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Audit Report Number	2008-DE-1002
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TO: Carol 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 Housing Authority of the City of Brighton, Colorado, Did Not Maintain Proper Inventory Records and Improperly Awarded Contracts

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the City of Brighton, Colorado (Authority) in response to a complaint alleging that it did not have an inventory control system and that it used poor procurement practices.

Our audit objectives were to determine whether the Authority had an adequate inventory control system and whether it performed contracting activities in accordance with federal procurement requirements.

What We Found

The Authority did not have complete and accurate inventory records of its fixed assets. It also violated federal procurement requirements while awarding two service contracts worth approximately \$52,000.

What We Recommend

We recommend that the Denver Office of Public Housing require the Authority to perform a complete physical inventory of its fixed assets, develop and implement inventory control procedures, and properly train its procurement staff.

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 20, 2008, and requested its comments by March 10, 2008. The Authority did not provide a written response but did verbally concur with the findings. Denver's Office of Public and Indian Housing provided us with its proposed management decisions on March 14, 2008. We concurred with the proposed management decisions.

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BACKGROUND AND OBJECTIVES

The Housing Authority of the City of Brighton, Colorado (Authority) was organized under the Housing Authorities Law of the State of Colorado on September 17, 1968, to provide low rent housing for qualified individuals. To accomplish this purpose, the Authority has entered into annual contributions contracts with the U.S. Department of Housing and Urban Development (HUD) since May 22, 1970 to be the administrator of its public housing program. In addition, the Authority initiated its HUD certificate program on February 1, 1982, which was superseded by its HUD housing choice voucher program on September 1, 1999. The mission of the Authority is to provide Brighton, Colorado with quality affordable housing that is decent, well maintained, and free from drugs and violent crime. The Authority is located at 22 South 4th Avenue, Brighton, Colorado.

As of October 1, 2007, the Authority administered 44 public housing units and 212 Section 8 units. According to its 2004, 2005, and 2006 audited financial statements, HUD awarded the Authority more than \$93,000, \$77,000, and \$78,000 respectively for its public housing program. In addition, HUD awarded more than \$1.5 million, \$1.4 million, and \$1.4 million respectively during those years for its Section 8 Housing Choice Voucher program.

The objectives of our audit were to determine whether the Authority had an adequate inventory control system and whether it performed contracting activities in accordance with federal procurement requirements.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Maintain Complete and Accurate Inventory Records of Its Fixed Assets

The Authority did not have complete and accurate inventory records of its fixed assets. This condition occurred because there were no inventory control procedures in place directing the Authority to conduct a periodic physical inventory of its fixed assets. As a result, it had limited assurance that it needed the fixed assets on hand and used them only for official housing authority activities.

Regulations and Guidance Require the Authority to Account for Its Fixed Assets

The Authority's inventory records of its fixed assets were incomplete and inaccurate. The only records it maintained were files with original receipts, warranty documentation, and depreciation schedules. In addition, the Authority did not complete a physical inventory of its fixed assets between 1999 and 2007 in violation of 24 CFR [*Code of Federal Regulations*] Part 85 which requires that effective control and accountability be maintained over cash, real and personal property, and all other assets. In addition, guidance issued by the Office of Management and Budget requires the Authority to be responsible for the efficient and effective administration of federal grant funds through the application of sound management practices.

The Authority Had No Inventory Control Policy or Procedures

The Authority did not have an inventory control policy that included procedures for accounting for, controlling, and safeguarding its fixed assets. There were no inventory control procedures in place directing the Authority to conduct a periodic physical inventory of its fixed assets. These factors contributed to the Authority not having completed a physical inventory of its fixed assets in more than eight years.

The Authority Had No Assurance That It Needed the Fixed Assets on Hand

The Authority had no assurance that it needed the fixed assets on hand and used them only for official housing authority activities. The physical inventory records did not provide sufficient information for management to make informed fixed asset acquisition decisions.

Recommendations

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

- 1A. Perform a complete physical inventory of its fixed assets.
- 1B. Develop and implement inventory control procedures to ensure that it conducts regular physical inventories of its fixed assets, maintains complete inventory records, and responsibly manages its fixed assets.

We recommend that the Denver Office of Public Housing Director

- 1C. Perform a post monitoring review of the Authority's inventory control procedures to ensure that management took actions necessary to account for its fixed assets.

Finding 2: The Authority Improperly Awarded Two Service Contracts

The Housing Authority of the City of Brighton, Colorado (Authority) violated federal procurement requirements while awarding two service contracts worth approximately \$52,000. This violation occurred because housing staff did not receive adequate procurement training. As a result, the Authority had no assurance that it received the best price for the legal and fee accounting services provided.

The Authority Violated Federal Procurement Requirements

During our audit period, September 1, 2004 through August 31, 2007, the Authority incurred about \$52,000 in legal and fee accounting costs. It violated 24 CFR [*Code of Federal Regulations*] Part 85 when it awarded the fee accounting services contracts and paid for legal services.

The Authority paid more than \$44,000 from its public housing operating account for legal services without completing an independent cost estimate before receiving quotes for those services. It did not perform a cost analysis after receiving quotes for the legal services. The Authority also paid more than \$7,000 from its public housing operating account for fee accounting services without completing an independent cost estimate, receiving quotes, or performing a cost analysis. In addition, the Authority did not justify in writing why it was appropriate to award the fee accounting services contracts noncompetitively after it issued the first contract.

Housing Staff Did Not Receive Adequate Procurement Training

The executive director performed the majority of the procurement activities. He had not received any procurement training in 10 years. In addition, the procurement training he did receive related to the financing of land acquisition and building construction rather than HUD procurement requirements. As a result, he did not know he was suppose to follow HUD requirements for the independent cost estimates, the cost analysis requirement, or the written justification requirement for all contracts awarded noncompetitively.

The Authority Had No Assurance That It Received the Best Price for the Services Provided

The Authority had no assurance that it received the best price for the legal and fee accounting services provided. The independent cost estimates give the Authority a fair market value basis for evaluating incoming proposals. The cost analysis ensures that the proposed price is reasonable for the services provided. In these cases, the Authority had no way of identifying the fair price concerning labor, indirect costs, and profits proposed.

Recommendations

We recommend that the Denver Office of Public Housing Director

- 2A. Require the Authority to train its contracting staff in HUD procurement procedures.
- 2B. Perform a post monitoring review of the Authority's procurement function to ensure that management took actions necessary to train its contracting staff and that the Authority complies with federal procurement requirements.

SCOPE AND METHODOLOGY

Our review period covered September 1, 2004, through August 31, 2007. We performed our on-site review at the Authority from September through December 2007.

In July 2007, we received a complaint with five allegations and two issues of concern. The five allegations were

1. Nepotism in hiring the nephew of the executive director and the son of the occupancy director
2. Financial irregularities in awarding a loan to an employee
3. Conflict of interest in awarding a fencing contract to an Authority Board of Commissioners member
4. No legal services contract and
5. Poor procurement practices resulting in the loss of a Community Development Block Grant (CDBG).

The two issues of concern were

1. No inventory control system and
2. Lack of inventory records.

We found the issue of concern related to no inventory control system to be valid as discussed in finding 1. We also found the allegation related to no legal services contract to be valid as discussed in finding 2. Concerning the allegation of nepotism, we found that the Authority became aware of and was resolving the situation prior to us starting our audit. We found no evidence to substantiate the remaining three allegations and the second issue of concern.

To accomplish our objectives, we obtained and reviewed applicable procurement requirements, regulations, and sections of the annual contributions contract between HUD and the Authority. We reviewed vendor files, contract files, general ledgers, employee files, and audited financial statements maintained by the Authority. We conducted interviews with the Authority's acting executive director, director of operations, and director of occupancy. In addition, we interviewed the public trust specialist assigned to Adams County, Colorado (County) in the HUD Office of Community Planning and Development (CPD) related to the CDBG allegation. We also reviewed documentation in CPD's project files for the County.

We performed our review 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 controls were relevant to our audit objectives:

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

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 the following items are significant weaknesses:

- The Authority had no written procedures for conducting physical inventories of its fixed assets (finding 1).
- Management lacked controls to ensure that it implemented its written contract award procedures properly (finding 2).