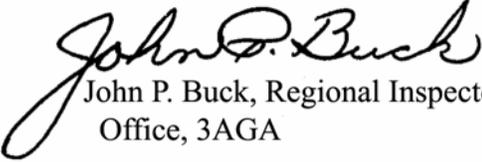


Issue Date	December 18, 2006
------------	-------------------

Audit Report Number	2007-PH-1003
---------------------	--------------

TO: William D. Tamburrino, Director, Baltimore Public Housing Program Hub,
3BPH

Candace S. Simms, Director, Maryland/West Virginia Public Housing Division,
3BPH

FROM:  John P. Buck, Regional Inspector General for Audit, Philadelphia Regional
Office, 3AGA

SUBJECT: The Housing Authority of the City of Weirton, Weirton, West Virginia, Needed
to Improve Its Administration of Its HUD-Funded Programs

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the City of Weirton (Authority) as part of our fiscal year 2006 annual audit plan. Our objective was to determine whether the Authority properly administered its U.S. Department of Housing and Urban Development (HUD)-funded programs in accordance with HUD and federal requirements.

What We Found

The Authority did not properly administer its HUD-funded programs in accordance with HUD and federal requirements. The Authority did not follow federal procurement regulations when awarding consultant and construction contracts, prevent conflict-of-interest situations from occurring, operate its family

resource center as intended, properly allocate costs among its programs, and properly administer its Section 8 program. The Authority is currently working under a memorandum of agreement and other procedures with HUD to correct numerous deficiencies in its HUD programs, including most of the deficiencies identified in our audit.

What We Recommend

Because HUD is addressing program deficiencies with the Authority through a memorandum of agreement and other procedures, we did not recommend corrective action.

Auditee's Response

We discussed the report with the Authority during the audit and at an exit conference on November 30, 2006. The Authority provided written comments to our draft report on December 14, 2006. In its response, the Authority agreed with the report and stated it will work to improve its financial stability. The complete text of the Authority's response can be found in appendix A of this report.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding: The Authority Did Not Properly Administer Its HUD-Funded Programs	5
Scope and Methodology	11
Internal Controls	12
Appendixes	
A. Auditee Comments	14

BACKGROUND AND OBJECTIVES

The Housing Authority of the City of Weirton (Authority) was established under the laws of the State of West Virginia to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD) and other federal agencies. A five-member board of commissioners governs the Authority. The Authority's executive director is George Vargo. Its administrative office is located at 525 Cove Road, Weirton, West Virginia. The Authority has eight employees.

The Authority owned and operated 116 public housing units and administered 535 Section 8 housing vouchers under annual contributions contracts with HUD during the audit. The annual contributions contract defines the terms and conditions under which the Authority agrees to develop and operate all projects under the agreement. HUD authorized the Authority the following financial assistance for years 2004 through 2006:

- \$5.1 million to provide housing assistance through tenant-based Section 8 housing choice vouchers,
- \$557,000 in operating subsidies to operate and maintain its low-income housing developments, and
- \$483,000 in Public Housing Capital Fund program funding to modernize its low-income public housing units.

The Authority has a component unit known as Holidays Cove Corporation. The corporation is a registered nonprofit and owns a duplex.

The Authority built a family resource center on its property in 2002. According to its mission statement, the center is for the benefit of the tenants residing in the Authority's public housing developments to house educational, job training, job retraining, job readiness, and youth programs and educational, physical, and family mentoring services.

The Authority's 2005 Public Housing Assessment System score designated the Authority as troubled. Its overall score was 63 of 100 possible points. It failed the physical assessment and financial assessment indicators, scoring 17 of 30 possible points on the physical assessment indicator and 9 of 30 possible points on the financial assessment indicator.

The Authority has limited computer availability. Many records are created and maintained manually. The Authority's fiscal year runs from April 1 to March 31.

Our objective was to determine whether the Authority administered its HUD-funded programs in accordance with HUD and federal requirements.

RESULTS OF AUDIT

Finding: The Authority Did Not Properly Administer Its HUD-Funded Programs

The Authority did not administer its HUD-funded programs in accordance with HUD and federal requirements. It did not acquire goods and services in accordance with federal procurement regulations, prevent conflict-of-interest situations from occurring, operate its family resource center as intended, properly allocate costs among its programs, and properly administer its Section 8 program. HUD is addressing program deficiencies, including most that we identified, with the Authority through a memorandum of agreement and other procedures. Because HUD is in the process of addressing deficiencies in the Authority's operations and performance, we did not recommend corrective action.

The Authority Did Not Acquire Goods and Services in Accordance with Federal Procurement Regulations

The Authority did not follow federal procurement regulations and its own procurement policy for acquiring goods and services. Because the Authority did not maintain a contract register, we selected five payments valued at \$61,129 from the Authority's vendor payment history from its fiscal years 2004 and 2005 to perform our review. The five payments ranged from \$600 to \$23,319 and included payments for accounting, computer, and construction services. We requested the Authority's files supporting the purchases. The Authority did not maintain contract files for four of the purchases totaling \$42,179. Thus, the Authority could not demonstrate that it complied with federal procurement regulations or its own procurement policy. HUD regulations¹ and the Authority's procurement policy² require the Authority to maintain sufficient documentation regarding the history of the procurement, including as a minimum, the method of procurement chosen, the selection of the contract type, the rationale for selecting or rejecting offers, and the basis for the contract price. The Authority's small purchase threshold is \$10,000. Small purchases of \$1,000 or less must be supported by one quotation if the price received is considered reasonable. Small purchases over \$1,000 but not more than \$10,000 require that the Authority solicit and obtain no fewer than three price quotations. As noted above, the Authority did not provide any documentation for four of the purchases we reviewed.

¹ 24 CFR [Code of Federal Regulations] 85.36b(9)

² Procurement Policy of the Housing Authority of the City of Weirton, revised April 25, 1991, section II.B.2

For the one purchase totaling \$18,950 that was supported by a contract file, the Authority received only one bid and contracted with the bidder to do the work. Although federal regulations³ required the Authority to perform an independent analysis of cost or price for all procurement actions, including modifications, before receiving bids, there was no documentation in the file to demonstrate that the Authority complied with this requirement. In this case, there was an initial contract valued at \$18,150 and an \$800 change order.

The Authority Did Not Prevent Conflict-of-Interest Situations from Occurring

Existing conflict-of-interest situations may be hindering the Authority's operations. The Authority's executive director serves as executive director for both the Authority and its affiliated nonprofit entity. He also serves as the contracting official for both organizations, is the paid director of the local Boys and Girls Club of America, and coaches the local high school boys' basketball team. The Boys and Girls Club used the Authority's family resource center for daily after-school activities (see discussion of the family resource center below). Further, an Authority employee is holding two paid positions, which may also be a hindrance to the operations of the Authority. This employee is employed as the part-time check writer for the Authority's Section 8 program but is also employed by the City of Weirton as its full-time director of social services. The Authority's consolidated annual contributions contract prohibits conflicts of interest.⁴

The Authority Did Not Operate Its Family Resource Center as Intended

The Authority built a family resource center on its property using a combination of Community Development Block Grant funds, capital funds, and other private funding, but it did not appear to be benefiting the tenants residing in the Authority's public housing developments as intended. HUD funds are intended to benefit low- and moderate-income families. According to its mission statement, the center would be used to house educational, job training, job retraining, job readiness, and youth programs and educational, physical, and family mentoring services. However, the Authority could not provide participant sheets to demonstrate that the facility was accomplishing its mission. Further, HUD's Office of Inspector General (OIG) staff visited the center in 2004 and found that the facility was being used mainly as a basketball court. The staff concluded that the center did not seem to be used for the activities that were stated in the mission statement and that it may not have been benefiting the tenants of the Authority's

³ 24 CFR [Code of Federal Regulations] 85.36(f)(1)

⁴ Section 19

public housing developments. It appeared that the center was used by the Boys and Girls Club rather than the public housing residents for the programs intended.

The Authority did not appear to be operating its family resource center in a fiscally responsible manner. It appeared that the center did not generate sufficient funds to sustain its operations. A September 2004 cooperative agreement between the Authority and the Boys and Girls Club delineates the responsibilities of each party relative to the club's use of the family resource center. The agreement required the club to pay \$300 monthly to use the center Monday through Friday from 4:45 p.m. to 7:00 p.m. daily. This equates to a rental fee of about \$6.66 per hour, assuming 20 days of use during the month.

The Authority Did Not Properly Allocate Costs among Its Programs

The Authority did not properly allocate costs among its Section 8 and public housing programs. For 2004 and 2005, the Authority's operating expenses were \$862,078 and \$772,260, respectively. The Authority allocated costs such as salaries, travel, training, telephone, accounting and auditing services, memberships, and Internet services between its Section 8 and low-rent public housing programs. Most of the costs were allocated evenly between Section 8 and public housing. However, some costs such as legal, automobile, insurance, and rent were allocated entirely, or nearly entirely, to either Section 8 or public housing. Federal regulations⁵ state that indirect costs incurred for a common cost objective should be distributed equitably to the benefited cost objectives based on the relative benefits derived. The Authority could not explain the basis for the percentages except that they were determined by the Authority's fee accountant.

The Authority also did not allocate certain costs to its affiliated nonprofit entity, its family resource center, or its Public Housing Capital Fund program. According to the April 2001 services agreement between the Authority and the nonprofit, the Authority would provide services such as housing management, client screening, contract administration services, budget development, and preparation of grant and loan requests on a reimbursable basis as directed by the nonprofit, and the Authority would invoice the nonprofit monthly. However, the services agreement had a two-year term that ended on April 9, 2003. The services agreement was not renewed. The Authority has not billed the nonprofit for any expenses since 2003 although the Authority's staff continues to dedicate time and perform work tasks that directly benefit the nonprofit. According to the Authority's executive director, the Authority's fee accountant recommended that the Authority charge the nonprofit 1 percent of the executive director's and his administrative assistant's salary beginning in the Authority's fiscal year 2007.⁶

⁵ Office of Management and Budget Circular A-87, attachment C, section A.1

⁶ April 1, 2006, to March 31, 2007

The Authority's staff also dedicates time and performs work tasks that directly benefit the family resource center. The Authority's allocation methodology for 2004 and 2005 did not include allocating any administrative costs to its family resource center or its Public Housing Capital Fund program.

The Authority Did Not Properly Administer Its Section 8 Program

The Authority did not administer its Section 8 program according to HUD and federal regulations and its own policies and procedures. We reviewed various aspects of the Authority's Section 8 program and noted the deficiencies described below.

- The Authority did not update its administrative plan as needed. The latest hard-copy version of the Authority's administrative plan available to employees was dated May 1999. We noted that although the Authority was receiving automated updates to the administrative plan from a consultant, it did not update its hard-copy administrative plan and make the revised plan available to the employees administering the program. HUD regulations require the Authority to administer its program in accordance with its administrative plan.⁷
- The Authority did not properly maintain its Section 8 waiting list. According to the Authority's administrative plan,⁸ the waiting list will be maintained, and applicants will be selected based on the date and time of application. However, when the Authority provided us a hard-copy printout of its waiting list, the results were sorted out of order. That is, for applications received on the same day, applicants who applied at 2:00 p.m. were listed before the applicants who applied at 10:00 a.m.

The Authority did not periodically review and purge its waiting list. It stored its waiting list on an automated spreadsheet. As of May 2006, the waiting list had 3,860 entries on it. The majority of the entries were dated between September 1998 and May 2006. However, the waiting list included 26 entries with no names, 13 entries with dates before August 1931, two entries with dates in the future, three entries with illogical entries in the name field, and multiple entries for several applicants. The Authority's goal should be to maintain an accurate waiting list. HUD guidance⁹ advises housing authorities to maintain an up-to-date waiting list. An up-to-date and well-managed waiting list promotes fair and

⁷ 24 CFR [Code of Federal Regulations] 982.54

⁸ Chapter 4, section F

⁹ Housing Choice Voucher Program Guidebook, chapter 4, section 4.5

consistent treatment of families and ensures that needy families receive assistance as quickly as possible.

- The Authority assisted a client who was not on the waiting list. In our review of five client files, we found that one client was receiving assistance, however, their name was not on the waiting list. This client received assistance from December 2004 to October 2005, when the Authority terminated the client for failure to properly report income. However, the Authority readmitted this client to the program in January 2006. We reviewed the Authority's Section 8 waiting list and found no evidence that this client was ever on it. HUD regulations¹⁰ and the Authority's administrative plan¹¹ state that except for special admissions, applicants will be selected from the waiting list.
- The Authority did not document vacancy information needed to properly manage the program on its housing assistance payment register. Contrary to HUD guidance,¹² the Authority's manual housing assistance payment register did not include a means to record dates on which clients vacated their housing units and calculate the number of days the unit was vacant. By accumulating this information, the Authority would be able to verify and adjust monthly rental payments to landlords.
- The Authority's housing inspectors did not always complete inspection forms thoroughly. In two of the five Section 8 client files reviewed, the housing inspector annotated the inspection result (fail) and signed the inspection report; however, there were few other markings and/or notes documenting the inspection. The lack of notes and/or markings raises concern about the authenticity and quality of the inspections.

HUD Is Addressing Deficiencies in the Authority's Programs

HUD has determined that the Authority has not properly administered its HUD programs and has taken action to have the Authority comply with applicable rules and regulations and improve its performance. HUD completed an assessment of the Authority's low-income public housing programs in May 2004. The assessment disclosed deficiencies in several aspects of the Authority's operations, including financial management and procurement, housing management, property maintenance, and management information systems, and also addressed funding and use of the family resource center, training for the board of commissioners, and conflicts of interest.

¹⁰ 24 CFR [*Code of Federal Regulations*] 982.204(a)

¹¹ Chapter 4, section A

¹² HUD Handbook 7420.6, chapter 3, section 12h

In August 2004, HUD entered into a memorandum of agreement with the Authority as a binding contractual agreement for the Authority to improve its performance. The agreement included performance targets and strategies for various aspects of the Authority's operations, including finance and procurement, housing management, property maintenance, resident services and initiatives, security, and management information systems, and also addressed training for the members of the Authority's board of commissioners, conflicts of interest, and funding and use of the family resource center. The term of the agreement was from September 1, 2004, to August 31, 2005. However, as of April 2006, the Authority had not satisfactorily complied with the requirements of the agreement, and HUD extended the expiration date of the memorandum of agreement to May 31, 2006. Consequently, HUD and the Authority entered into a new memorandum of agreement on May 12, 2006. The term of the new agreement is from May 12, 2006, to May 31, 2007. This second memorandum of agreement addressed many of the same performance targets and strategies included in the first memorandum of agreement, such as finance and procurement, housing management, property maintenance, management information system, training for the members of the Authority's board of commissioners, and funding and use of the family resource center.

HUD also conducted an on-site consolidated review in August 2006 and identified deficiencies in the Authority's operations. During the routine visit, HUD reviewed various aspects of the Authority's operations including correction of emergency health and safety violations, its Management Assessment Subsystem certification, its Section 8 Management Assessment Program, its Enterprise Income Verification, and its rental integrity monitoring. HUD identified significant problems in four of the five aspects of the Authority's operations. HUD found no significant problems with the Authority's correction of emergency health and safety violations. HUD required the Authority to implement corrective actions and report on its progress by November 13, 2006.

Conclusion

The audit results show that the Authority did not properly administer its HUD-funded programs. However, since HUD is addressing program deficiencies with the Authority through a memorandum of agreement and other procedures, we did not consider it practical to perform additional audit work until HUD has had an opportunity to resolve the issues covered by the memorandum of agreement and its other reviews. Accordingly, we did not recommend corrective action. Nonetheless, we will include the Authority in our future risk assessments and hold open the potential to initiate another audit of the Authority.

SCOPE AND METHODOLOGY

We performed the audit at the Authority in Weirton, West Virginia, from April through July 2006. The audit was performed in accordance with generally accepted government auditing standards and included tests of internal controls that we considered necessary.

The audit covered transactions representative of operations current at the time of the audit and included the period April 2003 through March 2005. We expanded the scope of the audit as necessary. We reviewed the Authority's consolidated annual contributions contracts with HUD and applicable program regulations and guidance. We discussed operations with management and staff personnel at the Authority and key officials from HUD's Charleston, West Virginia, field office. Although we used computer processed data during our review it was not significant to the audit results. Therefore, we did not assess the reliability of the data.

To determine whether the Authority properly administered its HUD-funded programs, we

- Reviewed applicable HUD and federal regulations to gain an understanding of the Authority's programs.
- Reviewed the Authority's fiscal years 2004 and 2005 audited financial statements and annual plans.
- Reviewed the Authority's written policies and procedures.
- Reviewed the Authority's August 2004 and May 2006 memorandums of agreement with HUD.
- Reviewed reports from recent reviews performed by HUD and other HUD correspondence.
- Reviewed the Authority's cash disbursements journal, bank statements, and invoices.
- Reviewed contract files.
- Reviewed the Authority's cost allocation methodology.
- Reviewed files maintained by the Authority for five Section 8 clients.
- Interviewed appropriate HUD and Authority personnel.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our objective:

- Policies, procedures, control systems, and other management tools implemented to ensure that the Authority administers its HUD-funded programs in accordance with its annual contributions contracts and applicable HUD and federal regulations.

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

The Authority did not

- Follow federal procurement guidelines for purchasing goods and services,
- Prevent conflict-of-interest situations from occurring,
- Operate its family resource center as intended,

- Properly allocate costs, and
- Properly administer its Section 8 Housing Choice Voucher program.

APPENDIXES

Appendix A

AUDITEE COMMENTS



HOUSING AUTHORITY OF THE CITY OF WEIRTON

George B. Vargo, Executive Director

525 Cove Road

Weirton, West Virginia 26062

Phone 797-8530

December 8, 2006

John P. Buck
Regional Inspector General for Audit
Philadelphia Regional Offices
Wanamaker Building
100 Penn Square East – Suite 1005
Philadelphia, PA 19107-3380

Subject: OIG Audit

Dear Mr. Buck:

The Housing Authority of the City of Weirton reviewed OIG Audit and is in concurrence with the Audit.

The Housing Authority of the City of Weirton is appreciative of the Auditors who conducted the audit and will implement their recommendations to improve the financial stability of this Agency. It was a pleasure to work with them.

If you have any questions, or additional information is required, please feel free to contact me.

Sincerely,

THE HOUSING AUTHORITY
OF THE CITY OF WEIRTON

George B. Vargo
Executive Director
/kab