



Issue Date July 27, 2010

Audit Report Number 2010-PH-1012

TO: Dennis G. Bellingtier, Director, Office of Public Housing, Pennsylvania State Office, 3APH
//signed//

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: The Harrisburg, PA, Housing Authority Did Not Procure Goods and Services in Accordance With HUD Regulations and Its Procurement Policy

HIGHLIGHTS

What We Audited and Why

We audited the Harrisburg Housing Authority's (Authority) procurement function. We audited the Authority because a previous audit conducted in 2007 indicated that there was weakness in its purchasing process. Our objective was to determine whether the Authority procured goods and services in accordance with U.S. Department of Housing and Urban Development (HUD) regulations and other applicable requirements.

What We Found

The Authority did not purchase goods and services in accordance with HUD regulations and its procurement policy. We identified deficiencies with the Authority's purchases of goods and services from 17 of 20 vendors reviewed. The Authority acquired goods and services without having contracts in place and after contracts had expired. Also, the Authority improperly awarded noncompetitive contracts and did not maintain records to document the significant history of procurements.

What We Recommend

We recommend that the Director, Pennsylvania State Office of Public Housing, require the Authority to (1) provide documentation to support that payments for goods and services totaling \$1.7 million were fair and reasonable or reimburse the applicable programs from non-Federal funds for any amounts that it cannot support, (2) develop and implement controls to ensure that it complies with all applicable procurement requirements, (3) provide procurement training to all employees involved in the procurement process, and (4) develop and implement a contract administration system.

We also recommend that the Pennsylvania State Office of Public Housing expand its monitoring of the Authority's procurement function to ensure that it operates in compliance with applicable requirements.

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 discussed the report with the Authority during the audit and at an exit conference on July 7, 2010. The Authority provided written comments to our draft report on July 9, 2010. It agreed with the conclusions and recommendations in the report. The complete text of the Authority's response can be found in appendix C of this report.

TABLE OF CONTENTS

Background and Objective	4
Results of Audit	
Finding: The Authority Did Not Purchase Goods and Services in Accordance With HUD Regulations and Its Procurement Policy	6
Scope and Methodology	12
Internal Controls	13
Appendixes	
A. Schedule of Questioned Costs	15
B. Schedule of Deficiencies and Unsupported Costs	16
C. Auditee Comments	17

BACKGROUND AND OBJECTIVE

The Harrisburg Housing Authority (Authority) was established in 1938 under the Housing Authority Laws of the Commonwealth of Pennsylvania to serve the needs of low-income, very low-income, and extremely low-income families in Harrisburg, PA, and to (1) increase the availability of decent, safe, and affordable housing in its communities; (2) ensure equal opportunity in housing; (3) promote self-sufficiency and asset development of families and individuals; and (4) improve community quality of life and economic viability. A five-member board of commissioners governs the Authority. The commissioners serve 5-year terms on the board. From June 2007 through October 2009, the Authority operated under the direction of an acting executive director. The Authority's former executive director formally resigned as part of a plea agreement with Federal prosecutors in November 2007. In October 2009, the Authority hired Mr. Senghor Manns to be its executive director. The Authority's main administrative office is located at 351 Chestnut Street, Harrisburg, PA.

The Authority owns and manages 1,728 low-rent public housing units under its consolidated annual contributions contract with the U.S. Department of Housing and Urban Development (HUD). The consolidated annual contributions contract defines the terms and conditions under which the Authority agrees to develop and operate all projects under the contract. HUD authorized the Authority the following operating subsidies and capital funds for its public housing units for fiscal years 2007 to 2009.

Fiscal year	Public housing operating funds authorized	Public housing capital funds authorized
2007	\$8,574,106	\$3,566,938
2008	8,338,990	3,492,176
2009	9,676,638	3,493,940 ¹
Total	\$26,589,734	\$10,553,054

In October 2006, the Authority converted its method of financial management for its public housing developments to asset management. Asset management is a management model that emphasizes project-based management, as well as long-term and strategic planning. Under asset management, the Authority established a central office cost center. The central office cost center is used to account for non-project-specific costs. The Authority covers the cost of operating its central office cost center by charging asset management, bookkeeping, and management fees to its various developments and programs. Earned fees are treated as local revenue subject only to the controls and limitations imposed by the public housing agency's management, board, or other authorized governing body. As of April 30, 2010, the Authority had approximately \$2 million in unrestricted cash in its central office cost center account.

¹ Does not include \$7.8 million of capital funds provided under the American Recovery and Reinvestment Act of 2009.

Our audit objective was to determine whether the Authority procured goods and services in accordance with HUD regulations and other applicable requirements.

RESULTS OF AUDIT

Finding: The Authority Did Not Purchase Goods and Services in Accordance With HUD Regulations and Its Procurement Policy

Contrary to HUD regulations and its procurement policy, the Authority improperly procured goods and services from 17 of 20 vendors that we reviewed. It acquired goods and services without having contracts in place and after contracts expired. In addition, it improperly awarded noncompetitive contracts and did not maintain records to document the significant history of procurements. This noncompliance occurred because (1) the Authority did not conduct annual procurement planning, (2) the Authority did not implement a contract administration system to monitor contracts, (3) management did not demonstrate a positive and supportive attitude toward procurement requirements, and (4) employees with no procurement training were tasked to put together contracts. Since the Authority did not purchase goods and services in accordance with HUD regulations and its procurement policy and it could not demonstrate that the prices it paid for these services were fair and reasonable, payments totaling more than \$1.7 million² are unsupported.

The Authority Acquired Services Without Having Competitive Contracts in Place

The Authority did not have contracts in place for legal services totaling \$116,866 that it acquired from three vendors, and its files contained no evidence to demonstrate that it selected the vendors competitively. The Authority used \$111,723 in central office cost center funds and \$5,143 in public housing operating funds to pay for these services. The Authority's procurement policy states that if the amount of a purchase exceeds \$10,000, the Authority will award a contract using sealed bids or competitive proposals. Although fees earned by the central office cost center are considered non-Federal funds, the Authority is required to follow State and local laws, as well as controls and limitations imposed by its management when making purchases from the central office cost center. The Authority's procurement policy states that for any purchases over \$10,000, it will award a contract using sealed bids or competitive proposals. There was no evidence in the Authority's files that it complied with these requirements. This noncompliance occurred because the Authority's management disregarded its procurement policy and had a "buy now and worry about it later" attitude toward contracting. Since the Authority did not have contracts in place for these services as required and it could not demonstrate that the prices it paid

² Appendix B of this report summarizes the results of our review.

for these services were fair and reasonable, the payments totaling \$116,866 are unsupported.

The Authority Continued To Acquire Services After Contracts Expired

Although the Authority had contracts in place for legal, information management, financial consulting, and resident services that it acquired from five vendors, it made payments to the vendors totaling \$583,545 after the contracts had expired. The Authority acquired these services noncompetitively and it did not perform an analysis to determine whether the prices were fair and reasonable. The Authority used \$355,381 in public housing operating funds, \$168,378 in central office cost center funds, and \$59,786 in public housing capital funds to pay for these services. The following table shows the dates on which the contracts expired and the amounts the Authority paid after they expired.

Service acquired	Date contract expired	Amount paid after contract expired
Legal services (general counsel)	7/31/2003	\$370,855
Information management services	10/21/2008	119,571
Financial consulting services	3/26/2009	42,253
Resident services (convenience store manager)	10/16/2006	36,531
Resident council advisory services	3/31/2009	14,335
Total		\$583,545

The Authority paid for these services on expired contracts because it did not perform procurement planning as required by its procurement policy and had not implemented a contract administration system to monitor contracts. The Authority's procurement policy states that procurement requirements are subject to an annual planning process to ensure efficient and economical purchasing. It also requires the Authority to maintain a contract administration system to monitor its contracts. HUD Handbook 7460.8 requires HUD approval on all contracts that exceed 5 years, including options, which the Authority did not obtain for the legal services. Since the Authority made payments for these services after the contracts had expired and it could not demonstrate that the prices it paid for these services were fair and reasonable, the payments totaling \$583,545 are unsupported.

The Authority Did Not Properly Award Four Noncompetitive Contracts

The Authority improperly awarded noncompetitive contracts for elevator maintenance, nursing, and resident services totaling \$211,714. The Authority used public housing operating funds to pay for these services. Regulations at 24 CFR (Code of Federal Regulations) 85.36 require procurements by noncompetitive proposals to be conducted only if a written justification is made as to the necessity of using this acquisition method. Because there is no price competition, a cost analysis is required, and the costs or price must be determined to be reasonable. The Authority's files contained neither a written justification nor a cost analysis as required. HUD Handbook 7460.8 requires HUD approval on all contracts that exceed 5 years, including options, which the Authority did not obtain for the elevator maintenance services. This noncompliance occurred because the Authority tasked its tenant relations specialist, an employee with no procurement training, to put the contracts together. Since the Authority improperly awarded noncompetitive contracts for these services and it could not demonstrate that the prices paid for these services were fair and reasonable, the payments totaling \$160,848³ are unsupported.

The Authority Issued Purchase Orders Rather Than Competitive Contracts

The Authority improperly issued purchase orders rather than competitive contracts for painting, plumbing, and cleaning services and supplies totaling \$875,703. It used public housing operating funds to pay for these expenses. Although HUD Handbook 7460.8 recognizes a purchase order issued by the Authority and accepted by the vendor, either through performance or signature on the purchase order, to constitute a contract, the Authority routinely issued the purchase orders after it received the goods and services. Thus, goods and services were provided without having a contract in place first. Also, because the Authority used purchase orders, it did not comply with HUD Handbook 7460.8, which requires contracts to include certain clauses such as examination and retention of contractor's records and termination for cause and for convenience. However, the Authority did not include any of the mandatory clauses in its purchase orders for these items from these four vendors.

The Authority also could not demonstrate that the prices it paid for painting and cleaning services and supplies were fair and reasonable. It had no documentation to demonstrate that there was competition and that the prices were fair and

³ \$160,848 does not include \$50,866 in payments (\$36,531 + \$14,335) addressed in the preceding section of the finding.

reasonable for these three vendors. The Authority's procurement policy states that the competitive proposal method of procurement shall be used for purchases of more than \$10,000. However, the Authority did not comply with this requirement, although it consistently paid these vendors more than \$10,000 per year. For the plumbing services, the Authority obtained price quotes from three vendors, and it selected the vendor who submitted the lowest price to do the work. This noncompliance occurred because the Authority's management disregarded its procurement policy and had a "buy now and worry about it later" attitude toward procurement. Since the Authority improperly acquired these goods and services and could not demonstrate that prices it paid for these services were fair and reasonable, payments totaling \$875,703 are unsupported.

The Authority Did Not Maintain Required Contract Documentation

The Authority did not maintain documentation to support its purchases of health care and life insurance and disability benefits for its employees. Regulations at 24 CFR 85.36 require the Authority to maintain records sufficient to detail the significant history of each procurement. The Authority provided contracts and supporting documentation during the audit, but it had to obtain these documents from its broker. The documentation included contracts, bid information, and a cost analysis demonstrating that there was competition and that the prices were fair and reasonable. However, the packages of documentation were incomplete because they did not include copies of the solicitations. This condition occurred because the Authority tasked its personnel officer, an employee with no procurement training, to put the contracts together and was unaware of the requirement to maintain the documentation.

The Authority Did Not Always Issue Complete Contracts

The Authority competitively awarded a contract for legal services; however, the contract did not include any of the required clauses, an expiration date, and a total contract dollar amount or a not-to-exceed amount. Also, the contract file lacked support for the independent cost estimate. The Authority's procurement policy requires all contracts to include any clauses required by Federal statutes, executive orders, and regulations at 24 CFR 85.36. Expiration dates and contract ceiling amounts are standard contract elements. This condition occurred because the interim executive director tasked the Authority's modernization director to put the contract together. The modernization director stated that he had no experience in putting together contracts for legal services and carried out to the best of his ability the task that he was assigned.

The Authority Was Taking Action

We discussed these issues with the Authority's executive director during the audit. He was receptive to our findings and initiated corrective action. The executive director agreed that the Authority needed to do a better job of documenting its procurements. He terminated the Authority's acquisition of resident council advisory services and informed the resident council that it would have to procure and pay for this service. In addition, the executive director stated that he planned to improve controls over the process by hiring a chief procurement and compliance officer.

Conclusion

The Authority did not procure goods and services in accordance with HUD regulations and its procurement policy. Since the Authority did not comply with established requirements and could not demonstrate that the prices it paid for goods and services were fair and reasonable, more than \$1.7 million in related payments are unsupported. The Authority needs to develop and implement controls to ensure that it complies with HUD procurement regulations and its procurement policy.

Recommendations

We recommend that the Director of HUD's Pennsylvania State Office of Public Housing require the Authority to

- 1A. Provide documentation to support that payments for goods and services totaling \$1,736,962 were fair and reasonable or reimburse the applicable programs from non-Federal funds for any amounts that it cannot support.
- 1B. Develop and implement controls to ensure that it complies with all applicable procurement requirements including those to conduct annual procurement planning meetings, execute contracts before services are rendered and goods are procured, and maintain documentation to detail the significant history of each procurement action.
- 1C. Provide procurement training to all employees involved in the procurement process.
- 1D. Develop and implement a contract administration system.

We also recommend that HUD's Pennsylvania State Office of Public Housing

- 1E. Expand its monitoring of the Authority's procurement function to ensure that it operates in compliance with applicable requirements.

SCOPE AND METHODOLOGY

We conducted the audit from October 2009 through June 2010 at the Authority's offices located at 351 Chestnut Street, Harrisburg, PA, and our offices located in Baltimore, MD, and Pittsburgh, PA. The audit covered the period January 1, 2007, through December 31, 2009, but was expanded when necessary to include other periods.

To accomplish our audit, we

- Reviewed HUD regulations at 24 CFR Part 85; HUD Handbook 7460.8, REV-2; the Commonwealth of Pennsylvania's Field Procurement Handbook; and the Authority's procurement policy.
- Reviewed the Authority's accounting records, annual audited financial statements for 2007 and 2008, contract files, board meeting minutes, organizational chart, and relevant background information.
- Interviewed the Authority's staff and financial consultant.
- Discussed our audit results with officials from HUD's Pennsylvania State Office of Public Housing.

To achieve our audit objective, we relied in part on computer-processed data in the Authority's database. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

We reviewed purchases that the Authority made with 20 vendors. We statistically selected 31 of the Authority's vendors to review from a universe of 57 vendors to whom the Authority paid at least \$10,000 per year between January 2007 and December 2009 to determine whether the Authority procured goods and services in accordance with HUD regulations and other applicable requirements. However, we reviewed only 11 of the 31 vendors from the sample because the results from our review of the 11 vendors, combined with the results from our review of 9 vendors that we selected for review nonstatistically, based on problem indicators disclosed during interviews with Authority staff, provided adequate evidence to support our 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. 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 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.

Relevant Internal Controls

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

- Program operations – Policies and procedures that were implemented to reasonably ensure that procurement activities were conducted in accordance with applicable requirements.
- Compliance with laws and regulations – Policies and procedures that were implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Validity and reliability of data – Policies and procedures that were implemented to reasonably ensure that payments to contractors/vendors were made in accordance with applicable requirements.

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 items are significant weaknesses:

The Authority did not

- Conduct annual procurement planning.
- Demonstrate a positive and supportive attitude toward procurement requirements.
- Develop and implement an effective contract administration system.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported 1/
1A	\$ 1,736,962

- 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

SCHEDULE OF DEFICIENCIES AND UNSUPPORTED COSTS

Vendor	Item purchased	Violations noted*								Unsupported costs	Source: public housing operating funds	Source: central office cost center funds	Source: public housing capital funds
		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>				
Contracts													
Vendor 1	Legal services		x			x	x			\$370,855	\$284,188	\$86,667	
Vendor 2	Legal services	x				x	x			37,499		37,499	
Vendor 3	Legal services	x				x	x			13,263		13,263	
Vendor 4	Legal services	x				x	x			66,104	5,143	60,961	
Vendor 8	Resident council advisory		x		x	x	x			59,567	59,567		
Vendor 9	Nursing				x	x	x			45,441	45,441		
Vendor 10	Convenience store manager		x		x	x	x			36,531	36,531		
Vendor 11	Elevator maintenance				x	x	x			70,175	70,175		
Vendor 12	Information management		x			x	x			119,571	20,327	39,458	\$59,786
Vendor 13	Financial management		x			x	x			42,253		42,253	
Vendor 14	Health care			x						0			
Vendor 15	Life insurance and disability benefits			x						0			
Vendor 17	Legal services								x	0			
Purchase orders													
Vendor 5	Painting services				x	x	x	x		393,270	393,270		
Vendor 6	Cleaning services				x	x	x	x		289,142	289,142		
Vendor 7	Cleaning supplies				x	x	x	x		193,291	193,291		
Vendor 16	Plumbing				x			x		0			
	Totals	3	5	2	8	13	13	4	1	\$1,736,962	\$1,397,075	\$280,101	\$59,786

*** Violations noted during review**

1. No contract
2. Contract expired
3. Files missing documentation to detail the significant history of the procurement
4. Contract missing mandatory clauses
5. No evidence of competition
6. No cost analysis conducted
7. Purchase order issued after goods and services were received
8. Contract missing terms and conditions

Appendix C

AUDITEE COMMENTS

July 9, 2010

John Buck, Regional Inspector General for Audit
Office of Inspector General for Audit
Wanamaker Building
100 Penn Square East, Suite 1005
Philadelphia, PA 19107-3380

Re: Procurement Program Audit

Dear John,

It is with little question that the Office of Inspector General for Audit has performed a beneficial service to our office. We consider this audit report an opportunity to improve our operation in the procurement/purchasing department and, ultimately, assist the Agency in safeguarding and prudently managing taxpayer dollars. On behalf of the Harrisburg Housing Authority, I thank you and your staff for the professional approach that was demonstrated throughout the audit process.

To be sure, this Agency, under its new leadership, has taken an aggressive and proactive approach to management improvements and quality control initiatives. As discussed in our exit conference, the Agency has required staffers that manage procurement-related activities to participate in a three and a half day (3½) procurement training workshop. Moreover, the Agency has developed a "Quarterly Procurement Planning Questionnaire". In addition, the Agency has developed written purchase order procedures, as well as, a Procurement Compliance Policy. Suffice it to say, under the new leadership, this Agency does not and will not operate under a "buy now and worry about it later" approach to doing business. At all levels of our administration this Agency will strongly emphasize and consistently demonstrate an adherence to the Code of Federal Regulations, State and local laws, and Agency policy and procedure.


Finally, as previously discussed, our Agency has begun the process of correcting the identified vendor-specific procurement failures. With the ongoing corrective actions and preliminary analysis, we fully expect that past expenditures during the applicable audit period will be supported as reasonable costs.

Again, we thank you and your staff for the balanced audit process and for your office's exceptional support for the success of this Agency and the Harrisburg community.

Sincerely,


Senghor A. Manns
President and Agency Counsel

cc: Emily Leader, Chair
Dennis Bellingtier, HUD Field Office Director
File


**HARRISBURG
HOUSING AUTHORITY**
351 Chestnut St.
Harrisburg, PA 17101
Phone: (717) 232-6781
Fax: (717) 233-8355

SENGHOR A. MANNS, J.D.
PRESIDENT AND
AGENCY COUNSEL

◆

COMMISSIONERS

EMILY LEADER, Esq.
BOARD CHAIR

Leon Feinerman
Rev. Earl Harris
James Jackson
Maria Solomon

◆

MISSION STATEMENT

Our mission is to be a
"Best in Class" Agency
that:

- Provides *quality and affordable* housing;
- Works *unyieldingly* towards improving the *quality of life* for our *Residents*;
- Contributes to *safe communities*;
- Encourages *individual and family self-sufficiency*; and
- Affirmatively promotes *fair housing*.