
AUDIT REPORT



Delta Housing Authority
Delta, Colorado

Low-Rent Housing and Section 8 Housing
Assistance Payments Programs

2003-DE-1002

October 07, 2002

OFFICE OF AUDIT, ROCKY MOUNTAIN
DENVER, COLORADO



Issue Date	October 07, 2002
Audit Report Number	2003-DE-1002

TO: Linda Camblin, Director, Office of Public Housing, 8APH

FROM: Robert Gwin, Regional Inspector General for Audit, 8AGA

SUBJECT: Delta Housing Authority
Delta, Colorado
Low-Rent Housing and Section 8 Housing Assistance Payments Programs

We have completed an audit of the Delta Housing Authority in Delta, Colorado. The audit resulted from a request by the Office of Investigations that we review allegations it received from citizen complaints. Our overall audit objective was to determine whether complainants' allegations against the Delta Housing Authority were valid and to determine whether Housing Authority funds were used in accordance with applicable HUD policies and procedures.

Our report contains three findings with recommendations requiring action by your office. The three findings address the improper use of HUD funds; circumvention of the procurement policy; and the abuse of admission and occupancy procedures, and related administrative activities.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, 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. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. 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 (303) 672-5452.

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Executive Summary

We performed an audit of the Delta Housing Authority to determine whether complainants' allegations about the Delta Housing Authority's operations were valid and to determine whether Housing Authority funds were used in accordance with applicable HUD policies and procedures. Specifically, we reviewed procurement activities, selection of applicants from the waiting lists, Section 8 voucher payments for tenants previously residing in Authority-owned units after moving-out, allocation of costs to the Housing Authority's housing programs and activities, and maintenance activities.

We found that the Housing Authority had deviated from its own policies and procedures in some areas and was not conforming to HUD requirements in carrying out its HUD funded housing programs. As a result, HUD funds were used to pay ineligible expenses; procurement policies were circumvented to provide contracts to favored contractors; admission policies were ignored to facilitate favoritism on the public housing waiting lists; excess Section 8 voucher payments and administration fees were collected for Authority-owned housing units; and unrecorded tenant fees and deposits were used for unallowable activities.



Costs Improperly Allocated to HUD Programs

The Housing Authority used funds intended for HUD programs to pay both direct and indirect costs allocable to other programs administered by the Housing Authority. Also, maintenance salaries are unsupported because there is no system to track the actual time spent on each program.

For direct costs, we identified that the Housing Authority had charged \$101,233 to the HUD funded program for direct costs of its independent housing program. Authority management apprised us that the Housing Authority borrowed HUD funds to pay ineligible direct costs of the Authority's independent housing program until such time as monies could be obtained from a mortgage on one of its independent program's properties. Subsequent to our site work, the Housing Authority repaid the borrowed funds to the HUD funded housing program account.

For indirect costs, the Housing Authority charged its independent housing program for indirect costs in fiscal year 2000. However, the Authority ceased charging any indirect costs to its independent housing program in December 2000. Therefore, the Housing Authority began funding indirect costs applicable to its independent housing with HUD funded program monies.

Procurement Policy Needs
to Be Followed to Ensure
Services Are Obtained at a
Fair and Reasonable Price

The Housing Authority was unaware that its cost allocation plan was deficient or that maintenance employees needed to track their actual time. Consequently, HUD funds were used for non-HUD project activities and as such, these monies were not available for administration of the public housing and Section 8 voucher programs.

We identified deficiencies with four of the five procurement actions we reviewed. The Housing Authority simply did not follow procurement policies for the most part and circumvented the requirements to procure services from favored contractors. Although, the Housing Authority provided documents to show that competitive bids were obtained we found the documents questionable in two cases. Consequently, the Housing Authority may not have obtained services for a fair and reasonable price.

Compliance with
Occupancy and
Administrative
Requirements Needs to Be
Improved

Contrary to HUD requirements, the Housing Authority has not been properly and correctly implementing its tenant occupancy and related administrative activities. More specifically, we noted: (1) favoritism when selecting applicants off the waiting list; (2) excess Section 8 voucher payments and administrative fees for Authority-owned units; (3) lack of independent agency to provide tenant counseling, rent reasonableness and Housing Quality Standards inspections for Authority-owned units with Section 8 assistance; and (4) non-recording of tenant fees and deposits. These deficiencies occurred because the Housing Authority either circumvented the requirements or was unfamiliar with the requirements. Consequently, (1) applicants are not fairly selected for assistance; (2) the Housing Authority received excess funds it was not entitled when it continued to receive assistance for a vacant PHA-owned unit and received excess Section 8 voucher administrative fees; (3) tenants of PHA-owned units who receive Section 8 assistance may not benefit from a third party agency overseeing the Authority, which is both the administrator of the Section 8 assistance and landlord; and (4) unrecorded funds can be used for unallowable costs without the knowledge of outside parties.

Recommendations

We recommend that HUD require the Housing Authority to devise a plan to ensure all costs are properly allocated to the appropriate cost objectives. Also, action needs to be taken by the Housing Authority to ensure that its Procurement Policy is

properly implemented and documented. Furthermore, the Housing Authority needs to implement proper management controls over its tenant admission and occupancy procedures and related administrative activities. To do so will help the Housing Authority to ensure that its HUD funded housing programs are being properly and correctly carried out in conformity with HUD requirements.

Auditee Comments

We provided the Authority with a copy of the draft report for comment on August 22, 2002. We received the Authority's written comments on September 13, 2002. The comments were considered and the report was modified as appropriate. We included the written comments in Appendix B of the report, except for the exhibits provided with the written comments due to the lengthiness of the response. The exhibits were provided to HUD by separate cover.

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Abbreviations:

CFR	Code of Federal Regulation
CIAP	Comprehensive Improvement Assistance Program
FmHA	Farmers Home Administration
HUD	Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
PHA	Public Housing Authority

Introduction

The Delta Housing Authority located in Delta, Colorado is governed by a five member Board of Commissioners. The Board members are appointed by the City Council and serve five-year terms. The Board establishes policies and takes official action as required by Federal and State law. An Executive Director manages the small Housing Authority, which employs two office support and three maintenance staff. The books and records are maintained at 511 East Tenth Street, Delta, CO 81416.

The Housing Authority's fiscal year is from January 1 through December 31. The Housing Authority operates seventy-five public housing units and administers over 210 HUD Section 8 Housing Assistance Program vouchers. In addition to HUD programs, the Housing Authority operates a ten-unit Farmers Home Administration (FmHA) insured elderly development, twenty-five Authority-owned units and a transitional housing unit that is leased to a local non-profit organization.

Audit Objectives

Our audit objectives were to review the allegations about the Authority's operations and to determine whether Housing Authority funds were used in accordance with applicable HUD policies and procedures.

Audit Scope and Methodology

To determine whether the allegations had merit, we reviewed various aspects of the Housing Authority's operations and primarily included:

- Procurement activities;
- Selection of applicants from the waiting lists;
- Section 8 voucher payments for tenants previously residing in Authority-owned units after moving-out;
- Allocation of costs to the Housing Authority's housing programs and activities; and
- Maintenance activities.

We focused our review on allegations in areas within our jurisdiction involving HUD funded housing program activities.

To determine whether PHA funds were used in accordance with applicable HUD policies and procedures we reviewed:

- Management controls;
- All disbursements from the general fund for the audit period;
- The indirect cost allocation plan; and
- The support for maintenance salaries.

In performing our review of the Housing Authority's management controls, we conducted a non-representative testing of transactions to evaluate the Housing Authority's control structure. In connection with specific complaints, we tested sufficient transactions to perform an assessment of the validity of the complainants' concerns. In those cases where the concerns were substantiated, we expanded our transactions testing to identify the nature and extent of the deficiency.

An OIG Appraiser was used to evaluate the cost reasonableness and installation quality of the removal and installation of kitchen cabinets, countertops, faucets, drain pipes, supply pipes and stops in forty HUD funded housing project dwelling units.

The audit covered the period from January 1, 2000 to December 31, 2001. We extended the review, where appropriate, to include other periods. The audit fieldwork was conducted between March 2002 and May 2002.



Generally Accepted
Government Auditing
Standards

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

Costs Improperly Allocated to HUD Programs

The Delta Housing Authority used HUD funds to pay ineligible expenses of \$101,233 that it expended on its independent housing program. Also, the cost allocation plan used by the Authority is deficient and does not fully distribute indirect costs to the various programs the Authority administers. Furthermore, maintenance salaries are unsupported because there is no system to track the actual time spent on each program. The Housing Authority borrowed HUD funds to pay ineligible direct costs of the independent program and ceased charging indirect costs to the independent program. Also, the Authority management was unaware that the indirect cost allocation plan was deficient or that maintenance employees needed to track their actual time. Consequently, HUD funds are not available for administration of the public housing and Section 8 voucher programs. We recommend that HUD require the Housing Authority to reimburse ineligible costs to the appropriate HUD accounts and to devise an equitable cost allocation plan to ensure all costs are properly allocated to the appropriate cost objectives.

Costs Must be Necessary,
Reasonable and Adequately
Documented

Title 24, Code of Federal Regulation (CFR), Section 85.22(b) requires grantees to comply with the Office of Management and Budget (OMB) Circular A-87. This Circular establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments.

Non-HUD Programs

The Housing Authority administers three non-HUD funded programs. First, the Authority has initiated its own independent housing program to purchase single-family properties to provide low-income housing. The Authority currently has 25 occupied units with two more under construction. Second, the Authority administers a ten-unit Farmers Home Administration (FmHA) insured elderly development. Finally, the Authority owns a transitional housing unit that is leased to a local non-profit organization.

We found that HUD funds are used to pay both direct and indirect costs allocable to these other programs. Also, maintenance salaries are unsupported because there is no system to track the actual time spent on each program.

Ineligible Costs

Direct costs are those that can be identified specifically with a particular final cost objective, as defined by Circular A-87. To

allocate the direct costs to the benefiting program, the Housing Authority codes the account number on the invoices and enters the payables into the accounting system.

The Housing Authority expended \$101,233 for ineligible costs applicable to the Housing Authority's independent housing program. This amount is shown in the following chart by fiscal year.

<i>Year</i>	<i>Total Amount</i>	<i>Paid by HUD</i>	<i>Paid by Independent Program</i>	<i>Percentage Paid by HUD</i>
2000	39,870	19,668	20,202	49%
2001	80,552	73,360	7,192	91%
2002	12,729	8,205	4,524	64%
Total	133,151	101,233	31,918	76%

We identified total direct costs of \$133,151 incurred by the independent housing program, for the period January 1, 2000 to March 31, 2002. HUD funds were used to pay 76% of these costs during the period. We identified independent housing program costs by reviewing supporting invoices to determine whether expenses were properly coded in the accounting system and reimbursed with funds from the independent program. The accounting system showed that 90% of the ineligible costs were allocated to the Comprehensive Improvement Assistance Program (CIAP) and Capital Fund Grants, and the rest were allocated to operating funds.

The Housing Authority management told us that the Housing Authority was borrowing the money from HUD until the Authority could get a mortgage on one of the properties of the independent program to repay the monies. The use of HUD program monies to fund non-HUD housing projects is contrary to the terms of the Annual Contributions Contract.

System Needed to Allocate Costs of Supplies and Materials

The total direct costs of the independent program, identified above, are incomplete because there was insufficient documentation to identify all costs associated with the program. For example, when reviewing the work order repair forms we noted instances where appliances, water heaters and a furnace

were replaced. However the cost of these items were not charged to the independent housing program or readily identifiable.

We observed instances when the maintenance staff purchased materials at the time of a repair and the invoice was subsequently charged to the correct program. However, if a maintenance staff used materials or supplies out of inventory for its independent housing program, then the costs were not always charged to the independent housing program. During our review the Housing Authority was unable to provide us with a current inventory report because a physical inventory had not been taken in several years. The Housing Authority needs to perform a physical inventory and should consider keeping a perpetual inventory where materials and supplies are shown as expenditures when consumed. Then these expenditures can be allocated to the proper cost objective or program as materials and supplies are used.

Indirect Costs Not Properly Allocated

Circular A-87 defines indirect costs as those costs "(a) incurred for a common or joint purpose benefiting more than one cost objective and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved". Also, the Circular requires grantees to develop and carry out a plan to support the allocation of any joint (indirect) costs that benefit more than one program. Formal accounting records that prove propriety of the charges must support all costs included in the plan.

The cost allocation plan used by the Authority is deficient and does not fully distribute indirect costs to the various housing programs it administers. The Housing Authority management asserted to us that the following cost allocation breakdown was used when coding invoices in 2001.

<i>Cost Objective</i>	<i>Percentage</i>
Public Housing	31%
Section 8 Voucher	58%
FmHA-insured Project	7%
Independent Program	4%

We estimate that non-salary indirect costs were over \$50,000 in 2001. The Housing Authority only used its allocation plan on almost \$3,800 of these costs. There were primarily two non-salary expenses that the allocation plan was used, the telephone bill and postage. For these bills, the actual allocation breakdown differed from the Housing Authority's assertions. The FmHA-insured project was charged 5%, the independent program was not charged at all and the remaining 5% was charged to the CIAP grant. Only a small percentage of non-employee indirect costs were allocated. Although the Housing Authority attempted to allocate indirect costs, the Authority did not always know what constituted an indirect cost.

Administrative salaries and benefits, which are also indirect costs, totaled about \$185,200 in 2001. Similarly, the actual breakdown differed from the Housing Authority's assertions, as follows.

<i>Cost Objective</i>	<i>Percentage</i>
Public Housing	33%
Section 8 Voucher	62%
FmHA-insured Project	5%

False Assertion by the
Housing Authority

Overall, HUD is paying 95% of the indirect costs and the FmHA-insured project is paying 5%. The Housing Authority's independent and transitional house programs paid almost none of the indirect costs in 2001. Indirect costs were charged to the independent program in fiscal year 2000. However, the Housing Authority ceased charging indirect costs to the program in December 2000. Housing Management asserted to us that the Authority was charging the independent program 4% of the indirect costs. The assertion that the independent program paid indirect costs was correct until the Authority ceased charging the independent program for indirect costs in December 2000.

The cost allocation plan used by the Authority is deficient and does not fully distribute indirect costs to the various programs it administers. The Housing Authority needs to review and update its cost allocation plan and ensure that it equitably distributes indirect costs to all of the cost objectives administered by the Housing Authority.

Maintenance Salaries Are Unsupported

OMB Circular A-87, Attachment A, Sections 11(h)(4) and (5) stipulate that:

“Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must: (1) reflect an after-the-fact distribution of the actual activity of each employee, (2) be prepared at least monthly and (3) be signed by the employee. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support.”

The Housing Authority has three maintenance employees. The maintenance employees did not maintain activity reports or time sheets showing the actual activity of the employee. Furthermore, the Housing Authority did not document how many hours the maintenance employees worked. We observed that the Authority had a time clock but the maintenance employees only punched the clock in the morning and not when they left at the end of the day.

Maintenance salaries and benefits totaled about \$117,300 in 2001. These costs are unsupported because the maintenance employees did not track where they spent their time. During the period, the Housing Authority allocated 96% of the maintenance salary costs to HUD and 4% to the FmHA-insured development. The Authority did not allocate any maintenance costs to its Authority-owned units although the maintenance workers turned over twelve units and completed almost 100 work orders.

The Housing Authority was not aware that the maintenance employees needed to document their actual activity in order to allocate maintenance costs to the benefiting cost objective. The Housing Authority needs to implement a system to document the maintenance employees' actual activity and allocate the costs to the appropriate cost objective.

Summary

The Housing Authority used funds intended for HUD programs to pay both direct and indirect costs allocable to other

programs administered by the Housing Authority. Also, maintenance salaries are unsupported because there is no system to track the actual time spent on each program. The Housing Authority borrowed HUD funds to pay ineligible direct costs of the independent housing program until such time as monies from a mortgage could be obtained. In addition, the Authority ceased charging indirect costs to its independent housing program. Furthermore, the Housing Authority was unaware that the indirect cost allocation plan was deficient or that maintenance employees needed to track their actual time. Consequently, HUD funds are not available for administration of the public housing and Section 8 voucher programs. We recommend that HUD require the Housing Authority to reimburse ineligible costs to the appropriate HUD account and to devise a plan to ensure all costs are properly allocated to the appropriate cost objectives.



Auditee Comments

The Delta Housing Authority has already repaid ineligible costs of \$101,233 per our draft recommendation and is taking steps to address the deficiencies cited in the finding. HUD confirmed that the funds were repaid to the general fund during a recent site visit. Therefore, we will exclude this recommendation from the finding.

The Authority addressed the cause of the finding in its response. The Authority stated that it was unaware of the limitations for using HUD funds and believed that it could use the funds for any housing related expenditures provided that such funds were reimbursed to the appropriate accounting category at the appropriate time.

The Authority plans on performing a random motion study to properly allocate indirect and direct costs.

The Authority did not recall telling us that it was charging its independent housing program 4% of the indirect costs. The Authority responded that in 2001 the Authority charged the independent housing program 8% for indirect costs.

OIG Evaluation of Auditee Comments

We disagree with the Authority's comment that it was unaware it was using HUD funds for ineligible purposes. Based on management's comments and actions during the course of our audit, it was apparent to us that management was aware that it used these funds inappropriately.

A random motion study is not a valid method for allocating indirect or direct costs. The Authority needs to follow the cost allocation requirements cited in OMB Circular A-87 and the guidance provided by HUD.

Although, management could not recall advising us that it charged the independent program 4%, this assertion was provided to us in writing. The Authority did not provide us with any evidence to support that it charged the independent program 8% in 2001. Our review of the Authority's records showed that in 2001 there were no payments from the independent program to the general fund for indirect costs, except for one insignificant transaction.

Recommendations

We recommend that the Office of Public Housing:

- 1A. Require the Authority to devise a plan to ensure all costs are properly allocated to and paid by the appropriate cost objective by:
1. Requiring that a physical inventory is done and the Housing Authority charges materials and supplies from inventory to the benefiting program.
 2. Requiring the Housing Authority's cost allocation plan equitably distributes indirect costs to all of the cost objectives administered by the Housing Authority.
 3. Requiring the Housing Authority to implement a system that adequately and equitably documents the maintenance employees' actual activity and allocates the costs to the appropriate cost objective.

- 1B. Monitor the Housing Authority to ensure that actual costs are paid in accordance with the approved cost allocation plan.

Procurement Policy Needs to Be Followed to Ensure Services Are Obtained at a Fair and Reasonable Price

The Housing Authority has not carried out its procurements in accordance with HUD requirements and has circumvented its Procurement Policy. As a result, the Housing Authority may not have procured its goods and services at a fair and reasonable cost. Our review showed that competitive bid documentation was questionable for two of the five Housing Authority procurements we reviewed. In one case, we determined that the Authority paid \$54,850 above the reasonable cost for shoddy kitchen renovation work. Action needs to be taken by the Housing Authority to ensure that its Procurement Policy is properly implemented and documented.

Full and Open Competition Required

Title 24, Code of Federal Regulation (CFR), Section 85.36(c) requires all procurement transactions to be conducted in a manner providing full and open competition. Housing authorities must seek, through the use of their policies and procedures, to maximize competition and minimize opportunities for favoritism and collusion.

The Delta Housing Authority's procurement policy states that all purchases and contracts over \$25,000 require formal bids. Sealed bidding is the appropriate procurement method for construction contracts and supplies above the small purchase limitations. This procurement method requires written specifications that describe the requirements clearly, accurately and completely. The solicitation of bids needs to be advertised. The Authority holds a public bid opening and bases the award of the contract on the lowest responsive bid.

The Housing Authority's procurement policy also states that all purchases and contracts between \$500 and \$25,000 require competitive negotiation. Competitive negotiation means that the Authority shall invite offers orally, by telephone or in writing from at least three suppliers or contractors.

Procurement Process Circumvented

We received an allegation that the Housing Authority had circumvented its procurement policy and improperly documented its records to show compliance. To determine the

validity of the allegation, we selected for review two procurements requiring formal bids and three requiring competitive negotiation, for the period January 1, 2000 to December 31, 2001. We found that the allegation had merit, and identified deficiencies with four of the five procurement actions.

Authority Continued to Use
the Same Contractor After
the 1998 CIAP Work Was
Completed

Over the last few years the Authority has done major renovation on its public housing stock. Most of the work was funded with the 1998 Comprehensive Improvement Assistance Program (CIAP) grant. Due to the size of the award, the Housing Authority used a private consultant to administer the bidding process and the contract. The private consultant's recommendation of an independent contractor was followed by the Authority. The Housing Authority has continued to use the same independent contractor on subsequent jobs without the benefit of full and open competition.

The Housing Authority used the independent contractor to renovate kitchens and bathrooms, and to do miscellaneous work, in public housing. Also, the contractor has built several single-family units for the Authority's independent housing program.

Questionable Bids for
Procurement of Kitchen
Renovation

The Housing Authority paid the independent contractor \$129,458 in 2001 to remove and replace kitchen cabinets, countertops, faucets, pipes and stops in forty public housing units. Housing Authority management asserted to us that the Authority bid out the job and awarded the contract to the lowest bidder.

We reviewed the procurement documents and found that the Housing Authority did not follow the formal bidding process. The Housing Authority did not have written specifications that described the requirements clearly, accurately and completely; and did not advertise the solicitation of bids. The Authority had three proposals from contractors. The independent contractor's bid of \$121,638 was the lowest.

We tried unsuccessfully to contact the other two construction companies that bid on the job. The first contractor's proposal showed that the contractor's address was in Grand Junction, Colorado but the telephone number provided was a local

number in Delta, Colorado. However, the telephone number belonged to an unrelated citizen who never heard of the construction company.

We found that the telephone number on the second contractor's proposal was also a private residence. Therefore, the validity of the two proposals is questionable and indicates the Housing Authority circumvented its procurement policy by not obtaining the required three bids for the construction work.

Contractor Over-Billed Authority

An OIG Appraiser inspected the kitchen renovations to determine whether the cost paid for the work was reasonable. When inspecting the units it became obvious that the independent contractor double-billed the Housing Authority for three units. Thirty-nine of the forty family units had the kitchen cabinets replaced. The contractor billed the Authority for forty-two kitchen renovations. One unit did not need new cabinets because they had already been replaced recently by the Housing Authority.

Further review showed the contractor only acquired forty kitchen cabinets. Thirty-nine were installed into Housing Authority units while the last kitchen cabinet set had never been picked up from the lumber store.

After our fieldwork was completed, the independent contractor researched the matter and informed us that there were mistakes in the billings. The contractor informed us that he would reimburse the Authority \$7,894 for the over-billing.

Contractor Paid Over \$54,850 Above Reasonable Cost for Shoddy Workmanship

The OIG Appraiser valued the cost of the kitchen renovation work at \$74,606 using the prevailing Davis Bacon wage rates. The Housing Authority paid the contractor \$129,458. Thus, the Housing Authority paid the contractor over \$54,850 above the reasonable cost for the renovation work. In addition, the OIG appraiser said the work was shoddy. Specifically, the appraiser noted:

1. The gap between the countertop's backsplash and the wall was spacious and filled with an excessive amount of caulking.
2. There was an incident where a wall cabinet located by a window separated from the wall.

3. There were variations in the installation of the drainpipes, supply pipes and P traps. It's questionable whether these parts were replaced in all of the units.

The contractor was unlicensed, however, the State and local governments do not require contractors in the jurisdiction of Delta, Colorado to be licensed. Furthermore, the City of Delta does not require building permits or final inspections for the scope of work performed. Only the Housing Authority was responsible for inspecting the kitchen renovation work.

There was an incident where one of the kitchen cabinets next to a window separated from the wall injuring a child. During the appraiser's inspections we noted that the fasteners for the cabinet were angled to hit the wall studs. We noted damage of the pressboard cabinet backing when the fasteners were driven in too far causing the wood to crack and break.

In March 2001 the Housing Authority paid an individual handyman \$2,079 to secure and rescrew the kitchen and bathroom cabinets of the seventy-five public housing units, after the kitchen cabinet fell. The Authority's staff should have performed the inspections and held the independent contractor responsible for correcting any deficiencies. Therefore, the \$2,079 payment is questionable.

Procurement Policy Not
Followed for Another Job
Awarded to Independent
Contractor

In fiscal year 2000 the Housing Authority paid the independent contractor \$83,493 to replace bathroom cabinets, sinks, faucets, toilets, medicine cabinets, plumbing and florescent lights in all seventy-five public housing units. The job was paid with 1999 CIAP grant monies and funds left over from the 2000 Capital Fund grant. The Housing Authority did not solicit sealed bids for this job. Housing Authority management told us bids were not solicited for this job because it was part of the procurement activities awarded under the 1998 CIAP grant. However, the bathroom renovations were not included in the scope of work under the original contract and should have been procured by sealed bidding.

The OIG Appraiser made a preliminary inspection of several bathroom renovations. However, we did not perform a detailed review because the total renovation cost appeared to be reasonable.

Questionable Bids for Procurement of Handyman Services

We also reviewed three procurements with two contractors and a service provider that required competitive negotiation. In 2001 the Housing Authority paid a handyman \$45,897 for miscellaneous jobs. This was almost as much as the combined wages of two of the Authority's maintenance employees. The Housing Authority provided us with two bid sheets to show that the procurement of handyman services complied with policies. We believe that these procurement documents are also questionable.

The first bid sheet shows that the Housing Authority sought bids from three handymen in May 2001. The bid sheet showed that two of the handymen contacted were not interested in doing work for the Authority and the work was awarded to a handyman used exclusively by the Authority. We contacted the two handymen who were not interested in the work. One handyman said that he used to do handyman work for another apartment complex but has been out of the business for about three years; he was sure that he had not been contacted by the Authority in at least three years. The other handyman also told us that he did not remember being contacted by the Authority last year.

A second bid sheet showed that in June 2001 the Housing Authority received bids for fence installation at an independent program property. There were quotes from the same handyman, the independent construction contractor previously discussed, and a fence installation contractor. The bid of \$5,436 was awarded to the handyman.

The bid sheet showed a quote of \$9,000 per job from the fence installation contractor. We contacted the contractor and we were informed that the Housing Authority never requested a quote. The contractor keeps a log book of all calls and documents all quotes. The contractor researched the log book and found no calls from the Authority. The contractor also informed us that they would never give a general quote like the one described on the bid sheet. Furthermore, the contractor drove by the property with the new fence and said that the price paid for the work was excessive.

Questionable Payments to Handyman

The Housing Authority has been providing various jobs to the handyman in which the payments are questionable. We identified \$3,079 in questionable payments to the handyman. In June 2000 the Housing Authority paid the handyman \$1,000. The only support for the payment was a handwritten piece of paper showing that the payment was for consulting fees. As previously discussed, the Authority paid the handyman \$2,079 to inspect cabinets.

Procuring the services of a handyman appears to be unnecessary since the services provided by the handyman could have been performed by the Housing Authority's staff, resulting in a savings to project costs. The Housing Authority employs three full-time maintenance staff to maintain only 111 units. In addition, the Authority contracts with a groundskeeper and an individual who cleans and paints vacant units. The Authority could have used its staff to do the work assigned to the handyman.

Procurement Policies Not Followed for Painting & Cleaning Services

The Housing Authority did not obtain any bids for painting and cleaning services. The painting contractor received \$4,825 for services provided in 2001. The Housing Authority stated that we misinterpreted the policy and that purchases under \$25,000 did not require competitive bids. However, upon further examination the procurement policy clearly stated that purchases and contracts from \$500 to \$25,000 require competitive negotiation.

The Housing Authority has recently revised its procurement policy. However, at the time of our review, the Board of Directors had not reviewed or approved the updated policy.

Summary

We identified deficiencies with all procurement actions we reviewed, except one. The Housing Authority simply did not follow procurement policies for the most part and circumvented the requirements to procure services from favored contractors. Although, the Housing Authority provided documents to show that competitive bids were obtained we found the documents questionable in two cases. Consequently, the Authority may not have obtained services for a fair and reasonable price.

Auditee Comments

The Authority generally agreed that there were deficiencies with the procurement process and is taking steps to correct the problem. However, the Authority believes that management obtained valid bids for the kitchen cabinet renovation and the handyman jobs.

The Authority also disagreed with our valuation of the kitchen renovation work and provided two additional bids to support the costs paid.

The Authority responded that the contractor did not perform garbage disposal removal. Also, the Authority states that installation of drainpipes, etc. is a result of constant maintenance and modification since 1974 and does not believe that it can be attributed to the work of the contractor.

The Authority believed that bathroom renovation work fell within the 1998 CIAP grant and provided an attachment in Exhibit D as verification.

The Authority took exception to the questionable payments to the handyman from three transactions.

The Authority asserted that it solicited bids from six insurance companies but only received a bid from two.

**OIG Evaluation of
Auditee Comments**

The Authority maintains that the bids for the kitchen renovation and the handyman work are valid. We find these bids questionable because we had allegations that there were problems with these bids and we could not verify that the bid documentation was legitimate. We could not verify the bid documentation because the contact information was either invalid or the parties denied giving quotes to the Authority.

Our cost estimate of the kitchen cabinet renovation is based on the quantity and quality of materials actually installed by the contractor. The kitchen cabinets and countertops are similar to the actual purchase price from cabinet supply store and the calculation of the labor wage for each trade was based on hourly Davis Bacon Prevailing Wages in 2000 for the Delta

area. Additional adjustments of 33% are included in the labor hour calculation to reflect the increase in labor hours due to the degree of difficulty for the renovation. The contractor's 20% overhead and profit calculation was also included in the cost estimation.

The Authority provided two bids it solicited after the conclusion of our audit. However, due to the lack of specifications the OIG appraiser cannot evaluate these bids without the cost breakdowns of the: 1) the quantity, quality and the type of the materials; and 2) labor wages for each trade and labor hours needed to complete the renovation. Also, the scope of work in the proposals did not include the removal and replacement of the drainpipes, supply pipes and stops.

It was our understanding that the garbage disposal removal was done by the maintenance staff. This is a separate issue and reference to it will be removed from the body of the finding. We questioned the quality of the pipes and stops because the contractor's proposal showed that it was going to remove and replace the drainpipes, supply pipes and stops. The cost of which was included in our cost estimate. However, based on your response it appears that the contractor did not replace all of the pipes and stops.

Exhibit D of the Authority's response shows a draft budget, which includes bathroom renovations with the word delete next to the amount. This line item was dropped from the final budget. Regardless of whether the line item was included or not, the bathroom renovation work was not included in any of the request for proposals associated with the 1998 CIAP grant and procurement policies were not followed when procuring the services.

We agreed with the Authority that the transaction for lead based paint training is an eligible expense and will remove it from the amount cited in the finding. The other two transactions however are questionable because the Authority lacked adequate documentation to specifically show what services were actually performed. As a result, we could not determine whether these expenses were reasonable or necessary.

We agreed with the Authority's response that it solicited bids for insurance from at least three vendors and removed this deficiency from the finding.

Recommendations

We recommend that the Office of Public Housing:

- 2A. Require the Housing Authority to take necessary steps to ensure that its Procurement Policy is being properly implemented and documented.
- 2B. Once the action in recommendation 2A is implemented, ascertain that the Housing Authority's procurement policy is being properly implemented and documented and is in conformity with HUD requirements.

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Compliance with Occupancy and Administrative Requirements Needs to Be Improved

Contrary to HUD requirements, the Housing Authority has not been properly and correctly implementing its tenant occupancy and related administrative activities. More specifically, we noted: (1) favoritism when selecting applicants off the waiting list; (2) excess Section 8 voucher payments and administrative fees for Authority-owned units; (3) lack of independent agency to provide tenant rent negotiations, rent reasonableness and Housing Quality Standards inspections for Authority-owned units with Section 8 assistance; and (4) non-recording of tenant fees and deposits. These deficiencies occurred because the Housing Authority either circumvented the requirements or was unfamiliar with the requirements. Consequently: (1) applicants are not fairly selected for assistance; (2) the Authority received excess funds it was not entitled when it continued to receive assistance for a vacant PHA-owned unit and received excess Section 8 voucher administrative fees; (3) tenants of PHA-owned units who receive Section 8 assistance may not be adequately protected from the Authority, which is both the administrator of the Section 8 assistance and landlord; and (4) unrecorded funds can be used for unallowable costs without the knowledge of outside parties.

These deficiencies point out the need for the Housing Authority to implement proper management controls over its tenant admission and occupancy procedures and related administrative activities. To do so will help the Housing Authority to ensure that its HUD funded housing programs are being properly and correctly carried out in conformity with HUD requirements.

Housing Authority to Follow Specific HUD Requirements

Under HUD requirements, the Housing Authority is obligated to comply with certain regulations and procedures relating to its tenant selection and occupancy activities. More specifically, the Housing Authority is to select tenants in a prescribed order from its tenant application waiting list. This is to be done to ensure that applicants are uniformly and consistently selected for any vacant Housing Authority dwelling unit. Under the Section 8 program, the Authority is to receive specific amounts for any vacated units; and to collect a specified amount as administrative fee for the administration of the Section 8 housing program. Furthermore, the Housing Authority is to utilize an independent agency to provide tenant rent negotiations, rent reasonableness and Housing Quality Standards inspections for those Authority-owned residents who are receiving Section 8 housing assistance. Monies received from the operation of its housing programs are to be properly receipted and recorded on

the Authority's official books of account and used for allowable program costs.

However, we noted that the Housing Authority had not established the proper management controls over its tenant selection and related occupancy and management procedures. Primarily, we found: (1) favoritism when selecting applicants off the waiting list; (2) excess Section 8 voucher payments and administrative fees for Authority-owned units; (3) lack of independent agency to provide tenant rent negotiations, rent reasonableness and Housing Quality Standards inspections for Authority-owned units; and (4) non-recording of tenant fees and deposits.

Authority Is Required to Select Applicants Who Applied First for Public Housing or Vouchers

Title 24, Code of Federal Regulation (CFR), Section 960.206(e)(1) and (2) pertains to public housing units and requires the Housing Authority to select applicants off the waiting list by the date and time of application. The method for selecting applicants must leave a clear audit trail. Title 24, CFR, Section 982.204 (a) pertains to Section 8 vouchers and requires the housing authority to select participants from the waiting list in accordance with the Housing Authority's admission policies.

The Housing Authority's admission policy states that applicants shall be selected in order of date and time of the initial application with consideration given to the regulations governing income targeting as well as any adopted local preferences. The Housing Authority told us that it has not adopted any local preferences.

Favoritism In Selecting Public Housing Tenants

We received information that the Housing Authority was not following its admission policy. To evaluate this, we reviewed the records relating to 27 public housing units that were filled in 2001. We compared the date of the move-ins with the public housing waiting lists. We found that the information provided to us had merit. We identified five applicants who were not selected from the waiting list in order of the documented date and time of initial application. One applicant received public housing although their name was not on the waiting list and four received preferential treatment when other applicants higher on the waiting list were skipped. For example, in July 2001

nineteen applicants were skipped when awarding a 2-bedroom family unit.

In addition to applicants receiving preferential treatment, we found that the Housing Authority crossed 24 applicant's names off the public housing waiting list and transferred them to the Section 8 voucher waiting list without sufficient written justification. Many applicants are in desperate need for housing so they sign up for both the public housing and Section 8 voucher waiting lists. Twenty applicants were crossed-off the public housing wait list without justification but remained eligible for the Section 8 wait list. Six applicants were removed from the public housing wait list and immediately given Section 8 vouchers, four of which were not on the Section 8 wait list, one skipped 78 applicants on the voucher wait list and the other skipped 49. Nineteen of the 24 applicants crossed off the public housing waiting list subsequently received a Section 8 voucher.

Favoritism In Selecting Section 8 Voucher Tenants

We also reviewed the Section 8 voucher waiting list. The Housing Authority administers over 210 Section 8 vouchers. There were approximately 60 new Section 8 vouchers issued in 2001. Generally the Housing Authority followed the order on the waiting list. However, fourteen applicants received preferential treatment on the voucher waiting list. As previously discussed, six public housing wait list applicants received preferential treatment on the voucher wait list. We also identified seven tenants of the Authority's independent housing program who received preferential treatment on the Section 8 waiting list. Furthermore, one voucher recipient was not on any of the waiting lists.

Tenants of Authority's Independent Program Received Preferential Treatment

The Housing Authority filled 13 independent program units between January 2001 and February 2002, eleven of which also received Section 8 vouchers. As previously mentioned, seven tenants of Authority-owned units received preferential treatment on the voucher waiting list. One of the tenants was not on the waiting list. Between 7 and 75 applicants were skipped to house six of the tenants. The Housing Authority holds mortgages on the independent program properties. It appears that the Housing Authority is ensuring a steady stream of cash flow to its independent housing program by giving tenants Section 8 vouchers.

The Housing Authority used favoritism when selecting applicants from the waiting list. This occurred because the Housing Authority circumvented the waiting list requirements. The Housing Authority needs to implement adequate procedures to ensure its tenant selection and admission requirements are followed, thereby, giving each tenant applicant due process when Housing Authority dwelling units become available.

Allegation of Improper
Section 8 Voucher
Payments

We received an allegation that Section 8 voucher funds are paid to the Housing Authority for vacant units of the Authority's independent housing program. Information was provided that anytime a tenant with a Section 8 voucher vacated or was evicted from a scattered site property, the Housing Authority would continue to pay itself the subsidy until the unit was filled. Typically this would not be more than two months.

Excess Section 8 Voucher
Payments

We identified 12 tenants who moved out of Authority-owned houses in 2001, ten of which had Section 8 vouchers. To determine the validity of the allegation, we selected five of these cases for review. We found that the allegation had merit. In one out of the five cases, the Housing Authority received a Section 8 voucher payment it was not entitled. A tenant moved out on June 30, 2001 and the Authority continued to process a Section 8 voucher payment for the month of July 2001. The excess payments totaled \$219. The excess unauthorized payment provided monies with which the Housing Authority could meet its mortgage payment on the dwelling unit.

Additional Voucher
Requirements for PHA-
owned Units

Per 24 CFR Part 982.352 the housing authority will not earn a preliminary administrative fee for authority-owned units, whose tenants are receiving Section 8 voucher assistance, and will collect a reduced administrative fee for the unit. In addition, the following conditions are to be met:

1. The authority must inform the family both orally and in writing that the family has the right to select any eligible unit available for lease and an authority-owned unit is freely selected by the family, without pressure or steering;
2. That the unit is not ineligible; and
3. The housing authority must obtain the services of an independent entity to perform the following functions: rent

reasonableness; assist the family to negotiate the rent to owner and Housing Quality Standards inspections.

HUD must approve the independent agency that is selected.

Excess Section 8 Administrative Fees

The Housing Authority was receiving the full Section 8 administrative fee for vouchers belonging to tenants of its PHA-owned units. In order to estimate the average monthly excess fees we reviewed the fees calculated in a current month. There were 17 Section 8 voucher recipients living in Authority-owned units in April 2002. For this month, we found that the Authority charged Section 8 administrative fees of \$60.28 for each of the 17 vouchers. The Housing Authority should have charged a reduced fee of \$25.08 per voucher. As a result, the Authority calculated excess fees of \$598 for these units in April 2002.

Services of Independent Agency Needed

The Housing Authority also needs to obtain the services of an independent entity: to perform rent reasonableness, assist the family to negotiate the rent to the owner and to perform Housing Quality Standards inspections. Housing Authority management apprised us they were aware they were only entitled to a reduced administrative fee but was not aware of the other requirements. HUD needs to have the Housing Authority research the excess Section 8 payments for administrative fees, for an appropriate period of time, to determine how much the Authority owes HUD. Also, HUD needs to approve an independent agency selected by the Authority for overseeing the Housing Authority's independent owned units subsidized with Section 8 vouchers.

Unrecorded Tenant Fees

While reviewing the Housing Authority's internal controls we identified over \$700 of unrecorded funds. We performed a cash count on April 4, 2002 and found a cash surplus of \$250. We also identified a bank account in the name of the Housing Authority, called the employee benefit account, with \$459 that was also not recorded in the Authority's accounting system.

Housing Authority staff told us that late fees were collected from tenants and used to fund a Christmas party and buy gifts for the staff. The fees are generally kept in cash in an envelope with petty cash funds or deposited into the employee benefit account. The use of such funds to pay for staff parties and gifts

is an unallowable activity under OMB Circular A-87, Attachment B, Section 18. This section states:

“Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs are unallowable.”

The Housing Authority told us that late fees are never recorded in the Authority’s accounting system. The process followed by the Authority was to give the tenant a handwritten receipt for the late fee payment if the tenant asked for one, but a copy was not kept. The only place the fees may be documented is on the tenant ledger cards. We verified this by scanning the tenant ledger cards and identifying a tenant who paid late fees in January and May 2001 totaling \$60. The late fees were not recorded in the Authority’s official accounting system.

We also noted an envelope in the cash drawer called “hose fund”. The Housing Authority allows tenants to borrow a garden hose to water their lawns if they leave a \$5 deposit. The unrecorded cash most likely consists of the late fees and hose deposits.

The Housing Authority needs to establish procedures that late fees and any other monies received such as hose deposits are promptly receipted and deposited into the Authority’s bank accounts. In addition, the collections need to be properly recorded in the Authority’s books of accounts. By failing to do so, the Authority significantly reduces its controls over such fees and collections and is unable to ensure that such funds are used for allowable housing program activities.

Adequate Management
Controls are Needed

These deficiencies point out the need for the Housing Authority to implement proper management controls over its tenant admission and occupancy procedures by: fairly selecting applicants for assistance, properly assessing Section 8 administrative fees over its independent housing program; acquiring an independent agency to oversee tenant rent negotiations, rent reasonableness and Housing Quality Standards inspections; and ensuring to receipt and record all miscellaneous fees and collections on its books of accounts. To do so will help the Housing Authority to ensure that its HUD

funded housing programs are being properly and correctly carried out in conformity with HUD requirements.

Auditee Comments

The Authority generally disagreed with the finding.

The Authority did not recall advising us that it had not adopted local preferences, asserting that it adopted local preferences for selecting applicants from the waiting lists in 1999.

The Authority provided explanations for the selection of applicants that we cited were not fairly selected for assistance.

The Authority disagreed with our example where five applicants were skipped when awarding a 3-bedroom unit.

The Authority also disagreed with the amount of the excess Section 8 payments received for a vacant unit.

The Authority responded that the number of residents in PHA-owned units who received Section 8 assistance in April 2002 was 17 rather than 18. Also, the Authority disagreed with the overcharge for excess Section 8 Administrative fees stating that the overcharge was about \$110.

OIG Evaluation of Auditee Comments

Our conclusions are based on the information provided to us by management and our review of the records. When we asked management whether the Authority used any preferences we were told that it didn't use local preferences. In Exhibit F of the Authority's response is a copy of the Board resolution whereby local preferences were adopted on June 10, 2002. This resolution occurred after our exit conference and would not apply to the cases we reviewed. Furthermore, the records we reviewed did not contain any documentation showing that a local preference was requested by the tenant or was equitably applied by the Authority. It appears that this policy was adopted after the fact to justify the practice of favoritism we observed.

The Authority did not provide any documentation to support its justification for the selection of applicants that we cited received favorable treatment.

We confirmed that an applicant on the three-bedroom waiting list was awarded a four-bedroom unit and there were no other applicants on the four-bedroom waiting list. We modified our example and changed the body of the finding to exclude this applicant.

The Authority stated that the excess Section 8 voucher payments for the vacant unit was less than the amount cited in the report. HUD confirmed that the Authority performed a move-out inspection of the unit on June 30, 2001. Therefore we amended the finding to show one month of excess payments instead of two.

We confirmed that there were only 17 tenants residing in PHA-owned units who received Section 8. The report will be changed to reflect the correct number of vouchers and the excess fees. Although the April 2002 voucher was not submitted until after our audit we used it merely to provide an example of the monthly overcharges that have been occurring since the Authority began giving Section 8 vouchers to tenants of PHA-owned units. We revised the paragraph to show this is an estimate. The Authority did not provide a basis for their calculation of the excess Section 8 Administrative fees when it derived \$110.80. We consulted with HUD and were advised that our methodology for calculating the excess fees was correct.

Recommendations

We recommend the Office of Public Housing:

- 3A. Require the Housing Authority to establish a system to ensure that applicants are fairly selected from waiting lists that are maintained in order of date and time of application and require the Authority to maintain documentation to support the selection of applicants.
- 3B. Review Section 8 payments and Section 8 administrative fees paid for Authority-owned units, for

the last thirty-six month period of time, and recover monies collected by the Authority that it was not entitled.

- 3C. Approve an independent agency selected by the Housing Authority to perform rent reasonableness and Housing Quality Standards inspections, and assist tenants to negotiate rent for Authority-owned units whose tenants receive Section 8 assistance.
- 3D. Require the Housing Authority to record all tenant fees and deposits in the accounting system and to deposit any unused tenant fees and deposits into the appropriate project account.
- 3E. Monitor the Housing Authority as appropriate to ensure that the Authority complies with occupancy and administrative requirements.

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Management Controls

In planning and performing our audit, we considered the management controls of the Delta 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:

- Program Operations – Policies and procedures that management has implemented to reasonably ensure that a program meet its objectives.
- Validity and Reliability of Data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Safeguarding Resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss and misuse.

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

- Program Operations

Generally, the Housing Authority had adequate controls to ensure that the Authority operated its public housing according to program requirements. Even though, the Authority had adequate policies and procedures, they were

sometimes subject to management override. For example, management circumvented the waiting list requirements resulting in favoritism when selecting applicants for subsidized housing assistance.

- Validity and Reliability of Data

The Authority's controls did not ensure that the data it maintained was valid and reliable. The Housing Authority needs to ensure that all direct costs are charged to the correct program and indirect costs are identified and allocated in accordance with an approved cost allocation plan. The Authority also needs to track the actual amount of time spent on each program by the maintenance staff to support the salary costs. Furthermore, the Housing Authority needs to perform an inventory count to verify the quantities of recorded equipment and materials.

- Safeguarding Resources

The Housing Authority lacked adequate checks and balances to safeguard its resources. Management's circumvention of policies and procedures resulted in waste, loss and misuse. Management misused over \$100,000 of HUD funds when it used them to support its independent housing program. In addition, due to an inadequate cost allocation plan and the failure to charge the maintenance staff's actual time to each program, HUD funds are subsidizing non-HUD programs.

Management circumvented procurement policies and procedures to procure the services of select contractors and individuals. In one case, the Authority paid a contractor at least \$54,000 above the reasonable cost. The Authority also made questionable payments of \$3,079 to a handyman.

Management violated administrative requirements when it authorized the payment of Section 8 subsidies for a vacant Authority-owned unit. The Authority also charged HUD excess administrative fees for Section 8 voucher payments received for Authority-owned units. Finally, management diverted tenant fees and deposits, keeping them off of the

Authority's official books of account and by doing so, used the monies for unauthorized program expenses.

These weaknesses are more fully described in the findings section of this report.

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Follow Up On Prior Audits

This is the first audit of the Delta Housing Authority by the Office of Inspector General.

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Schedule of Questioned Costs

<u>Finding Number</u>	<u>Type of Questioned Cost</u> <u>Ineligible 1/2/</u>
1	\$101,233
<u>1/</u>	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.
<u>2/</u>	Subsequent to our site work HUD confirmed that the Authority repaid questioned costs of \$101,233.

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Auditee Comments



Delta Housing Authority

ADMINISTRATION CENTER

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511 East 10th Street

Delta, CO 81416

September 9, 2002

U. S. Department of Housing and Urban Development
Office of Inspector General, Rocky Mount District
ATTN: Mr. Robert C. Gwin
633 17th Street, North Tower, 14th Floor
Denver, Colorado 80202-3607

Dear Mr. Gwin:

I am writing on behalf of the Delta Housing Authority to provide formal written comments to the draft report of audit of the Delta Housing Authority dated August 22, 2002. Delta Housing Authority extends its thanks to your office for conducting the audit and for bringing to our attention certain areas of administration that need improvement and correction. Comments to specific portions of the draft report are provided on the attachment provided.

We trust that our comments are both responsive and informative and invite you to contact us immediately for any further information that you may require.

Sincerely,

Delta Housing Authority Board of Directors

By

Chet Brown, President

FINDING	SUBFINDING	COMMENT
Improper Use of HUD Funds		
	HUD funds used to fund ineligible Non-HUD programs	<p>The audit asserts that certain costs and expenditures of the Delta Housing Authority (hereafter "DHA") involved expenditures of funds for programs ineligible for funding from HUD funds.</p> <p>ANSWER: DHA was unaware of the limitations identified by the auditor that the grant funds could not be used for any housing related expense other than for the Public Housing Authority. DHA believed that it could use the funds for any housing related expenditures provided that such funds were reimbursed to the appropriate accounting category at the appropriate time. The problem has been identified and DHA is prepared to tender as directed funds not properly used in accordance with grant requirements.</p>
	Indirect costs not properly allocated	<p>The audit asserts that indirect costs were not properly allocated to the various housing programs administered by DHA</p> <p>ANSWER: Regarding indirect cost allocation DHA will conduct a random motion study to properly allocate indirect costs in the future.</p>
	Incomplete system for allocating costs of supplies and materials	<p>The audit asserts that the direct costs of the independent program can not be ascertained due to insufficient documentation.</p> <p>ANSWER: DHA will conduct a random motion study to properly allocate the direct costs of supplies and materials to independent DHA housing programs.</p>
	False Assertion by the Housing Authority	<p>The audit asserts that DHA claimed that it was charging its independent program 4% of the indirect costs of DHA</p> <p>ANSWER: DHA Management does not recall advising the auditor that DHA was charging its independent housing program four percent for its indirect housing charges. DHA charged its independent housing program five for its indirect costs in year 2000. Four percent is the charge by DHA for indirect costs associated with FHA associated programs. For the year 2001 DHA charged its independent housing program eight percent for indirect costs.</p>
Circumvention of procurement policy		

FINDING	SUBFINDING	COMMENT
	Use of same contractor after 1998 CIAP Work Completed Without fair and open competition for the work. (A) Questionable Bids for Procurement of Kitchen Renovation	<p>(A) The audit asserts that DHA failed to provide written specifications for kitchen cabinet work and that DHA did not advertise solicitation for bids. Moreover, the audit questions the veracity of two of the three bids that DHA obtained for the work.</p> <p>ANSWER: DHA appreciates the audit providing information that its written specifications for bid work should be more clear and complete. Further, the method of obtaining bids for a job of a large size must be and has been addressed. Both issues have been addressed. As to the questions regarding the two other bids for the job audited, DHA can not, at this time, agree with the suggestion that the bids were non-existent. DHA is continuing to try to identify the persons responsible for those bids. At this juncture, DHA believes that its Executive Director did obtain the bids tendered for the audit. Certainly it is not unusual in a rural area for small contractors to leave the area without any forwarding telephone or address information. This may well have been the case in this situation where 15 months have passed between the bid receipt and the audit. However, DHA acknowledges that reputable bids from established vendors must be solicited. Steps have been taken to correct the problem (See Exhibit A) although DHA knows of no method to insure that vendors tendering bids will be available for verification of their bid several months after the bid is tendered and awarded.</p>
	Over-billing by kitchen contractor	<p>The audit asserts that the value of the kitchen renovation work was \$74,606.00</p> <p>ANSWER: DHA does not agree with the assessment of the OIG appraiser that the cost of the kitchen renovation work should have been \$74,606. No documentation was provided to ascertain how the OIG appraiser arrived at that value. As evidenced by Exhibit B and Exhibit C attached, to review the legitimacy of the bids received and the assessment of value by the OIG appraiser, DHA secured bids from a two local vendor, Tim's Custom Countertops & Cabinets (Exhibit B) and Wooden Nickel (Exhibit C). In securing those bids, DHA asked that the vendor attempt to replicate as closely as possible the work done with the kitchens including the replacement of the existing cabinets with those of similar quantity. Tim's Custom Countertops bid \$123,635.00. Wooden Nickel bid \$122,289.00. DHA acknowledges that these bids are several months after the bid at issue here. Moreover the bids received may not reflect special product pricing that the original contractor may have obtained. However, the bids certainly indicate that the issue of value received in terms of cost on the local economy is not as clear cut as the audit would indicate.</p>

FINDING	SUBFINDING	COMMENT
	Workmanship on the kitchen cabinets was shoddy	<p>The audit reports that (1) excessive caulking was used to fill space between a wall and counter tops, (2) that a wall cabinet separated from the wall (3) variations occurred in installation of drainpipes, supply pipes and P traps and (4) the exposure of electric wires under the kitchen sink resulting from removal of the garbage disposals.</p> <p>ANSWER: Garbage disposal removal was not performed by the contractor. Garbage disposals were removed by DHA maintenance personnel. DHA appreciates the safety concerns of the auditor and has removed the electrical wires mentioned by the auditor. However, none of the electrical wires had live electricity. The variations in installation of drainpipes, etc. is a function of the fact that the units inspected were built in 1974 and have been constantly maintained and modified since that time. DHA does not believe that this defect can be attributed to shoddy work of the contractor. As to the separation of the wall cabinet, at its occurrence, DHA too was concerned about the safety implications. The original contractor informed DHA that he simply could not immediately address the problem. In light of the safety issues regarding the stability of the cabinets, DHA immediately retained a person to work on the problem. Of note is that no other cabinets fell. The auditor expressed concern regarding the angled screws fixing the cabinets to the wall studs. DHA has found that the wall studs used in the 1974 construction of the units were often crooked and at varying distances between each other. DHA does not deny that the quality of the work obtained may have been better nor does it contest that the contractor may not have always worked at a level that should have occurred. That said, the audit and the responses to it require accurate statements and DHA here simply wishes to correct the record.</p>
	Hiring of Independent Contractor in 2000 without following procurement policy	<p>The audit reports that work performed for bathroom improvements in fiscal year 2000 was not submitted to sealed bid.</p> <p>ANSWER: At the time of the work was done DHA understood that the work fell within the 1998 CIAP grant. DHA continues to believe that fact based upon the work being specifically identified with the budget for the project. Documents reflecting that fact are attached at Exhibit D.</p>

FINDING	SUBFINDING	COMMENT
	Questionable bids for procurement of handyman services	<p>The audit asserts that information pertaining to bids from three different handymen in May 2001 indicated that only one rather than three bids was obtained for the work done.</p> <p>ANSWER: DHA asserts that it obtained two other bids. DHA is at loss as to why two of those providing bids can not specifically recall providing those bids. In obtaining telephonic bids, DHA obtained those bids in a manner in which it understood was permitted by HUD. The concern that bids must be in writing has been addressed.</p> <p>The audit asserts that in June, 2001 only two bids for fence installation was obtained rather than three bids. The auditor also indicated that the price charged was excessive.</p> <p>ANSWER: DHA asserts that it did solicit bids for fence work in 2001 and denies that the amount paid was excessive based upon a belief that the fence considered was not at the location where the actual fence for which this bid was obtained was built. One bid was for \$10,700.00 for materials. Labor was extra. The second bid was for \$5,436.00 for labor. Materials were extra. As for the third bid which the audit implies was not obtained, DHA asserts that a telephonic bid was obtained. It was obtained from one of four possible vendors in Delta, R L Smith Fencing of D&G Fence or AD & R Fencing or Alpine Fencing. In the case of the latter three the businesses are shared by relatives and it may be possible that some one other than the person consulted by the auditor gave the quote or that bid sheet referred to by the auditor was simply annotated with the wrong name of the vendor consulted. That said, DHA recognizes the problems associated with obtaining a telephonic bid without proper notation or documentation. Such procedure has been corrected.</p>

FINDING	SUBFINDING	COMMENT
	Questionable and wasteful payments to Handyman	<p>The audit asserts that one handyman received \$4,348.00 in questionable payments.</p> <p>ANSWER: Presumably the audit relies upon three numbers to arrive at the assertion of \$4,348.00 in overpayments. One payment (\$2,079.00) was paid to the handyman to make corrective repairs to the kitchen cabinets so that there could be no repeat of the one cabinet that fell that the audit specifically mentions as an indicator of shoddy work by the cabinet installer. The second payment of \$1,269.00 was done to enable DHA to have access to a qualified Lead Based Paint Clearance tester as provided by the section 8 Voucher Program which required that all voucher units be test for Lead Based Paint. No qualified person was available in the area and given the number of units for which DHA is responsible, DHA believed that it had no choice but to try to secure a qualified person. As to the \$1,000.00 charge for "consulting" scored by the audit the work was for a licensed realtor to research the existence and status of several easements to assist in resolving disputes with the City of Delta regarding trenches dug in the vicinity of Thompson Manor. Further, the realtor ascertained the location of property lines for DHA property to insure proper placement of boundary line fences. Finally, the licensed realtor was retained to confer with local lenders to assist in obtaining favorable financing on property that the DHA was investigating for purchase.</p>
	Offers From Three Service Providers not sought	<p>The audit asserts that DHA obtained only two bids for casualty insurance.</p> <p>ANSWER: As indicated by Exhibit D, in 2001, DHA sent out six bid packets to insurance vendors in the Montrose-Delta locale. Of the six invitations to bid only two of the six solicited vendors returned bids.</p>
	Non bids for painting and cleaning services	<p>The audit asserts that DHA spent \$4,825 in 2001 for painting and cleaning services that it did not let for bid.</p> <p>ANSWER: As a general rule, DHA relies on its maintenance personnel to perform normal painting and cleaning services. However, in 2001 DHA was subjected to a facility inspection for REAC. As a result DHA had to turn to an independent contractor to secure the needed painting and cleaning on an interim basis. That was not done on a bid basis. Corrective steps have been taken.</p>
Abuse of Admission and Occupancy Procedures		

FINDING	SUBFINDING	COMMENT
Housing authority required to select applicants who applied first for Public Housing or Vouchers		DHA does not recall advising the auditor that DHA has not adopted local preferences as a supplement to the selection of applicants off a wait list by date and time of application. Under the Housing Quality and Work Responsibility Act of 1998, Public Housing Authorities are permitted to adopt the federal criteria language as their local and/or ranking preferences. Pursuant to the latitude and guidance provided within that legislation, in 1999 the Delta Housing Authority adopted an Annual Plan for Admission and Occupancy Policy. Pertinent portions of the plan are attached as Exhibit F. The plan was certified by the Board of Directors on November 8, 1999 as shown by Exhibit G. Section 6 of the Policy specifically addresses selection policies and preference system. Section 6, subpart B (2) provides for Local Preferences based upon residency in Delta County and families whose head of household or spouse is employed or has a bona fide offer for employment. In addition, a preference is given to those applicants where the head of household and spouse, or sole member is age 62 or older or is a person with disabilities. As will be noted below, several of the findings of the auditor that DHA had not strictly followed the wait list are instances where an applicant with a local preference received housing ahead of those persons on the wait list who did not qualify for the local preference.

FINDING	SUBFINDING	COMMENT
Authority Exercises Favoritism in Selecting Public Housing Tenants.		<p>(A) The audit asserts that for the year 2001, six applicants for public housing were selected from something other than the wait list maintained by the housing authority.</p> <p>ANSWER: Three of the six applicants were given work-local preferences also failed to be placed on PHA wait list. Two of the seven applicants, were behind other applicants on the PHA wait list. However, when the PHA units became available all of those in front of the two could not take a PHA unit at time. Each of those asked to be placed on bottom of wait list and the two mentioned were placed in PHA housing. Another of the seven, through an administrative error the tenant was not placed on the wait list at the time that she applied. She should have been placed on the list behind the only other person on the wait list for four bedroom units. The first person on the four bedroom wait list was given the first unit available. However, that person's situation dictated that she could not move in until August 1, 2001. In the meantime, this particular tenant had an urgent need and was given the other four bedroom unit. To be sure, her move in date for her particular unit was prior to August 1, 2001 but that was only because, as noted above, the person first on the wait list was unavailable to move prior to that time.</p> <p>(B) The audit asserts that in July 2001 five applicants for a three bedroom unit were skipped over in favor of another applicant.</p> <p>ANSWER: In this case the applicant had four children rather than the three children or less that characterized each of the five applicants ahead of her on the wait list. As of August 2, 2002 DHA did not have any persons on its wait list for four bedroom units. This particular applicant with more children than any other applicants for the three-bedroom units was then put on the totally open list for a four bedroom unit.</p>

FINDING	SUBFINDING	COMMENT
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		(C) The audit asserts that DHA removed the names of 24 applicants off of public housing and transferred those names to the Section 8 voucher wait list without written justification.
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		ANSWER: As a general statement, DHA states that most of those removed from the public housing list were removed only upon their request. Information related to each of those 24 is kept in the DHA file for that particular applicant. Of the 24 noted by the auditor, ten of those were transferred from the public housing wait list to the Section 8 wait list when that list opened. Four persons on the public housing wait list refused public housing when offered to them and instead elected to remain on the Section 8 wait list. Two of the applicants on the public housing wait list were removed when the references that they provided disqualified them from PHA housing. Three of the 24 applicants received vouchers based upon local preference. The final two refused public housing when offered and were not on the Section 8 wait list. To be sure, that information was not annotated to the wait list as should have been done. That problem relates to manpower and personnel issues which DHA has resolved.
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	Authority Exercises Favoritism in Selecting Housing Tenants rather than selecting applicants who applied first for Vouchers	
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FINDING	SUBFINDING	COMMENT
Authority Exercised favoritism in selecting Section 8 Voucher Tenants		<p>(D)The auditor asserts that 14 applicants received preferential treatment on the voucher waiting list.</p> <p>ANSWER: DHA administers 213 Section 8 voucher units. In 2001 seven applicants qualified for the DHA local preference under Section 8 programs. As to the remaining seven whose names were not at the top of the wait list when they were given vouchers, two of those seven applicants were infirm or disabled and units with the public housing inventory simply were not capable of meeting the applicant's needs. They were given preference for their handicap per the DHA Admissions and Occupancy Policy. Two other applicants selected were part of a larger group of applicants who had applied for Section 8 vouchers at the time that the wait list for Section 8 was closed. The group was then put on the wait list for public housing. Unfortunately, through a clerical error the two applicant's names were not placed on the public housing wait list. Thereafter, the Section 8 voucher wait list opened. When the Section 8 voucher wait list opened the each of those who in the group that had been placed on the public housing wait list was contacted to ascertain if any from that group wished to be placed on the Section 8 wait list. During that process, DHA discovered its administrative error for the two applicants whose names were not included on the public housing wait list. But for that error, those two applicants would have been at the top of the Section 8 wait list. When the error was discovered the two were put, as they would have been, at the top of the Section 8 wait list. Two other applicants had references that precluded their admission into DHA public housing. The remaining applicant was improperly given a Section 8 voucher and DHA does not know why that occurred.</p>
	Tenants of Authority's Independent Program Received Preferential Treatment	<p>Audit asserts that DHA filled 14 independent program units in 2001 and that 12 of those 14 received Section 8 vouchers.</p> <p>ANSWER: The information supplied above responds to the problem identified by the auditor. Of the applicants receiving vouchers for use in DHA's independent housing seven merited preference. The other five were tendered vouchers for the reasons stated. Fortunately, DHA had housing inventory to meet the needs of the applicants. Had that inventory not been available it is likely that those in need of housing would not have received it in a timely manner simply because of the shortage of housing inventory in the Delta locale.</p>

FINDING	SUBFINDING	COMMENT
	Improper Section 8 Voucher Payments	<p>The audit asserts that in one of five cases reviewed improper voucher payments were made totaling \$438.00</p> <p>ANSWER: The only situation of which DHA is aware is one in which the tenant gave notice on May 14, 2001 that she intended to vacate the property on June 30, 2001. However, tenant did not move until July 3, 2001. The house was re-let on July 19, 2001. DHA erroneously processed Section 8 payment amounting to \$197.82.</p>
	Excess Section 8 Administrative Fees	<p>The audit asserts that DHA charged an administrative fee of \$60.28 for each of 18 vouchers but should have charged \$25.08 per voucher thus causing excess fees of \$634.00 to be paid to DHA in April, 2002.</p> <p>ANSWER: DHA attempts to keep all voucher qualified housing fully leased. First, the voucher to DHA for the month of April, 2002 was not issued by DHA until June 26, 2002 after the audit was completed. Second, DHA records indicate that in April, 2002 there were 17 Section 8 voucher recipients in DHA owned units. Finally, DHA disagrees that the overcharge amounted to \$634.00; rather the overcharge was \$110.80. That said, there was, in fact, an overcharge and steps have been taken to correct that problem.</p>
	Services of Independent Agency	DHA appreciates being apprized of this deficiency. DHA will correct the problem.
	Unrecorded Tenant Fees	DHA appreciates being apprized of this deficiency. Corrective action has occurred and a separate account entitled Delta Housing Authority Break Fund has been established for voluntary employee contributions. In addition, DHA has provided for combining its Petty Cash Fund with the Hose Fund in response to the auditor's concerns about the hose fund. (See Exhibit H)

Summary: Delta Housing Authority appreciates the work of the auditor. The audit raised issues that DHA needed to and has addressed. DHA disagrees with other findings indicated in the draft audit report particularly in areas regarding favoritism in selecting persons for occupying DHA housing units and in some areas of service procurement. At least some of the documentation shortcomings noted by the auditor are a direct result of a significant personnel shortage at DHA in June, 2001 when two key employees left DHA. Through hiring, training and restructuring of management DHA has corrected those problems.

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