



**Grants Housing Authority
Grants, NM**

**Section 8 Housing Choice Voucher,
Capital Fund, and Operating Fund**



Issue Date: May 14, 2013

Audit Report Number: 2013-FW-1005

TO: Floyd R. Duran, Program Center Coordinator, Office of Public Housing, 6BPHO
//signed//

FROM: Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The Executive Director and Board of Commissioners of the Grants Housing Authority, Grants, NM, Mismanaged the Authority

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Grants Housing Authority.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 817-978-9309.



May 14, 2013

The Executive Director and Board of Commissioners of the Grants Housing Authority, Grants, NM, Mismanaged the Authority

Highlights

Audit Report 2013-FW-1005

What We Audited and Why

We audited the Grants Housing Authority located in Grants, NM, at the request of U.S. Department of Housing and Urban Development's (HUD) Public Housing Program Center in Albuquerque, NM.

Our objective was to determine whether the Authority used its capital funds and operating funds for allowable costs, performed contracting activities in accordance with program requirements, and correctly processed and paid for Section 8 housing choice vouchers.

What We Recommend

We recommend that HUD retain the Authority's capital and operating funds, release only sufficient funds to reimburse the Authority for its paid invoices, and review the Authority's bank statements to ensure that it deposits all rents. We also recommend that HUD require the Authority to develop and implement appropriate policies and procedures, determine which Housing Choice Voucher program tenants are being assisted without valid contracts between the Authority and the landlords, and repay HUD more than \$64,000 in ineligible expenses.

What We Found

The Authority's management and board of commissioners failed to establish a control environment designed to provide reasonable assurance that it complied with Federal requirements. This condition occurred because the board relied on the executive director to operate the Authority with little or no oversight. Further, the executive director was either unwilling or unable to manage the Authority effectively. As a result of these conditions, the Authority incurred more than \$64,000 in ineligible Housing Choice Voucher program expenses and put its assets at an increased risk of fraud, waste, and abuse.

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BACKGROUND AND OBJECTIVE

The Grants Housing Authority, Grants, NM, was created in July 1986. The Authority's mission is to provide safe, decent, sanitary housing for assisted families at or below 80 percent of median income. The Authority owns and operates 20 public housing units and provides rent subsidies for another 63 families through the U.S. Department of Housing and Urban Development's (HUD) Housing Choice Voucher rental assistance programs. Since March 2012, the executive director had been the Authority's only employee.

The Authority is located at 508 East Santa Fe Avenue, Suite B, Grants, NM. The executive director administers the Authority's programs and is responsible for its day-to-day operations. The executive director was selected by a board of commissioners comprised of four individuals appointed by the mayor of Grants.

Our objective was to determine whether the Authority (1) used its capital funds and operating funds for allowable costs, (2) performed contracting activities in accordance with program requirements, and (3) correctly processed and paid for Section 8 housing choice vouchers.

RESULTS OF AUDIT

Finding 1: The Authority's Executive Director and Board Failed To Establish a Proper Internal Control Environment

The Authority's executive director and board failed to establish a control environment designed to provide reasonable assurance that it complied with Federal requirements. They failed to enact policies and procedures to ensure the integrity of the Authority's operations and compliance with Federal procurement and program requirements. Generally, the Authority did not have any internal controls. These conditions occurred because the Authority's executive director was unwilling or unable to manage the authority effectively, while the board had a "hands off" attitude and relied on the executive director to operate the Authority by herself. As a result of these conditions, the Authority spent at least \$64,843 for Section 8 Housing Choice Voucher program tenants in violation of program regulations. Further, the lack of internal controls put the Authority's assets at an increased risk of fraud, waste, and abuse.

The Executive Director and the Board Failed To Establish a Proper Control Environment

Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance. Management is responsible for establishing internal controls that provide reasonable assurance about the achievement of the organization's mission, goals, and objectives and reduce the risk of fraud, waste, and abuse.

The executive director and the board neglected their management and oversight responsibilities. They failed to establish basic internal controls, including financial controls, inventory and asset controls, and written policies and procedures.

Authority Management Did Not Establish Basic Financial Controls

The Authority's Management Did Not Have Adequate Financial Expertise
Although 24 CFR (Code of Federal Regulations) 990.315 requires the Authority to prepare an operating budget and states that the board should review and approve the budget by resolution, the Authority's executive director said she had limited financial knowledge and was unaware of how her budget was set up. Instead, she relied entirely on an out-of-State fee accountant. Since the executive director did not understand the budget, she could not fully explain it to the board. Board members

approved the budget resolution and one board member admitted she did not completely understand where or how the Authority spent its funds.

The executive director did not maintain support for some of the Authority's expenses. For example, there were two charges on the Authority's July 2012 credit card statement totaling \$125. When asked for support for the charges, the executive director could not find the invoices. Further, she could not provide invoices for some of the Authority's plumbing and electrical material bills. Several years of receipts were lying unorganized in a box in a filing cabinet. Because the amounts were immaterial, we did not question them, but this condition further demonstrated the Authority's lack of internal controls.

The executive director stated she was unaware of the requirements of 24 CFR 85.20 to report accurate, current, and complete disclosure of financial results of financially assisted activities by providing support from source documentation such as invoices, contract, subgrant award documents, etc. Regulations at 24 CFR 85.36 require grantees to use their own procurement procedures, maintain a contract administration system, maintain a written code of standards of conduct for procurements, review proposed procurements to avoid the purchase of unnecessary or duplicative items, award only to responsible contractors possessing the ability to perform successfully, maintain records sufficient to detail the significant history of a procurement, and be responsible, all in accordance with good administrative practice and sound business judgment. The regulations also required all procurement transactions to be conducted in a manner providing full and open competition; however, during the audit, the Authority signed a new fee accountant services contract without a bidding process. The Authority had no contract administration system, written code of standards of conduct, or list of responsible contractors in place.

Checks Were Left Unsecured

The executive director left tenant rent checks unsecured on top of a file cabinet. Sound business judgment and basic financial controls would require such checks to be kept under lock and key and deposited regularly so that they are not lost or stolen.

Authority Management Did Not Establish Basic Procurement and Asset Management Controls

The Authority Did Not Have a Written Procurement Policy

The executive director said she was unaware of the 24 CFR 85.36 requirements that public housing agencies establish and follow a written procurement policy. Without a written policy, the executive director could be inconsistent in her procurement activities and violate procurement regulations. There should be a single, current, authoritative source of guidance and information that the executive director can use when making decisions or enforcing policy. With written procedures, the Authority could better ensure that it acts decisively, fairly, legally, and consistently and in

accordance with Federal and State regulations. Policies and procedures would provide a framework and background for decisions, so that the Authority could explain to appropriate parties why a certain action or decision was followed. Without following a written policy, inconsistencies in administering procurements could result in misunderstandings, grievances, or lawsuits.

Further, because the Authority did not have basic procurement policies and procedures in place and did not maintain procurement and contract files, it could not demonstrate that it received the best value for the products and services it procured.

The Authority's Management Did Not Have a Written Asset Management Policy

The executive director said she was unaware of 24 CFR 990.270, which lists a public housing agency's responsibilities for asset management that go above and beyond property management activities. It includes long-term planning and allocation, the setting of ceiling or flat rents, review of financial information and physical (housing) stock, property management performance, long-term viability of properties, replacement strategies, and risk management. Without using proper planning toward improving the public housing units, it would be difficult to ensure operational efficiency and effectiveness in managing public housing assets.

Regulations at 24 CFR 85.32 require the Authority to manage equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until the equipment is disposed of. The regulations further require that management of equipment include, at a minimum, property records, a physical inventory, a control system, and adequate maintenance procedures to keep the property in good condition. The executive director stated that she was unaware of the requirements.

The executive director could not provide an inventory list or property maintenance records. We inspected all 20 of the Authority's low-income housing units, and each of them appeared to be in good repair, safe, and sanitary.

The Authority Did Not Have Signed Contracts With Housing Choice Voucher Landlords

We randomly selected and reviewed 6 of the Authority's 63 housing assistance payments contracts and their associated payments. Five of the six contracts were missing signatures. Thus, the Authority did not have valid contracts with its landlords. The Authority could not produce a housing assistance payment register showing payments to the landlords. Therefore, we identified the payments through review of the Authority's general ledger. The executive director said she was unaware that the housing assistance payments contract states that it must be executed or signed by the owner and the Authority. The Authority paid \$64,843 in Housing Choice Voucher program assistance without a valid contract for the five contracts

listed in table 1. Since the payments were made without valid contracts, they were ineligible, and the Authority should repay them to HUD.

Table 1: Housing Choice Voucher payments without a valid contract

Tenant identification number	Payment dates	Payment amount
VO236	Nov. 2007 – Oct. 2012	\$28,459
VO309	Mar. 2009 – Oct. 2012	10,950
VO336	Jan. 2010 – Oct. 2012	15,300
VO477	Dec. 2011 – Oct. 2012	5,430
VO437	Nov. 2011 – Oct. 2012	4,704
Total		\$64,843

HUD Was Taking Steps To Correct the Deficiencies

During the audit, the Albuquerque HUD staff began working closely with the executive director on corrective actions to address the deficiencies identified in this report.

Conclusion

The Authority’s executive director and board failed to establish a control environment designed to provide reasonable assurance that it complied with Federal requirements. These conditions occurred because the executive director was unwilling or unable to manage the Authority effectively and the board provided little oversight. As a result, the Authority spent at least \$64,843 in Housing Choice Voucher program funds that were ineligible because the Authority did not have valid contracts with landlords. Also, due to the lack of internal controls at the Authority, its assets were at an increased risk of fraud, waste, and abuse.

Recommendations

We recommend that the Albuquerque, NM, Public Housing Program Center coordinator

- 1A Continue to provide the board of commissioners and the executive director technical assistance regarding the proper implementation of internal controls, with emphasis on the board’s oversight responsibilities.
- 1B Require the Authority’s management to develop and implement written procurement policies and procedures, to include a manual, for all aspects of the Authority’s procurement operations.

- 1C Require the Authority to determine which of its Section 8 tenants are being assisted without a signed housing assistance payments contract and obtain the appropriate signatures.
- 1D Retain the Authority's capital and operating funds, release only sufficient funds to reimburse the Authority for its paid invoices, and review the Authority's bank statements to ensure that it deposits all rents.
- 1E Repay HUD \$64,843 in ineligible assistance payments for the five unsigned housing assistance payments contracts identified in this report.

SCOPE AND METHODOLOGY

We performed the audit work at the Grants Housing Authority, 508 East Santa Fe, Suite B, Grants, NM, and the Office of Inspector General (OIG) Office of Audit in Albuquerque, NM, between August 2012 and March 2013. The audit generally covered the period October 1, 2009, through July 31, 2012, but we expanded the scope as necessary to meet the audit objective. To accomplish the objective, we

- Reviewed relevant criteria governing the Housing and Community Development Act of 1974, which authorized the Section 8 certificate program; the Housing and Community Act of 1987, which authorized the Section 8 rental voucher program; program regulations; and HUD's guidance as well as the Authority's agreement with HUD and its agreements with various entities.
- Reviewed the Authority's audited financial statements for fiscal years 2010 and 2011 and its limited policies and procedures for administering program activities, including provisions in its agreements with various entities and program participants.
- Randomly selected and reviewed 6 of the Authority's 63 housing assistance payments contracts and their associated payments during the review period.
- Interviewed appropriate HUD program and Authority personnel.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Effectiveness and efficiency of operations – Policies and procedures that are implemented to reasonably ensure that procurement, expenditure, and financial reporting activities are conducted in accordance with applicable laws and regulations.
- Compliance with applicable laws and regulations – Policies and procedures that are implemented to reasonably ensure that payments to vendors and procurement activities comply with applicable laws and regulations.
- Safeguarding of 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

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

- The Authority lacked adequate controls, including written policies and procedures, over its procurement and inventory functions and administration of its Section 8 Housing Choice Voucher program funds (finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/
1F	\$64,843

- 1/ 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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



The Grants Housing Authority

April 22, 2013

Office of Inspector General
Office of Audit Region 6
Fort Worth, TX

Re: Response to the Grants Housing Authority Section 8 Choice Voucher,
Capital Fund and Operating Fund audit.

Comment 1

Finding 1: The Authority's Executive Director and Board failed to establish a proper internal control environment. The Executive Director and Board of Director will work to develop and implement written policies and procedures for a controlled environment to reduce the risk of fraud, waste, and abuse.

Comment 2

The Grants Housing Authority staff did have Housing Assistance Payments Contracts for all landlords signed at one time. The HAP contracts are good for one year. The Occupancy Specialist at the time cleaned out all the files and mistakenly thought that the Housing Assistance Payments Contract and the Request for Tenancy were one and the same. The Occupancy Specialist discarded the HAP Contract. The contract was in the file but the signed document was not. The Executive Director had all the landlords sign again housing assistance payment contract and all files have this contract. This was addressed immediately and completed by September 2012.

The Grants Housing Authority
Board of Director and Executive Director

OIG Evaluation of Auditee Comments

Comment 1 The Authority stated that management and the board will develop and implement written policies and procedures for a controlled environment to reduce the risk of fraud, waste, and abuse. The implementation of effective controls should help the Authority provide reasonable assurance that it complies with Federal requirements.

Comment 2 The Authority stated that its files had contained signed housing assistance payment contracts in the past, and admitted that the contracts in the file at the time of our review had not been signed. The Authority stated that the executive director obtained signed contracts and placed them in the files by September 2012. The Authority did not inform us that it had obtained signatures for the contracts and included them in the files until it sent us its comments. Therefore, we did not verify that the signed contracts were in the files during the field work.