



Benkelman Housing Authority Benkelman, NE

Public Housing Programs

**Office of Audit, Region 7
Kansas City, KS**

**Audit Report Number: 2018-KC-1004
September 27, 2018**



To: Denise Gipson, Director, Office of Public Housing, 7DPH

From: //signed//
Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

Subject: The Benkelman Housing Authority, Benkelman, NE, Did Not Follow HUD Rules and Regulations for Public Housing Programs Related to Procurement and Maintenance, Tenant Certifications, Laundry Machine Income, and Expenditures

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Benkelman Housing Authority'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 8M, requires that OIG post its publicly available reports on the OIG website. 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 913-551-5870.



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The Benkelman Housing Authority, Benkelman, NE, Did Not Follow HUD Rules and Regulations for Public Housing Programs Related to Procurement and Maintenance, Tenant Certifications, Laundry Machine Income, and Expenditures

Highlights

What We Audited and Why

We audited the Benkelman Housing Authority's public housing program in Benkelman, NE. We initiated the audit based on a request from the U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), Office of Investigation. Additionally, HUD conducted an onsite assessment in May 2016 and identified concerns, including procurement, income verification, travel policy, and significant control deficiencies. Our audit objective was to determine whether the Authority followed HUD's rules and regulations for public housing programs related to procurement and maintenance, tenant certifications, laundry machine income, and expenditures.

What We Found

The Authority did not always comply with procurement and maintenance policies, improperly completed initial tenant certifications and annual recertifications, improperly certified tenants with potential conflict-of-interest relationships, and mismanaged its laundry machine revenue.

What We Recommend

We recommend that the Director of HUD's Omaha, NE, Office of Public Housing require the Authority to provide adequate documentation to support that the \$71,034 spent for improperly procured goods and services was spent at the most competitive prices and provide adequate documentation to support more than \$15,000 spent for maintenance activities. Additionally, we recommend that HUD (1) work with the Authority to develop a formalized process, such as a checklist, when conducting initial certifications and annual recertifications, which would help to ensure that it follows HUD requirements for its public housing program; (2) require the Authority to conduct a 100 percent review of its tenant files to ensure that tenants' rents are accurate and the proper income, asset, and medical expenses are complete and documented in the tenant files; and (3) require the Authority to address actual or potential conflict-of-interest relationships in its Admissions and Continued Occupancy Policy. We also recommend that HUD require the Authority to develop and implement detailed policies and procedures to address collections, tracking, and use of its laundry machine revenue.

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Background and Objective

The Benkelman Housing Authority is located in Benkelman, NE. The Authority is governed by a five-member board that is appointed by the mayor to serve 5-year staggered terms. The board employs the executive director, who manages Authority operations, and one employee. The Authority also has a part-time maintenance assistant. The Authority is comprised of two programs – public housing and a Public Housing Capital Fund program. The public housing was built in 1964 and has 40 one-bedroom units. The Authority has two campuses. The main campus is located at 100 Rainbow Fountain Park, Benkelman, NE, while the North Campus is located at 131 – 143 Rainbow Fountain Park, Benkelman, NE.



HUD’s Office of Public and Indian Housing (PIH) oversees the Authority’s public housing programs. HUD’s Public Housing Operating Fund program provides operating subsidies to public housing agencies to assist in funding the operating and maintenance expenses of their own dwellings. In 2016 and 2017, the Authority was awarded more than \$72,000 and \$71,000, respectively, in operating subsidies.

HUD’s Capital Fund program provides funds annually to the Authority for the development, financing, and modernization of public housing developments and for management improvements. In 2016 and 2017, HUD provided the Authority more than \$36,000 and \$38,000, respectively, in Capital Fund grants.

Benkelman Housing Authority funding

	2016	2017
Operating subsidies	\$72,781	\$71,469
Capital Fund program	36,648	38,138
Totals	109,429	109,607

Our audit objective was to determine whether the Authority followed HUD’s rules and regulations for public housing programs related to procurement and maintenance, tenant certifications, laundry machine income, and expenditures.

Results of Audit

Finding 1: The Authority Did Not Always Comply With Procurement and Maintenance Policies

The Authority did not always comply with procurement and maintenance policies. Specifically, the Authority did not (1) ensure that all purchases were supported with price quotes, (2) ensure that revisions to contracts were duly signed before disbursing capital funds, (3) always maintain adequate records to detail the significant history of its procurements, and (4) maintain documentation of work orders before disbursing operating funds. This condition occurred because the Authority did not fully understand the requirements related to procurement, maintenance, and capital fund obligations. Additionally, the Authority did not have procedures to implement the policies. As a result, the Authority could not guarantee that it received the best value for the procurement of more than \$71,000 in goods and services. Also, the Authority could not provide assurance that more than \$15,000 spent from its operating funds was for maintenance activities.

Goods and Services Were Not Properly Procured

The Authority did not always follow applicable requirements in HUD Handbook 7460.8, REV-2, and the Authority's procurement policy when purchasing more than \$50,000 in goods and services with operating funds and more than \$20,000 with capital funds. Specifically, it did not (1) ensure that purchases over \$2,000 were supported with three price quotes, (2) ensure that revisions to contracts were duly signed before disbursing \$1,298 in 2017 capital fund obligations to a vendor, and (3) always maintain adequate records to detail the significant history of its procurements.

Small Purchase Procurements Without Quotes

The Authority did not ensure that purchases over \$2,000 were supported with three price quotes before disbursing \$50,109 to six vendors. For example, the Authority disbursed \$9,145 for a 2017 Grasshopper Model 623T Tractor and a 2017 Grasshopper Model 3452 FrontMount Deck in October 2016 but did not document that it had obtained at least three price quotes as required by its procurement policy to ensure that the price paid for the equipment was reasonable. Based on the dollar amount spent for the tractor and front mount deck, the Authority should have used its small purchase procedures for the procurement. These procedures required the Authority to obtain a reasonable number of quotes to establish cost reasonableness for purchases between \$2,000 and \$25,000. According to the Authority's procurement policy, the quotes may be obtained orally, by telephone, or in writing, as allowed by State and local laws. The Authority could not show that any of these things occurred.

Unsigned Contracts

The Authority did not ensure that contract revisions were duly signed before disbursing \$1,298 in 2017 capital fund obligations to a vendor. The Authority revised the total amount for the

boiler project in one building from \$7,635 to \$8,933 but did not have a signed contract modification. The Authority fully paid the contractor almost 4 months before the contract modification was drafted, but neither the Authority nor the contractor signed the modification.

Inadequate Records To Detail Procurement History

The Authority did not always maintain adequate records to detail the significant history of its procurements. The Authority did not maintain sufficient documentation as required by HUD Handbook 7460.8, REV-2, section 3.3, and its own procurement policy in any of the nine procurement files reviewed. For example, the Authority procured the services of a fee accountant and spent almost \$4,800 from April 2016 through February 2018 but was unable to provide the contract or other documentation. The only support provided was the invoice and payment made out to the fee accounting company. In an interview with the executive director, she stated that the fee accountant sent a new contract to the Authority every 2 to 3 years but the Authority had not gone out to rebid the service since 1970 or 1980. The Authority did not document the solicitation process or information regarding the contractor selection. According to HUD Handbook 7460.8, REV-2, section 3.3, the Authority must maintain records sufficient to detail the significant history of each procurement, including the rationale for the method of procurement and solicitation and information regarding contractor selection or rejection. The Authority could not show that any of these things occurred for any of the procurement expenditures reviewed, which are identified in the tables below.

Unsupported procurement expenditures from operating funds

Expenditure number	Expenditure description	Missing documentation	Amount unsupported
1	Tractor and front mount deck	Sufficient number of quotes, adequate procurement record	\$9,145*
2	Gator	Sufficient number of quotes, adequate procurement record	6,500*
3	Fee accounting	Contract, sufficient number of quotes, adequate procurement record	4,798**
4	Auditing fees	Sufficient number of quotes, adequate procurement record	10,500**
5	Lawn care services	Sufficient number of quotes, adequate procurement record	10,523**
6	Floor covering	Sufficient number of quotes, adequate procurement record	8,643**
Totals			50,109

*Single expenditure amount, rounded up

**Sum of expenditures spent with one vendor within the audit period, rounded up

Unsupported procurement expenditures from capital funds

Expenditure number	Expenditure description	Missing documentation	Amount unsupported
1	Unit 122 bathroom remodeling	Contract, sufficient number of quotes, adequate procurement record	\$5,200*
2	Solar lights installation	Contract modification, sufficient number of quotes, adequate procurement record	8,625*
3	Building C3 boiler project	Revision to contract not signed, sufficient number of quotes, adequate procurement record	7,100*
Totals			20,925

*Single expenditure amount, rounded up

Work Orders Were Not Documented

In seven of the files reviewed, the Authority did not comply with its maintenance policy when it did not document the work order, the source of the work, and an estimate of the work, which were required to support purchases for maintenance activities. For example, when the Authority purchased tires for its vehicle, the only documentation on file was the invoice and a copy of the check paid to the vendor. The executive director stated that she did not know that the policy required a work order to have the tires replaced. In addition, she stated that she had a discussion with the maintenance staff on documenting work orders for all purchases related to maintenance activities and also informed us that the Authority was having software installed in August 2018, which would help document work orders properly. According to the maintenance policy, mechanical equipment and vehicles were covered under the preventive maintenance program. In addition, the policy required the Authority to have a comprehensive work order system, which included all work request information: source of work, description of work, priority, cost to complete, days to complete, and hours to perform. The policy also required that all work requests and activities performed by the maintenance staff must be recorded on work orders.

The table below shows the total unsupported maintenance expenditures reviewed, which were all missing work order documentation.

Unsupported maintenance expenditures

Expenditure number	Description of expenditure	Amount unsupported
1	Vehicle maintenance	\$2,749*
2	Unit maintenance	6,115*
3	Unit maintenance	5,429*
4	Vehicle maintenance	54**
5	Vehicle maintenance	130**
6	Unit maintenance	46
7	Unit maintenance	378***
8	Unit maintenance	379**
Totals		15,280

*Sum of expenditures spent with one vendor within our audit period, rounded up

**Single expenditure amount, rounded up

***Unsupported portion of a larger expenditure, rounded up

The Authority Did Not Fully Understand the Requirements

The Authority did not fully understand the requirements related to procurement, maintenance, and capital fund obligations. Despite its being part of the Authority’s policies, the executive director stated that she did not understand why she would need a work order for maintenance on the vehicle. Also, she did not understand that she needed to document price quotes or sole-source procurement exceptions when the vendor was reportedly the only one within 100 miles. Additionally, the Authority did not have procedures, such as a checklist, to implement the policies.

The Authority Did Not Receive the Best Value for Goods and Services

As a result of the conditions described above, the Authority could not guarantee that it received the best value for the procurement of more than \$71,000 in goods and services spent from the Authority’s operating funds and capital funds combined. Also, the Authority could not provide assurance that more than \$15,000 spent from its operating funds was for maintenance activities.

Recommendations

We recommend that the Director of HUD’s Omaha, NE, Office of Public Housing require the Authority to

- 1A. Provide adequate documentation to support that the \$71,034 spent for improperly procured goods and services was spent at the most competitive prices. For any amounts not supported, it should reimburse its program from non-Federal funds.
- 1B. Provide adequate documentation to support \$15,280 spent for maintenance activities. For any amounts not supported, it should reimburse its program from non-Federal funds.

- 1C. Develop and implement detailed operating procedures, including checklists, which fully implement its procurement policy and HUD requirements.
- 1D. Ensure that its executive director obtains appropriate procurement training.

Finding 2: The Authority Improperly Completed Initial Tenant Certifications and Annual Recertifications

The Authority improperly completed initial tenant certifications and annual recertifications. It did not properly calculate or update flat rents; verify and report assets, income, and out-of-pocket medical expenses; obtain Enterprise Income Verification system checks before annual recertifications; or establish a passbook rate for income over \$5,000. This condition occurred because the Authority did not have a formalized process, such as a checklist, for conducting initial certifications and annual recertifications. Further, the executive director was not fully aware of the proper flat rents to use and some certification requirements. As a result, the tenants paid the wrong amounts for monthly rent.

Flat Rents Were Not Properly Calculated and Updated

The Authority did not properly calculate and update its flat rent amounts. Notices PIH-2017-23 and PIH-2015-13 state that public housing agencies should establish their flat rents at no less than 80 percent of the applicable fair market rent. For fiscal years 2016 and 2017, the Authority set the flat rent amount at \$325 for a small one bedroom, \$355 for a one bedroom, and \$495 for a double one bedroom. The 2016 fair market rent for Dundy County, NE, was \$471 for a one-bedroom unit, making the appropriate flat rent \$377 for a one-bedroom unit. The 2017 fair market rent for Dundy County, NE, was \$486 for a one-bedroom unit, making the appropriate flat rent \$389 for a one-bedroom unit. The executive director told us that in 2016 and 2017, the Authority's flat rent rates remained the same as the 2015 rates as the Authority did not reevaluate or change them. Effective April 1, 2018, the Authority properly set the one bedroom flat rent at \$393, which was 80 percent of the 2018 Dundy County, NE, fair market rent of \$491.

Assets, Income, and Out-of-Pocket Medical Expenses Were Not Properly Verified and Reported

Of the 7 tenant files reviewed out of 55 households, the Authority did not always properly verify and report the household's assets in 6 of the files. In addition, the Authority did not always properly verify and report the household's income in two of the files, as well as the household's out-of-pocket medical expenses in three of the files. Notices PIH-2011-65 and PIH-2010-25 state that HUD relies on public housing agencies to submit accurate, complete, and timely data to administer, monitor, and report on the management of its rental assistance programs. In one example, a tenant had two checking accounts, with balances of \$293 and \$46. However, the Authority listed only the \$293 balance under tenant assets. The \$46 account was not reported. In another tenant file reviewed, we could not find documentation to support the reported annual income of \$42,396. In yet another tenant file reviewed, we were able to verify only \$163 of the \$1,465 in out-of-pocket medical expenses the Authority reported.

EIV Checks Were Not Obtained Before Annual Recertifications

The Authority did not always obtain reports from HUD's Enterprise Income Verification (EIV) system before annual recertifications in two of the seven tenant files reviewed. According to Notice PIH 2010-19, the EIV system is a web-based application which provides public housing agencies with employment, wage, unemployment compensation, and social security benefit information of tenants who participate in the Public Housing program. Notices PIH-2015-02 and

PIH-2010-19 state that all public housing agencies are required to review the EIV report of each family before or during mandatory annual and interim reexaminations of family income or composition to reduce tenant underreporting of income and improper subsidy payments.

A Passbook Rate Was Not Used for Income Over \$5,000

One tenant had assets of \$7,333, but the Authority failed to establish a passbook rate for this amount and include it as imputed asset income. According to the Form HUD-50058 Instruction Booklet, the passbook rate is the interest rate used to determine the imputed income of an asset(s) that would otherwise be readily determinable. It usually falls between 2 and 3 percent. Notice PIH-2012-29 requires public housing agencies to establish a passbook rate when a family has net assets in excess of \$5,000. The Authority should have established a passbook rate and calculated an imputed asset income.

The table below documents the file review discrepancies found in each household file reviewed.

Tenant file review discrepancies

Tenant number	Flat rent amounts not properly calculated or updated	EIV system reports not obtained before annual recertification	Assets not properly verified and entered into family report	Income not properly verified and entered into family report	Medical expenses not properly verified and entered into family report	Passbook rate not established and used for assets over \$5,000
1						
2	X	X	X		X	X
3	X	X	X			
4			X		X	
5	X		X	X		
6			X	X		
7	X		X		X	
Totals	4	2	6	2	3	1

The Authority Had No Formalized Process and the Executive Director Was Not Fully Aware of Requirements

The Authority did not have a formalized process, such as a checklist, for conducting initial certifications and annual recertifications. In addition, the executive director was not fully aware of the proper flat rents to use and some certification requirements and required additional training. The executive director stated that the 2016 and 2017 flat rent rates remained the same as the 2015 rates because the Authority did not reevaluate or change them. The executive director did not understand that she could not have varying flat rents for varying sizes of one-bedroom units. Further, regarding the assets, income, and out-of-pocket medical expenses, the executive director stated that it was difficult to place everything correctly into the form HUD-

50058 and she was often too lenient with her tenants about the required documentation. For example, she allowed tenants to provide only MapQuest mileage for out-of-pocket medical expenses for doctors' appointments instead of receipts, for example. Additionally, she stated that she did not know that there was a requirement that all public housing agencies review the EIV report of each family before or during annual and interim reexaminations and did not know that the Authority should establish a passbook rate for assets over \$5,000. The executive director believed the passbook requirement was discontinued and just got reinstated. However, she attributed the majority of these conditions to poor training.

Tenants Paid the Wrong Amounts for Monthly Rent

As a result of the conditions described above, the tenants paid the wrong amounts for monthly rent. The Authority's failure to properly calculate and update flat rents resulted in three tenants in our sample of seven underpaying rent in 2016 and 2017, while one tenant overpaid. Further, the Authority's failure to properly verify assets, income, and expenses also affected the tenants' monthly rent because these items all factor into rent determination.

Recommendations

We recommend that the Director of HUD's Omaha, NE, Office of Public Housing

- 2A. Work with the Authority to develop a formalized process, such as a checklist, to use when conducting initial certifications and annual recertifications, which would help to ensure that it follows HUD requirements for its public housing program.
- 2B. Require the Authority's executive director to obtain appropriate training regarding public housing occupancy requirements.
- 2C. Require the Authority to conduct a 100 percent review of its tenant files to ensure that tenants' rents are accurate and the proper income, asset, and medical expenses are complete and documented in the tenant files.
- 2D. Monitor the Authority after the recommended training and tenant file reviews are complete to ensure that the executive director understands and properly implements public housing occupancy requirements.

Finding 3: The Authority Improperly Certified Tenants With Potential Conflict-of-Interest Relationships

The Authority improperly certified tenants with potential conflict-of-interest relationships. This condition occurred because the Authority's Admissions and Continued Occupancy Policy did not address actual or potential conflict-of-interest relationships. The Authority's approval of the tenant certifications and annual recertifications could result in a loss of public trust.

There Was a Potential Conflict of Interest

The Authority improperly certified tenants with potential conflict-of-interest relationships in three of the seven tenant files reviewed. The executive director lives in a public housing unit, and her mother and nephew also live in public housing units. Although the executive director had an executive director of a nearby public housing agency approve her initial certification on March 1, 2015, for admission to the program, she later approved her own annual recertification on April 1, 2016. Further, she approved her mother's initial certification on October 1, 2016, and annual recertification on April 1, 2017, as well as her nephew's initial certification on March 1, 2018.

The Nebraska Housing Agency Act, section 1(b) of chapter 71-15,150, states that a housing agency official is prohibited from engaging in professional or personal activity, among other things, that secures or appears to secure unwarranted privileges or advantages for the official or for others. The executive director's approval of her own annual recertification, as well as initial certifications for her nephew and mother, falls within this broad prohibition and constitutes a conflict of interest under the Act. While she may not have secured unwarranted privileges for herself and her family members when she reviewed their applications, it created the appearance that they received an advantage in the public housing admission or reexamination process because of their close relationship with the executive director.

There Were No Conflict-of-Interest Policies

The Authority's Admissions and Continued Occupancy Policy did not address actual or potential conflict-of-interest relationships. Further, the executive director did not know that she should not approve certifications for herself or her family members.

There Was a Possible Loss of Public Trust

The Authority's approval of the tenant certifications and annual recertifications could result in a loss of public trust. The public expects its government to provide services without potential or actual conflict-of-interest relationships.

Recommendations

We recommend that the Director of HUD's Omaha, NE, Office of Public Housing

- 3A. Require the Authority to address actual or potential conflict-of-interest relationships in its Admissions and Continued Occupancy Policy.

- 3B. Work with the Authority to develop a plan to ensure that a third party reviews the initial tenant certifications and annual recertifications with an actual or potential conflict of interest.
- 3C. Ensure that the Authority's board of commissioners and staff receive HUD-approved training on conflicts of interest.
- 3D. Monitor the Authority to ensure that initial tenant certifications and annual recertifications with an actual or potential conflict of interest are appropriately handled.

Finding 4: The Authority Mismanaged Its Laundry Machine Revenue

The Authority mismanaged its laundry machine revenue. The Authority did not have two staff members reconcile its laundry machine revenue and did not deposit the revenue regularly. Also, the Authority did not keep records showing how it spent the laundry machine revenue. This condition occurred because the executive director did not know the laundry machine revenue requirements. In addition, the Authority did not have a comprehensive policy regarding tracking and use of the laundry machine revenue. As a result, laundry machine revenue was not available for eligible purposes. In addition, the Authority put these funds at risk of loss or theft when it did not regularly deposit or track its laundry revenue.

Laundry Machine Revenue Was Not Reconciled and Deposited According to Authority Policy

The Authority did not have two staff members reconcile its laundry machine revenue and did not deposit the revenue regularly. The Authority had a local policy, which required laundry machine revenue to be regularly reconciled by the executive director and another staff member before deposit. In an interview with the executive director, she stated that she collected and deposited the money every few months. She also stated that the deposits ranged from \$200 to \$600. However, based on general ledger entries, from November 2016 through January 2018, the Authority made four deposits from the laundry machines totaling \$2,030. The executive director made the deposits over almost 15 months, with gaps of 7 months, 4 months, and 3 months between deposits. In addition, there was no documentation showing that Authority staff had reconciled the laundry machine revenue.

The Authority Did Not Keep Records of How It Spent the Revenue

The Authority did not keep records showing how it spent its laundry machine revenue. The United States Housing Act of 1937, section 9(1), regarding operating funds, capital funds, and public housing, states that nonrental income from nonrental sources shall be used only for low-income housing or to benefit the residents assisted by the public housing agency. Regulations at 2 CFR (Code of Federal Regulations) 200.307(e) and (e)(1) require the Authority to spend program income on eligible program costs in the same manner as it would treat regular program funds. Also, HUD Asset Management Newsletter 172008 states that laundry and vending machine income must be treated as program income and should be recognized as associated with the projects that generated them. Although we found records showing that some laundry money had been deposited, not all of the money had been deposited into the bank account. Further, there were no records showing how the laundry machine revenue that was not deposited was spent. Based on interviews, we found that the Authority sometimes spent its undeposited laundry machine revenue for ineligible purposes, including barbeques for the residents and using the money to wash the Authority's vehicles, before depositing the remaining funds into its bank account.

The Executive Director Did Not Know Requirements

The executive director did not know the laundry machine revenue requirements. In an interview with the executive director, she stated that she did not know about this requirement and did not

reconcile the laundry funds together with another staff member before deposit. In addition, the Authority did not have a comprehensive policy regarding tracking and use of its laundry machine revenue.

Revenue Was Not Available for Eligible Purposes and at Risk of Loss or Theft

As a result of the Authority's spending its laundry machine revenue on ineligible purchases, the money was not available for eligible purposes. In addition, the Authority put these funds at risk of loss or theft when it did not regularly deposit or track its laundry revenue.

Recommendations

We recommend that the Director of HUD's Omaha, NE, Office of Public Housing

- 4A. Require the Authority to develop and implement detailed policies and procedures to address collections, tracking, and use of its laundry machine revenue.
- 4B. Require the Authority to determine how much laundry machine revenue was not deposited into its accounts and used for eligible purposes and reimburse its program from non-Federal funds.
- 4C. Monitor the Authority to ensure compliance with its new laundry machine revenue policies.

Scope and Methodology

Our audit period generally covered the period April 1, 2016, through March 31, 2018. We performed our fieldwork from April through June 2018 at the Authority located at 100 Rainbow Fountain Park, Benkelman, NE, and the Kansas City, KS, HUD, Office of Inspector General (OIG), office.

To accomplish our objective, we reviewed

- applicable Federal regulations, HUD requirements, and the Nebraska Housing Agency Act;
- the Authority's policies and procedures;
- HUD's monitoring review of the Authority;
- board minutes and resolutions;
- the Authority's audited financial statements covering our review period; and
- Authority records, including bank records, invoices, receipts, check vouchers, rent registers, tenant files, and other supporting documentation.

Additionally, we interviewed Authority staff and HUD's Office of Public Housing staff in Omaha, NE.

Further, we reviewed expenditures from the Authority's general ledger to determine whether the Authority followed HUD's rules and regulations. We identified four areas for review, which included potential procurements, training and travel expenses, questionable expenses, and ineligible expenses. We compiled the expenditures in a spreadsheet to select the samples for review. We entered each expenditure recorded in the general ledger into the spreadsheet. We excluded payments for insurance, payroll, utilities, and taxes.

For the potential procurement expenditure sample, we selected a nonstatistical sample of 11 expenditures representing \$50,975 (33 percent) of the universe of \$154,645 spent from the Authority's general fund account during our audit period for items we classified as potential procurements. We identified all recurring expenses to the same vendor and chose the most expensive transaction for each recurring vendor for our sample. In cases in which there were multiple expenses at the highest amount for a particular vendor, we selected the most recent of those transactions. We selected another nonstatistical sample of two expenditures totaling \$13,825 (33 percent of the population of \$42,040) from the fiscal year 2016 Capital Fund grant and one expenditure of \$7,100 (22 percent of the population of \$32,138) from the fiscal year 2017 Capital Fund grant. We selected the most expensive transaction drawn from each of the 2016 and 2017 Capital Fund grants as well as the most expensive transaction from the 2016 Capital Fund grant paid to a recurring vendor.

For our training and travel expenditure sample, we selected a nonstatistical sample of five expenditures totaling \$2,476 (54 percent of the population of \$4,596) from the Authority's general fund account during our audit period for items we classified as training and travel expenditures. We selected the most expensive charge related to training as well as all payments to the executive director for travel reimbursement.

For the questionable expenditure sample, we selected a nonstatistical sample of seven potentially questionable transactions totaling \$1,678 (21 percent of the population of \$7,883) from the Authority's general fund account during our audit period for items we classified as questionable expenditures. For our universe, we selected recurring payments to online vendors and the Authority's administrative service contract. Additionally, we selected transactions for which we were unsure of the service or item the Authority purchased. For our sample, we selected the most recent recurring administrative service contract expenditure because all 23 related expenditures were for the same amount; all 4 expenditures associated with an online vendor; and the 2 largest transactions, which were also the most recent, of 8 expenditures related to Visa purchases with no description.

For the ineligible expenditure sample, we selected a nonstatistical sample of four potentially ineligible expenditures totaling \$160 (27 percent of the population of \$604) from the Authority's general fund account during our audit period for items we classified as potentially ineligible expenditures. We reviewed the general ledger for potentially ineligible costs. For our four sample items, we selected all expenses related to flower shops and donations, based on the vendor name or memo description.

We did not use a statistical sample to select expenditures for review because we were looking for specific examples of noncompliance and taking a representative statistical sample would have included items that we believed to have a lower risk of being misspent. The results of our review sample apply only to the items reviewed and cannot be projected to the portion of the population that we did not test.

We also selected a nonstatistical sample of 7 of 55 (13 percent) households for review for compliance with admission and recertification requirements, including verification of eligibility, income determination, and rent calculation. We selected all three tenants who we knew were related to or friends of the executive director. Also, we selected the executive director's tenant file to review, as she lived in one of the public housing units. To select the remaining three, we used the PIH Information Center to create a Multifamily Tenant Characteristic System adhoc report of the Authority for our audit period. We sorted the adhoc report by heads of households' last names and selected the first, middle, and last records listed on this report. The results of our review sample apply only to the items reviewed and cannot be projected to the entire universe.

We relied, in part, on accounting data provided by the Authority. Although we did not perform a detailed assessment of the reliability of the data, we determined that the computer-processed data were sufficiently reliable to be used in meeting our objective because the data in the sampled items were corroborated by documentary evidence the Authority supplied. We did not rely on the data as the sole support for our audit conclusions.

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

- Controls over the Authority's procurement, flat rents and tenant certifications, laundry machine revenue, and expenditures.

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 have procedures to fully implement procurement policies and HUD requirements (finding 1).
- The Authority did not have a process to use when conducting initial certifications and annual recertifications (finding 2).
- The Authority did not have policies and procedures that addressed conflict-of-interest relationships or collections, tracking, and use of its laundry machine revenue (findings 3 and 4).

Separate Communication of Minor Deficiencies

We reported minor deficiencies to the auditee in a separate management letter.

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1A	\$71,034
1B	15,280
Totals	86,314

- 1/ 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



Benkelman Housing Authority
100 Rainbow Fountain Park
Benkelman, NE 69021-3045
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September 13, 2018

Executive Directors comments regarding Benkelman Housing Authorities Audit findings conducted by Kansas City-OIG

Finding #1 Procurement and Maintenance

Procurement/Maintenance: An ad is placed in local area's newspapers soliciting for bids; rural Southwest Nebraska typically has no response to ads.

Comment 1

Maintenance has researched prices of and printed ads that were found on line when we were purchasing used John Deere Gator. The new zero turn 52" mower was compared to John Deere models and we found that the best price as well as maintenance provided was with the Grasshopper brand then we added the bagger that could only be a Grasshopper model.

Comment 2

As far as maintenance for the 2000 Ford pick-up tires and maintenance there is only 1 provided within 52 miles.

Comment 3

We have started making work orders for all items bought for maintenance and will be using Lindsey Mobil Work Order program as of September 17th 2018 and for all contract work and Capital Fund projects I will keep logs of ads, bids, work progress and final report. And update addendums to contracts in a timely manner.

Finding #2: Initial Tenant Certifications and Recertification's

Comment 4

Flat Rents will be addressed and adjusted according to HUD notices and all units are now classified as 1 bedroom units (before there were 3 different 1 bedroom sizes with different flat rent amounts)

Assets, Income and Out-of-pocket expenses

Comment 3

All will now have proper paper documents to verify correct amounts.
We have purchased Lindsey Software so this should help to correct finding

EIV Reports

Comment 3

I was unaware that reports are to be printed before or on recertification date.
Going forward EIV will be printed at time of recertification appointment

Passbook Rates

Comment 3

I will reach out to a seasoned Director to establish a passbook rate for BHA

**Ref to OIG
Evaluation**

Auditee Comments

Comment 3

Finding #3 Potential Conflict-of-Interest Relationships

Upon my move in BHA I had a fellow director do my move in certification and was told by my HUD person at that time, that I could do my own recertification's. Going forward I will reach out to a fellow director to recert myself, and family members that live at BHA.

Comment 3

Finding #4 Laundry Money Collection

Going forward I will have my resident board member go with me to empty machines and to the bank for count and deposit on a quartiles bases. Laundry money will no longer be used for tenant holiday potluck meals or washing of BHA equipment.

My personal thoughts and comments

I hope that HUD sees the need for an on-site HUD trainer for training for ALL new Executive Directors and consider training for ED that received training from the exiting ED. Reaching out to other Housing ED's is a great idea in theory BUT there is risk of being trained incorrectly. I went thru the NAHRO Property Manger training which was good however not helpful for day to day operations of specific housings needs; and I believe that is my major training issue. BHA has not been doing most CF projects, maintenance work orders and other items correctly since the establishment in 1964.

As far as rural HA and procurement problems with attaining bids and purchasing equipment consideration is taken to develop rural area procedures for Public Housings.

I hope that the items found in BHA audit is found to be helpful in making adjustments needed to help small and rural area projects.

Sincerely,

Martha Burgess
Executive Director

OIG Evaluation of Auditee Comments

- Comment 1 We requested all supporting documentation regarding the purchase of the John Deere Gator and mower from the Authority. However, the only document the Authority provided was the invoice and check for the purchase. The Authority was unable to provide documentation of other quotes solicited and how they arrived at the best price for the procurement.
- Comment 2 The Authority's vehicle is covered under the preventive maintenance program of its maintenance policy and as such, a work order with information such as the source of work, description of work, priority, cost to complete, hours to complete, days to complete, and hours to complete is required. The Authority did not have this in place during our review and was unable to provide additional documentation such as a work request for the maintenance of the vehicle.
- Comment 3 We acknowledge that the Authority is taking steps to correct issues found in this report. However, we recommend that HUD work with the Authority during the audit resolution process to ensure the changes meet HUD requirements.
- Comment 4 We acknowledge that the Authority has classified all units as 1-bedroom units and is taking steps to correct the issues found. We recommend that HUD work with the Authority during the audit resolution process to ensure the changes meet HUD requirements.