



U.S. Department of Housing and Urban Development  
District Office of the Inspector General  
Office of Audit  
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October 30, 2001

Audit Memorandum 2002-AT-1801

MEMORANDUM FOR: Karen Cato-Turner, Director, Office of Public Housing, 4DPH

FROM:

Nancy Cooper

District Inspector General for Audit-Southeast/Caribbean, 4AGA

SUBJECT: Hotline Complaint – West Palm Beach Housing Authority

This memorandum report provides the results of our review of a hotline complaint alleging procurement and conflict of interest issues at the West Palm Beach Housing Authority (WPBHA) with the administrative office located at 3801 Georgia Avenue, West Palm Beach, Florida.

### **OBJECTIVE, SCOPE AND METHODOLOGY**

The objective of our audit survey was to determine whether a hotline complaint alleging mismanagement of procurements resulting in inflated project costs and the existence of a conflict of interest was valid. To accomplish our objective, we reviewed Department of Housing and Urban Development (HUD) and WPBHA policies and procedures, reviewed housing authority Comprehensive Grant Program (CGP) records, interviewed program officials at HUD and the WPBHA, and reviewed eight procurement or contract files including two contracts identified by the complainant.

We selected 8 of 26 contracts listed on the contract register (contracts exceeding \$10,000) for the period 1996 through 2000. We selected three older contracts for review. The complainant identified two of these contracts as improperly procured. The third contract we selected appeared to be related to the modernization of Robinson Village, the project named in the complaint. We selected four recent contracts exceeding \$7,500, but less than \$100,000, for review. We selected two contracts for each of two vendors that had been awarded multiple contracts. The basis for this selection was to ensure that bid splitting was not occurring and to ensure that the lowest responsive and responsible bidder was selected. We also selected one contract in excess of \$100,000 for review. There were only two current contracts in excess of \$100,000. We selected the contract that was related to on-going construction and modernization of PHA projects.

The survey covered the period from fiscal year 1996 through fiscal year 2000. We conducted the entrance conference on June 6, 2001. We conducted the exit conference on October 5, 2001. Both HUD field office staff and the West Palm Beach Housing Authority were provided an opportunity to respond to this audit report. We received no comments from the HUD field office.

This audit survey was conducted in accordance with generally accepted government auditing standards.

## **BACKGROUND**

The WPBHA is comprised of five public housing projects with a total of 732 units. WPBHA also has 1388 Section 8 units. The WPBHA is a recipient of HUD Comprehensive Grant Program (CGP) funding. Under the CGP, HUD provides funds to public housing authorities (PHAs) that operate PHA-owned low-income housing projects with 250 or more units under an existing Annual Contributions Contract. The purpose of the CGP is to help public housing agencies correct physical and management deficiencies and keep units in the housing stock safe and desirable places to live. Funding is given in the form of project grants. There are no matching fund requirements, but the PHA must maintain the improvements and keep the project available to serve low-income families at least 20 years.

## **SUMMARY**

Our review did not substantiate the allegation of procurement mismanagement and inflated costs, nor did we substantiate that a conflict of interest existed. However, we found that WPBHA did not follow its written procurement policy and the policy in use was not the same procurement policy submitted to HUD after a 1997 monitoring review. We noted that the procurement policy did not require three price quotes for procurements up to \$2000 and did not adequately address the use of purchase orders versus contracts. Contract files were also incomplete. HUD Office of Public Housing should review WPBHA's written procurement policy and determine if changes are warranted. WPBHA should comply with its written procurement policy and establish controls to ensure that contract/procurement files are complete.

We also noted internal controls were not adequate to safeguard certain assets. The responsibility for physical inventories of maintenance equipment and supplies was assigned to the Director of Maintenance. The WPBHA should revise its internal control policies and procedures to ensure an adequate separation of duties over maintenance assets.

We also noted that internal controls designed to disclose potential conflicts of interest were not used. The Executive Director noted that disclosure forms, which are required under the WPBHA's human resources policy, were not on file for key employees. As a result of auditor inquiry, the Executive Director required that key personnel complete disclosure statements. The Executive Director should ensure that managerial employees complete disclosure statements annually and maintain the statements in personnel files.

We discussed these findings with WPBHA officials during the survey and during an exit conference on October 5, 2001. WPBHA provided its written response dated October 22, 2001. The cover memo is included as Attachment 2. We did not include attachments to the cover memo due to their volume.

Within 60 days, please provide for each recommendation, a status report on: (1) the corrective action taken, (2) the proposed corrective action and its proposed completion date, or (3) why action is considered unnecessary. Also please furnish us with a copy of any correspondence or

directives issued because of this audit memorandum. We provided a copy of this audit memorandum to the WPBHA.

Attachments:

- 1 – Findings and Recommendations
- 2 – WPBHA Comments
- 3 – Distribution

## FINDINGS AND RECOMMENDATIONS

### Finding 1 – WPBHA’s Procurement Policy Was Not Followed and Was Inadequate

WPBHA officials and staff did not follow their written procurement policy. The Executive Director stated that the written policy was not enforced because it was, in her opinion, flawed. The written policy required WPBHA to obtain three price quotations for purchases up to \$7,500. If a purchase was for \$2,000 or less, the policy required only one quote if circumstances were justified and seemed reasonable. In practice, the Executive Director stated that for purchases under \$500, it was not standard practice to obtain quotes, rather she advised staff to “use good judgment.” We also noted that the procurement policy did not establish a dollar limit for purchase orders. The WPBHA’s written procurement policy was not the same policy submitted to HUD in response to a 1997 HUD monitoring review. As a result, HUD has little assurance that WPBHA procurements are managed effectively and in conformance with Federal regulations.

In 1997, HUD performed a monitoring review of the WPBHA and identified concerns with its procurement policy. As a result, WPBHA revised its procurement policy and submitted the revised policy to HUD for review. The policy submitted to HUD did not include the exception that purchases under \$2,000 need not be supported by three price quotations.

Federal regulations require that when small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources. Further, the HUD procurement policy requires in all cases, that PHAs ensure the price paid for small purchases is fair and reasonable. The most effective way of accomplishing this task is to solicit competitive price or rate quotes from an adequate number of qualified sources. HUD regulations recommend that at least three qualified sources be solicited. For small purchases, typically less than \$1,000, only one quote is required if the price is known to be reasonable. Small purchases employing this selection process are to be distributed between or rotated among qualified sources. HUD Handbook 7460.8 Rev – 1, states that purchase orders are usually issued for purchases up to \$25,000 or other lower dollar limitation imposed by State or local law.

The Executive Director told us that for purchases under \$500, the December 1998 written procurement policy was not followed. Instead, for purchases below \$500 she told staff that it was not necessary to obtain a price quotation; rather, they should “use good judgment.” We also observed during our review that it was common practice to use local vendors for routine small purchases. Maintenance staff members would state that certain items were needed and the Director of Maintenance would tell them to get them at Home Depot. Based on these observations there is no assurance of compliance with HUD rules and Federal Regulations.

The procurement policy of the WPBHA did not establish a dollar limit threshold for purchase orders. During a previous independent audit, the auditor reported that the WPBHA had made payments to vendors without contracts. The WPBHA reported to the independent auditor that procurements under \$2,000 were made with purchase orders. However, the Executive Director told us that there was no dollar limitation for purchase orders. The WPBHA procurement policy does not address the use of purchase orders versus contracts. To ensure that the proper

procurement procedures are followed, the WPBHA should incorporate provisions for use of purchase orders in its written policy.

WPBHA Comments:

WPBHA's Executive Director concurred that the procurement policy had not been followed. The Executive Director stated that as a result of on-going concerns with the existing policy, she and her staff were currently overhauling the procurement policy to reflect existing procedures. She also stated that all procurements had been made in accordance with 24 CFR policies.

OIG Evaluation of WPBHA Comments

WPBHA's comments and actions show that they have begun taking appropriate measures to address the concerns noted by this audit. It also indicates WPBHA's general agreement with the audit finding and recommendation.

Recommendation:

- 1A. HUD Office of Public Housing should review WPBHA's revised written procurement policy to ensure it meets HUD and other federal requirements.

## Finding 2 - Contract Files Were Incomplete

We selected and reviewed eight contract files from the contract register. Two of the eight contracts were identified as being improperly procured by the complainant. These two contracts were outside the HUD required records retention period. The remaining six contracts were selected based on the size and type of procurement. One of these contracts was outside the HUD required records retention period. We found that the contracts appeared to be properly awarded. However, we noted that certain required documentation such as bid specifications, documentation of all bids or price quotes, notice of approval by the Board of Commissioners, written documentation of contract selection rationale, and formal change orders were missing from all five contract files for which the retention period had not expired. Files were incomplete because WPBHA did not have adequate controls to ensure that contract and procurement files were complete. Incomplete contract files undermines the integrity of the procurement system. For example, we could not always determine whether the lowest responsible bidder or price quote was selected for the procurement.

Federal regulations require that CGP recipients maintain records in sufficient detail of the history of a procurement. These records should include the rationale for the procurement method, contract type, and selection or rejection of contractors. The WPBHA procurement policy requires all procurements above \$7,500 to be awarded by the Board of Commissioners. For the five contract files within HUD's retention period, we noted that:

- None contained evidence of Board of Commissioners approval/award,
- None contained written rationale for contract selection,
- Two did not contain bid specifications,
- Three contracts appeared to have change orders, however, there were no formal change order documents on file,
- One of the contracts had been terminated; however, there was no documentation present to indicate this action,
- One contract was awarded through sealed bidding, but the file did not contain proof of publication, and
- One contract was awarded through sealed bidding, but the file did not contain complete bid packages from all bidders.

### WPBHA Comments:

The Executive Director of the WPBHA stated that she was confident contracts had been approved by the Board of Directors. She researched the records of Board Resolutions, which are not filed with the Board Minutes, and located the board resolution for one of the five contracts. Further, she provided Board Minutes supporting board approval of two additional contracts. The Executive director concurred that these documents should be placed in the contract files.

### OIG Evaluation of WPBHA Comments:

WPBHA's comments show that they are aware of file deficiencies and are cognizant of HUD requirements. It also indicates WPBHA's general agreement with the audit finding and recommendation.

Recommendation:

- 2A. The WPBHA should establish controls to ensure that contract and procurement files are complete.

### Finding 3 - Internal Controls Over Maintenance Equipment Were Inadequate

We noted certain assets, maintenance equipment and supplies, were at risk to misuse, loss, or theft because internal controls were not sufficient to safeguard the assets. Responsibility for physical inventories of maintenance equipment and supplies was assigned to the Director of Maintenance who was also responsible for custody and record keeping for those assets. These work assignments do not adequately separate the duties assigned to reasonably preclude asset misuse, loss and theft. As a result, WPBHA assets are at unnecessary risk.

Federal regulations require that grantees adequately safeguard all property and assure that it is used solely for authorized purposes. Further, internal control standards encourage that the responsibilities for authorizing transactions, processing and recording transactions, reviewing the transactions, and handling any related asset be separated.

#### WPBHA Comments:

The Executive Director did not agree with the audit finding and recommendation. She provided a statement from the Director of Finance that stated the Director of Finance was responsible for and oversaw the last physical inventory.

#### OIG Evaluation of WPBHA Comments:

During our audit, the Director of Finance told us that she was not responsible for taking the physical inventory, and that the Maintenance Director was. The Maintenance Director told us that he took the physical inventory. We conclude that the Maintenance Director had a significant role in the physical inventory and that role was an internal control conflict with his position as Maintenance Director. To ensure that duties are adequately separated and assets are properly safeguarded, the Maintenance Director should not have any role in the physical inventory of maintenance equipment and supplies. Staff personnel conducting the physical count of assets should be under the direct supervision of a supervisor other than the Maintenance Director during the count process. The original physical count records should be under the control of the person supervising the physical inventory.

#### Recommendation:

- 3A. WPBHA should establish written procedures to ensure that physical inventory duties are adequately separated from the duties of asset managers and custodians.



#### Finding 4 – Internal Controls to Disclose Potential Conflict of Interest Were Not Enforced

We noted that internal controls designed to disclose potential conflicts of interest were not used. The Executive Director noted that disclosure forms, which are required under WPBHA's human resources policy, were not on file for key employees because the Executive Director of the WPBHA had not required staff to complete the disclosure statements. As a result, there was little assurance that potential conflicts of interest were identified. Further, there was no assurance that the WPBHA reduced its risk for litigation.

The human resources policy of the WPBHA required that staff management complete annual disclosure forms to identify potential conflicts of interest. The internal control policy of the WPBHA stated that the purpose of this disclosure was to reduce the risk that the WPBHA would be subjected to litigation.

When the Executive Director realized this, she required that staff management complete the disclosure forms for inclusion in their personnel files.

#### WPBHA Comments:

The Executive Director of the WPBHA stated that the disclosure forms had been overlooked and that action had been taken to obtain these disclosure statements. She stated that the forms will be completed at the beginning of each fiscal year for key employees.

#### OIG Evaluation of WPBHA Comments:

WPBHA's comments indicate general agreement with our finding and recommendation. The Executive Director initiated corrective action. We concur with the management decision and final action on Recommendation 4A.

#### Recommendation:

4A. The Executive Director should ensure that disclosure statements are completed annually and are included in personnel files.

WPBHA Comments



**WEST PALM BEACH  
HOUSING AUTHORITY**

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October 22, 2001

Marbie Baugh, Auditor  
U.S. Dept. of HUD  
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Atlanta, GA 30303-3388

Dear Ms. Baugh:

Enclosed please find our responses to our exit interview. We are sending this by Express mail, as the volume of material was a bit burdensome for a fax response.

Thank you for the opportunity to provide you with this documentation. Please let us know if anything is further desired; we are still going through some archived material in search of additional information, but did not want to hold up this response any longer.

- Statement regarding review of Procurement Policy – We are revising policy following HUD Handbook 7460.8 sample policies, including Appendix 25 and have attached Draft for your review.
- Young Development – Board Resolution #1422 approving contract enclosed.
- DenCo Contract – still searching archives.
- Acousti – Signed contract annotating appropriate State Contract number and bid numbers for tile installation. (Note: Acousti did not provide painting services).
- Howzell Plumbing – minutes approving contract award enclosed.
- Mike Brown – Board Resolution #1553 approving contract enclosed
- Petty Cash policy.
- Description of Rent Collection Procedure
- Description of Purchase Order System on automated system
- Inventory Accountability

This audit was thoroughly and professionally completed. As always, thank you for your cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "Laurel Robinson".

Laurel Robinson  
Executive Director

Distribution

Executive Director, West Palm Beach Housing Authority, West Palm Beach, Florida  
 Secretary, S  
 Deputy Secretary, SD (Room 10100)  
 Chief of Staff, S (Room 10000)  
 Assistant Secretary for Administration, S (Room 10110)  
 Acting Assistant Secretary for Congressional and Intergovernmental Relations, J (Room 10120)  
 Deputy Assistant Secretary, Office of Public Affairs, S, (Room 10132)  
 Deputy Assistant Secretary for Administrative Services, Office of the Executive Secretariat, AX  
 (Room 10139)  
 Deputy Assistant Secretary for Intergovernmental Relations,  
 Acting Deputy Chief of Staff, S (Room 10226)  
 Deputy Chief of Staff for Policy, S (Room 10226)  
 Deputy Chief of Staff for Programs, S (Room 10226)  
 Special Counsel to the Secretary, S (Room 10234)  
 Senior Advisor to the Secretary, S  
 Special Assistant for Inter-Faith Community Outreach, S (Room 10222)  
 Executive Officer for Administrative Operations and Management, S (Room 10220)  
 General Counsel, C (Room 10214)  
 Assistant Secretary for Housing/Federal Housing Commissioner, H (Room 9100)  
 Assistant Secretary for Policy Development and Research, R (Room 8100)  
 Assistant Secretary for Community Planning and Development, D (Room 7100)  
 Assistant Deputy Secretary for Field Policy and Management, SDF (Room 7108)  
 Office of Government National Mortgage Association, T (Room 6100)  
 Assistant Secretary for Fair Housing and Equal Opportunity, E (Room 5100)  
 Director, Office of Departmental Equal Employment Opportunity, U  
 Chief Procurement Officer, N (Room 5184)  
 Assistant Secretary for Public and Indian Housing, P (Room 4100)  
 Director, Office of Departmental Operations and Coordination, I (Room 2124)  
 Office of the Chief Financial Officer, F (Room 2202)  
 Chief Information Officer, Q (Room 3152)  
 Acting Director, HUD Enforcement Center, V, 1250 Maryland Avenue, SW, Suite 200  
 Acting Director, Real Estate Assessment Center, X, 1280 Maryland Avenue, SW, Suite 800  
 Director, Office of Multifamily Assistance Restructuring, Y, 1280 Maryland Avenue, SW,  
 Suite 4000  
 Inspector General, G (Room 8256)

Secretary's Representative, 4AS  
State Coordinator, Florida State Office, 4DS  
Director, Office of Public Housing, 4DPH  
Audit Liaison Officer, 3AFI  
Audit Liaison Officer, Office of Public and Indian Housing, PF (Room P8202)  
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Public Affairs Officer, G (Room 8256)  
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The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs,  
United States Senate, Washington DC 20510-6250  
The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs,  
United States Senate, Washington DC 20510-6250  
The Honorable Dan Burton, Chairman, Committee on Government Reform,  
United States House of Representatives, Washington DC 20515-6143  
The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform,  
United States House of Representatives, Washington, DC 20515-4305  
Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212,  
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Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17<sup>th</sup> Street, NW,  
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