



**The Housing Authority of the City of Lumberton,
Lumberton, NC**

Public Housing Program



Issue Date: December 5, 2013

Audit Report Number: 2014-AT-1002

TO: Michael A. Williams, Director of Public Housing, Greensboro, NC, 4FPH

//signed//

FROM: Nikita N. Irons, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The Housing Authority of the City of Lumberton, NC, Did Not Administer Its Public Housing Program in Accordance With Requirements

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Housing Authority of the City of Lumberton, NC's public housing program.

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 David L. Butcher, Assistant Regional Inspector General for Audit, Region 4, at 865-545-4400, extension 118.



December 5, 2013

The Housing Authority of the City of Lumberton, NC, Did Not Administer Its Public Housing Program in Accordance With Requirements

Highlights

Audit Report 2014-AT-1002

What We Audited and Why

We initiated a review of the Housing Authority of the City of Lumberton, NC, at the request of the U.S. Department of Housing and Urban Development's (HUD) Greensboro, NC, Office of Public Housing. HUD staff described many areas of concern, including cash management, procurement, and inventory controls. Our objective was to determine whether the Authority operated its public housing program in accordance with HUD and other Federal requirements.

What We Recommend

We recommend that the Director of Public Housing require the Authority (1) to perform a 5-year review of its accounting records to track all Federal funds; (2) implement written policies and procedures for financial controls, procurement, and inventory; (3) repay \$1,500 for ineligible expenditures; and (4) support that it disbursed \$157,861 for eligible expenditures.

What We Found

The Authority lacked adequate controls over its financial operations. Its management and board failed to create an internal control environment that included sufficient written policies and procedures and a knowledgeable, properly trained staff. As a result, the Authority did not always accurately account for its interfund program balances, improperly coded \$16,368 in expenses to its revolving fund and asset management properties, and improperly drew down \$9,706 in capital funds.

The Authority generally failed to follow HUD's procurement regulations or its own procurement policy. This condition occurred because the Authority's management and board failed to implement sufficient internal controls over the procurement process. As a result, the Authority could not assure HUD that it procured goods and services at the lowest cost using full and open competition. For the procurements we reviewed, the Authority was unable to support more than \$131,000 in spending and another \$1,500 for ineligible expenses.

The Authority did not maintain an adequate inventory control system. Management did not implement written procedures for staff to follow, and the Authority's informal system was inadequate. As a result, it could not assure HUD that funds expended for equipment and supplies were properly used for Authority activities or that the values reflected in its inventory records were accurate.

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BACKGROUND AND OBJECTIVE

The Housing Authority of the City of Lumberton was established in 1949 to provide low-income citizens with safe, clean, and affordable housing and help improve their quality of life. The Authority's board of commissioners consists of seven members appointed by the mayor. It is the Authority's policy-making body and selects and employs the executive director, who is responsible for the Authority's day-to-day operations.¹ The board has ultimate responsibility to ensure that the Authority operates in compliance with U.S. Department of Housing and Urban Development (HUD) and Federal Government policies. The Authority owns and manages 729 conventional low-income public housing units and administers 596 housing choice vouchers. It also receives operating and capital funds from HUD for the operation and modernization of its low-income public housing units.

Operating funds are provided annually to public housing agencies for the operation and management of public housing. Capital funds are provided annually to public housing agencies for the development, financing, and modernization of public housing developments and for management improvements. The Authority received operating subsidies and capital funds in the following amounts from fiscal year 2010 to fiscal year 2012.

Fiscal year	Operating subsidy	Capital funds
2010	\$2,868,540	\$1,303,946
2011	\$2,898,693	\$1,112,500
2012	\$2,761,109	\$989,817

We initiated our review based upon an audit request from the Greensboro, NC, HUD Office of Public Housing. That office made the request due to procurement and internal control issues found during a 2012 management review. That review found 13 serious programmatic findings and 15 observations indicating potential program non-compliance.

Our objective was to determine whether the Authority operated its public housing program in accordance with HUD and other Federal requirements.

¹ The former executive director retired on February 25, 2013, shortly before we began our review. On March 12, 2013, the Authority contracted for the executive director of the Pembroke, NC, Housing Authority to serve as interim executive director of the Authority until a new executive director was hired.

RESULTS OF AUDIT

Finding 1: The Authority Lacked Adequate Financial Controls

The Authority lacked adequate controls over its financial operations. This condition occurred because the Authority's management and board failed to create an internal control environment that included sufficient written policies and procedures and did not have a knowledgeable and properly trained staff. As a result, the Authority did not always accurately account for its interfund program balances, improperly coded \$16,368 in expenses to its revolving fund and asset management properties, and improperly drew down \$9,706 in capital funds.

Financial Controls Were Inadequate

Management and the board of commissioners were responsible for establishing internal controls sufficient to maintain the integrity of the financial management system. The Authority's board of commissioners and management failed to ensure that adequate financial policies and procedures were in place to assure HUD that its financial operations complied with program requirements.

Another responsibility of the board of commissioners was to review, approve, and monitor budgets and other financial documents to ensure that management's expenditures complied with applicable requirements. Our review of the board minutes from January 2010 through February 2013 did not show that the board regularly received and discussed detailed information on the Authority's financial operations. In addition, the Authority's interim finance director stated that several of the financial reports that the board may have received contained errors.

The failure of the Authority's board and management to provide adequate financial internal controls, including the implementation of adequate written financial policies and procedures, and its lack of a capable, trained staff resulted in

- Questionable interfund account balances,
- Miscoded expenses,
- Excess Capital Fund Program drawdowns, and
- Other concerns.

Interfund Account Balances

The Authority's annual contributions contract permitted it to pool funds from various sources to promote efficiency and facilitate program operations. The pooling of funds provided the Authority a convenient method to pay shared expenses for items chargeable to various program funds. The Authority could use pooled funds to pay for expenses of its programs that had funds on deposit; however, it should not have used program funds to pay the expenses of another program.

The Authority's use of a revolving fund resulted in "due to-due from" (interfund) transactions between the Authority's revolving fund and the accounts of the contributing program. When using this method of accounting, it is important that the Authority's accounting system track each fund in sufficient detail to maintain supporting documentation for an adequate audit trail.²

We could not reconcile the Authority's interfund balances applicable to its HUD programs due to the lack of an adequate audit trail. It was not possible to determine the accuracy of the individual interfund amounts that apparently resulted from programs' overfunding or underfunding the revolving fund account.

Since the Authority could not provide written guidance showing how the accounting system worked, we interviewed the Authority's interim finance director, former finance director, and independent public accountant to gain an understanding of the interfund accounting. No one interviewed could satisfactorily explain how the Authority's accounting system derived the interfund balances. Thus, the Authority could not show that it had properly used HUD program funds. Although HUD permits authorities to use revolving funds, the system used must be capable of accurately accounting for the use of funds applicable to each program and maintain accurate interfund balances.

In addition, for fiscal year 2010, we were unable to reconcile the amounts that the Authority reported to HUD on its financial data schedule to the Authority's general ledger.³ Although the Authority's independent public accountant could not explain why the interfund balances would not reconcile, he told us that the financial records for fiscal year 2010 were in such disarray that he had requested that the Authority hire an outside accountant to put them in order before he could perform the audit.

²HUD Guidebook 7510.1G, paragraph II-15

³Although we could not confirm the accuracy of the individual balances, we were able to reconcile the general ledger and financial data schedule interfund balances for fiscal years 2011 and 2012 using trial and error.

Miscoded Expenses

The Authority operated under asset management, in which funding, budgeting, accounting, management, and oversight was performed at the project level as opposed to the Authority level or entity-wide. Therefore, Authority expenses incurred should have been charged directly to the affected asset management property whereas other expenses, such as maintenance inventory or central management fees should have been charged to the Authority's central office cost center.

For the sample items reviewed, the Authority incorrectly coded expenses totaling \$16,368.⁴ It incorrectly coded \$14,693 in expenses for its central maintenance inventory and lodging to its revolving fund. In addition, the Authority incorrectly coded \$1,675 for board meeting meals to its asset management property accounts instead of the central office cost center account. The coding errors occurred because the Authority failed to properly train its financial staff members, leaving them unaware of the applicable requirements.

According to HUD requirements,⁵ the costs of the Authority's central warehouse should have been charged to its central office cost center account. In addition, HUD prohibits charging board-related expenses to asset management property accounts except for board training expenses.⁶ Thus, the \$1,675 that the Authority charged for board meeting meals was ineligible and should be returned to the appropriate property accounts.

Five of the twelve journal vouchers⁷ reviewed also evidenced incorrect account coding or other deficiencies. The journal vouchers coded expenses to incorrect accounts and incorrectly transferred funds for an interfund payment to the revolving fund. The entries lacked sufficient descriptions, and in some cases, the financial staff could not adequately explain the purpose of the entries. This condition occurred because the Authority neither adequately trained its financial staff members nor provided sufficient written policies and procedures for them to follow.

⁴This amount is comprised of incorrect coding that we found while reviewing samples for cash disbursements and credit card transactions. Authority staff had miscoded \$13,193 out of \$93,589 cash disbursements and \$3,175 out of \$22,345 credit card transactions.

⁵Public and Indian Housing Notice 2007-9, Supplement to HUD Handbook 7475.1, REV., CHG-1, Financial Management Handbook, page 49, table 7.2, 1st column, last bullet

⁶Public and Indian Housing Notice 2007-9, Supplement to HUD Handbook 7475.1, REV., CHG-1, Financial Management Handbook, page 50, table 7.2, 2nd column, last bullet

⁷Journal vouchers are accounting records used to note the details of a financial transaction for recordkeeping and auditing purposes.

Excess Capital Fund Drawdowns

For the sample items reviewed, the Authority drew down \$12,300 for its Capital Fund Program without having expenses to support the draw and \$9,586 for expense items that it had not previously identified on its Capital Fund Program annual statements. The regulations required that the Authority inform HUD of the capital improvements, including estimated cost, planned for each year.⁸ Although the Authority accumulated expenses to cover all but \$120 of the excess draw over several months, it lacked controls for preventing drawdowns in excess of needs or for ineligible items. The Authority's financial staff members had not been properly trained and had no written procedures to follow, leaving them unaware of the program's requirements.

Other Concerns

We attempted to obtain both the general ledger and check register from the financial staff. Although the staff could not provide us with the requested information, we were ultimately able to review accounting transactions via read-only access to the Authority's computer system. The vendor for the financial software was able to provide a check register. The staff's apparent lack of knowledge regarding the Authority's financial system and data was troubling since we requested only basic financial data that should have been readily available.

We also reviewed a sample of travel vouchers, including board of commissioners' travel. The Authority's travel policy provided that if a travel advance was granted, the traveler was required to submit a travel expense voucher within 10 days of the scheduled return date. For three of the four board-member travel orders reviewed, the board members submitted their travel expense vouchers from 50 to 144 days late. Although the Authority's travel policy required adverse action to be taken when a staff member failed to submit a travel expense voucher in a timely manner, there was no such provision for board members.

Recent Developments

During our review, the interim executive director began to address the lack of financial controls that we discussed with him during the review, as well as those which HUD reported in its recent management review. The Authority

- Hired a fee accountant to assist the finance department with the day-to-day operations of the Authority, including correctly posting journal entries and preparing monthly financial statements;
- Began developing written financial policies and procedures; and
- Began an effort to upgrade the Authority's computer system.

⁸ 24 CFR (Code of Federal Regulations) 903.7 (g)

Conclusion

The Authority must develop, document, and implement financial policies and procedures to create a control environment which allows it to maintain complete and accurate records of its pooled fund transactions, correctly code its expenses, draw down only eligible program costs, properly use accounting journal vouchers, and ensure the board's involvement in the Authority's financial operations. After the Authority makes these needed improvements, it will be able to more reliably assure HUD that its financial records are maintained accurately.

Recommendations

We recommend that the Director, Office of Public Housing, Greensboro, NC, require the Authority to

- 1A. Implement fiscal controls in the form of written policies and procedures to better ensure the accuracy of its financial records and reports. The controls should include accounting procedures for pooled funds.
- 1B. Perform a 5-year forensic review of its accounting records to track all Federal funds, show the proper amounts available in each pooled fund, and include the appropriate due to-due from balances. The Authority should reclassify any improperly classified transactions and pay back the appropriate programs.
- 1C. Revise the accounting records to charge the \$16,368 in improperly coded expenses to the appropriate account.
- 1D. Support that it used \$9,706 in grant funds for eligible items.
- 1E. Assure HUD that the financial staff has the capability to perform the Authority's daily financial operations in accordance with HUD's requirements.

We also recommend that the Director, Office of Public Housing, Greensboro, NC,

- 1F. Ensure that all board members obtain HUD-approved training that explains their overall roles and responsibilities, including those related to internal control and financial matters.

Finding 2: The Authority Failed To Comply With Federal or Its Own Procurement Requirements

The Authority generally failed to follow HUD’s procurement regulations or its own procurement policy. It obtained services without following procurement requirements, failed to maintain documentation for the history of its procurements, failed to perform required cost analyses, failed to properly execute contracts, and contracted with public officials in violation of its annual contributions contract with HUD. This condition occurred because the Authority’s management and board failed to implement sufficient internal controls over the procurement process. As a result, the Authority could not assure HUD that it procured its goods and services at the lowest cost using full and open competition. For the procurements reviewed, the Authority was unable to support more than \$131,000 in procurement spending and another \$1,500 for ineligible expenses.

The Authority Failed To Follow Procurement Requirements

The Authority’s management did not consistently follow HUD’s procurement regulations⁹ or its own procurement policy. Authority records were insufficient to identify the total universe of contracts procured for the review period. The Authority maintained no contract register or other document listing its procurement activity and did not keep its procurement documents filed in a central location. We selected and reviewed 5 of the 43 contracts represented by staff as having been procured during our audit period. The five contracts represented \$716,847 of the \$5.6 million (about 13 percent) of the contracts identified. Each of the procurements had at least one deficiency, and four had serious deficiencies, resulting in \$131,787 in unsupported costs.

Type of contract	Unsupported amount	Lack of executed contract	Lack of history	Lack of cost analysis	Chairperson did not sign contract
Legal	\$9,728		X	X	X
Information technology	52,536	X	X	X	X
Auditor	33,200		X	X	X
Multi-functional devices	36,323		X	X	X
Construction contract					X
Total	\$131,787				

⁹24 CFR (Code of Federal Regulations) 85.36

Failed To Execute Required Contracts

The Authority hired and paid at least two vendors without following procurement requirements or executing a contract. One contractor provided information technology services for the Authority for more than 10 years without an executed contract. The Authority paid the contractor more than \$52,000 in Federal funds during our audit period. The independent public accountant who performed the Authority's fiscal years 2011 and 2012 annual audits also had no contract. The Authority paid the auditor \$33,200, including \$16,600 for the 2 years during which he had no contract, and \$15,600 for 3 years for which the Authority lacked adequate supporting documentation of its procurement process.

The Authority Failed to Maintain Procurement Documentation

The regulations required the Authority to maintain a complete history for each procurement.¹⁰ However, for all five contracts reviewed, the Authority failed to comply and could not produce adequate documentation. The records for the history of the procurements were generally incomplete and in some cases, scattered among different Authority locations. Without the required documentation, the Authority was unable to show that it had complied with the requirements. We were generally unable to determine whether some information had been lost, misplaced, or did not exist.

The Authority Failed To Perform Cost Analyses

Four of the five procurements lacked evidence that the Authority prepared the required cost analyses. The regulations required that the Authority perform a cost or price analysis for each procurement before receiving bids or proposals.¹¹ An architect and engineering firm performed the cost analysis for a construction contract. Although Authority staff failed to include the analysis in the contract file, we were able to obtain it from the firm.

The Authority Failed To Properly Execute Contracts

Although the Authority's bylaws required the board chairperson to sign all contracts,¹² the chairperson had not signed any of the five contracts reviewed. When contracts existed, the executive director had executed them.

The Authority Contracted With Public Officials

Authority management executed contracts with two public officials in violation of the Authority's annual contributions contract with HUD.¹³ The Authority contracted with a Lumberton City Council member to serve on the Authority's grievance hearing board and paid him \$1,500 for services rendered.

¹⁰ 24 CFR 85.36(b)(9)

¹¹ Regulations at 24 CFR 85.36(f) read in part, "Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications."

¹² The Authority bylaws, page 3, article II, section 2, state that the chairman must sign all contracts.

¹³ Section 515 of part II of the executed annual contributions contract prohibited either the Authority or any of its contractors from entering into a contract with any member of the governing body of the locality in which the Authority was activated.

The Authority also executed a contract with a Robeson County Commission member. The contract allowed the individual to purchase surplus appliances that the Authority had removed from its housing units.

The Authority Failed To Establish Adequate Internal Controls

The Authority failed to provide staff with detailed written instructions for the procurement function, as required by its procurement policy, and failed to adequately train its staff regarding either Federal procurement requirements or its own procurement policy.

Some Authority staff members involved with procurements stated that management had not provided them with written instructions for procurements and admitted that they were unaware of Federal procurement requirements or the Authority's own procurement policy. Although some requirements were outdated, the Authority's procurement policy otherwise complied with HUD's requirements; however, the former executive director and the staff generally failed to follow it. At HUD's request, the interim executive director executed an updated procurement policy on April 1, 2013.

Review of the board minutes from January 2010 through February 2013 failed to show that the board provided sufficient oversight of the Authority's procurements. Although the Authority entered into at least 43 contracts during the review period, the board minutes showed very little discussion of contracts and only two instances in which the board approved a contract.

Conclusion

Because of its failure to comply with HUD's procurement regulations or its own policies, the Authority must support \$131,787 in procurement disbursements or repay the funds. It must also repay the appropriate fund \$1,500, which it paid a Lumberton City Council member in violation of its annual contributions contract. This condition occurred because the board and the former executive director failed to implement adequate controls. Therefore, it is imperative that management make a serious effort to improve internal control over the procurement function. A large part of this effort will involve ensuring that both its board members and its staff are educated regarding their duties and responsibilities and that staff members are provided appropriate written instructions for performing their respective duties. After the Authority makes the needed improvements, it will be able to more reliably assure HUD that procurements are made at a reasonable cost and obtained using fair and open competition.

Recommendations

We recommend that the Director, Office of Public Housing, Greensboro, NC, require the Authority to

- 2A. Support \$131,787 in unsupported contracts and procurement payments or repay the appropriate program from non-Federal funds.
- 2B. Repay the ineligible \$1,500 paid to the Lumberton City Council member from non-Federal funds.
- 2C. Ensure that all staff involved with the procurement process are adequately trained and provided with comprehensive procurement procedures for future procurements.

We also recommend that the Director, Office of Public Housing, Greensboro, NC,

- 2D. Direct the board chairman to sign all contracts as required by the bylaws.

Finding 3: The Authority Failed To Maintain an Adequate Inventory Control System

The Authority did not maintain an adequate inventory control system. Management did not implement written procedures for staff to follow, and the Authority's informal system was inadequate. As a result, the Authority could not assure HUD that funds expended for equipment and supplies were properly used for Authority activities or that the values reflected in its inventory records were accurate.

The Authority Failed To Develop and Implement Adequate Inventory Controls

Although the regulations¹⁴ required the Authority to maintain effective control and accountability over all assets and keep detailed property records, it did not have written policies or procedures for inventory. Staff used informal, unwritten procedures but failed to apply them in a consistent or effective manner to ensure that the Authority completed required periodic physical inventories, safeguarded inventory, or maintained accurate inventory records.

The Authority had not performed a complete physical inventory of its assets since 2000. Regulations¹⁵ required the Authority to perform a physical inventory and reconcile the results with property records at least once every 2 years. Staff reported that performing complete physical inventories had not been a priority of the former executive director and that only certain assets, such as vehicles, some equipment, and maintenance supplies, had been included in previous inventory reviews.

The Authority failed to maintain physical security for inventory. Staff members told us that they used a "trust system." The maintenance supply room was open to anyone in the maintenance department, and staff did not consistently monitor the removal of inventory items. Staff also told us that they could not accurately account for maintenance supplies used during four months of fiscal year 2013 due to missing records. During our review, the interim executive director improved physical security by keeping the supply room locked and assigning a maintenance employee to oversee the inventory checkout process.

The Authority's inventory records also contained errors and omissions. Review of the inventory listing showed many deficiencies, such as incorrect or missing equipment purchase or installation dates and missing serial numbers. We attempted to locate 37 appliances that the Authority purchased during 2010 and 2012. Only 26

¹⁴ 24 CFR 85.32 (d)(1)

¹⁵ 24 CFR 85.32 (d)(2)

of the appliances appeared on the Authority's inventory lists, and some of those listings contained errors. After about a week, Authority staff members reported that they found the 11 missing appliances in various locations.

Conclusion

The Authority must develop, document, and implement an adequate inventory control system, which includes procedures for conducting and documenting periodic physical inventory counts and adjusting the asset records. After the Authority makes these needed improvements, it will be able to more reliably demonstrate what assets it has and their correct locations and account for any assets which may have been lost, stolen, or disposed of due to their condition. It will also be able to better assure HUD that funds expended for equipment and supplies were properly used for Authority activities and that the values reflected in its inventory records are accurate.

Recommendations

We recommend that the Director, Office of Public Housing, Greensboro, NC, require the Authority to

- 3A. Develop and implement an improved inventory control system, including procedures for conducting and documenting periodic physical inventory counts and adjusting its asset records.
- 3B. Perform a complete physical inventory and adjust the accounting records as needed.

SCOPE AND METHODOLOGY

We performed our field work at the Authority's offices located at 900 North Chestnut Street and 613 King Street, Lumberton, NC, and at our office in Greensboro, NC. We performed our audit work from March through July 2013. Our audit period was January 2010 through February 2013. We expanded the audit period as needed to accomplish our objective.

To accomplish our objective, we

- Reviewed relevant laws, regulations, and HUD guidance;
- Reviewed the Authority's policies and procedures;
- Reviewed the Authority's board of commissioners meeting minutes for the period January 2010 through February 2013;
- Reviewed the Authority's audited financial statement for its fiscal years 2011 and 2012;
- Analyzed the Authority's financial records;
- Reviewed a list of Authority contracts; and
- Interviewed Authority and HUD staff in Greensboro, NC.

We reviewed the Authority's general ledger interfund reports, financial data schedule, and independent public accountant reports to determine whether the Authority maintained large interfund balances during our audit period. We also attempted to reconcile these balances to those reported to HUD.

We selected a sample of 20 cash disbursements exceeding \$1,500 from 4 months in the Authority's check register during our audit period. We reviewed the disbursements to determine whether they were made in compliance with HUD and Authority requirements.

We reviewed a sample of 6 American Express credit card statements for questionable charges. During our audit period, the Authority purchased \$22,345 in goods and services using an American Express card. The six statements reviewed accounted for \$9,952, or about 45 percent, of the \$22,345 in goods and services charged to the credit card during our audit period.

We reviewed a sample of 12 journal vouchers between December 2011 and March 2013 to determine whether each had an adequate description, approval, and justification.

We selected a sample of 4 Line of Credit Control System payment vouchers to review for accuracy and eligibility. The sample included each Capital Fund Program grant during the audit period as well as a drawdown from each calendar year.

We selected a sample of 10 travel orders or vouchers paid during our audit period. The sample included the executive director, Authority employees, and the board of commissioners. We reviewed the sample to determine whether the travel vouchers were properly supported and eligible.

We selected a sample of 5 contracts. We selected the contracts based on discussions with the Authority's staff and HUD's concerns about potential conflicts of interest in the form of contracting with public officials. We selected four vendors from the Authority's contract list and one additional vendor not on the contract list.

We tested electronic data relied upon during the performance of the various review steps. We conducted tests and procedures to ensure the integrity of computer-processed data that were relevant to our audit objective. The tests included, but were not limited to, comparisons of computer-processed data to invoices and other supporting documentation. We found the data to be generally reliable for our purposes.

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. 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 have been 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 have been 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 Deficiencies

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

- The Authority lacked adequate financial controls (see finding 1).
- The Authority did not have adequate controls in place to ensure that procurement activities complied with applicable laws and regulations (see finding 2).
- The Authority did not have adequate controls in place to ensure that funds expended for equipment were properly used for Authority activities or that the values reflected in its inventory records were accurate (see finding 3).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1C		\$16,368
1D		9,706
2A		131,787
2B	<u>\$1,500</u>	
Total	<u>\$1,500</u>	<u>\$157,861</u>

- 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.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1



HOUSING AUTHORITY
of the City of Lumberton
Drawer 709 - 900 N. Chestnut Street
Lumberton, North Carolina 28359
www.lumbertonhousing.com

COMMISSIONERS
Eric Chavis, Chairman
Jane Smith, Vice Chairperson
Danny K. Martin, Commissioner
Robert D. Shaw, Commissioner
Pam Hunt, Commissioner
Paul G. Matthews, Commissioner
Barbara Brown, Commissioner
Lemark Harris, Interim Executive Director

November 19, 2013

Nikita N. Irons
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General, Atlanta Region, 4AGA
Atlanta, Georgia 30341

Dear Sir:

The Housing Authority of the City of Lumberton's (HACL) is complete agreement with the draft audit report that your office recently completed of our public housing program. We sincerely appreciate the opportunity to respond to the report before it is finalized.

As a result of the audit findings, the HACL is fully committed to strengthening our policies and procedures to come into full compliance with applicable program regulations. As discussed with you during the exit conference, the HACL is currently recruiting/training able staff to address the ongoing issues that management has faced since March, 2012. Several procurements resulted in contractual arrangements for professional services that the HACL did not effectively manage internally. With the technical experts the HACL is in a better position to operate effectively and efficiently in achieving the stated goals/objectives while adhering to the public housing program guidelines and regulations.

Furthermore, the HACL appreciates the support that it has received from the HUD Field Office and will continue to seek it's guidance to ensure that our processes and systems provide the necessary safeguards and proper checks and balances to address and close the findings of your report.

The public housing program is a vital part of the City of Lumberton's overall housing solution to low-income families. Since its incorporation, the HACL has successfully (from time to time) extended services to thousands of individuals/families.

We look forward to once again attaining that moniker amongst our peers throughout the State of North Carolina and region of which we serve.

Sincerely,

HOUSING AUTHORITY OF THE CITY OF LUMBERTON


Mr. Lemark Harris
Interim Executive Director

(910) 671-8200 (voice)
(910) 671-8239 (FAX)
(800) 545-1833 ext 951 (TDD)

OIG Evaluation of Auditee Comments

Comment 1 The Authority's comments state that it is in complete agreement with the audit report and is fully committed to strengthening its policies and procedures to come into full compliance with applicable program regulations. We commend the Authority for its commitment to strengthening internal controls. In addition, the Authority must implement corrective actions to clear all the report recommendations. The Greensboro Office of Public Housing will be responsible for reviewing and approving these corrective actions.