



**Southern Nevada Regional Housing Authority
Las Vegas, NV**

Public Housing Operating Funds



Issue Date: April 17, 2014

Audit Report Number: 2014-LA-1002

TO: Jesse Wu, Acting Director, Office of Public Housing, San Francisco, 9APH

//SIGNED//

FROM: Tanya E. Schulze, Regional Inspector General for Audit, Los Angeles Region, 9DGA

SUBJECT: Southern Nevada Regional Housing Authority, Las Vegas, NV, Did Not Always Follow Requirements for Its Operating Funds and Public Housing Assets

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of Southern Nevada Regional 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 8M, 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 213-534-2471.



April 17, 2014

Southern Nevada Regional Housing Authority, Las Vegas, NV, Did Not Always Follow Requirements for Its Operating Funds and Public Housing Assets

Highlights

Audit Report 2014-LA-1002

What We Audited and Why

We audited the Southern Nevada Regional Housing Authority's use of U.S. Department of Housing and Urban Development (HUD) public housing operating funds. We audited the Authority based on a complaint alleging that the Authority (1) failed to competently oversee the Federal dollars entrusted to it and (2) did not have inventory controls in place to prevent the fraudulent use of supplies. Our audit objective was to determine whether the Authority used its operating funds in accordance with HUD requirements.

What We Found

We determined that the allegations in the complaint had merit. The Authority did not always use its public housing operating funds in accordance with HUD requirements. Specifically, it used funds to pay for ineligible expenses and did not comply with HUD procurement regulations. It also did not have adequate inventory procedures in place to maintain effective control of and accountability for its assets. As a result, the Authority paid more than \$507,000 in operating funds for ineligible costs, and HUD had no assurance that more than \$187,000 paid for janitorial services was the best value. Further, we were unable to locate appliances, valued at \$5,500, during our review.

What We Recommend

We recommend that HUD require the Authority to (1) reimburse its operating fund \$507,459 for ineligible costs; (2) develop policies and procedures and provide staff with training on operating funds, procurement, contracting, and inventory controls; (3) issue a new janitorial services request for proposal and provide support that the \$187,731 paid for janitorial services represented the best value to HUD or reimburse its operating fund from non-Federal funds; and (4) locate the missing appliances or reimburse its operating fund \$5,500 from non-Federal funds.

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BACKGROUND AND OBJECTIVE

On January 1, 2010, the Housing Authority of the City of Las Vegas and the Clark County Housing Authority combined to form the Southern Nevada Regional Housing Authority. The Authority absorbed the North Las Vegas Housing Authority on January 1, 2011. The Authority has a 13-member board of commissioners that has fiduciary responsibility as well as responsibility for establishing and overseeing policy for the agency. The Authority's main administrative office is located at 340 North 11th Street, Las Vegas, NV.

Public housing was established to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. The U.S. Department of Housing and Urban Development (HUD) provides funds to local housing agencies that manage the housing for low-income residents at rents they can afford. The public housing operating fund was developed under section 9(3) of the Housing Act of 1937. Operating funds are available to public housing agencies for the operation and management of public housing.

HUD authorized the Authority the following financial assistance for its public housing operating fund program for calendar years 2012 and 2013.

Calendar year	Public housing program authorized funds
2012	\$12,484,607
2013	\$12,629,081
Total	\$25,113,688

Our objective was to determine whether the Authority used its operating funds in accordance with HUD requirements.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Always Administer Its Public Housing Operating Funds in Accordance With HUD Regulations

The Authority did not always administer its public housing operating funds in accordance with HUD regulations. Specifically, it (1) inappropriately paid for a large landscape project, (2) used funds for other ineligible expenses, (3) did not ensure that it received the best value when procuring janitorial services, and (4) did not follow procurement and contracting requirements for security services. These deficiencies occurred because Authority personnel lacked sufficient knowledge of public housing operating fund regulations and chose not to follow procurement requirements. As a result, the Authority used more than \$507,000 in operating funds for ineligible costs and could not support that more than \$187,000 spent for janitorial services represented the best value to HUD. Also, the Authority inappropriately restricted competition and did not ensure that all bidders received fair, impartial, and equitable treatment.

The Authority Inappropriately Used \$485,190 in Operating Funds for Landscaping Redevelopment

The Authority inappropriately used \$485,190 in operating funds for desert landscaping redevelopment at one of its public housing developments. The Housing Act of 1937, as amended, states that operating funds are for the operation and management of public housing. The Act also states that capital funds are available to carry out capital and management activities, such as the development, financing, and modernization of public housing projects, including the redesign, reconstruction, and reconfiguration of public housing sites and buildings. Since the desert landscaping project was a complete redesign of the public housing development's landscape, the Authority should have used capital funds to pay for the project. However, the Authority's director of finance misunderstood HUD's operating fund requirements. The director stated that he believed the Authority could use operating funds to pay for the desert landscaping redevelopment project because it was deferred maintenance. However, the project was more than deferred maintenance and not an eligible use of operating funds. As a result, the Authority's use of \$485,190 in operating funds for the desert landscaping redevelopment was ineligible.

The Authority Used \$22,289 in Operating Funds for Other Ineligible Expenses

The Authority used \$22,289 in operating funds for other ineligible expenses. For example, it used operating funds for employee bottled water and miscellaneous entertainment expenses related to resident activities, including food, supplies, and tickets to a sporting event. The following table identifies the amount spent on ineligible activities.

Ineligible expense	Amount
Bottled water for employees	\$12,520
Entertainment and social events	\$6,650
Holiday celebrations	\$2,494
Meals at resident meetings	\$625
Total	\$22,289

HUD regulations at 2 CFR (Code of Federal Regulations) Part 225 state that entertainment costs—including amusement, diversion, and social activities and any costs directly associated with such costs, such as tickets to sports events and meals—are ineligible. Also, costs of goods or services for the personal use of the governmental unit’s employees are ineligible. Therefore, the costs associated with the bottled water, entertainment, social events, and holiday celebrations were an ineligible use of operating funds. Also, according to Public and Indian Housing Notice 2013-21, the Authority may provide refreshments and light snacks at resident meetings. However, the Authority provided meals, rather than light snacks, at some of its resident meetings.

The Authority stated that it procured bottled water because the water in the Las Vegas area was hard and did not taste good. The executive director was unaware that the purchase of bottled water was contrary to HUD’s requirements restricting the purchase of goods for the personal use of Authority employees. Also, the director of supportive services was not aware of HUD regulations regarding the eligible use of operating funds for tenant participation activities. Instead, she continued the practices of the former director of supportive services. She stated that the finance director had recently given her the regulations and she would comply with them. As a result of the Authority’s lack of knowledge of HUD requirements, it used \$22,289 for ineligible expenses.

The Authority Did Not Obtain Janitorial Services in Accordance With Procurement Requirements

The Authority did not obtain janitorial services in accordance with HUD procurement requirements. Specifically, it did not develop a detailed and clear description of janitorial services requirements and did not obtain and evaluate pricing for option years. The Authority failed to develop a detailed and clear description of the scope of work in violation of 24 CFR 85.36 when it did not

- Clearly identify which buildings needed cleaning,
- Provide the square footage of each building, or
- Post questions and answers from site visits for all prospective bidders.

The lack of details in the scope of work led to confusion among bidders and a wide disparity in contractor bids. The contracting officer stated that it was difficult to develop a scope of work with which each property manager could agree. However, despite this difficulty, the contracting officer failed to identify discrepancies in bids and awarded the contract without determining why the bid amounts differed so greatly. The contracting officer did not ensure that each bidder received fair, impartial, and equitable treatment as required by HUD Handbook 7460.8, REV-2. As a result of the lack of detail and clarity in the scope of work, the Authority had no assurance that the \$187,731 it paid for janitorial services represented the best value to HUD.

The Authority awarded two contracts based on the request for proposal, and each contract contained a base year with 4 option years. However, the Authority did not receive option-year pricing and did not evaluate the pricing as part of its award decision in violation of HUD Handbook 7460.8, REV-2. Contracting personnel were aware of the requirement to obtain option-year pricing. However, the Authority overlooked this requirement, awarded the contracts, and exercised the 2014 option year without obtaining the required pricing.

The Authority Did Not Follow Procurement and Contracting Requirements for Security Services

The Authority did not follow HUD procurement requirements or its own procurement policy when procuring security services. The Authority violated the requirements of HUD Handbook 7460.8, REV-2 when it allowed a security contract to exceed 5 years. After 5 years, the Authority was required to conduct a new procurement. The security contract expired on September 30, 2010. Instead of issuing a new request for proposal for the services, the Authority amended the

contract to extend it 1 year beyond the maximum limit to September 30, 2011. The Authority then issued purchase orders for another 4 months until it was able to competitively award a new contract in February 2012. During our audit period, the Authority paid \$110,000 to the security contractor after the maximum 5-year limit. The Authority was aware of the 5-year requirement. However, the Authority's supervisory contract administrator stated that the contract terms expired shortly after the creation of the new regional Authority and there was an adjustment period. As a result, instead of issuing a new request for proposal, the Authority issued a contract amendment to extend the contract. We compared the prices from the new security contract to those paid to the security contractor during the period in question and found that the prices paid were comparable to those awarded in the new contract. Therefore, we are not questioning the reasonableness of the costs paid.

Conclusion

The Authority did not always administer its public housing operating funds in accordance with HUD requirements. It inappropriately used its operating funds on a large landscape project and other ineligible expenditures. The Authority also did not follow procurement and contracting requirements for janitorial and security services. These conditions occurred because Authority personnel lacked sufficient knowledge of and chose not to follow HUD requirements. As a result, the Authority spent more than \$507,000 in operating funds for ineligible expenses, and HUD had no assurance that more than \$187,000 spent for janitorial services represented the best value. Also, the Authority inappropriately restricted competition and did not ensure that all bidders received fair, impartial, and equitable treatment.

Recommendations

We recommend that the Acting Director of HUD's San Francisco Office of Public Housing require the Authority to

- 1A. Reimburse its operating fund \$485,190 from its capital funds if appropriate or from non-federal funds for the ineligible landscape project.
- 1B. Reimburse its operating fund \$22,289 from non-Federal funds for ineligible expenses.
- 1C. Provide support that the \$187,731 it paid for janitorial services was the best value and greatest overall benefit to HUD or repay its operating fund for the costs deemed to be unreasonable.
- 1D. Issue a new request for proposal for janitorial services to ensure that bidders receive fair, impartial, and equitable treatment.

- 1E. Develop procedures to ensure that it spends operating funds only for eligible expenses.
- 1F. Provide training to its employees to ensure compliance with HUD regulations regarding the eligible use of operating funds and procurement.

RESULTS OF AUDIT

Finding 2: The Authority Did Not Maintain Effective Control of and Accountability for Its Assets

The Authority did not maintain effective control of and accountability for its assets. Specifically, it did not adequately track appliances from its warehouse to its housing units. This condition occurred because the Authority lacked adequate inventory controls to account for and safeguard appliances and Authority personnel did not accurately complete paperwork when taking inventory from the warehouse or borrowing appliances from a different asset management project. As a result, the Authority could not account for 12 appliances, valued at \$5,500. Further, there were concerns that additional appliances had been misplaced or misappropriated.

The Authority Did Not Adequately Track Appliances

The Authority's inventory procedures were not sufficient to track appliances from its warehouse to public housing units. We performed an inspection of refrigerators and ranges at the Authority's central warehouse and four of its asset management projects. We sampled 31 of 282 appliances. Of the 31, we found issues with 16 of them (51.6 percent); 12 (38.7 percent) were missing, and the Authority installed 4 (12.9 percent) in units other than those noted on the warehouse inventory log. The following table identifies the missing appliances and dollar amounts associated with each appliance.

Asset tag number	Type of appliance	Amount
R4514	Refrigerator	\$465
R4398	Refrigerator	\$465
R4403	Refrigerator	\$465
R4388	Refrigerator	\$465
R4393	Refrigerator	\$465
R4351	Refrigerator	\$465
R4508	Refrigerator	\$465
R4511	Refrigerator	\$465
S4578	Range	\$427
S4293	Range	\$451
S4323	Range	\$451
S4337	Range	\$451
Total		\$5,500

Regulations at 24 CFR 85.20 state that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and

other assets. Grantees and subgrantees must adequately safeguard all such property and ensure that it is used solely for authorized purposes. The Authority's inventory procedures were not adequate to ensure that it safeguarded its appliances and used them solely for authorized purposes. As a result of this weakness, the Authority was unable to locate 12 appliances during our review and had variances in its appliance inventories during its end-of-year inventory reviews.

Authority's Inventory Controls Were Not Adequate

The Authority's controls were not adequate to account for and safeguard its appliances. The Authority maintained handwritten logs of all assets over \$100. The logs contained the asset tag numbers, serial numbers, and dates on which the Authority received the items. The Authority kept the logs at the warehouse, and there were no backup logs in case of loss or damage. The Authority's work order computer system had the capability to record the asset tag numbers and serial numbers in searchable fields. This capability would allow the Authority to easily identify the unit location of each appliance. However, the Authority entered the serial numbers and tag numbers into the comment section of the work order, which was not a searchable field and required the property manager to manually search through work orders to locate appliances. In one instance during our inspection, a property manager searched through work orders but was unable to identify where item R4351 was located.

Authority Personnel Did Not Comply With Authority Inventory Policies

Authority personnel did not comply with the Authority's written inventory policies. The warehouse manager stated that maintenance supervisors were responsible for identifying the exact address of the asset. The supervisor was required to sign off on all assets received. Also, the Authority's warehouse procedures stated that when an item was picked up from the warehouse, the employee was required to complete the warehouse inventory log and identify the specific installation address for the appliance. However, Authority personnel did not always recognize the importance of inventory control. For example, Authority personnel did not always identify the address for each appliance or identified the incorrect address when taking an appliance from the warehouse. Authority personnel also did not always fill out the proper paperwork when they borrowed an appliance from a different asset management project. In one instance, an Authority maintenance supervisor stated that he took a refrigerator with him to put into the maintenance shop when he transferred to a different project. The maintenance supervisor did not document the transfer. As a result, we were unable to verify the location of the refrigerator.

Conclusion

The Authority did not maintain effective control of and accountability for its assets to ensure it used assets for authorized purposes only. This condition occurred because the Authority did not have adequate controls in place and Authority personnel did not always comply with the Authority's written policies and procedures. As a result, the Authority could not account for all of its assets during its end-of-year inventory inspections and could not account for 12 appliances, valued at \$5,500, during our inspection.

Recommendations

We recommend that the Acting Director of HUD's San Francisco Office of Public Housing require the Authority to

- 2A. Locate the 12 missing appliances or reimburse HUD \$5,500 from non-Federal funds.
- 2B. Reconcile the inventory variances in its most recent inventory audit to ensure accountability for all appliances.
- 2C. Develop inventory controls that ensure effective control of, and accountability, for assets.
- 2D. Ensure that all applicable employees are provided training on inventory policies and procedures.

SCOPE AND METHODOLOGY

Our audit period covered October 1, 2011, to September 30, 2013, and was expanded when necessary. We conducted our fieldwork at the Authority's office located at 340 North 11th Street, Las Vegas, NV, from October 2013 to February 2014.

To accomplish our objective, we

- Reviewed HUD regulations and reference materials for public housing operating funds;
- Reviewed Authority policies and procedures;
- Interviewed Authority and HUD personnel;
- Reviewed the Authority's contract log and contract files;
- Reviewed the Authority's vendor ledger, petty cash fund, and supporting documentation;
- Reviewed the Authority's annual inventory inspection records; and
- Performed an inspection of inventory at the central warehouse and four asset management projects.

We selected a nonstatistical sample of eight contracts based on dollar amount and our concerns regarding the eligible use of funds. We used the Authority's vendor ledger and contract log to identify all vendors awarded contracts. Our universe included vendors that received more than \$10,000 during our audit period. The Authority paid more than \$33.7 million to 164 vendors. Our sample represented more than \$2.4 million, or 7.1 percent of the total amount spent. We reviewed the contracts to determine whether the Authority complied with HUD procurement regulations and whether the expenditures were eligible costs under the operating fund program.

The Authority had a total of 21 asset management projects. We nonstatistically selected four properties based on the variances in appliance inventories reported in the end-of-year inventory inspection conducted by the Authority. We also selected the warehouse to inspect due to the large amount of appliances located there. Using the warehouse tracking logs for appliances, we identified a universe of 282 appliances, from which we selected a nonstatistical sample of 31 appliances. We inspected the location of each appliance in our sample to determine whether the Authority adequately tracked its appliances.

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:

- Policies and procedures to ensure that the Authority uses its public housing operating funds in accordance with HUD requirements.
- Policies and procedures to ensure that the Authority maintains effective control of and accountability for its assets to ensure that they are used only for authorized purposes.

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 did not use its public housing operating funds for eligible expenses and did not follow HUD procurement regulations (see finding 1).

- The Authority did not establish inventory procedures to safeguard its assets and ensure that assets were used solely for authorized purposes (see finding 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$485,190	
1B	\$22,289	
1C		\$187,731
2A		\$5,500
Total	\$507,479	\$193,231

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. In this case, ineligible costs were funds that the Authority spent on a large landscape project, bottled water, and other miscellaneous ineligible items.

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. In this case, unsupported costs include the amount paid for improperly procured janitorial services and the cost of missing appliances.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



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Commissioner

Patrick Smith
Commissioner

Sanje Sedera
Commissioner

John N. Hill
Executive Director

April 3, 2014

M. Chad Gagon
Senior Auditor
US Dept. of HUD, Office of Inspector General
302 East Carson Avenue, Suite 400
Las Vegas, NV 89101

RE: AUDIT REPORT #2014-LA-100X

Dear Mr. Gagon:

Attached is our response to the above referenced Draft OIG audit report dated March 24, 2014 conducted on certain operations of the Southern Nevada Regional Housing Authority. This response is intended to ensure that the two Findings identified in the audit report and all accompanying recommendations will be corrected and adhered to. The Authority will work with the San Francisco Field Office to quickly close out the Findings and further improve relevant operations by following the recommendations in the report.

In addition, the Authority will keep the San Francisco Field Office informed of its progress in a written report at least monthly beginning in May 2014 until all items are successfully implemented.

Please contact me if you have questions.

Regards,

John N. Hill
Executive Director

JNH:prm

Comment 1

Comment 2

Finding 1: The Authority Did Not Always Administer Its Public Housing Operating Funds in Accordance With HUD Regulations

OIG: The Authority did not always administer its public housing operating funds in accordance with HUD regulations. Specifically, it (1) inappropriately paid for a large landscape project, (2) used funds for other ineligible expenses, (3) did not ensure that it received the best value when procuring janitorial services, and (4) did not follow procurement and contracting requirements for security services. These deficiencies occurred because Authority personnel lacked sufficient knowledge of public housing operating fund regulations and chose not to follow procurement requirements. As a result, the Authority used more than \$507,000 in operating funds for ineligible costs and could not support that more than \$187,000 spent for janitorial services represented the best value to HUD. Also, the Authority inappropriately restricted competition and did not ensure that all bidders received fair, impartial, and equitable treatment.

OIG: (The Authority) “inappropriately paid for a large landscape project”

Comment 3

SNRHA Response: Although this was originally thought to be an eligible expense, Southern Nevada Regional Housing Authority will reimburse the Conventional Low Rent Program \$485,190 from the Capital Fund Grant 2013. This expenditure is included in SNRHA’s agency plan and is an allowable cost for this expenditure.

OIG: (The Authority) “used funds for other ineligible expenses” See Chart below)

Ineligible expense	Amount
Bottled water for employees	\$12,520
Entertainment and social events	\$6,650
Holiday celebrations	\$2,494
Meals at resident meetings	\$625
Total	\$22,289

SNRHA Response: (Bottled water for AMP employees) Not being able to pay for bottled water for staff consumption from Operating Funds when Nevada has known “hard” water seems a bit unusual being raised as an issue. However in accordance with the OIG’s recommendation the Authority will reimburse the Conventional Low Rent Program \$12,520 for bottled water purchased by the Asset Management Projects (AMP’s) in the amount of \$12,520 from the Development Fee Account.

Comment 4

SNRHA Response: (Entertainment and social events) Immediately upon bringing this to our attention and while the members of the Office of Inspector General were yet conducting the audit, the Authority revised its approval process as well as selecting accounts to support such events. Resident Council leaders have also been trained on eligible use of its funds for activities.

Comment 4

In accordance with the OIG's recommendation the Authority will reimburse the Conventional Low Rent Program in the amount of \$6,650.

SNRHA Response: (Holiday Celebrations) In accordance with the OIG's recommendation the Authority will reimburse the Conventional Low Rent Program in the amount of \$2,494.'

SNRHA Response: (Meals at resident meetings) The Supportive Services Department has informed and trained all Resident leaders and provided written documentation of eligible use of its funds for activities. In accordance with the OIG's recommendation the Authority will reimburse the Conventional Low Rent Program in the amount of \$625.

OIG: The Authority did not obtain janitorial services in accordance with HUD procurement requirements. Specifically, it did not develop a detailed and clear description of janitorial services requirements and did not obtain and evaluate pricing for option years. The Authority failed to develop a detailed and clear description of the scope of work in violation of 24 CFR 85.36 when it did not

- Clearly identify which buildings needed cleaning,
- Provide the square footage of each building, or
- Post questions and answers from site visits for all prospective bidders.

Comment 5

SNRHA Response: After review of the bid documents for the Request For Proposal (RFP) # P113003, Addendum No. 1 posted on our website incorporated all minutes and responded to all questions; data available to all bidders. (See Tab2)

Comment 6

RFP # P113003, Addendum No. 2 to all bidders and posted on website provided the name of the development, the square footage for common areas, community centers, offices units, bedrooms, etc. (See Tab 3)

Comment 7

REF # P13003, Addendum No. 2: The SOW provides all site locations and scattered sites, includes descriptions of the sites. (See Tab 3)

SNRHA (Orig. Due Date 10-31-12) Extended to Nov. 07– Addendum No. 2 was provided to bidders and SNRHA should have added additional time extending due date by an additional 5 days thru Nov. 13th.

Section 2; Scope of Work was clearly defined within the RFP under 2.4 "Detailed Services" Page 12 of RFP P13003. Addendum 02 provided specifications. It is therefore our opinion the scope was present and clear. (See Tabs 1, Specifications and 3, Addendum 02)

****Updated 04-10-14 Below:** The Procurement department conducted a review of the file and found that there were no phone messages or emails relative to this RFP indicating that the Procurement staff followed all applicable rules and protocols and no evidence exists that any of the bidders supplied this data to the Contracting Office nor did they contact the Contract

Manager/Administrator with any complaint to be able to respond to impartial treatment. Additionally no protest was filed nor comments received following the award.

Update 01: The Procurement department in research of response above; found that there were no phone message/statements on file prior to closure of bid; however everything must be in written format during bid process. Upon closing of bid we had one late bid response that was not accepted; however no protest was received. We have included for this response; one e-mail request (Nov. 06, 2012) requesting additional data from one bidder which was provided by personal response (Nov. 06, 2012) to their e-mail for disc/copies and added Addendum No. 3 which was also sent directly by e-mail in response to Nov. 06, 2012 e-mail (same data was e-mailed to all registered bidders) and posted to SNRHA website (e-mails attached).

Addendum No. 2 to RFP #13003, October 31, 2012 noted on front page:

- Submission Deadline has been extended to Wednesday, November 7, 2012 at 10:00 A.M. Late submissions will not be accepted”
- Questions and answer period deadline has also been extended to Monday, November 5, 2012 at 10:00AM

Addendum No. 3 to RFP #13003; November 06, 2012 (Attached) responding to request to post all questions and response from the Addendum 02 November 5th Question and Answer extension (#1 & #2) Questions, with Question #3 being the request for Questions and Answers (Due in House 11-05-12). Item 4 of Addendum No. 03 stated:

- **(In Bold Print)**
 - 4. **NOTICE: Please be advised that all bids are due in no later than 10:00 AM tomorrow, Wednesday November 7th. Bids will not be accepted after this deadline date and time. No Exceptions.**

In addition to above changes; SNRHA would like to clarify there were in-house SNRHA discussions and/or emails between staff member in regards to time extension from 10:00 AM to 5:00 PM and it was decided to maintain time deadline for submission of 10:00 AM, November 07, 2012. (Update-End)

SNRHA staff provided a pre-bid and site walk and gave all site visitors and prospective bidders the same instructions and made them aware of the question and response period; to include instructions to ask if “confused” on any sites.

At no time was the Contract Administrator aware of any discrepancies, confusion or received any concerns from any bidders prior to the final bid date. As you know, any prospective bidder has the opportunity to ask questions or voice concerns at the Pre-bid conference to include the additional question and answer period within the bid.

Comment 9

In review of the 3 most responsive bids within the competitive range SNRHA awarded to best value and most economical Janitorial service for the agency; within SNRHA's budget.

Bid Cost Analysis available as back up of best value to SNRHA. (See Tab 4).

SNRHA Actions: The Authority will re-bid the cleaning contract utilizing the same information, scope, sites, square footage, specific site data as was provided in the initial RFP and will allow for the incorporation and pricing for 3-5 years; separate pricing for each additional year.

- (3) Separate budgeted areas will be bid, Section 8, Affordable Housing and Public Housing. Only one separate responsive bid will be awarded to each Agency entity (each entity may result in different service providers).
- All bid participants will be required to attend the bid conference (established directive within bid documents) and walk the site as a group.
- Bidders will be ineligible for bid if they fail to be represented at the bid site walk.
- Pre-Bid week of April 21 thru April 29th (3 Separate Bids)
- We expect completion of the rebid process and recommendation to award by the June 2014 board meeting.

Additionally, the Agency will provide the Office of Inspector General analysis and support of overall best value of current contract upon final completion of new bid(s) to be prepared for review by May 30, 2014.

OIG: The Authority awarded two contracts based on the request for proposal, and each contract contained a base year with 4 option years. However, the Authority did not receive option-year pricing and did not evaluate the pricing as part of its award decision in violation of HUD Handbook 7460.8, REV-2. Contracting personnel were aware of the requirement to obtain option-year pricing. However, the Authority ignored this requirement, awarded the contracts, and exercised the 2014 option year without obtaining the required pricing.

SNRHA Response: The requirement was not ignored; clarification should have been included and was overlooked (Janitorial new bid in process to include out years). SNRHA used a FFP based on 5 years as overall price with no increase in option years. Kingdom Janitorial held their pricing for the 5 years. The HUD Handbook No. 7460.8 REV 2 (Chapter 10 Contract Pricing and Types, 10.1(C) 3(iii) reads "*Quantity limits may be stated in the contract as number of units or as dollar values*". In this contract, the dollar value option was used. It further stated in the Handbook "*Specify the total minimum and maximum quantity of supplies or service the PHA will acquire under the contract. This may be expressed in units (e.g., number of items) or total dollar amounts*".

The Procurement department will re-bid utilizing same information, sites, square footage, specific site data as provided in initial RFP and will allow for the incorporation and pricing for 5

Comment 10

years; separate pricing for each additional year. (3) separate areas will be bid, Section 8, Affordable Housing and Public Housing. Only one responsive bid will be awarded to each Agency entity. Some new requirements will include the following: (1) Bid participants are required to attend the bid conference (mandatory requirements included in the bid documents). (2) Walk the site as a group. (3) Bidders will be ineligible for bid if they fail to be represented at the bid site walk.

OIG: The Authority did not follow HUD procurement requirements or its own procurement policy when procuring security services.

SNRHA Response: The security contract noted above was originally awarded by the former the Las Vegas Housing Authority in April 2006 and renewed on October 1, 2006 as stated on the "Renewal of Contract Form". It is apparent that this was initially short gap coverage.

Noted extension was to allow for adequate time to bid our new contract during the transition of all housing agencies. Extension covered the required time to properly secure a contract for SNRHA from original 5 year Las Vegas Housing Authority contract. NOTE: HUD therefore, did not question the reasonableness of the costs paid for the extension to the 2006 to 2011 contract.

We therefore feel through the information provided the SNRHA did follow applicable Procurement practice during the time of the merged agencies.

OIG: Provide training to its employees to ensure compliance with HUD regulations regarding the eligible use of operating funds and procurement

SNRHA Response: The process of training has already been initiated beginning with the Office of Budget and Finance, Supportive Services Department and Resident Leaders. Asset Management Project staff will also be trained. Each of these departments will also update their respective SOP's.

Comment 11

Comment 12

Finding 2: The Authority Did Not Maintain Effective Control of and Accountability for Its Assets

OIG: The Authority did not maintain effective control of and accountability for its assets. Specifically, it did not adequately track appliances from its warehouse to its housing units. This condition occurred because the Authority lacked adequate inventory controls to account for and safeguard appliances and Authority personnel did not accurately complete paperwork when taking inventory from the warehouse or borrowing appliances from a different asset management project. As a result, the Authority could not account for 12 appliances, valued at \$5,500. Further, there were concerns that additional appliances had been misplaced or misappropriated.

Asset tag number	Type of appliance	Amount	Location
R4514	Refrigerator		Tenant theft, have documentation
R4398	Refrigerator		309
R4403	Refrigerator		309
R4388	Refrigerator	\$465	Unknown
R4393	Refrigerator	\$465	Unknown
R4351	Refrigerator	\$465	Unknown
R4508	Refrigerator	\$465	Unknown
R4511	Refrigerator	\$465	Unknown
S4578	Range	\$427	Unknown
S4293	Range		304
S4323	Range		Located in warehouse
S4337	Range	\$451	
Total to reimburse		\$3,203	

Comment 13

SNRHA Response: The agency’s procedures are believed to be sufficient; however tracking changes once the appliances leave the warehouse will be updated with property management being required to conduct a routine audit to ensure documentation of any changes in the placement of appliances if different from warehouse records. Property management will be required to complete a “Property Disbursement Report (PDR)” in the event such a change is decided. The PDR report will detail where 100% of appliances are placed other than the site it was signed out of the warehouse for. Once completed, the form will be filed in the Asset Management Project’s office. (See Tab 5 - PDR Example Form)

The Information/Technology department is currently designing an automated inventory module in YARDI for the warehouse which will bring greater consistency to the process.

Property management is currently searching for the seven (7) missing appliances, as were others during the OIG site visits. We are confident that the remaining appliances will be successfully located. At the time of this response they are considered “unaccounted for” and will reimburse Conventional Low Rent housing in the amount of \$3,203.

In conclusion, to ensure greater efficiency in all areas of this audit, the Authority will do the following. (1) Require departments regularly monitor the HUD website for PIH Notices and conduct staff training on relevant notices (2) Ensure that only eligible expenses are paid from eligible accounts (3) Conduct audits of the bid process for consistency (4) Review, SOPs and conduct training as needed for staff and resident leaders (5) Beginning in January 2014 management of the warehouse was moved under the Procurement department for as long as the current system is in operation (6) Representatives of Procurement and Modernization and development will attend a Procurement training in June.

OIG Evaluation of Auditee Comments

- Comment 1** We appreciate that the Authority will address the audit findings and recommendations. In our evaluation of the Authority's response, we reviewed the Authority's supporting documentation in tabs 1 through 5. We did not include this in the report because it was too voluminous; however, it is available upon request.
- Comment 2** The Authority provided an updated response to the audit findings and recommendations on April 10, 2014. In our evaluation of the Authority's response, we reviewed the updated response and supporting documentation. We also included pages 1 through 7 of the updated response. The attachments provided to support the update are not included in this report but are available upon request.
- Comment 3** The Authority needs to obtain approval from HUD to use its 2013 capital fund grant to reimburse its conventional low rent program. We revised recommendation 1A for HUD to consider reimbursement from capital funds if appropriate.
- Comment 4** We are pleased that the Authority has already taken action to train its employees regarding the eligible use of HUD funds. The Authority is required to provide supporting documentation regarding training of its employees and resident councils and policy changes to HUD during audit resolution.
- Comment 5** Addendum 1 responded to questions asked during the pre-bid meeting. There is no evidence that the Authority posted answers to questions asked during the subsequent site visits. Also, we noticed that addendum 1 provided in tab 2 of the response was not the same addendum that the Authority posted on its website and contained in its contract file.
- Comment 6** The Authority provided the square footage in addendum 3 and not addendum 2 as stated. Addendum 2 only refers to the submission deadline being extended and did not mention the square footage. Addendum 3 dated November 6, 2012, only one day prior to the bid submission date, indicated that at least one potential contractor did not receive the square footage. Also, we spoke with two of the contractors. One contractor stated that they received the square footage the night before the bids were due and did not have time to adjust his bid. The other contractor stated that he never received the square footage data.
- Comment 7** Section 2.2 of the request for proposal does in fact list all of the Authority's properties. There are 46 total properties listed. These properties included administrative buildings, developments and offices, non-housing properties and warehouses. In addendum 1 posted on its website, the Authority stated that it had a budget for 18 of the properties. However, it did not state which 18 properties had budgets. As a result, each contractor bid on different authority properties.

Comment 8 Contractors did not submit any questions to the contracting office because the site managers responded to their questions. Unfortunately, the Authority did not document these questions and answers to ensure all contractors received the same information. Section 1.4 of Addendum 1 posted to the Authority's website states that there should be no communications between the bidders and the property managers. However, in section 1.5 the Authority instructed bidders to contact the property managers to set up site visits. Two of the contractors we spoke to said that during the site visits the property managers answered all questions. The Authority never posted the questions and answers to ensure that the bidders had the same data.

Comment 9 We reviewed all of the bids that the Authority received and found that the bids were completely different from one another making it very difficult to compare. For example, paragraph 1.10 of addendum 1 required each bidder to submit a bid based on a five day cleaning schedule. However, not all bidders submitted bids based on the five day schedule. For example, the lowest bidder bid one building based on a one day a week schedule. Differences like this caused a large discrepancy in the bid amounts and made it difficult to compare one bid to another.

Comment 10 We adjusted the report to state that Authority personnel overlooked HUD's requirements. The Authority cited HUD Handbook 7460.8, Rev-2, paragraph 10.1(C)(3)(iii) as support for not violating HUD regulations. However, this paragraph applies to indefinite quantity type contracts. The Authority awarded a requirements contract. As a result the reference does not pertain to the janitorial contract. Also, section 10.1 of the handbook only refers to the different types of contracts and does not provide guidance regarding option years.

Comment 11 We disagree that the Authority followed applicable procurement practices. The former Las Vegas Housing Authority awarded contract C06026 for security services in May of 2006. The initial year of the contract was from May 24, 2006 through September 30, 2006. This was part of the contract term and was not short gap coverage as stated by the Authority. The Authority then amended the contract to exercise four option years with the last option year to expire on September 30, 2010. As noted in the audit report, HUD regulations state that contracts shall not exceed a period of five years, including options for renewal or extension. Contracts that exceed five years are viewed as restrictive of competition and in violation of 24 CFR 85.36. Also, HUD regulations state that planning is essential to managing the procurement function. Careful advanced planning provides the Authority with adequate time to accomplish its procurement actions. If the Authority adequately planned its procurement actions, it would have awarded the new security contract in a timely manner and would have avoided exceeding the five year limit on the previous security contract.

Comment 12 We are encouraged the Authority has already started to implement procurement training to its employees. The Authority must provide support to HUD during the audit resolution process for the training it provides.

Comment 13 We disagree that the Authority's internal control procedures over its inventory were sufficient. As stated in the internal controls section of the audit report, a significant deficiency in internal controls 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 impairments to effectiveness or efficiency of operations. In this case, the Authority was unable to find seven appliances. This is an indication of a significant deficiency in its controls over its inventory. We are encouraged that the Authority is taking steps to improve its controls.

Appendix C

CRITERIA

Finding 1

Housing Act of 1937 as amended

Section 9(d)(1), IN GENERAL.—The [HUD] Secretary shall establish a Capital Fund for the purpose of making assistance available to public housing agencies to carry out capital and management activities, including (A) the development, financing, and modernization of public housing projects, including the redesign, reconstruction, and reconfiguration of public housing sites and buildings (including accessibility improvements) and the development of mixed-finance projects.

Section 9(e)(1), IN GENERAL.—The Secretary shall establish an Operating Fund for the purpose of making assistance available to public housing agencies for the operation and management of public housing.

2 CFR Part 225 – Cost Principles for State, Local, and Indian Tribal Governments

Appendix B, paragraph 14, Entertainment. Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

Appendix B, paragraph 20, Goods or services for personal use. Costs of goods or services for personal use of the governmental unit's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.

Public and Indian Housing Notice 2013-21 – Guidance on the Use of Tenant Participation Funds

Paragraph 7, Allowable and Unallowable Activities. The following is not a comprehensive list of allowable and unallowable activities. However, this represents a starting framework that PHAs [public housing agencies] may use in establishing their TP [tenant participation] policies and for RCs [resident council] to assess the suitability of requests for the use of TP funds. Allowable activities include reasonable refreshment and light snack costs that are directly related to resident meetings for the activities discussed in this section.

24 CFR Part 85 – Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments

85.36(c), Competition. All procurement transactions will be conducted in a manner providing full and open competition...

85.36(c)(3)(i). Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. Such description shall not, in competitive procurements, contain features which unduly restrict competition. The description may include a statement of the qualitative nature of the material, product or service to be procured, and when necessary, shall set forth those minimum essential characteristics and standards to which it must conform if it is to satisfy its intended use. Detailed product specifications should be avoided if at all possible. When it is impractical or uneconomical to make a clear and accurate description of the technical requirements, a *brand name or equal* description may be used as a means to define the performance or other salient requirements of a procurement. The specific features of the named brand which must be met by offerors shall be clearly stated.

85.36(d)(1), Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. [United States Code] 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

HUD Handbook 7460.8, REV-2 – Procurement Handbook for Public Housing Agencies

Paragraph 2.4, Responsibility of the Contracting Officer. Regardless of the authority delegated, it is the responsibility of the Contracting Officer to:

- A. Use sound judgment in accomplishing the procurement activities of the PHA;
- B. Ensure that bidders and contractors receive fair, impartial, and equitable treatment...

Paragraph 5.3(A), Purchases Above the Micro Purchase Limit. The PHA must solicit price quotes from an adequate number of qualified sources (generally defined as not less than three, except in the case of Micro Purchases, below). The PHA's Procurement Policy shall state any specific policy (e.g., requirement for three offers).

Paragraph 10.8(C)(1), Price. The option to extend the term of the contract or to order additional quantities may only be exercised if the contract contained an options clause and if a price for the additional supplies or services was included. An unpriced option is considered a new procurement and, therefore, may not be used.

Paragraph 10.8(C)(2), Time and Quantity. Contracts shall not exceed a period of five years, including options for renewal or extension. (For PHAs still operating under the "old" ACC [annual contributions contract] – form HUDs-53010 and 53011 – the maximum contract term is two years.) Contracts, other than energy performance contracts, with terms, plus extensions, that exceed a total of five years are viewed as restrictive of competition and in violation of 24 CFR 85.36(c). A Field Office may approve contracts in excess of five years if it determines there is no practical alternative. Energy performance contracts may be for a period not to exceed 20 years in accordance with 24 CFR Part 990 and Public and Indian Housing Notice 2006-6. A PHA must also follow its own procurement policy and any applicable local or State laws and regulations. There must be a finite period for a contract, including all options, and a specific limit on the total quantity or maximum value of items to be purchased under an option.

Paragraph 10.8(C)(3)(b). If the PHA decides to include options in a solicitation, the pricing of the options should be evaluated as part of the overall contract award.

Southern Nevada Regional Housing Authority Procurement Policy

Paragraph 4.9(a). SNRHA [the Authority] must solicit at least three offerors for price quotations.

Finding 2

24 CFR Part 85 – Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments

85.20(b)(3), Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Southern Nevada Regional Housing Authority Warehouse Procedures

Procedure for borrowing/loaning appliances

The appropriate clipboard must be completed for an appliance to be released from the warehouse.

Record ALL appropriate information on the clip board. It is the AMP's [asset management project] responsibility to provide the Unit Number that the item is being issued to. The item **CANNOT** be issued if the Unit Number is not provided.