



Issue Date	September 9, 2011
Audit Report Number	2011-KC-1004

TO: Patricia Straussner, Coordinator, St. Louis Program Center, 7EPHO  
Craig Clemmensen, Departmental Enforcement Center, CACB

//signed//

FROM: Ronald Hosking, Regional Inspector General for Audit, Kansas City, Kansas,  
7AGA

SUBJECT: Housing Authority of The City of Mountain Grove, MO Did Not Comply with  
Procurement Requirements and Improperly Disposed of Property Assets

## **HIGHLIGHTS**

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

We audited the Housing Authority of the City of Mountain Grove, MO in response to a citizen's complaint received by our office. Our objective was to determine whether the Authority complied with contract procurement regulations and properly disposed of Authority assets.

### **What We Found**

The Authority did not comply with U.S. Department of Housing and Urban Development (HUD) procurement regulations or its own procurement policies. It did not ensure a fair and competitive procurement process, selected the highest quotations without justification, and did not retain records pertinent to the procurement of three contracts. The Authority lacked detailed operational procedures to implement its existing procurement policies.

The Authority also improperly disposed of an Authority vehicle and more than 200 appliances without obtaining board approval, establishing fair value, and consistently documenting the disposal. Management disregarded existing asset

management policies, and the Authority lacked detailed operational procedures to implement its policies.

### **What We Recommend**

We recommend that the coordinator of the St. Louis Public and Indian Housing Program Center ensure that the Authority develops and implements detailed operational procedures that fully implement its existing procurement and asset disposal policies. Further, we recommend that HUD require the Authority provide justification for the two awards given to the highest bidder or refund HUD. We also recommend that the Director of HUD's Departmental Enforcement Center take appropriate administrative actions, up to and including debarment, against the Authority's board member for her part in the procurement violations cited in this audit report.

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**

The Authority agreed with the findings of the audit report. We provided the draft report to the Authority on August 3, 2011 and received its response on August 11, 2011. The complete text of the auditee's response can be found in appendix B of this report.

# TABLE OF CONTENTS

---

Background and Objectives	4
Results of Audit	
Finding 1: The Authority Did Not Always Comply With HUD Procurement Regulations or Its Own Procurement Policies	5
Finding 2: The Authority Improperly Disposed of Property Assets	9
Scope and Methodology	11
Internal Controls	12
Appendixes	
A. Schedule of Questioned Costs	13
B. Auditee Comments and OIG's Evaluation	14

## **BACKGROUND AND OBJECTIVES**

---

The Mountain Grove Housing Authority (Authority) began operations in 1967 to provide decent, safe, and sanitary housing to low income, elderly, and disabled people in Mountain Grove, MO. The Authority receives funding from the U.S. Department of Housing and Urban Development (HUD) to furnish rental assistance to low- and moderate-income individuals for safe and sanitary housing. During the period of our audit, a four-member board of commissioners and an executive director managed the daily operations of the Authority. The members of the board are appointed by the mayor and confirmed by the city council. The executive director is appointed by the board.

The Authority received \$1.1 million in Federal grants and subsidies from HUD for the fiscal year ending September 30, 2010 and more than \$1.1 million for the fiscal year ending September 30, 2009. In administering its Federal grants, the Authority must follow Federal regulations including those in the Code of Federal Regulations, Office of Management and Budget circulars, HUD handbooks and the Authority's policies and procedures.

The Office of Inspector General (OIG) received a citizen's complaint containing allegations related to asset misappropriations, a procurement violation, and conflict of interests. In May, 2011, we issued an audit memorandum addressing the specific allegations from the hotline complaint. This audit report addresses additional issues identified during the audit.

The objective of our review was to determine whether the Authority (1) complied with all procurement regulations and (2) properly disposed of Authority assets.

## RESULTS OF AUDIT

---

### Finding 1: The Authority Did Not Always Comply with HUD Procurement Regulations or Its Own Procurement Policies

The Authority did not comply with HUD procurement regulations or its own procurement policies. It did not ensure a fair and competitive procurement process in three separate instances and selected the highest quotations without justification in two instances. The Authority also did not retain records pertinent to the procurement of three contracts. It lacked detailed operational procedures to implement its existing procurement policies. As a result, HUD lacked assurance that the Authority received the best value for nearly \$64,000 spent on procurement contracts.

---

#### **Authority Did Not Ensure a Fair and Competitive Process**

The Authority did not ensure a fair and competitive procurement process in three separate instances. In all three instances a member of the Authority's board, who was also employed as the executive director of the local chamber of commerce, did not impartially discharge her duties or foster the public's confidence in the procurement process. In addition, the board members participation in each of the instances violated the Authority's and HUD's conflict- of- interest provisions.

HUD regulations at 24 CFR (Code of Federal Regulations) 85.36(b) (3) require public housing authority employees, officers, or agents to discharge their duties impartially to ensure fair competitive access to procurement opportunities by responsible contractors. The employees, officers, and agents are required to conduct themselves in such a manner as to foster the public's confidence in the integrity of the Authority's procurement organization and process.

During fiscal year 2008, the Authority ended a business relationship with a gasoline services company it believed did not support the local community. The Authority then directed its gasoline business to a supplier who was a member of the local chamber of commerce. The board member did not recuse herself from the vote to award the contract to the new business.

During fiscal year 2009, the Authority ended a 15 year business relationship with an automobile maintenance service company following a personal disagreement between the company and the Authority's board member. The board member asked the maintenance supervisor to stop conducting Authority business with the contractor.

During fiscal year 2010, the board member was involved in a bidding irregularity related to the purchase of maintenance trucks. The board member brought copies of the three original bids to the chamber of commerce. Although we could not fully substantiate the board member shared bid information with any of the bidders, later that day, the second highest bidder, who was also a member of the chamber of commerce, submitted a new bid that was less than the original lowest bid. After being contacted by other board members, the Authority's legal counsel advised the board not to consider the new bid when making their selection. The board later awarded the contract to the original lowest bidder.

### **Authority Selected Highest Bidders**

The Authority selected the highest quotations without justification in two instances. During fiscal year 2009, the Authority improperly awarded contracts to lease a Security System for \$6,797 from one company and purchased computer equipment for \$4,776 from another company.

The Authority's procurement policy required it to award contracts to the offeror providing the lowest acceptable quotation unless justified in writing based on price and other specified factors.

HUD regulations at 24 CFR 85.36(f) required the Authority to determine whether the proposed price was fair and reasonable. HUD regulations at 24 CFR 85.36(b) (9) also required the Authority to maintain records sufficient to detail the significant history of each procurement action. These records included, but were not necessarily limited to the rationale for the method of procurement, contractor selection or rejection, and the basis for the contract price.

In each of these instances, the Authority's board selected the highest quotations without justifying the reasonableness of the contracts selected or if the quotations selected were of the most benefit to the Authority. Further, the Authority did not maintain all records sufficient to detail the significant history of each procurement action.

### **Authority Did Not Retain All Records Pertinent to Procurement**

The Authority did not retain all records pertinent to the procurement of three contracts. Available records showed that during fiscal year 2009, the Authority contracted to replace the roofs at its Heritage Heights Complex for approximately \$35,000. It also purchased water heaters, stoves and refrigerators for its apartments on two separate occasions under the small purchase procedures.

For purchases above the micro purchase level, HUD's regulations at 24 CFR 85.36(b) (9) required the Authority to document its procurement decisions including information regarding contractor selection or rejection, cost and price analysis and any pre- and post award discussions and negotiations.

In each of these instances, the Authority did not maintain records sufficient to detail the procurement decision. The Authority generally documented the quotations received and kept separate contract files for each of the purchases. However, it could not provide documentation of its independent cost analysis for the July 2009 roof replacement at its Heritage Heights Complex.

Further, the Authority did not retain all records pertinent to the procurement of 230 appliances in February and March 2009. It could only provide the quotations summation sheet and not the copies or originals of the actual quotations used to make these procurement decisions. Additionally, for the first purchase, it did not retain copies or originals of the documentation required to support its contractor selection or rejection, including cost and price analysis process.

### **Authority Lacked Operational Procedures**

The Authority lacked detailed operational procedures to implement its procurement policies and ensure the Authority's staff retained all required documentation. The Authority's existing procurement policy required its executive director to issue operational procedures to implement its procurement policy and comply with HUD Handbook 7460.8.

### **Best Value for Procurement Activities Not Ensured**

The Authority did not always comply with HUD regulations or its own policies for the procurement of security services, computer equipment, gasoline purchases, maintenance services, construction, and appliances. As a result, HUD lacked assurance that the Authority received the best value for nearly \$64,000 spent on procurement contracts. For example, by selecting the highest quotations for the security system and computer equipment purchases, the Authority spent approximately \$2,900 more than it would have had it selected the lowest quotations received.

In addition, if the Authority does not maintain the required procurement documents it might not be prepared if a protest is lodged against it. Also, having the required documents could facilitate future purchases of similar supplies or services since it would not be necessary to recreate solicitation documents.

### **Recommendations**

We recommend that the coordinator of the St. Louis HUD's Public and Indian Housing Program Center

- 1A. Ensure the Authority develops and implements detailed operational procedures that fully implements its existing procurement policies
- 1B. Require the Authority to provide justification for the two awards given to the highest bidder totalling \$11,573. For any portion the Authority cannot support, require the Authority to refund HUD with non-federal funds.

We also recommend that the Director of HUD's Departmental Enforcement Center

- 1C. Take appropriate administrative actions, up to and including debarment, against the Authority's board member for her part in the procurement violations cited in this audit report.



## Finding 2: The Authority Improperly Disposed of Property Assets

The Authority improperly disposed of an Authority vehicle and more than 200 appliances without obtaining board approval, establishing fair value, and consistently documenting the disposal. Management disregarded existing asset management policies, and the Authority lacked detailed operational procedures to implement its existing policies. As a result, HUD lacked assurance that the Authority received the best value, and greatest overall benefit for the assets sold.

---

### **Authority Improperly Disposed an Authority Vehicle**

In August 2010, the Authority improperly disposed of an Authority vehicle without the required board approval and without establishing the fair value of the vehicle. The Authority's former executive director sold the vehicle for \$1,000 to the Authority's financial coordinator.

The Authority's disposition policy required the executive director to obtain appropriate board approval and establish fair value for sales of unnecessary, surplus or unusable personal property from \$1,000 to \$10,000. Further, the executive director was required to solicit informal bids by telephone, or in writing from known prospective purchasers, and a tabulation of all bids received was to be prepared and retained as part of the permanent record of the Authority. The policy also required a bill of sale.

The Authority could not provide the required documentation related to the sale, including the bill of sale, documentation of informal bids solicited, and a tabulation of bids received. In addition, the Authority's board did not authorize the sale of the vehicle.

### **Authority Improperly Disposed of Appliances**

During fiscal years 2009 and 2010, the Authority improperly disposed of 230 appliances labeled as scrap metal, including 84 stoves, 86 refrigerators, and 60 water heaters.

The Authority's disposition policy required the executive director to obtain appropriate board approval, and to establish the fair value for sales of unnecessary, surplus or unusable personal property of less than \$1,000. Further, the executive director was required to negotiate the sale in the open market after such informal inquiry as he considered necessary to ensure a fair return to the

Authority. The disposition policy also required sales to be documented through a bill of sale.

The Authority's former executive director authorized the disposal of the appliances without obtaining board approval and establishing fair value of the items through informal inquiries and open market negotiation. The Authority's maintenance department then sold the appliances to various parties, receiving approximately \$20 per unit for the 99 appliances, the disposal of which was documented in some form. We were unable to confirm disposal details for the remaining 131 appliances.

### **Authority Disregarded Policies and Lacked Operational Procedures**

The Authority's management disregarded its asset management policies requiring board approval and fair value documentation for the sale of assets. In addition, the Authority lacked sufficiently detailed operational procedures to ensure its staff obtained and retained proper support when disposing of assets, including bills of sale. For example, the former executive director's failure to obtain board approval and establish fair value went undetected because the Authority did not have procedures requiring employees to check for these items prior to disposal.

### **Best Value for Assets Was Not Ensured**

As a result of the issues discussed above, HUD could be assured the Authority received the best value, and greatest overall benefit for the vehicle and appliances sold. For example, using the Authority's conservative selling price of \$20 per unit, the 131 unaccounted for appliances would have a total dollar value of \$2,620.

### **Recommendations**

We recommend that the coordinator of the St. Louis HUD Public and Indian Housing Program Center require the Authority to

- 2A. Develop and implement detailed operational procedures to ensure that it fully implements its policy to dispose of Authority assets by obtaining board approval, establishing fair value, and documenting the disposal.

## SCOPE AND METHODOLOGY

---

Our audit generally covered the period January 1, 2009, through November 30, 2010, and was expanded as necessary. We performed our work at the Authority's administrative offices located at 301 West 1<sup>st</sup> Street, Mountain Grove, MO.

To achieve our audit objective, we conducted interviews with

- The complainant;
- HUD's Office of Public and Indian Housing management and staff located in its St. Louis, MO, office;
- The Authority's management, attorney, and staff;
- External parties mentioned in the complaint; and
- An independent accountant who prepared the Authority's 2009 and 2010 audited financial statements.

We also reviewed the following documents:

- Federal regulations and HUD requirements,
- Annual contributions contract and amendments,
- Initial citizen complaint and later allegations,
- The Authority's audited financial statements and other accounting records,
- The Authority's bank statements and cancelled check copies obtained directly from financial institutions, and
- City of Mountain Grove council meeting minutes.

We did not rely on computer-processed data or select samples for our audit purposes. We traced or verified information to supporting documentation to draw 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# INTERNAL CONTROLS

---

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

---

## Relevant Internal Controls

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

- Controls over procurement of goods and services.
- Controls over the disposal of Authority assets.

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 lacked detailed operational procedures to implement its procurement policies and ensure the Authority's staff retained all required documentation. (Finding 1)
- The Authority lacked sufficiently detailed operational procedures to ensure its staff obtained and retained proper support when disposing of assets, including bills of sale. (Finding 2)

## APPENDIXES

---

### Appendix A

### SCHEDULE OF QUESTIONED COSTS

---

Recommendation number	Unsupported 1/
1B	\$11,573

---

- 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



301 W. First Street, Mountain Grove, MO 65711  
Phone (417)926-3142 Fax (417)926-3143  
[www.mgha5@centurytel.net](http://www.mgha5@centurytel.net)

### Mountain Grove Housing Authority

Becky Friend, Executive Director

August 9, 2011

Ronald J. Hosking  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of Inspector General, Region VII Office of Audit  
400 State Avenue  
Gateway Tower II – 5<sup>th</sup> Floor  
Kansas City, Kansas 66101

Dear Mr. Hosking:

The Mountain Grove Housing Authority is in a better position because of the audit and our new Executive Director, Becky Friend. These findings that we have addressed were actions and processes monitored by previous Directors. We also identify the need for training of all current and future board of directors to reinforce that all policies and procedures are in compliance with Federal and State guidelines in regard to Housing Authorities.

Finding 1: We recognize it is an issue the Authority did not always comply with HUD procurement regulations or its own procurement policies and it lacked detailed operational procedures to implement its procurement policy. This was immediately corrected by the current Board of Directors, Executive Director, and staff by operating under the HUD procurement regulations and our own procurement policies. We will have in place by October 1, 2011 an operational procedure to implement our procurement policy.

Finding 2: We recognize the Authority improperly disposed of property assets, which was being done without the Board's consent or knowledge. This also was corrected immediately by implementing the disposition policy which includes obtaining board approval and documenting the disposal.

Sincerely,

  
Becky Friend, Secretary

  
Mary Armstrong, Vice-Chairman

  
Roger Elliott, Commissioner

  
Sharon Elam, Chairman

  
Van Elliott, Commissioner

Comment

## **OIG Evaluation of Auditee Comments**

**Comment** The Authority agreed with the findings and suggested ways for implementing the recommendations. The steps being taken should help correct the problems.