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Audit Report Number	2007-DE-1002
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TO: Ann Roman, Director, Denver Office of Public Housing, 8APH

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FROM: Ronald J. Hosking, Regional Inspector General for Audit, 8AGA

SUBJECT: The Lusk Housing Authority in Lusk, Wyoming, Improperly Awarded Its Administration and Management Contract

HIGHLIGHTS

What We Audited and Why

We reviewed the Lusk Housing Authority's (Authority) administration and management contract with Housing Operations and Management, Incorporated (contractor), to determine whether the Authority awarded the contract in accordance with federal procurement requirements. We performed the audit because we discovered that the contractor's owner/president was also the executive director of the Authority.

What We Found

The Authority did not follow federal procurement requirements and its own procurement policy when it awarded its administration and management contract to the contractor. Members of the Authority's board of commissioners (board) did not fully understand their duties and responsibilities related to the procurement process for the award of this contract. Without following federal procurement requirements, the Authority has no assurance that it received the best price for the services provided under the terms of the contract.

What We Recommend

We recommend that HUD ensure that the board takes all actions necessary to provide its members with a full understanding of their duties and responsibilities related to the federal procurement process and require the Authority to amend its existing administration and management contract to include all required contract provisions.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the discussion draft of the audit report to the Authority on February 12, 2007, and requested its comments by February 26, 2007. During the exit conference on February 22, 2007, the Authority agreed with the finding and recommendation and declined to provide us with written comments.

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BACKGROUND AND OBJECTIVES

The laws of the State of Wyoming created the Lusk Housing Authority (Authority). The Authority administers public housing programs authorized by the Quality Housing and Work Responsibility Act of 1998.

Since February 2006, an administration and management contractor, Housing and Operations Management, Incorporated (contractor), has managed the day-to-day operations for the Authority. The U.S. Department of Housing and Urban Development (HUD) recommended the contractor to the Authority because the Authority was on HUD's "troubled" list. On February 1, 2006, the Authority entered into a one-year contract with the contractor. The contractor administers the Authority's low-rent program, ensuring compliance with federal and state regulations and Authority policies, along with any changes to those regulations and policies. The Authority's low-rent program consists of 20 units.

The contractor has been in existence since 1979. As part of the contract, the contractor's current president/owner also serves as the executive director of the Authority.

The objective of our audit was to determine whether the Authority awarded its administration and management contract to the contractor in accordance with federal procurement requirements.

RESULTS OF AUDIT

Finding 1: The Authority Improperly Awarded Its Administration and Management Contract

The Authority did not follow federal procurement requirements and its own procurement policy when it awarded its administration and management contract to Housing and Operations Management, Incorporated (contractor). The members of the Authority's board of commissioners (board) did not fully understand their duties and responsibilities related to the procurement process for the award of this contract. Without following federal procurement requirements, the Authority has no assurance that it received the best price for the services provided under the terms of the contract.

The Authority Did Not Follow Federal Procurement Requirements

On February 1, 2006, the Authority improperly awarded a one-year administration and management contract to provide the day-to-day administration of its operations. The Authority awarded the contract without following federal procurement requirements and its own procurement policy. The Authority did not promote competition by advertising a request for proposal and did not perform an independent cost estimate. Additionally, the Authority did not perform a cost analysis.

Also, the Authority did not include all clauses required by the Office of Federal Procurement Policy in its administration and management contract. For example, every contract must include all provisions required by 24 CFR [*Code of Federal Regulations*] 85.36(i) (i.e., compliance with the Copeland "Anti-Kickback" Act).

The Board Lacked Understanding of Procurement Requirements

The board did not fully understand its duties and responsibilities related to the procurement process for the award of the administration and management contract. The board awarded the contract to the contractor based partly on HUD's recommendation. The current board needs training in how to comply with federal procurement requirements.

Lack of Competition and The Authority Has No Assurance That It Is Receiving the Best Price for the Services Provided

Without advertising a request for proposal, there is no competition for the award of the contract. Without performing the required independent cost estimates and cost analysis, the Authority did not have assurance that it received the best price for the services provided. The independent cost estimate gives the Authority a fair market value basis on which to evaluate incoming proposals. The cost analysis ensures that the proposed price is reasonable for the services provided under the contract. A cost analysis on bids or proposals received is required to verify the proposed cost data and to evaluate specific elements of the costs. In this case, the Authority had no way of identifying the fair price concerning labor, indirect costs, and profits proposed. It also could not determine whether it paid for questionable or unallowable costs or inflated items.

Recommendations

We recommend that the director, Denver Office of Public Housing,

- 1A. Ensure that the Authority's board takes all actions necessary to provide its members with a full understanding of their duties and responsibilities related to the federal procurement process.
- 1B. Require the Authority to amend its existing administration and management contract to include all required contract provisions.

SCOPE AND METHODOLOGY

To accomplish our audit objective, we obtained and became familiar with the applicable procurement requirements and regulations. We also

1. Interviewed Denver Office of Public Housing staff and reviewed their project files;
2. Interviewed Housing and Operations Management, Incorporated (contractor) staff;
3. Performed site work at the Cheyenne Housing Authority and obtained and reviewed files, audited financial statements, and financial records for the Lusk Housing Authority;
4. Obtained and reviewed the Authority's contract agreement with the contractor and related board approval;
5. Interviewed Authority board members and discussed the audit results with them; and
6. Discussed the audit results with the contractor's president/owner, who also serves as the executive director of the Authority.

Our audit period covered October 1, 2003, through October 31, 2006.

We performed the audit work from October to December 2006. We conducted the audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal control was relevant to our audit objective:

- The Authority's policies and procedures for procurement activities.

We assessed the relevant control identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we did not identify any significant weaknesses.