



Issue Date	February 25, 2009
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Audit Report Number	2009-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 Brush, Colorado, Did Not Perform Contracting Activities in Accordance with Federal Procurement Requirements

## **HIGHLIGHTS**

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

We audited the Housing Authority of the City of Brush, Colorado (Authority), because we received information indicating there were irregularities in the procurement process.

Our audit objective was to determine whether the Authority performed contracting activities in accordance with federal procurement requirements.

### **What We Found**

The Authority did not perform contracting activities in accordance with federal procurement requirements. It did not follow U.S. Department of Housing and Urban Development (HUD) requirements regarding price quotations, price analyses, written justification requirements, or contract modification determinations.

### **What We Recommend**

We recommend that the Denver Office of Public Housing require the Authority to properly train its staff regarding federal procurement requirements.

HUD agreed to implement the recommendation and provided its management decision on February 25, 2009.

### **Auditee's Response**

We provided the discussion draft of the audit report to the Authority on January 22, 2009 and requested its comments by February 05, 2009. The Authority provided its written response on February 04, 2009 and agreed with the finding. The complete text of the auditee's response, along with our evaluation of that response, can be found in the appendix of this report.

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## **BACKGROUND AND OBJECTIVE**

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The Housing Authority of the City of Brush, Colorado (Authority), was organized under the “Housing Authorities Law” of the State of Colorado in 1971. The Authority has continually entered into annual contributions contracts with the U.S. Department of Housing and Urban Development (HUD) since May 30, 1980, to provide low-rent housing to qualified individuals.

The mission of the Authority is to serve the immediate needs of the disabled, elderly, and low-income families in Brush, Colorado. The Authority achieves its mission by providing decent, safe, and sanitary housing for all eligible participants and promoting better living conditions throughout the community.

As of November 1, 2008, the Authority administered 30 public housing units. The Colorado Division of Housing administers its Section 8 Housing Choice Voucher program. According to its 2006 and 2007 audited financial statements, HUD awarded the Authority more than \$28,000 and \$40,000, respectively, for its public housing program. In addition, HUD awarded more than \$168,000 and \$170,000, respectively, during these years for its Section 8 Housing Choice Voucher program.

HUD has categorized the Authority as being in a substandard financial status since 2006. The Authority is in this status because it has not been getting its audited financial statements in on time, not because it is unable to financially manage its operations. The Authority recognized the problem was with its Independent Public Accountant not understanding the Real Estate Assessment Center and HUD financial reporting requirements and is taking steps to correct the situation.

The objective of our audit was to determine whether the Authority performed contracting activities in accordance with federal procurement requirements.

## RESULTS OF AUDIT

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### Finding: The Authority Completed Purchasing Actions in Violation of Federal Procurement Requirements

The Authority did not perform contracting activities in accordance with federal procurement requirements. This condition occurred because the Authority did not adequately train its staff. As a result, it had no assurance that it received the best price for the services and products provided.

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#### **The Authority Violated Federal Procurement Requirements**

The Authority violated 24 CFR [*Code of Federal Regulations*] Part 85 by not maintaining records sufficient to detail the history of its procurements. It did not obtain quotes for small purchases, nor did it perform price analyses associated with those purchases. In addition, there were 60 purchases completed without invoices to support the procurement activity.

The Authority also did not justify in writing why it was appropriate to award the maintenance contract to the current vendor when it was more than \$43,000 higher in price than the lowest bid. The Authority did not properly use the bidding process in awarding the maintenance contract, and it did not follow all required contract provisions. It also violated the “use of options” provision in HUD Handbook 7460.8, REV-2, by automatically renewing its elevator emergency telephone monitoring agreement since September 1, 2002. In addition, it did not perform a price analysis when the agreement was modified in November 2003 or complete a determination that the modification was more advantageous than conducting a new procurement process.

#### **The Authority Did Not Adequately Train Its Staff**

The executive director performed the majority of the procurement activities. He had only received one day of procurement training since becoming executive director on March 1, 2005. He informed us that he was unaware of his responsibilities to follow HUD requirements regarding price quotations, the price

analysis requirement, the requirement to provide written justification for not awarding the maintenance contract to the lowest bidder, or the requirement to complete an advantageous determination on the modification to the elevator emergency telephone monitoring agreement.

### **The Authority Could Not Be Assured That It Received the Best Price**

The Authority had no assurance that it received the best price for the services and products provided. Price quotations are necessary for the Authority to perform a price analysis. The price analyses ensure that the proposed prices are reasonable for the services and products provided.

The Authority needs to adequately train its staff to ensure that it receives the best price for goods and services. Therefore, HUD should require the Authority to provide procurement training to its staff and then follow up to ensure that staff follow procurement requirements.

### **Recommendations**

We recommend that the Director of the Denver Office of Public Housing

- 1A. Require the Authority to train its staff regarding HUD procurement procedures.
- 1B. Perform a post monitoring review of the Authority's procurement function to ensure that management took actions necessary to train its staff and that the Authority complies with federal procurement requirements.

## SCOPE AND METHODOLOGY

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Our review period covered September 1, 2006, through August 31, 2008. We reviewed HUD and Authority criteria and contracts, met with HUD and Authority staff, and looked at HUD and Authority files.

To accomplish our audit objectives, we obtained and became familiar with the Authority's procurement policy; HUD Handbook 7460.8, REV-2; applicable regulations; and applicable sections of the annual contributions contract between HUD and the Authority.

We selected for review all small purchases that required purchase quotes based on dollar thresholds specified in the Authority's procurement policy and that did not directly relate to ordinary business expenses. There were 106 small purchases under \$500 and 11 small purchases over \$500. The selected sample was not intended to be representative of the universe of vendors. We also selected the only maintenance contract for review.

To determine whether the Authority performed contracting activities in accordance with federal procurement requirements, we examined documentation in the maintenance contract files and the emergency elevator telephone monitoring agreement. We then applied applicable federal procurement requirements and the Authority's procurement policy in our review of those documents. We also examined general ledger entries related to maintenance activities and reviewed Authority board of commissioner's minutes applicable to the maintenance contract.

To determine whether the Authority used its operating fund for allowable costs, we examined general ledger entries using Office of Management and Budget Circular A-87 guidance related to selected items.

To determine whether the Authority had adequate inventory records and an inventory control system, we examined property records and its most recent physical inventory of assets.

During the audit, we identified a minor issue regarding inventory control and use of the operating fund, which we communicated to HUD in a separate management letter.

We performed our on-site audit work during October 2008 at the Authority's offices at 612 Ray Street, Brush, Colorado.

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

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives 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.

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## Relevant Internal Controls

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

- The Authority's policies and procedures for procurement activities.
- The Authority's policies and procedures related to using its operating fund for allowable costs.

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:

- Management lacked controls to ensure that it properly implemented its written procurement procedures (finding).

## Appendix

### AUDITEE COMMENTS AND OIG'S EVALUATION

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#### Ref to OIG Evaluation

#### Auditee Comments

##### **Comment 1**

Maintenance contract that was awarded in 2005 used a scoring system that apparently did not follow HUD guidelines. The total dollar amount of the contract pertained to several of the projects owned and managed by Bush Housing Authority of which the 30 unit Public Housing project is part. New bids for the maintenance service will be issued in October of 2009. HUD will approve the bid scoring system. Another option that to be considered will be to bid a separate contract for each project.

A waiver of bids for the elevator contract will be obtained since there are no other elevator maintenance companies in this area.

The outdated procurement policy for Brush Housing Authority has been updated, and approved by the board. Management has obtained an excellent training guide for the procurement process.

Executive Director has been in contact with the local HUD office to arrange a more in depth training session for all office employees.

Executive Director has contacted a procurement professional with NAHRO to help with questions concerning bid proposals.

### **OIG Evaluation of Auditee Comments**

The Authority's written response along with its verbal response at the exit conference indicates agreement with the finding and recommendations.

**Comment 1**           Planned actions on the part of the Authority should resolve identified issues.