



Issue Date	February 3, 2009
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Audit Report Number	2009-KC-1004
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TO: Patricia Straussner, Public Housing Program Center Coordinator, 7EPH

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

SUBJECT: The St. Louis Housing Authority Did Not Perform Adequate Physical Inventories

HIGHLIGHTS

What We Audited and Why

We audited the St. Louis Housing Authority in St. Louis, Missouri. We initiated this audit based on information received from the National Single Audit Sampling Project, which indicated deficiencies in the Authority's 2002 audit.

Our objective was to determine whether the Authority took physical inventories and maintained adequate property records.

What We Found

The Authority did not perform adequate physical inventories or keep accurate property records. It did not perform complete physical inventories in fiscal years 2006, 2007, or 2008 or reconcile the results of the inventories performed to its property records. In addition, it did not keep its property records up to date.

What We Recommend

We recommend that the Public Housing Program Center Coordinator require the Authority to amend its inventory procedures to conform to regulatory

requirements, perform a complete and accurate physical inventory in 2009, and reconcile the results to its property records.

HUD agreed to implement these recommendations and provided management decisions on February 2, 2009.

Auditee's Response

The Authority generally agreed with our finding. We provided the draft report to the Authority on January 14, 2009, and requested a response by January 29, 2009. The Authority provided written comments on January 27, 2009.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix A of this report.

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BACKGROUND AND OBJECTIVE

The St. Louis Housing Authority (Authority) is a municipal corporation created by state statute, formed in 1939. The Authority is governed by a seven-member board of commissioners; five members are appointed by the mayor, and two are elected by the public housing residents. As of October 2008, the Authority had 87 employees.

The Authority operates two major housing programs: public housing and Section 8. It owns 3,252 public housing units that it rents to qualified applicants. In addition, it has 6,238 Section 8 vouchers that provide assistance to qualified applicants to facilitate rental of privately owned units.

The Authority's total federal expenditures for the public housing and Section 8 programs were \$82 and \$70 million for 2006 and 2007, respectively.

The Authority's mission is to efficiently build and maintain desirable and affordable housing for residents in the St. Louis area through leadership, innovative partnerships, progressive technology, and the development of additional resources. The Authority seeks to improve the quality of life for its employees, residents, and the community by providing employment opportunities, education, training, and ethical professional service.

Our objective was to determine whether the Authority took physical inventories and maintained adequate property records.

RESULTS OF AUDIT

Finding: The Authority Did Not Perform Adequate Physical Inventories

The Authority did not been perform adequate physical inventories or maintain adequate property records. It did not consider performing physical inventories to be a high priority. As a result, the U.S. Department of Housing and Urban Development (HUD) had no assurance that nonexpendable equipment had not been lost, stolen or destroyed.

The Authority Did Not Perform Adequate Physical Inventories

The Authority did not perform adequate physical inventories. Its capitalization policy requires it to maintain a complete and accurate inventory of assets worth at least \$5,000 and perform a physical inventory to ensure that these assets are inspected once every year. Additionally, regulations at 24 CFR [*Code of Federal Regulations*] 85.32 and 85.3 require management to take a physical inventory of equipment and reconcile the results with property records at least once every two years. These regulations also define equipment as tangible nonexpendable personal property having a useful life of more than one year and an acquisition cost of at least \$5,000.

The Authority did not perform complete physical inventories in fiscal years 2006, 2007, or 2008. During these physical inventories, it did not specifically locate and identify any of the four equipment items and 54 vehicles that cost more than \$5,000 each and were included in its property records. The Authority attempted to inventory every item it owned, including low-cost file cabinets, but this effort was also not completed. Further, the Authority did not reconcile the results of its physical inventory to its property records.

The Authority Did Not Maintain Adequate Records

The Authority did not maintain up-to-date property records. For example, in each of the fiscal years 2006 and 2007, the Authority purchased one item of equipment (a server) that cost more than \$5,000. These servers, costing \$10,847 and \$26,460, were not entered in the respective fiscal year property records.

The Authority Did Not Make Inventory a Priority

The Authority did not consider performing physical inventories to be a high priority. It did not adequately staff the physical inventory activity and did not ensure that staff understood how to perform a proper physical inventory. In addition, it assigned temporary staff to perform the physical inventory in 2007.

The Authority asserted that it tracked the vehicles through various other methods, such as tracking maintenance and insurance coverage. These methods were not sufficient substitutions for a complete inventory as the maintenance records were not always updated and the vehicles that the Authority still owned, but were no longer usable, were not insured. The other tracking methods did not provide a complete accounting of the vehicles.

HUD Lacked Assurance That Assets Were Safeguarded

HUD had no assurance that equipment had not been lost, stolen, or destroyed. Further, the Authority paid unnecessary costs in fiscal year 2008 to insure a vehicle that had been removed from service because it had been totaled a year earlier.

The Authority Started to Make Changes

The Authority recognized the need for improvements to its inventory system. In December 2008, it amended its inventory forms and took a physical inventory which addressed equipment, including vehicles, costing more than \$5,000. Additionally, it planned to identify and inventory high-risk assets costing less than \$5,000 that could be easily taken and sold, such as computer-related equipment.

Recommendations

We recommend that the Public Housing Program Center Coordinator ensure that the St. Louis Housing Authority

- 1A. Amends its inventory procedures to conform with regulatory requirements.
- 1B. Performs a complete and accurate physical inventory in 2009.
- 1C. Reconciles the results to its property records.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed the *Code of Federal Regulations* pertaining to physical inventory, the Authority's policies and agreements, and the results of prior certified public accountant reviews. We interviewed Authority and HUD staff.

Our initial objective included determining whether the Authority had made proper and supported adjustments to cash and inventory. We reviewed all adjusting journal entries for 2006 and 2007 that exceeded \$500,000. We determined that no additional work was warranted because the entries we reviewed were adequately explained and properly supported.

We obtained the Authority's asset listings, selected purchase orders, insurance records, and physical inventory records applicable to our audit period of October 1, 2006, to September 30, 2008, which was expanded as necessary.

We then reviewed the Authority's

- Asset listing of all equipment (including vehicles) with a cost of at least \$5,000,
- Purchase order listing for equipment purchased during our audit period costing at least \$5,000,
- Physical inventory records to determine what kinds of equipment were identified and inventoried,
- Insurance policy to determine whether it reconciled to the asset listing, and
- Computer room schematic to determine whether it showed the location of equipment costing at least \$5,000.

We performed audit work from October through December 2008. The on-site audit work was performed at the Authority's office located at 4100 Lindell Boulevard, St. Louis, Missouri.

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 objectives:

- Controls over physical inventory.

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 have adequate controls to ensure that it performed a proper physical inventory (see finding).

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

GARY PARKER
Chairman
SHONNAH PAREDES
Vice-Chairman
BRENDA SIMPSON
Treasurer
VIVIAN BEASLEY
Commissioner
LAWSON CALHOUN
Commissioner
THOMAS JERRY
Commissioner
SAL F. MARTINEZ
Commissioner



Francis G. Slay
Mayor

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January 27, 2009

Mr. Ronald J. Hosking
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Gateway Tower II - 5th Floor
400 State Avenue
Kansas City, Kansas 66101-2406

Attn: Carrie Gray

RE: St. Louis Housing Authority
Draft Audit Report Dated January 14, 2009

Dear Mr. Hosking:

The St. Louis Housing Authority (SLHA) is in receipt of a draft audit report from your office dated January 14, 2009. An exit conference was held on January 20, 2009 with Ms. Carrie Gray, Mr. William Krueger and the SLHA staff. During that conference, SLHA was informed that comments to the draft report were to be provided by January 29, 2009. This correspondence provides comments to the draft audit report.

In general, SLHA agrees with the findings in the audit, however, has some minor comments regarding the draft report. SLHA does not agree with the wording in the second paragraph under "The Authority Did Not Make Inventory a Priority" section on page 6 of the draft report. SLHA provided suggested revisions to the wording in this paragraph to Ms. Gray and Mr. Krueger at the exit conference. Ms. Gray indicated that SLHA's suggested wording would be included in the final report.

SLHA also seeks to provide additional information regarding the draft reports statement on page 6 that "the Authority paid unnecessary costs in fiscal year 2008 to insure a vehicle that was removed from service because it was totaled a year earlier".



Comment 1

Ref to OIG Evaluation

Auditee Comments

Comment 2

While SLHA does not disagree with the statement, SLHA did notify its insurer to remove the vehicle from the policy in 2007. In addition, SLHA has contacted the insurance company and has received confirmation that the full amount of the insurance payment will be refunded to SLHA.

As indicated in the report, SLHA reiterates that it completed the requirements for Findings 1B and 1C in December 2008 and provided the supporting documentation to Mr. Krueger. SLHA will provide the documentation to the St. Louis Field Office to address each finding once a final report is issued.

SLHA appreciates your consideration of its comments. If you have any questions or need any additional information, please feel free to contact me at (314) 286-4357.

Sincerely,



Cheryl Lovell
Executive Director

cc: William Krueger, Sr. Auditor
Robert Batts
Brenda Gillis

OIG Evaluation of Auditee Comments

Comment 1 We modified the second paragraph of page 6 based on the Authority's requested wording changes. The revised paragraph accurately describes the circumstances we observed during the audit.

Comment 2 We appreciate the Authority's prompt action in response to our audit.