



U.S. Department of Housing and Urban Development
Office of Inspector General
Region VII Office of Audit, 7AGA
Gateway Tower II - 5th Floor
400 State Avenue
Kansas City, KS 66101-2406

AUDIT MEMORANDUM
2011-KC-1801

May 16, 2011

MEMORANDUM FOR: Patricia Straussner, Coordinator, St. Louis Program Center, 7EPHO

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

SUBJECT: Housing Authority of the City of Mountain Grove, MO, Improperly
Disposed of Housing Authority Assets

INTRODUCTION

We audited the Housing Authority of the City of Mountain Grove, MO (Authority), in response to a citizen's complaint received by our office. The complainant made allegations related to asset misappropriations, a procurement violation, and conflicts of interest. Our objective was to determine whether the allegations were valid.

The allegations related to asset misappropriations were valid. The Authority improperly disposed of Authority assets without the required board approval and without establishing the fair value of the assets. We could not fully substantiate the allegation related to the contract procurement violation. However, irregularities related to the alleged procurement violation existed. The allegations of conflicts of interest were not valid.

This memorandum directly addresses the allegations made by the complainant. We will issue a separate audit report that will include findings related to the complaint and will address additional issues noted during our audit.

This memorandum report contains no recommendations, and no formal response from the Authority was required or received. If you or your staff has any questions, please contact Todd Gagon, Assistant Regional Inspector General for Audit, at (913) 551-5870.

SCOPE AND METHODOLOGY

To achieve our audit objective, we conducted interviews with

- The complainant;
- The U.S. Department of Housing and Urban Development's (HUD) 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 audited financial statements.

We also reviewed the following documents:

- Federal regulations and HUD requirements,
- Annual contributions contract and amendments,
- Initial citizen complaint and subsequent 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 (City) council meeting minutes.

For this memorandum report, we traced or verified information for each allegation to supporting documentation to draw our conclusions. Therefore, we did not rely on computer-processed data or select samples for our audit purposes.

We did not conduct our work in accordance with generally accepted government auditing standards. However, this had no effect on the significance of the conditions identified in this memorandum report. We designed the review with focus on validating the complaint allegations. As a result, we significantly reduced the scope to items and conditions discussed in this report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

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 1st Street, Mountain Grove, MO.

BACKGROUND

The 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 HUD to furnish rental assistance to low- and moderate-income individuals for safe and sanitary housing. A four-member board of commissioners governs the Authority, and an executive director manages its daily operations. 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 more than \$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 objective of our review was to determine whether the allegations of asset misappropriations, a contract procurement violation, and conflicts of interest against the Authority were valid. We grouped the specific allegations from the complaint as follows:

Asset Misappropriations

- The Authority improperly disposed of an Authority vehicle, and
- The Authority could not account for the disposal of its scrap metal.

Contract Procurement Violation

- A board member of the Authority shared bid information from the lowest bidder to a higher bidder in an effort to direct business to the higher bidder.

Conflicts of Interest

- A conflict of interest existed because a former member of the Authority's board was married to an alderman of the City,
- A conflict of interest existed because a former member of the Authority's board was hired as the executive director of the Authority,
- A conflict of interest existed because the Authority sold a vehicle to an employee of the Authority, who was also the fiancée of the son of a member of the Authority's board.

RESULTS OF REVIEW

The results of our review for each specific allegation are detailed as follows:

- The complainant alleged that the Authority improperly disposed of an Authority vehicle. We substantiated this allegation. In August 2010, the Authority's former executive director improperly disposed of an Authority vehicle without the required board approval and without establishing the fair value of the vehicle. The vehicle was sold for \$1,000 to the Authority's financial coordinator. The Authority could not provide the required documentation related to the sale, including the bill of sale, informal bids solicited in writing or by phone, and a tabulation of all such bids received regarding the sale. Further, the Authority's board did not authorize the sale as required by the Authority's disposition policy.
- The complainant alleged that the Authority could not account for the disposal of all of its scrap metal. We substantiated this allegation. During fiscal years 2009 and 2010, the Authority's maintenance employees disposed of 84 stoves, 86 refrigerators, and 60 water heaters, which the Authority labeled as scrap metal. The former executive director authorized the disposal of the scrap metal without appropriate board approval and without establishing its fair value. In addition, the Authority did not follow its own property disposition policy to ensure that all property was properly disposed of. As a result, it

could not account for 37 stoves, 40 refrigerators, and 54 water heaters. The Authority sold other stoves, refrigerators, and water heaters at an average price of \$20 per unit. Using the Authority's conservative selling price of \$20 per unit, the unaccounted for appliances had a total estimated dollar value of \$2,620.

- The complainant alleged that a board member of the Authority shared bid information from the lowest bidder to a higher bidder in an effort to direct business to the higher bidder. We could not fully substantiate that the board member in question shared bid information from the lowest bidder to a higher bidder. However, some procurement irregularities related to the alleged violation existed. In March 2010, the Authority received three bids for the purchase of maintenance trucks. It received a bid from one bidder (dealer A) on March 26, 2010, in the amount of \$39,000. It received a bid from the lowest bidder (dealer B) in the amount of \$33,442 on March 30, 2010. On the morning of April 16, 2010, the Authority allowed one of its board members to copy the three original bids and leave the Authority with the copies. Later that day, dealer A submitted a new bid in the amount of \$33,232, exactly \$110 less than dealer B's bid. When the other board members discovered that dealer A had submitted a second bid, they contacted the Authority's legal counsel, who advised that they not consider the second bid. In the April 21, 2010, board meeting, the Authority's board awarded the contract to dealer B, the original lowest bidder.
- The complainant alleged that a conflict of interest existed because a former member of the Authority's board was married to an alderman of the City. A conflict of interest did not exist in this instance. The City alderman in question recused himself from the vote to appoint his wife as a member of the Authority's board. In addition, a conflict of interest does not exist solely based on the fact that a member of the Authority's board is married to a City alderman.
- The complainant alleged that a conflict of interest existed because a former member of the Authority's board was hired as the executive director of the Authority. A conflict of interest did not exist in this instance. The Authority's board did vote in a closed meeting to appoint the former board member as the executive director. However, HUD immediately informed the Authority that it is a conflict of interest for a former board member to serve as the executive director until 1 year after the member has left the board. We found no evidence that the former board member acted in any official capacity as the executive director of the Authority.
- The complainant alleged that a conflict of interest existed because the Authority sold a vehicle to an employee of the Authority, who was also the fiancée of the son of a member of the Authority's board. A conflict of interest did not exist in this instance. As previously discussed, the Authority sold a vehicle to its financial coordinator. The financial coordinator was not in a position to formulate policy or influence decisions with respect to the Authority's projects. In addition, we did not attempt to determine whether the financial coordinator was the fiancée of a board member's son. Even if the employee was the fiancée of the board member's son, the employee would not be considered a member of the board member's immediate family.

RECOMMENDATIONS

This audit memorandum contains no formal recommendations. We noted weaknesses in internal controls related to the disposal of assets and contract procurement, which will be addressed in a separate audit report. That report will also contain any recommendations related to the weaknesses identified in this memorandum.