

Date Issued: December 18, 1996
Audit-Related Memorandum
97-SF-207-1802

TO: C. Raphael Mecham, Administrator, Southwest Office of
Native American Programs, 9EPI

FROM: Gary E. Albright, District Inspector General for Audit,
9AGA

SUBJECT: Hualapai Housing Authority
Internal Controls Over Monetary Assets and Inventory
Peach Springs, Arizona

INTRODUCTION

We conducted a limited review of the Hualapai Housing Authority (HHA) to evaluate its internal controls over monetary assets, inventory, and related areas. This included a review of the HHA's controls over cash receipts, cash disbursements, security deposits, inventory, investments, general accounting, travel and procurement which were in effect at the time of our field work in September 1996. We concluded that the HHA's controls over investments, travel, inventory and procurement were inadequate. Further, its controls over general accounting were so deficient that it was impossible to determine the status of its programs. In general, the HHA had adopted policies but not implemented procedures that provided adequate controls in these areas. We have recommended that the HHA implement strengthened controls over these areas in order to protect its assets and improve its administrative and budgetary controls.

BACKGROUND

At the time of our review the HHA was administering 298 housing units in 11 projects under three programs as follows:

- Low rent program - 135 units
- New mutual help program - 53 units
- Old mutual help program - 110 units

In addition, the HHA was administering a Comprehensive Grant program with annual funding of approximately \$1.5 million.

The HHA had 10 employees, including seven administrative employees and three maintenance employees. Its accounting records are maintained by a fee accountant, Wright, Darnell & Rector, P.C., located in Atlanta, Georgia.

PURPOSE AND METHODOLOGY

The objective of this review was to determine whether the HHA's internal controls over monetary assets and inventory were adequate. Based upon problems noted while carrying out the review, our objective was expanded to include a limited analysis of the adequacy of the HHA's controls over travel and procurement. To accomplish our review objectives we:

- Interviewed HHA staff.
- Reviewed existing HHA policies and procedures relating to cash receipts, cash disbursements, inventory, travel, and procurement.
- Tested the implementation of the HHA's adopted policies and procedures by reviewing selected travel charges, procurement actions, disbursements and receipt cycles.
- Scanned available accounting records.

Our review was primarily limited to a testing of in place policies and procedures at the time of our review. However, as part of this testing, a limited number of transactions occurring during the period July 1993 through June 1996 were reviewed.

REVIEW RESULTS

The Hualapai Housing Authority Needs to Strengthen and Enforce its Financial and Management Controls

The Hualapai Housing Authority (HHA) did not enforce its adopted policies or had not developed adequate procedures relating to controls over accounting, investments, procurement, travel, and inventory. As a result, it has lost budgetary and administrative control over its programs and operations; its assets are not adequately protected; ineligible travel costs were paid; and it has no assurance that goods and services were obtained in such a manner as to ensure full and open competition and price reasonableness. In our opinion, the HHA's failure to adhere to its adopted policies was a result of unfamiliarity with the policies, a failure to

develop procedures to implement policies, and intentional disregard of procedures by the previous executive director.

The Hualapai Housing Authority is Required to Have Financial and Management Controls

The HHA's contractual responsibilities to HUD are set out in its Annual Contributions Contract (ACC). Section 4 of the ACC requires the HHA to operate its projects in an economic and efficient manner. In order to do this, appropriate operating policies and procedures must be adopted and implemented. Additional requirements relating to general financial and procurement requirements are contained in 24 CFR Parts 85 and 950. Essentially these regulations require housing authorities (and other federal grant recipients) to:

- Establish financial management systems which provide accurate, current, and complete disclosure of its operations; effective controls and accountability; budgetary controls; procedures for determination of cost eligibility; and accounting records supported by source documentation.
- Adopt and comply with procurement policies which, at a minimum: ensure full and open competition in all procurement transactions; establish procedures for inventory control; set out employee and board members standards of conduct and conflict of interest provisions; and provide for implementation of a contract administration system to ensure that contractors adhere to the terms, conditions, and specifications of their contracts.

We noted problems in the HHA's financial and management controls relating to (a) accounting records, (b) procurement, (c) investments, (d) travel and (e) inventory as detailed below:

a. Accounting Records

At the time of our review, the HHA's accounting records were posted only through June 1995. Further, the accounting records for fiscal year ended (FYE) June 30, 1995 were not available until July 1996. The lack of current accounting records seriously impacts the HHA's ability to administer its programs. It is unable to monitor the financial progress of its projects and programs or even complete and manage an operating budget. Basically, it lacks the information needed to effectively and efficiently administer its operations.

The HHA currently uses the services of a fee accountant for posting its accounting (general ledger) records. However, it has not submitted documents needed by the fee accountant to post the accounting records on a timely basis, i.e. check carbons and related invoices, bank statements, cash receipt records, deposit slips, copies of contracts, budgets, etc. For example, none of the documents needed to post the accounting records for FYE ended June 30, 1996 were submitted to the fee accountant until August 1996. The failure to submit needed documents to the fee accountant was due to staff's unfamiliarity with the terms of its fee accountant contract and the lack of procedures to identify and promptly submit required documents to the fee accountant.

Complicating the accounting process is the HHA's attempt to establish its own on-site accounting system. It recently purchased a software accounting package and has been attempting to use learn the use of it. However, staff does not currently have the expertise or program experience to implement the accounting system to the point that a fee accountant would not be necessary. Accordingly, the HHA should place primary emphasis on getting needed documents to its fee accountant, with secondary emphasis on postings to its on-site system.

To ensure timely submittal, the HHA should establish procedures which provide for a check list detailing documents needed to be sent to the fee accountant monthly and assigned responsibility for ensuring that these documents are accumulated and shipped to the fee accountant on a timely basis, such as by the 15th of the next month.

b. Procurement

The HHA had adopted a comprehensive procurement policy. However, the policy was not followed. Our review of procurement was limited, but we noted numerous deficiencies including:

- Large procurements were made without obtaining price quotes, or sealed bids as appropriate.
- Substantial repair contracts were entered without appropriate plans and specifications setting out work to be done under the contracts.
- Contract "change orders" were entered without any documentation showing what the change order was for, only that the price of the contract was being raised. Further, change orders were entered into which resulted in large rehabilitation contracts being increased by up to 96 percent indicating, at a minimum, serious problems in the procurement planning process.
- Substantial up-front payments were made to contractors (up to 100 percent) prior to construction start. Additionally, contract retainage was limited to 2.5 percent rather than the 5 percent set out in several large rehabilitation contracts.
- Small purchases were made by employees (and non-employees) without purchase requisitions as called for by the HHA's policies.

As a result of these deficiencies in the procurement process, competition was limited and there was no assurance that goods and services were obtained at the best available price. Further, the HHA was placed at risk of contractors being paid for work but never completing it, which happened in at least one instance. These weaknesses also resulted in the HHA being unable to properly monitor rehabilitation contracts because of the lack of detailed plans and specifications and the payment for goods and services without determination as to their legitimacy.

The procurement deficiencies identified occurred during the term of the prior executive director. The current HHA administration is attempting to strengthen its procurement process. To be successful, it needs to train its employees in its procurement policy; establish vendor lists to assist in the procurement process; and assign one employee responsibility for its large procurement activities.

c. Investments

The HHA had not adopted investment policies and procedures which ensured that excess funds were fully invested and investments and investment income were controlled and properly accounted for. Specifically, the HHA did not have procedures in place to identify and invest excess funds (investment policy) nor did it maintain an investment register to properly account for and control investments it did have. Further, its policy for the handling of investment income was inconsistent as on some investments, income was rolled back into the investment and in other instances income was sent to the HHA on a monthly basis. As a result of these deficiencies, the HHA has no controls over investments and a significant risk of loss.

In order to properly control its investments the HHA needs to adopt and implement an investment policy and establish and maintain an investment register. As part of its investment policy, investment earnings should be rolled into the investment rather than sent to the HHA. Such a procedure will strengthen the HHA's internal controls. Additionally, the HHA should ensure that its investments are adequately insured and collateralized.

d. Travel

The HHA had adopted travel policies, however its procedures for implementation of these policies were inadequate to ensure that all employee travel costs were legitimate and eligible program costs. Additionally, travel advances were accounted for as a cost rather than as an advance. In order to ensure adequate control, advances should be accounted for as such until the travel voucher documenting actual costs is submitted by the employee and processed.

During our limited review of travel we noted several questionable travel charges as follows:

- On August 22, 1995 the former Executive Director was paid \$213.60 for use of her own vehicle on a trip to Albuquerque, New Mexico. However, based upon other available information, the former Executive Director did not use her own vehicle for the trip but instead rented a car which was also paid for by the HHA. There is no documentation which indicates that the improper duplicate payment for the use of a personal vehicle was reimbursed to the HHA.
- The HHA paid \$617.84 for the rental of a vehicle for the former Executive Director's sister for the period August 11 through 20, 1995. This individual was not a HHA employee and there is no documented reason why the HHA would be responsible for paying her car rental expense.

The HHA needs to establish strict controls over its approval and review of travel and related claimed costs.

e. Inventory

The HHA had developed policies but not implemented procedures to adequately account for and control equipment and materials and supplies. Specifically, up to date property records were not maintained nor were annual inventories taken. Without such controls the HHA can not protect and control its assets.

AUDITEE COMMENTS

On December 6, 1996 we received a written response from the Hualapai Housing Authority (HHA) in response to our draft report. The HHA expressed agreement with our draft findings and recommendations and detailed steps they are taking or plan on taking to improve their operations. The complete text of the HHA's comments is included as Attachment A to this memorandum.

RECOMMENDATIONS

In order to protect and account for its monetary assets and inventory, ensure cost eligibility and fairness in its procurement activities, and provide for full and current disclosure of its operations, we recommend you require the HHA to:

- A. Establish procedures which provide for a checklist detailing documents needed to be sent to the fee accountant monthly and assign responsibility to ensure that these documents are accumulated and shipped to the fee accountant on a timely basis, such as by the 15th of the next month;
- B. Train its employees in its procurement policy; establish vendor lists to assist in the procurement process; and assign one employee responsibility for its large procurement activities;
- C. Adopt and implement an investment policy and establish and maintain an investment register. As part of its investment policy, investment earnings should be rolled into the investment rather than sent to the HHA and investments must be adequately insured and collateralized;
- D. Establish strict review procedures for approving and reviewing travel requests and claims. Additionally, all travel advances should be accounted for as such in the accounting records;

- E. Identify all existing equipment inventory, establish appropriate control records for this equipment, and install procedures for properly recording new equipment purchases and the performance of periodic inventory counts.

* * * *

Within 60 days, please furnish us a status report on the corrective action taken, the proposed corrective action and the date to be completed, or why action is not considered necessary for each recommendation. Also, please furnish us copies of correspondence or directives issued because of this review.

We have provided a copy of this audit-related memorandum to the Auditee. If you have any questions, please contact me at (415) 436-8101.

Attachments: A - Auditee Comments
B - Distribution

AUDITEE COMMENTS

Attachment B

Distribution

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