



Issue Date	June 27, 2005
Audit Case Number	2005-AT-1011

TO: Michael A. Williams, Director, Office of Public Housing, 4FPIH

James D. McKay

FROM: James D. McKay
Regional Inspector General for Audit, 4AGA

SUBJECT: The Housing Authority of the City of High Point, North Carolina
Did Not Properly Procure Goods and Services

HIGHLIGHTS

What We Audited and Why

As part of the Department of Housing and Urban Development (HUD), Office of the Inspector General's (OIG) strategic plan, we audited the procurement practices of the Housing Authority of the City of High Point, North Carolina (Authority). Our audit objective was to determine whether the Authority solicited and awarded contracts in accordance with procurement regulations and other requirements.

What We Found

The Authority paid at least \$524,337 from October 1, 2003, through September 30, 2004, without following procurement requirements. This occurred because the Authority did not have adequate internal controls to ensure it procured goods and services in accordance with procurement requirements. As a result, the Authority cannot ensure it received the resulting goods and services at the best price or that it properly used HUD funds to meet its mission of providing safe and sanitary housing.

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What We Recommend

We recommend that the director of the Office of Public Housing (1) require the Authority to develop and implement procurement policies and procedures that ensure future procurements are in accordance with requirements, thus providing assurance that at least \$524,337 will be put to better use during the next 12 months; (2) require the Authority to discontinue paying vendors who do not have valid contracts or purchase orders; and (3) monitor the Authority to ensure it complies with procurement requirements and, if necessary, implement appropriate sanctions to ensure compliance.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the findings with the Authority during the audit and at an exit conference on May 27, 2005. The Authority provided its written comments to our draft report on June 3, 2005. The Authority generally agreed with the finding.

The complete text of the Authority's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Housing Authority of the City of High Point, North Carolina (Authority), was chartered in 1940 as a nonprofit corporation under General Statutes, Article 15, of the State of North Carolina. Its primary objective is to provide decent, safe, and sanitary housing to the low-income citizens of High Point, North Carolina, in accordance with regulations set forth by the U.S. Department of Housing and Urban Development (HUD).

A seven-member board of commissioners appointed by the mayor of High Point governs the Authority. Reverend Michael Ellerbe is the current board chair. Reverend Ellerbe replaced James McInnis who was the board chair from February 2002 until January 2005. Robert Kenner has been the executive director since January 20, 2003.

The Authority administers approximately 1,220 units funded under the public housing program, 1,291 units funded through the Section 8 Housing Choice Voucher program, and 100 units through the Section 8 New Construction program.

HUD's Greensboro, North Carolina, Office of Public Housing oversees the Authority.

Our audit objective was to determine whether the Authority solicited and awarded contracts in accordance with procurement regulations and other requirements.

RESULTS OF AUDIT

Finding 1: The Authority Improperly Spent at Least \$524,337 for Goods and Services

Our review of 30 procurements found the Authority paid at least \$524,337 from October 1, 2003, through September 30, 2004, without following procurement requirements. This occurred because the Authority did not have adequate internal controls to ensure it procured goods and services in accordance with procurement requirements. As a result, the Authority cannot ensure it received the resulting goods and services at the best price or that it properly used HUD funds to meet its mission of providing safe and sanitary housing. The Authority can put the \$524,337 to better use during the next 12 months with development and implementation of internal controls that ensure the Authority complies with procurement requirements.

The Authority Did Not Have Adequate Controls

Procurement regulations, Title 24, Part 85.36 of the Code of Federal Regulations, require the Authority to conduct all procurement transactions in a manner that provides full and open competition, maintain records sufficient to detail the history of a procurement, establish procedures for evaluating bids and proposals, perform independent cost estimates, and perform cost or price analysis. We found at least one deficiency in 27 of the 30 procurements we reviewed. For example, the Authority's files did not contain evidence that it advertised 12 of the 27 procurements. Thus, it cannot provide evidence that it created an environment that permitted full and open competition. Further, the Authority's current procurement policy did not require independent cost estimates, or cost or price analysis. We found the Authority did not complete independent cost estimates for any of the 26 procurements that required them, and did not perform cost or price analysis for 27 of 28 procurements that required them.

We also found that for 12 of the 27 procurements, the Authority either did not award the procurements to the lowest or best-qualified bidder, or there was not sufficient documentation in the files for us to determine if the Authority complied with the requirement. Awards should be made to the bidder that is lowest in price, or is most advantageous to the program, with price and other factors considered.

We also found that between January 1, 2001, and September 30, 2004, the Authority paid \$152,903 to a vendor for temporary services and \$119,825 to another vendor for cleaning and painting units without competition. The Authority's files did not contain any evidence that it solicited bids or quotes, performed independent cost estimates, or performed price/cost analysis. Further, it did not execute contracts with either vendor. Similarly, the Authority paid \$173,635 to an electrical contractor and \$119,901 to a carpet company without written contracts. A written contract specifies the responsibilities of the parties to the contract, protects their interests if there is a dispute, and specifies the payment terms.

These deficiencies occurred because the Authority failed to implement an effective internal control plan that ensured it procured goods and services in accordance with procurement requirements. As a result, it spent at least \$524,337 for the 27 procurements without following requirements. As such, the Authority cannot ensure the prices it paid for goods and services were the most economical. Appendix D is a complete list of the procurement deficiencies.

The Authority Revised Its Procedures

The Authority established a central procurement office and hired its first procurement officer in July 2001. Before this, the various departments within the Authority handled their own procurement transactions. Although the Authority hired a procurement officer in July 2001, the various departments continued to do their respective procurements without the procurement officer's involvement. When the current executive director was hired in January 2003, he revised the procedures to require the procurement officer to perform all procurements.

Our review included procurements performed both before and following the revised procedures. While the current executive director has implemented improvements, additional improvements are needed. For example, the Authority's current procurement and disposition policy, effective January 1, 2002, requires the executive director to perform a yearly review of random procurement files. We found the executive director did not perform the review. Also, the current policy does not include provisions to ensure required independent cost estimates and cost/price analyses are performed. Further, the Authority does not maintain a contract register.

By implementing internal controls that ensures the Authority complies with procurement requirements, the Authority can put at least \$524,337 to better use for future procurements.

Recommendations

We recommend the director, Office of Public Housing

- 1A. Require the Authority to develop and implement procurement policies and procedures that ensure future procurements are in accordance with requirements, thus providing assurance that at least \$524,337 will be put to better use during the next 12 months.
- 1B. Require the Authority to discontinue paying vendors who do not have valid contracts or purchase orders.
- 1C. Monitor the Authority to ensure it complies with procurement requirements and, if necessary, implement appropriate sanctions to ensure compliance.

SCOPE AND METHODOLOGY

Our audit objective was to determine whether the Authority solicited and awarded contracts in accordance with procurement regulations and other requirements. To accomplish our audit objective, we reviewed

- Applicable laws, regulations, and other HUD program requirements;
- Minutes from the board of commissioners meetings; and
- The Authority's policies and procedures related to procurements.

To determine whether the Authority followed HUD procurement regulations, we

- Obtained the Authority's disbursement records for the period January 1, 2001, through September 30, 2004, in electronic format;
- Calculated the total amounts paid to individual vendors;
- Reviewed 12 of 74 procurements from a list provided by the procurement officer and a nonrepresentative sample of 18 procurements based on amounts paid to vendors or other factors. Payments to these vendors between January 1, 2001, and September 30, 2004, totaled \$11,218,541 or 19.7 percent of the total payments of \$56,876,687, excluding payments to Section 8 landlords;
- From the Authority's cash disbursement records, determined the Authority paid the 27 vendors whose services were not properly procured a total of \$524,337 from October 1, 2003, through September 30, 2004. Based on the payments during the 12 months, we estimated the Authority could put \$524,337 of funds to better use in the next 12 months. This is not a statistical projection and is used only for the purpose of determining funds that can be put to better use.
- Reviewed available contracts and award documents to assess compliance with specific procurement criteria (planning, soliciting, evaluating, and documenting); and
- Interviewed the Greensboro, North Carolina, Office of Public Housing and Authority board members, management, and staff.

We conducted our fieldwork from October 2004 through April 2005 at the Authority's offices in High Point, North Carolina. Our audit period was from January 1, 2001, through September 30, 2004. We expanded our audit period as needed to accomplish our objectives.

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

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Compliance with laws, regulations, policies, and procedures that management has implemented to reasonably assure that resource use is consistent with laws and regulations and
- Policies and procedures that management has implemented to reasonably assure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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

Significant Weaknesses

Based on our review, we believe the following item is a significant weakness:

- The Authority did not have an adequate system in place to assure it procured goods and services in accordance with requirements.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

<u>Recommendation</u>	<u>Funds to be put to better use 1/</u>
1A	\$524,337


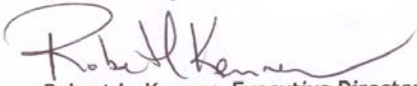
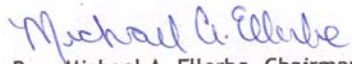
- 1/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

HOUSING AUTHORITY OF THE CITY OF HIGH POINT 	
June 3, 2005	
Mr. James D. McKay Regional Inspector General for Audit US Department of Housing and Urban Development 75 Spring Street, SW, Room 330 Atlanta, GA 30303-3388	
Subject: Draft Audit Report - HPHA Comments	
Dear Mr. McKay,	
The Housing Authority of the City of High Point (HPHA) is pleased to provide its comments to the subject audit report. We concur, in general, with your draft finding and recommendations.	
As a public body, HPHA welcomes public oversight and scrutiny, and it was our privilege to host the OIG during the conduct of the audit. HPHA has always found the audit process to be enlightening and instructive, and this audit was no different. The Board, management, and staff of HPHA always appreciate any advice, encouragement, or suggestions that will allow us to better fulfill our important mission of providing real housing opportunities to our many thousands of clients.	
HPHA also welcomes the opportunity to work with the Greensboro Office of Public Housing to ensure that our future solicitations and contracts awarded are all in accordance with procurement regulations and other requirements. We will be pleased to respond to the Final Report in whatever fashion the Office of Public Housing requests.	
With best regards,	
 Robert L. Kenner, Executive Director	
 Rev. Michael A. Ellerbe, Chairman	
500 East Russell Avenue • Post Office Box 1779 • High Point, North Carolina 27261-1779 Phone (336) 878-2300 • TDD/Voice • Fax (336) 887-2414 • www.HPHA.net	

Authority Comments

Comment 1

In your original draft report, it was stated that you found that the Authority paid at least \$524,337 from October 1, 2003 through September 30, 2004 without following procurement requirements.

Management believes that the funds were not misused for HPHA procurement activities, but does agree that it unintentionally but no less improperly procured some of the services with funds in question. In a limited research, HPHA found that the funds in question are from payments made from January 1, 2001 through December 31, 2004. Some of the payments were found to have contracts or purchase orders. HPHA will work with the Office of Public Housing in a more detailed search to obtain the exact procurement method used for payments.

The draft report contained three (3) recommendations to the director of the Office of Public Housing. The first recommendation states "require the Authority to develop and implement procurement policies and procedures that ensure future procurements are in accordance with requirements, thus providing assurance that at least \$524,337 will be put to better use during the next 12 months".

HPHA is already talking with the Office of Public Housing and receiving technical assistance about making revisions to our current procurement policy that will implement procedures in full accordance with 24 CFR 85.36 and 7460.8 Procurement Handbook. Management is examining and implementing more internal control functions in this area.

Recommendation (2) states "require the Authority to discontinue paying vendors who do not have valid contracts or purchase orders".

Comment 2

HPHA implemented a four-step purchase process in 2003. First, a requisition form is completed for the items or services needed. It is then determined if three quotes are needed or if a contract is needed. Next, a four-part purchase order is created or it is advertised. After that, the signatures required for the purchase dollar amount must be obtained on the purchase order. The four parts of the purchase order are distributed to the vendor, accounts payable, receiving, and purchasing. This process keeps all departments informed of all procurement activities. HPHA has reviewed its arrangements with current vendors and has already implemented the recommendation. HPHA does not work with vendors that do not have valid contracts or purchase orders in place.

The third, and final, recommendation of the draft report states "monitor the Authority to ensure it complies with procurement requirements and, if necessary, implement appropriate sanctions to ensure compliance".

Comment 3

HPHA's management and the Board highly regard HUD requirements and agree to abide by procurement requirements and HUD rules for procurement.

OIG Evaluation of Auditee Comments

Comment 1

The \$524,337 paid to the 27 vendors in question was only payments made from October 1, 2003, through September 2004. We agree with the Authority that the vendors were also paid various amounts dating back to January 1, 2001. However, we are only addressing the amounts paid during the most recent 12 months of our review for the purposes of estimating the annual amount of funds that could be put to better use if the Authority implements internal controls that ensures it complies with procurement requirements.

If the Authority is referring to the amounts paid to the four vendors without contracts, the amounts were paid between January 1, 2001, and September 30, 2004. We added a statement to the finding to clarify the dates of those payments.

Comment 2

The finding acknowledged that the Authority implemented new procedures; however, additional improvements are needed. The Authority states that it does not work with vendors that do not have valid contracts or purchase orders in place. As stated in the finding, we found that was not the case for our review period. If the Authority does have valid contracts or purchase orders for the four vendors in question, they were not in the files or otherwise provided to us.

Comment 3

Throughout our review, we recognized that current management had made improvements and was willing to take necessary steps to ensure it complied with requirements. We encourage the Authority to work with HUD to address the identified deficiencies.

APPENDIX C

CRITERIA

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

Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

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

All procurement transactions will be conducted in a manner providing full and open competition.

24 CFR [Code of Federal Regulations] 85.36(d)(2)

Procurements by sealed bids are publicly solicited and a firm-fixed-price contract is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price.

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

Requests for proposals will be publicized and identify all evaluation factors and their relative importance. Grantees and subgrantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees. Awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered.

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

Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. Grantees must make independent estimates before receiving bids or proposals. A cost analysis must be performed when the offeror is required to submit the elements of his estimated costs, e.g., under professional, consulting, and architectural engineering services contrast. A cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements. A price analysis will be used in all other instances to determine the reasonableness of the proposed contract price.

24 CFR [*Code of Federal Regulations*] 85.43

If a grantee or subgrantee materially fails to comply with any term of an award, whether stated in a Federal statute or regulation, an assurance, in a State plan or application, a notice of award, or elsewhere, the awarding agency may take one or more of the following actions, as appropriate in the circumstances: (1) temporarily withhold cash payments pending correction of the deficiency by the grantee or subgrantee or more severe enforcement action by the awarding agency, (2) disallow all or part of the cost of the activity or action not in compliance, (3) wholly or partly suspend or terminate the current award for the grantee's or subgrantee's program, (4) withhold further awards for the program, or (5) take other remedies that may be legally available.

Office of Management and Budget Circular A-87 (B)(8)

A contract is a mutually binding legal relationship obligating the seller to furnish the supplies and services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing.

Housing Authority of the City High Point, North Carolina's Procurement and Disposition Policy-Section 8

Requires the executive director to randomly select certain procurement files administered in the immediately preceding year to be reviewed and analyzed for consistency with the policy.

Appendix D

Table of Procurement Deficiencies¹

Company name	Independent cost estimate ²	RFP,** RFQ,*** quotes, sealed bids ³	Advertised ³	Competitors ⁴	Price/cost analysis ²	Low bidder/best qualified ²	Contract ⁵
Tree service	N	Y	Y	Y	N	Y	Y
Plumbing and heating	N	Y	Y	Y	N	N	Y
Elevators	N	Y	N	Y	N	Y	Y
Certified public accountant	N	N	N	Y	N	N	Y
Landscaping	N	Y	Y	Y	N	N	Y
Door maintenance	N	Y	*	Y	N	Y	*
Flooring	N	Y	Y	Y	N	N	Y
Electrical contractor-2002	N	Y	Y	Y	N	N	Y
Windows	N	Y	N	Y	N	N	Y
Painting –1	N	Y	Y	Y	N	N	Y
Plumbing modernization	N	Y	N	Y	N	Y	Y
Termite & pest control	N	Y	Y	Y	N	Y	Y
Temporary services	N	N	N	N	N	N	N
Cleaning and painting	N	N	N	N	N	N	N
HOPE VI developer	*	Y	Y	Y	*	Y	Y
Carpeting	N	Y	N	Y	N	Y	N
Building addition	N	Y	Y	Y	N	Y	Y
Cleaning retention ponds	N	N	N	Y	N	Y	Y
Drain pipe installation	N	N	N	Y	N	Y	Y
Replacement of cabinets	N	Y	N	Y	N	Y	Y
Replace sewer lines	N	Y	Y	N	N	*	Y
Painting – 2	N	Y	Y	Y	N	Y	Y
Door installation	N	Y	Y	Y	N	*	Y
Air conditioning	N	Y	Y	Y	N	Y	Y
Automotive	*	Y	*	Y	*	*	*
Healthcare	*	Y	*	Y	Y	Y	Y
Electrical contractor–2001	N	N	N	N	N	N	N
General counsel	N	Y	Y	Y	N	N	Y
HOPE VI legal counsel	*	Y	Y	Y	N	N	Y
Playground equipment	N	Y	N	N	N	*	Y
Total	N=26 Y= 0	N= 6 Y=24	N=12 Y=15	N= 5 Y=25	N=27 Y= 1	N=12 Y=14	N= 4 Y=24

¹ Y = Followed procurement requirements N = Did not follow procurement requirements * = Not applicable

** RFP = request for proposal

*** RFQ = request for qualifications

² 24 CFR 85.36 (f)(1)

³ 24 CFR 85.36 (d)

⁴ 24 CFR 85.36 (c)(1)

⁵ OMB Circular A-87 (B)(8)