



Issue Date April 10, 2007

Audit Report Number 2007-AT-1006

TO: Boyce Norris, Jr., Director, Office of Public Housing, 4APH

FROM: *James D. McKay*
James D. McKay, Regional Inspector General for Audit, 4AGA

SUBJECT: The Housing Authority of DeKalb County, Decatur, Georgia,
Did Not Adequately Monitor Contract Payments

HIGHLIGHTS

What We Audited and Why

As part of the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) strategic plan, we reviewed the Housing Authority of DeKalb County's (Authority) administration of its procurement and financial management systems. Our objective was to determine whether the Authority has complied with its low-income program contractual and regulatory requirements since being released from its memorandum of agreement (agreement) with HUD.

What We Found

The Authority did not adequately monitor contract payments and did not comply with federal requirements or its financial management policies. These deficiencies occurred because the Authority did not have proper internal controls over its procurement payment processes. Its staff did not ensure that its financial management policies were followed, nor did all staff follow the established procedures for processing contract payments. As a result, the Authority incurred \$47,051 in ineligible costs and \$36,404 in unsupported public housing funds.

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What We Recommend

We recommend that the director, Office of Public and Indian Housing require the Authority to repay \$47,051 to its public housing program for ineligible contract payments from non-federal funds and either support \$36,404 in unsupported contract payments or repay its public housing program from non-federal funds. The director should require the Authority to develop and implement internal controls to ensure that contract payments are complete, accurate, and in accordance with established procedures. In addition, the director should ensure that the financial management policies are followed and that all Authority staff members follow the established procedures when processing contract payment requests.

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 discussed our review results with the Authority during the audit and with HUD Officials during the exit conference. We provided a copy of the draft report to Authority officials on March 5, 2007, for their comments and discussed the report with the officials at the exit conference on March 13, 2007. The Authority provided written comments on March 23, 2007. The Authority generally agreed with the finding and recommendations contained in the report.

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

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BACKGROUND AND OBJECTIVES

The Housing Authority of DeKalb County (Authority), located in Decatur, Georgia, was established in December 1955 in accordance with state and federal law to serve the citizens and communities of DeKalb County, Georgia, by promoting quality housing and related economic development. Initially, the Authority was a part of the DeKalb-Decatur Housing Authority. Effective November 3, 2003, the DeKalb-Decatur Housing Authority split into two separate housing authorities. Since then, various interim and acting executive directors have administered the Authority. A permanent executive director was appointed in October 2004 to address unresolved separation issues and move the Authority forward with revitalization and development efforts for affordable housing. On October 13, 2006, the Authority's board of commissioners terminated the executive director's contract. Currently, an interim executive director is responsible for the Authority's daily operations.

The Authority operates a wide variety of programs that are designed to provide housing solutions to DeKalb County residents and promote community and economic development. These programs include public housing, the Housing Choice Voucher program, affordable housing, multifamily tax-exempt bonds, the HOME Investment Partnerships Program, and the homeownership program. In addition, the Authority has established partnerships with other local organizations to provide support services to residents and the DeKalb community at large. The Authority currently owns and operates 698 units of public housing, 498 units at Johnson Ferry East and 200 units at Tobie Grant Manor.

The Authority's six-member board of commissioners oversees the direction of the Authority. The board of commissioners is appointed by the chief executive officer of DeKalb County and ratified by the county commission. The board of commissioners is responsible for hiring the Authority's executive director to manage daily operations and the Authority's \$55.3 million annual operating budget.

MDStrum Housing Services performed an independent assessment of the Authority and in its December 2004 report, stated that the Authority did not have a centralized procurement function. Various areas were responsible for the process and administration of procurement. In addition, the report stated that the procurement files did not consistently show evidence of proper procurement activity. Based on the independent assessment and its troubled designation, the Authority entered into a memorandum of agreement (agreement) with the U.S. Department of Housing and Urban Development (HUD) in May 2005 to correct the deficiencies identified in the independent assessment. HUD released the Authority from its agreement in June 2006, based on the Authority's certification that tasks and subtasks in the agreement had been completed.

Our primary objective was to determine whether the Authority has complied with its low-income program contractual and regulatory requirements since being released from its agreement with HUD.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Adequately Monitor Contract Payments

The Authority did not adequately monitor contract payments. It did not use HUD funds in accordance with federal requirements or its financial management policies. Vendor payments from HUD funds totaling \$83,455 were questioned. These deficiencies occurred because the Authority did not have proper internal controls over its procurement payment processes. The Authority's staff did not ensure that its financial management policies were followed, nor did all staff follow the established procedures when processing contract payments. As a result, \$83,455 in public housing funds was questioned, and additional HUD funds may have been subjected to waste.

Criteria

Part 1, section 12 (A) (2), of the Authority's annual contribution contract requires the Authority to maintain complete and accurate books of account for its projects in such a manner as to permit the preparation of statements and reports in accordance with HUD requirements and to permit a timely and effective audit.

The Procurement Handbook for Public and Indian Housing Authorities 7460.8, chapter 3, paragraph 3-8, states all housing authorities should have a management information system for procurement. Such a system may be manual or automated. Automating the management information system may be as simple as automating the housing authority's procurement log or register.

The Authority certified to HUD in its agreement progress report that it had established and implemented financial management standard operating procedures that should have corrected the questioned contract payments identified. The Authority also certified that it had developed and maintained a procurement log and maintained properly constituted procurement records.

The Authority Incurred \$83,455 in Questioned Costs

The Authority did not use public housing funds in accordance with federal requirements or its own financial management policies and procedures. We

reviewed 122 contract invoices that were paid from July 1 through September 30, 2006, for 27 vendors. Deficiencies were identified in payments to 11 contractors, 41 percent of the total vendors reviewed. These contract payments were made after the Authority was released from its agreement in June 2006. The Authority made \$47,051 in ineligible contract payments that did not conform to contract provisions. The payments were for services performed outside of the contract period or in excess of the contract's not-to-exceed amount.

For example, one contractor was awarded two contracts and one change order with not-to-exceed amounts totaling \$146,000 for information technology consulting services. This contractor was paid \$165,000, \$19,000 over the contract amount. Of that amount, \$15,000 was paid after the Authority was released from its agreement. Another vendor was contracted to provide heating and air conditioning services to the Authority's properties with a not-to-exceed contract amount of \$80,676. As of September 30, 2006, this vendor had been paid \$223,675, of which \$7,401 was paid after the Authority was released from its agreement. A contract ceiling amount is essential to ensuring that contract administration is handled effectively and high quality work is obtained at a reasonable cost.

The Authority also made \$36,404 in unsupported contract payments. Invoices did not document the services provided. In some instances, a check or receipt was missing from the supporting documentation.

Overall, the following contract payments, presented in the table below, were questioned.

Contractor	Ineligible ¹	Unsupported ²
1	\$ 17,014	
2	\$ 15,000	
3	\$ 7,525	
4	\$ 7,401	
5	\$ 111	
6		\$ 12,150
7		\$ 11,794
8		\$ 9,818
9		\$ 2,000
10		\$ 401
11		\$ 241
Totals	<u>\$ 47,051</u>	<u>\$ 36,404</u>
<p>1. The payments were classified as ineligible because these payments were made in excess of the contract amount or after the contract expired or were approved by unauthorized employees.</p> <p>2. The payments were classified as unsupported because the supporting invoices were not detailed or there was no contract in place to support the services provided.</p>		

In addition, the Authority did not process contract payments in accordance with its policies. The Authority's contract and purchase order payment request forms include sections for tracking contract amounts, the value of work completed to date, total payments made to date, and the current payment request. However, Authority staff used the wrong forms to process payments, which contributed to the Authority's failure to monitor contract payment provisions. This error resulted in the payment of contractors in excess of the not-to-exceed amount or after the contract period had expired and the preparation of purchase orders and requisitions after invoices were received. Some purchase orders were prepared after the checks were prepared.

Also, some payments were approved by staff without proper authorization. The vice president of finance stated that the former executive director verbally delegated the duty of approving payments in her absence to several employees without proper authorization. The Authority's "Accounts Payable and Check Processing Policies and Procedures" states that contract payment requests, invoices, and receiving reports require approval from either vice presidents or the executive director. Vice presidents are responsible for approving payments from \$251 to \$15,000. Payments over \$15,000 require executive director approval. The management information system manager approved payments of \$10,334 and \$2,416, respectively.

These deficiencies occurred because the Authority did not have proper internal controls over its procurement payment processes. For example, it did not maintain an active contract register. Not having a contract register contributed to payments being made without a contract in place, before a contract began, or after a contract had expired. The Authority also did not have internal controls in place to ensure that payments were properly approved by authorized employees. Deviations from the Authority's policies contributed to the \$83,455 of questioned costs identified.

Although the Authority may have faced several challenges from frequently changing executive management, it needs to develop internal controls over its payment process to ensure that federal requirements and its financial management policies are followed.

Recommendations

We recommend that the director, Office of Public and Indian Housing require the Authority to

- 1A. Repay \$47,051 for ineligible contract payments to its public housing low-income program operating reserve and reprogram the capital fund budget to expend the funds being made available within the statutory time

requirement or return them to HUD. However, if the funds are due both the capital fund and the operating fund the amount should be appropriately divided between the two funds from non-federal funds.

- 1B. Provide documentation to support the \$36,404 in unsupported contract payments or repay its public housing low-income operating reserve program from non-federal funds.
- 1C. Develop and implement internal controls to ensure that contract payments are complete, accurate, and in accordance with established procedures and that all Authority staff follow the established procedures when processing contract payments.

SCOPE AND METHODOLOGY

To achieve our audit objectives, we reviewed

- Applicable laws, regulations, and other HUD program requirements relating to procurement;
- Authority standard operating policies and procedures for finance and procurement;
- Contract payments and supporting documentation provided by Authority staff and officials;
- Information available on the Internet and HUD's intranet; and
- Management control systems pertaining to procurement and finance.

We reviewed various documents including contracts, financial statements, general ledgers, minutes from board meetings, check vouchers, invoices, and reports from the independent public accountant. In addition, we gained an understanding of the Authority's accounting system as it related to our review objective.

We obtained and reviewed a listing of contract payments that were made with public housing funds from July 1 through September 30, 2006. A total of 122 contract payments were made totaling \$321,937. These payments were made to 27 vendors. We selected all of the 122 contract payments to review for proper support and eligibility.

We also interviewed the HUD Georgia State Office of Public Housing program officials and Authority management and staff. We performed our site work between September 2006 and January 2007 at the Authority in Decatur, Georgia. The audit covered the period July 1 through September 30, 2006.

We conducted the audit 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:

- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.
- Safeguarding of resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if internal controls do not provide reasonable assurance that the processes for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe the following item is a significant weakness:

- The Authority did not adequately monitor contract payments (see finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation Number	Ineligible 1/	Unsupported 2/
1A	\$ 47,051	
1B		\$ 36,404
Total	<u>\$ 47,051</u>	<u>\$ 36,404</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

2/ 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 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

Comment 1

March 23, 2007

Mr. James McKay
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Audit, Box 42
Richard B. Russell Federal Building
75 Spring Street, SW, Room 33D
Atlanta, GA 30303-3388

Dear Mr. McKay:

This letter is in follow-up to the draft audit report of the Housing Authority of Dekalb County (HADC) dated March 5, 2007. The report was reviewed by Ms. Carol Crumby, Chair of the Board of Commissioners; Mr. Glenwood Ross, Vice Chair, and I. Based on our review of your comments, findings and recommendations; we respectfully submit the following written comments for inclusion into your published final report:

Finding 1: The Authority Did Not Adequately Monitor Contract Payments

Response – HADC adopted a new procurement policy based on the findings from MDStrum Housing Services' independent assessment. As a result of the findings, HADC entered into a Memorandum of Agreement (MOA) in May 2005 to correct the deficiencies identified. The new procurement policy was approved by HADC's Board of Commissioners and is in compliance with HUD Handbook 7460.8 Rev. 1, Procurement Handbook for Public Housing Agencies and Indian Housing Authorities, and the procurement standards set forth in 24 CFR 85.36.

We agree with the finding and acknowledge that in some instances, supporting documentation was not available at the time of the audit review that could provide clear evidence as back up to support invoices paid to vendors. However, overall we feel the majority of purchasing done by HADC is done with proper documentation, i.e., invoices, current contracts and purchase orders.

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Mr. Gregory Worthy, Esq.
General Counsel

Mr. Sterling Bethea
Interim Executive Director

The Housing Authority agrees that we need to improve and further centralize our procurement processes. We have made changes in the area of procurement and are further revising our policies and procedures in response to your audit findings. In addition, increased administrative and management oversight and monitoring are in place and will be augmented with updated procurement and purchasing controls.

Management will ensure staff is following proper policies and procedures as established by HADC Board of Commissioners. Staff must ensure they have proper back-up and supporting documentation prior to releasing payments. Proper procedures relating to vendor payment will be followed at all times and no vendor invoices will be paid unless a properly executed contract is in place.

Recommendations:

1A. Repay \$47,051 for ineligible contract payments to it public housing low-income program operating reserve and reprogram the capital fund budget to expend the funds being made available within the statutory time requirement or return them to HUD. However, if the funds are due both the capital fund and the operating fund the amount should be appropriately divided between the two funds from nonfederal funds.

Response - The Housing Authority accepts this finding and will repay the \$47,051 for ineligible cost incurred as a result of HADC not following proper policies and procedures. HADC management staff is reassessing and developing improvements to current operations. HADC will work with the Atlanta HUD Office of Public Housing to comply with this recommendation.

1B. Provide documentation to support the \$36,404 in unsupported contract payments or repay its public housing low-income operating reserve program from nonfederal funds.

Response - We agree with the finding, therefore we will seek our Board of Commissioners approval to repay our public housing program with our unrestricted nonfederal funds. HADC will work with the Atlanta HUD Office of Public Housing to reimburse any funds determined to be unsupported.

We will send the Atlanta HUD Field Office a copy of the Board Resolution authorizing the release of payment.

1C. Develop and implement internal controls to ensure that contract payments are complete, accurate, and in accordance with established procedures and that all HADC staff follow the established procedures when processing contract payments.

Response - Procurement staff, the affected departments and especially the Finance staff must ensure proper monitoring tools are followed to ensure that vendor payments are consistent with contract terms. Since the change in leadership, HADC established a centralized procurement department and ensure that all procurement activities are performed in accordance with HUD requirements and HADC's own procurement policies are being followed. The centralization of the entire purchasing process into the Compliance and Procurement Division will ensure consistency and uniformity within all documents.

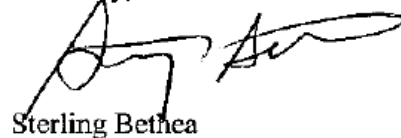
We do take seriously your statements about weak internal controls relating to the procurement payment processes and we have started and will continue to address our payment disbursements procedures.

In addition, staff in all departments will be trained continuously on the proper procurement process. I also feel staff changes such as reassignments, cross training and greater emphasis on oversight by department heads on the procurement process will further correct the finding.

Lastly, in those areas where corrective action is required, The Housing Authority looks forward to working with our local HUD office of Public Housing in order to ensure full compliance with all of HUD's program requirements. It is our goal to see that HADC is always in compliance and is a high performing Housing Authority. Furthermore, the Board of Commissioners, its Interim Executive Director, and its Interim Deputy Director have acted quickly to resolve any problems or issues once they became known and we will continue to do so.

Thank you for your time and consideration. I felt you and your staff were very professional and fair throughout the entire process. If you have any questions in this matter, please feel free to contact me at (404) 270-2633 or Matthew McClammey, Interim Deputy Executive Director at (404) 270-2528.

Sincerely,



Sterling Bethea
Interim Executive Director

Cc: Sonya D. Lucas, Assistant Regional Inspector General for Audit
Boyce Norris, Jr., Director, Office of Public Housing
Carol Crumby, Chair, HADC Board of Commissioners
Dr. Glenwood Ross, Vice-Chair, HADC Board of Commissioners
Matthew McClammey, Deputy Interim Executive Director
Gregory Worthy, Attorney, Powell Goldstein LLP

OIG Evaluation of Auditee Comments

Comment 1

The Authority's agreement with the finding and recommendations indicates its willingness to make necessary improvements to its procurement and financial management systems.