix deficiencies had been established. The 1999 Fixed Asset inventory list will be reviewed internally, prior to December 31, 1999, and the new staff dedicated to supply and inventory control will attempt to insure 100%

accuracy on all fixed assets. The following revisions to the staffing, procedures and policies, and systems have now been implemented:

-New automated system will be internally reviewed and asset inventories cross-checked.
-All OHA fixed assets will be inventoried and validated during the next year's annual cyclic inventory cycle.
-Inventory team member will be trained regarding IAW GAAP standards.
-Cyclic year around inventory is started in October 1999.
-New Maintenance and automated work-order plan implemented in September 1999.
-Automated inspections system will inventory fixed assets simultaneously with inspections.
-OHA Maintenance vehicles are 100% inventoried.
-A number of the 26 vehicles the IG cited for lack of inventory did not contain supplies and equipment, and therefore would not have inventories taken.
-Inventory Procedures redesigned and new staff hired in September 1999.
-Cyclic Inventory will validate valuations and quantities of fixed assets throughout the fiscal year 2000.
-Computer equipment and other assets will also have locations included on inventories.
-Five full-time personnel dedicated to procurement and inventory control under the staff revision plan.
-New bar coding devices will assign more descriptive UPC codes for inventory, and inventory will become more automated.
-OHA's Procurement and procurement policies approved by the board in December 1998 will be checked and evaluated by internal assessment staff now on-board.
-An approved method of valuation will be assigned to fixed assets based upon a reasonable value of the property.
-Adjustments of valueless, or property requiring disposal will be made in 2000.

Finding: The Authority Used Federal Funds to Pay for Expenses That Were Not Allowed, or It Could Not Support.

The response to the finding that OHA used federal funds to pay for expenses that were not allowed or it could not support will be submitted to the TARC within 30-45 days. This will allow OHA adequate time to reconstruct financial records and provide proper supporting documentation.

Finding: The Authority Did Not Properly Administer Its Section 8 Programs.

OHA Response:
The response to the finding that OHA did not properly administer its Section 8 programs will be submitted to the TARC within 15-30 days. This will allow OHA adequate time to reconstruct financial records and provide proper supporting documentation.

This response is being provided in order to meet your requested turn around time. If additional information or clarification is needed on any items or facts, please contact me.

If you have any questions or need additional information please contact my office at (402) 444-6901 or Troy Thompson, Legal Counsel at (402) 444-4898.

Sincerely,

Julia S. Parker
Executive Director

mcl

DATE: 4/30/99

TO: Patrick Bingham

FROM: Rose Maggart

Gregg Gibson

RE: Computer Problems and Concerns

In response to your memo regarding software problems within the finance department, we will try to outline these problems below "in writing". As you are well aware a number of these problems have been discussed with you on numerous occasions. From the beginning, when the system was taken live your department has told us a number of times if we have any problems call you and let you know. We have followed that directive.

The Executive Director agreed to use valuable financial resources to hire Mr. Beach to help us solve the problems and find a solution to getting this system operational in an acceptable manner. What we have found is that whenever we try to discuss the problems we encounter with Mr. Beach he is very quick to criticize the staff, he becomes very argumentative and defensive of the software / sales company. He is not being paid by the software company and wasn't hired to defend them. This is not a manner in which we are aware that consultants treat their clients. His task was to help OHA solve their problems with the software we purchased. The problems with Mr. Beach have escalated to the point that there is no one in the department who wants to discuss issues with Mr. Beach due to his attitude and the manner in which they are treated. Therefore Patrick all issues and concerns of this department have been directed to you.

There have been a number of times the finance department have asked you if the problems we have incurred have been corrected, and your response has typically been that you have not had time to address those issues because you have been given other priorities. Now it appears that the frustration has escalated to the point that we are being told you are not aware of the problems because they are "not in writing.", please consider this our notification "in writing" of the major concerns we have been trying to get assistance in solving.

1) The software package will not accept numerical entries larger than $ 9,999,999.99. Therefore on one ledger alone we have had to put on 55 entries instead of the 7 entries that needed to be entered, and we haven't even started the cumulative grant entries yet which cover activities over a number of years. This leaves a very confusing audit trail for the company that will be hired to do our 1999 audit(s).

2) The accounts payable package appears to key all of the requested reports off of the date the transaction was entered and not the date of the transaction itself (i.e. invoice date), therefore we are unable to pull a month by month report showing our financial information for that month only. We then have to go to the calculator and spend hours separating the transactions by the month to arrive at the correct monthly totals.

3) The system will not allow us to enter a partial payment on an invoice, We then have to go back and void the invoice and put on several small invoices which match the payment(s) being made. This once again is not showing transactions in an accurate manner. When the auditors select which items they want to look at they will be looking for several invoices which they will not find because they do not exist.

4) When we run month end closing procedures for the accounts payable, the system is including all amounts and invoices included in previous month end close procedures, which is duplicating information then taken to the general ledger. When we tried to verify the information shown on the reports and what the system was doing, the reports are not including invoice dates for the reference. If the

item has not been paid it shows zeros for a reference point, therefore once again we are spending a great deal of valuable time, backtracking and tracing information to see what is duplicated.

5) When we are entering manual checks to the new system, there are a number of those checks that are payments for a large number of invoices. The new system will not allow us to enter more than 34 invoices or vouchers per check. So once again we have to split the entries up in a confusing and inaccurate manner to circumvent the problem.

6) When entering credit entries to the system, the last entry shows on the screen as being an alpha character, therefore every time we are out of balance we are unable to compare the entries on the screen with the entries on our workpapers to find the error. We have to take time out and create a printout which we can then balance back to.

7)The software system limits our on line access to bank accounts to four accounts. We have made known to computer services since the original training sessions that this is a problem. We as of today not received a fix for the problem, therefore are unable to access on line the other accounts needed

8) The accounts receivable department have projects set up on the system which mix HUD project numbers therefore the information can not be correctly interfaced to the correct project number. Computer services has been made aware of this problem months ago, we even had our staff prepare a spreadsheet separating the HUD projects and outlining where and how they need to be split. We have had promises again on a number of occasions that this problem would be taken care of. As of yesterday, it still has not been addressed.

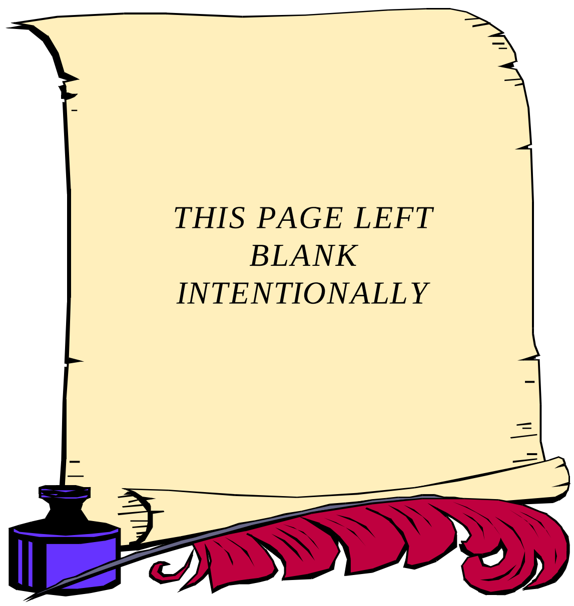
These are the major issues being presented in writing, in our attempt once again to obtain some reasonable solutions and assistance in getting the finance department on line. We have been told in a number of discussions with computer services that the problem is with our expectations that things operate as they did with the old system and that our requests are "custom changes". Our expectations are that the new system will operate better than the old system, that's what OHA was promised when they agreed to the purchase. And as for "custom changes", the things we are requesting are standard performances and reporting capabilities from any accounting / finance software system.

In response to the suggestion from computer services to have ORA staff go to another housing authority to see how the system runs for them or how they are utilizing the system, we are of the opinion that while that type of a trip could answer a few basic questions, it would not be the most efficient or effective use of OHA's staff or funds They would be spending most of their time watching what works for someone else and not getting a solution or hands on training for what works for or what is needed for OHA.

We feel that as part of the contractual agreement between the company selling the software and ORA, was the agreement to ensure that not only was the software installed and fully functional, but that staff be adequately trained and all bugs or problems worked out. It is of our opinion that the software company has not delivered good, effective, timely services or support in this area. We feel this issue needs immediate attention and that someone fully qualified who has had hands on experience in day to day operations and use of the software be made available to ORA within a reasonable time frame to ensure that all areas of the software within ORA are fully operational with the least amount of delay.

As you can see from the above documentation, we are spending a great deal of time not only back tracking in trying to get accurate meaningful information from the new system, but we are still spending a great deal of time doing manual reports, which the new system is suppose to provide for us. With our staffing being cut in half, it is imperative for the departments to work together in reaching a solution to the problem.

cc., Ms. Parker
S. Huscroft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