



Issue Date January 9, 2009
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Audit Report Number 2009-SE-1001
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TO: Harlan Stewart, Director, Region X Office of Public Housing, OAPH

*Joan S. Hobbs*

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Seattle, Region X, OAGA

SUBJECT: The Housing Authority of Douglas County, Roseburg, Oregon, Needs to Strengthen Its Internal Controls

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Housing Authority of Douglas County (Authority) at the request of the U.S. Department of Housing and Urban Development's (HUD) Region X Office of Public Housing to determine whether the Authority procured goods and services in accordance with HUD regulations and its procurement policy, accounted for HUD funds in accordance with HUD's administrative requirements, and managed its Housing Choice Voucher program in accordance with HUD regulations.

### **What We Found**

The Authority did not sufficiently document procurement actions, adequately maintain source documentation, properly ensure that HUD funds were spent for allowable costs, or always accurately calculate and pay housing assistance. These deficiencies were caused by a lack of adequate procedures and practices. As a result, HUD did not have reasonable assurance that the Authority fully complied with HUD and other federal requirements.

## **What We Recommend**

We recommend that HUD require the Authority to implement policies and practices that will provide reasonable assurance of compliance with HUD requirements. We also recommend that the Authority repay \$2,197 in ineligible expenses from nonfederal funds.

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 Authority a discussion draft report on December 11, 2008, and held an exit conference with Authority's officials on December 23, 2008. The Authority provided written comments on December 29, 2008. It generally agreed with our findings.

The complete text of the auditee's response can be found in appendix B of this report.

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## **BACKGROUND AND OBJECTIVE**

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### Housing Authority of Douglas County, Oregon

The Housing Authority of Douglas County (Authority), located in Roseburg, Oregon, was established in 1944 to provide the opportunity for decent, safe, and sanitary housing that is free from discrimination. The Authority's board of commissioners, appointed by the board of commissioners of Douglas County, is responsible for all activities of the Authority. The executive director is responsible for the daily functioning of the Authority. Annually, the U.S. Department of Housing and Urban Development (HUD) provides the Authority about \$3 million to administer about 650 housing choice vouchers and about \$700,000 to operate 155 public housing units. The Authority also operates low-income tax credit and rural development properties and administers Family Self Sufficiency and homeownership education programs.

### Housing Choice Voucher Program

The Housing Choice Voucher program is the federal government's major program for helping very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. Public housing agencies administer the HUD-funded program, which pays a housing subsidy to the landlord on behalf of the participating family.

### Objective

Our objective was to determine whether the Authority procured goods and services, accounted for HUD funds, and managed its Housing Choice Voucher program in accordance with HUD requirements.

# RESULTS OF AUDIT

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## Finding 1: The Authority Had Internal Control Weaknesses

The Authority did not sufficiently document procurement actions, adequately maintain source documents, fully ensure that HUD funds were spent for allowable costs, or always accurately calculate and pay housing assistance. These deficiencies were caused by a lack of adequate procedures and practices. As a result, HUD did not have reasonable assurance that the Authority fully complied with HUD and other federal requirements.

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### **Documentation of Four Procurement Actions Was Incomplete**

We reviewed 10 selected procurement actions based on the dollar amounts and number of payments. Contrary to HUD regulations at 24 CFR 85.36, Procurement, and the Authority's procurement policy, the Authority did not document a sufficient number of bids or the justification for a sole source procurement when it

- Obtained the services of an accounting firm for the Authority's annual audit,
- Contracted for the foundation repair of a public housing unit,
- Contracted for an environmental assessment on seven public housing units, and
- Obtained an energy audit for public housing units.

Since the Authority did not properly document the procurement actions in accordance with HUD regulations, we could not determine whether it received the best price for these goods and services. Authority records showed that the contractors completed the work satisfactorily, and the cost of the procurement actions did not appear to be excessive.

### **Supporting Documentation for Some Expenditures Was Inadequate**

HUD regulations at 24 CFR 85.20(b)(6) require that accounting records be supported by such source documentation as cancelled checks, paid bills, payroll, time and attendance records, contract and subgrant award documents, etc. We reviewed 62 of the Authority's expenditures and found that the Authority did not have receipts documenting the amounts paid for eight employee purchase reimbursements totaling about \$3,000, six of which were travel related. This deficiency occurred because Authority policy did not specifically require receipts for travel expenditures or other purchases by employees.

The Authority had alternate documentation in lieu of the required receipts, such as an e-mail from the hotel showing the room rate and an Internet Web page showing an item's price.

The Authority also donated \$2,000 in public housing funds to a local charity and provided \$197 in public housing funds for a party for public housing residents, contrary to Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local, and Tribal Governments, which states that donations and social activities are unallowable expenses. The unallowable charges occurred because Authority management was unfamiliar with the applicable requirements. As a result, \$2,197 was not available to provide housing services to public housing residents and should be repaid.

### **The Authority Calculated or Paid Incorrect Housing Assistance**

The Authority adequately administered HUD's housing quality standards program, properly chose applicants from the waiting list, and met HUD's rent reasonableness requirements. We reviewed Housing Choice Voucher program tenant files for 10 of 215 new admissions and 10 of 768 recertifications. The Authority properly determined the eligibility of the tenants reviewed and recertified the tenants in a timely manner. However, it made minor errors in calculating or paying housing assistance in four of the files reviewed.

HUD regulations at 24 CFR (*Code of Federal Regulations*) Part 982 require housing agencies to compute a family's housing assistance payment based on a local payment standard that reflects the cost to lease a unit in the local housing market. If the rent is less than the payment standard, the family generally pays 30 percent of its adjusted monthly income for rent.

In one of the 20 tenant files reviewed, the Authority calculated the tenant's annual income using the wrong amount of Supplemental Security Income. This error resulted in a \$6 per month undercalculation of the housing assistance payment. For another Section 8 recipient, the Authority paid the landlord an extra month's housing assistance payment of \$149. In the third case, the Authority made a minor error when it calculated the prorated assistance amount, resulting in a one-time \$3 underpayment. For a fourth Section 8 recipient, the Authority used the wrong payment standard to compute the housing assistance payment, resulting in a \$174 total overpayment.

The four deficiencies were due to errors made by Authority staff. Three of the deficiencies occurred while the Section 8 director was the acting executive director. The additional duties as acting executive director interfered with the Section 8 director's normal supervisory reviews that might have detected and prevented the errors and miscalculations in the tenant files.

The Authority later hired a new executive director, and the Housing Choice Voucher program became the sole responsibility of the Section 8 director.

While these specific deficiencies are not monetarily significant, the number of errors could adversely affect the Authority's ability to attain high performer status in its Section 8 Management Assessment Program which in turn could mean the Authority would not get competitive advantages in certain notices of funding availability.

## **Conclusion**

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, requires that an entity receiving and expending federal funds maintain internal controls that provide reasonable assurance that the entity is managing its federal awards in compliance with laws, regulations, and grant agreements. The deficiencies identified in our audit occurred because some essential characteristics of the Authority's internal controls had weaknesses. To address these weaknesses, the Authority should (1) improve the supervisory review of procurements and housing assistance payment calculations; (2) ensure that required source documentation is created and maintained for procurements, purchases, and reimbursements; and (3) ensure that staff are knowledgeable about requirements relating to the allowability of expenditures.

## **Recommendations**

We recommend that the Region X Director of the Office of Public Housing require the Authority to

- 1A. Revise Authority policy to require that receipts for purchases be maintained.
- 1B. Conduct training regarding procurement documentation requirements and the allowable uses of federal funds.
- 1C . Revise Authority policy to include management review of procurements for compliance with HUD regulations and Authority policy
- 1D. Arrange for supervisory reviews of housing assistance payment calculations when the Section 8 director is unavailable to perform the reviews.
- 1E. Repay \$2,197 in ineligible expenses from nonfederal funds.

## SCOPE AND METHODOLOGY

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We conducted our fieldwork at the Authority's office in Roseburg, Oregon, in September and October 2008. To achieve our objectives, we reviewed applicable criteria; interviewed Authority staff; and reviewed Authority procedures, tenant files, and financial records. Our review covered the period April 2006 through March 2008.

We reviewed a representative sample of tenant files to test the Authority's process for admitting and recertifying housing choice voucher tenants. The sample consisted of 10 of 215 new admissions and 10 of 768 recertifications from October 1, 2007, through August 31, 2008.

We reviewed 10 procurement files based on the dollar amounts and number of payments to test the Authority's compliance with HUD's procurement regulations and its own policy. We chose the sample from the Authority's public housing operating account check register from April 1, 2006, through March 31, 2008. We did not include payments that appeared to be for normal operating expenses such as utilities and insurance.

For the period April 1, 2006, through March 31, 2008, we also reviewed

- Five of seven expenditures for legal fees that exceeded \$200;
- A consulting fee of more than \$14,000, four maintenance contracts exceeding \$1,000, and both architectural and engineering services fees listed in the general ledger;
- Payments to a representative sample of 10 of the 461 recipients of housing assistance payment funds;
- Checks written on the Authority's HUD program bank accounts to 27 recipients whose eligibility appeared questionable (e.g., grocery stores and charities); and
- 4 of 25 credit card payments that exceeded \$2,000.

We reviewed these expenditures to test whether they were for eligible purposes and whether the Authority had adequate support for the expenditures. We did not project the results of any samples.

We performed our review 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

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

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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.

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## Relevant Internal Controls

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

- Policies and procedures intended to ensure that the Authority pays the correct housing assistance for eligible tenants to live in decent, safe, and sanitary units.
- Policies and procedures intended to ensure that HUD funds are safeguarded and used only for authorized purposes.

We assessed the relevant controls 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 believe that the following item is a significant weakness:

- The Authority did not always correctly calculate and pay housing assistance, appropriately document procurement actions, adequately maintain supporting source documents for its financial records, or ensure that HUD funds were spent for allowable costs.

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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Recommendation number	Ineligible Costs <sup>1/</sup>
1E	\$2,197

<sup>1/</sup> Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

# Appendix B

## AUDITEE COMMENTS

### Auditee Comments

 <p><b>HADCO</b> Housing Authority of Douglas County Affordable Housing Since 1944</p>	<h2>Housing Authority of Douglas County</h2>
<p>902 W Stanton Street, Roseburg, OR 97471 541-673-6548 Fax 541-673-8230</p>	
<p>December 29, 2008</p>	
<p>Joan S. Hobbs Regional Inspector General for Audit U S Dept of Housing and Urban Development 909 First Avenue, Suite 126 Seattle, WA 98401-1000</p>	
<p>Re: OIG Audit Report</p>	
<p>Dear Ms Hobbs:</p>	
<p>I am in receipt of your letter dated December 11, 2008. An exit conference was scheduled within one week of receipt of the draft and was postponed due to inclement weather. The exit conference occurred on December 23, 2008.</p>	
<p>My employment with the Housing Authority began on September 8, 2008. The audit has brought to light the need for training in procurement, improved oversight with the Housing Choice Voucher Program, and a need for changes with employee travel policies and purchases. I agree with the findings of the audit.</p>	
<p>Below are comments to the recommended requirements:</p>	
<p>1A. The personnel policy for travel and reimbursements will be revised to require receipts. The administration plan will also include verbiage to require receipts for purchases.</p>	
<p>1B. By March 31, 2009, training will be received by the CFP and Executive Director through the HUD Portland Field Office and other reputable institutions such as Nan McKay, to ensure procurement requirements are practiced.</p>	
<p>1C. The procurement policy will include the Executive Director's responsibility to review procurements for compliance with HUD regulations and Authority policy on an ongoing basis, to ensure adherence to procurement requirements.</p>	
	

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1D. Beginning in January 2009, the Section 8 Director will review monthly, all processed annual certifications for that month. The HQS Inspector or an individual designated by the Section 8 Director will review the files when the Section 8 Director is unavailable to perform the reviews.

1E. Repayment of the \$2,197 will be paid by March 31, 2009. We will work with the HUD Portland Field Office on the form of payment.

This concludes the formal written comments to the audit.

Sincerely,



Dolly Newman  
Executive Director

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