



Issue Date January 10, 2008

Audit Report Number 2008-AT-0001

TO: Deborah Hernandez, Deputy Assistant Secretary for Field Operations, Office
Public and Indian Housing, PQ

Sonye Lucet for

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

SUBJECT: The Atlanta Office of Public and Indian Housing Did Not Ensure That the
Housing Authority of DeKalb County Accurately Implemented Its Memorandum
of Agreement

HIGHLIGHTS

What We Audited and Why

We reviewed the U.S. Department of Housing and Urban Development (HUD) Atlanta Office of Public and Indian Housing's (Public Housing) oversight of the Housing Authority of DeKalb County's (Authority) compliance with its memorandum of agreement (agreement), as part of the Office of Inspector General's (OIG) strategic plan.

Our primary objective was to determine whether Public Housing adequately monitored the Authority's implementation of operating improvements required in the agreement. Specifically, our objective was to determine whether Public Housing management controls and oversight processes used to monitor the implementation of the agreement were adequate.

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What We Found

Public Housing did not ensure that the Authority accurately implemented its agreement. The Authority did not implement some tasks related to financial management and procurement. This occurred because Public Housing did not have adequate procedures in place for monitoring the agreement. As a result, the Authority was released from its agreement without fully completing and implementing it. Thus, HUD could not be assured that the Authority's public housing program was managed in a manner consistent with sound financial practices.

What We Recommend

We recommend that the Deputy Assistant Secretary for Public and Indian Housing Field Operations perform a comprehensive review of the procurement function at the Authority to ensure the procurement function is operating in accordance with federal and state regulations, and perform either staff or independent public accountant on-site review of the financial management internal controls to ensure that the Authority has adequate financial internal controls regarding the disbursement of funds prior approval.

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 Public Housing officials during the audit. We provided a copy of the draft report to Public Housing officials on November 27, 2007, for their comments and discussed the report with the officials at the exit conference on December 3, 2007. Public Housing provided written comments on December 17, 2007. Public Housing officials generally agreed with our finding and recommendations.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix A of this report. The response includes a corrective action plan, which we reviewed and considered.

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BACKGROUND AND OBJECTIVES

The mission of the Office of Public and Indian Housing is to ensure safe, decent, and affordable housing; create opportunities for residents' self-sufficiency and independence; and assure fiscal integrity by all program participants. To achieve this mission, the Office of Public and Indian Housing aims to improve public housing authority management and service delivery efforts through oversight, assistance, and selective intervention by highly skilled, diagnostic, and results-oriented field personnel. The Housing Authority of DeKalb County (Authority) falls within the jurisdiction of the Atlanta Office of Public Housing (Public Housing).

The Authority was placed on the U.S. Department of Housing and Urban Development's (HUD) troubled list based on its public housing assessment score for the fiscal year ending June 30, 2003. The Authority received a substandard score of zero for the financial indicator and an overall score of 68. The substandard financial score was the result of the Authority's failure to submit audited financial statements for the fiscal year within the required timeframe. HUD contracted with MDStrum Housing Services (MDStrum) to perform an independent assessment of the Authority. MDStrum's December 2004 report identified a number of areas needing improvement. The report stated that the Authority did not have a centralized procurement function and that the procurement files did not consistently show evidence of proper procurement activity. MDStrum also reported that the Authority needed to develop formal standard operating procedures for the finance area, including the development of written instructions for the execution of every finance activity. Although internal memorandums and letters of instruction were maintained for particular activities, these items were not comprehensive and usually disseminated only to staff directly involved in the function affected. According to the report, the Authority needed to develop a plan to review, revise, organize, and formalize the various memorandums. Additionally, the agency needed to develop other procedures as appropriate to form a comprehensive set of standard operating procedures, in the form of a manual, for the finance area. Additional controls, in the form of written procedures and revised practices, were needed to ensure the timely payment of invoices. Based on the independent assessment, the Authority entered into a memorandum of agreement (agreement) with Public Housing in May 2005 to correct the deficiencies identified in the independent assessment.

Public Housing selected the oversight strategy of remotely monitoring the Authority's implementation of the tasks under the agreement. Under the remote monitoring strategy, Public Housing required the Authority to submit monthly progress reports. The agreement monthly progress reports submitted to Public Housing by the Authority stated the actions taken to implement the performance targets and the completion dates and included supporting documentation for the actions. Public Housing staff were responsible for ensuring that the performance targets were met in terms of quantity, timeliness, and quality.

Public Housing released the Authority from its agreement in June 2006, within the first year of the recovery period, based on the Authority's certifying to having completed the tasks in the agreement.

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Our objective was to determine whether Public Housing management controls and oversight processes used to monitor the implementation of the agreement were adequate.

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RESULTS OF AUDIT

Finding 1: Public Housing Did Not Ensure That the Authority Accurately Implemented Its Agreement

Public Housing did not ensure that the Authority accurately implemented its agreement. The Authority did not implement some tasks related to financial management and procurement. This occurred because Public Housing did not have adequate detailed procedures in place for monitoring the agreement. As a result, the Authority was released from its agreement without fully completing and implementing it. Thus, HUD could not be assured that the Authority completed the required tasks, which was one of the conditions for releasing the Authority from its troubled designation.

The Agreement

The agreement executed between Public Housing and the Authority consisted of the following nine sections:

1. Governance
2. Organization
3. Finance and procurement
4. Housing management
5. Property maintenance
6. Resident services
7. Modernization
8. Security
9. Management information systems

Each section contained several tasks to be completed before the agreement was considered fulfilled and the Authority released from its troubled designation.

We reviewed tasks under the governance, organization, finance and procurement, and property maintenance sections of the agreement. The supporting documentation submitted to fulfill the governance, organization, and property maintenance sections of the agreement appeared to support that the Authority implemented the required tasks. Although the documentation submitted by the Authority indicated that the tasks had been completed, interviews and discussions with Authority staff and verification of the supporting documentation submitted showed that a more in-depth review, including verification of the documentation submitted for these sections, was necessary.

Finance Tasks Not Implemented as Required

The agreement required the Authority to develop a plan to facilitate the development of standard operating procedures consisting of comprehensive financial management and internal control policies and procedures. The Authority provided to Public Housing its draft internal control monitoring systems guidebook. The guidebook contained an internal control checklist which the Authority completed, indicating that the Authority did not (1) obtain approval from the accounting department regarding the availability of funds before issuing a purchase order or making an expenditure commitment and (2) obtain verification from the accounting and budget department that sufficient unobligated funds were available to meet the proposed expenditure before commitment of a payable or procurement. The Authority did not recognize or address this deficiency. Further, the Public Housing specialist responsible for this section did not have correspondence, files, or notes that documented his review of the information submitted. In addition, the documentation did not indicate that the specialist monitored or provided comments for this section of the agreement.

Public Housing did not question why the Authority did not have controls in place for obtaining approval from the finance department before making commitments for purchases. The lack of controls caused the Authority to make excessive contract payments as noted in our prior audit (see audit report number 2007-AT-1006).

Some Procurement Tasks Not Implemented

Public Housing did not ensure that the Authority accurately implemented tasks related to procurement. The following are examples of procurement tasks that were not implemented as required by the agreement:

- Draft, review, and finalize procurement procedures and distribute to key staff. The agreement required the Authority to submit revised procurement procedures to Public Housing. The supporting documentation provided to Public Housing in September 2005 did not include procurement procedures. Consequently, Public Housing had no assurance that the Authority had developed the procedures. The Authority did not draft procurement procedures until February 2007, after it was released from the agreement in June 2006. The agreement also required the Authority to provide training on the procurement policy and procedures. The Authority certified that it completed the training in September 2005; however, the sign-in sheet submitted as support for completing this task indicated that the training was held in October 2005. Public Housing staff did not question the discrepancy.

In addition, Authority staff stated that they did not receive procurement training.

- Develop a standard method of organization for all procurement files, reorganize existing files, and maintain future procurement files to comply with federal and state regulations. The agreement required the Authority to submit a file organization outline and confirm the reorganization of contract files. The Authority submitted a procurement policy, which did not contain a procurement file organization outline or indicate whether contract files had been reorganized. Our on-site review of nine contracts executed by the Authority found that they did not comply with federal and state regulations. In addition, organization of the procurement files reviewed was not standardized, and none of the files reviewed contained all of the information required by the agreement.
- Create and maintain a procurement register. The agreement required the Authority to submit a completed procurement log. The Authority submitted a finance consulting contract report to support its completion of this task. The information did not support the creation and maintenance of a procurement register. On-site discussions with the former executive director and former chief operating officer in September 2006 revealed that they were not aware of the requirement to maintain a comprehensive listing of all contracts. The Authority did not begin maintaining a complete contract register until September 2006, after it was released from the agreement.

In all of the examples above, Public Housing staff provided no comments or assistance to the Authority to address the insufficient documentation submitted. Public Housing officials stated that they relied on the former executive director's certification that the tasks were implemented as required by the agreement. Public Housing staff stated that they had concerns regarding the Authority's procurement; however, no additional monitoring or technical assistance was provided to the Authority to ensure that the procurement tasks were adequately implemented.

United States Housing Act of 1937 Requirements

The United States Housing Act of 1937 (Act), paragraph (j)(2)(A)(i), requires that, upon designating a public housing agency with more than 250 units as troubled, the HUD Secretary shall provide for an on-site, independent assessment of the management of the agency. The Act also requires Public Housing to enter into a memorandum of agreement with each troubled public housing agency.

Such agreement shall set forth (1) targets for improving performance as measured by the performance indicators within a specified period; (2) strategies for meeting such targets, including a description of the technical assistance that the HUD

Secretary will make available to the agency; and (3) incentives or sanctions for effective implementation of such strategies.

The Act states that, to the extent that Public Housing determines such action to be necessary to ensure the accuracy of any certification made under this section, an independent auditor shall be retained to review documentation or other information maintained by a public housing agency to substantiate each certification submitted by the agency.

Authority Remotely Monitored

According to the general guidance available, Public Housing could choose to provide either on-site or remote monitoring of the Authority while it was under the agreement. Public Housing selected the oversight strategy of remotely monitoring the Authority's implementation of the tasks. Under the remote monitoring strategy, Public Housing required the Authority to submit monthly progress reports showing the actions taken to implement the performance targets and the completion dates, along with supporting documentation for the actions. Public Housing staff were responsible for ensuring that the performance targets were met in terms of quantity, timeliness, and quality.

Public Housing staff stated that they chose to remotely monitor the Authority's implementation of the agreement because the Authority was designated as troubled for not submitting its financial statements in a timely manner. If the financial statements had been submitted in a timely manner, the Authority would have qualified as a high performer. Thus, they did not see a need to provide additional monitoring while the Authority was under the agreement. However, based on the independent assessment the Authority was designated as troubled in several areas of operations needing improvement for the Authority to operate efficiently and effectively, which were identified in the agreement.

Public Housing's lack of management controls and oversight processes used to monitor the agreement also contributed to the Authority's not adequately implementing the agreement. Public Housing officials informed us that each section of the agreement was assigned to a specialist who was responsible for reviewing the supporting documentation and making the decision to accept or request more support for the tasks. The public housing director reviewed the final completed agreement but did not review the supporting documentation or the specialists' decisions.

Lack of Detailed Guidance

The Authority did not adequately implement the tasks under the agreement because of Public Housing's lack of detailed guidance available to use when monitoring the implementation of the agreement. There is no guidance that provides instruction on how to determine which oversight strategy to use for housing authorities that are under memorandums of agreement. Although there is general guidance requiring the establishment of a memorandum of agreement for troubled housing authorities, there is no specific guidance in place that specifically addresses how the memorandum of agreement should be monitored.

In addition, there is no guidance specifying which strategies should be used or whether they should or can be changed, based on a housing authority's performance, during the period in which a housing authority is under a memorandum of agreement. There is no current handbook for monitoring troubled housing authorities. The only guidance available is the "Field Office Monitoring of Public Housing Agencies," Handbook 7460.7, dated 1994, which has not been updated to incorporate changes within HUD and the program area. Updated guidance that provides specific instructions on how to select oversight strategies and provide monitoring would help ensure that housing authorities adequately implement the tasks under a memorandum of agreement.

Conclusion

Overall, Public Housing did not ensure that the Authority implemented the agreement. The Authority was released from the agreement without fully implementing the tasks required based on the information submitted and the signed certifications provided by the former executive director. Public Housing relied on the documentation provided although the information did not accurately support proper completion of the tasks.

Public Housing officials explained that no additional monitoring other than remote monitoring was necessary. Thus, they did not critically review the Authority's monthly progress reports. Public Housing officials also stated that they only had the staff and funds to provide limited oversight of troubled housing authorities. However, considering that the Authority was a local housing authority, costs should not have been a factor in providing the necessary oversight to ensure that the agreement was properly implemented. Proper oversight was necessary to ensure the implementation of the agreement, especially when the documentation submitted did not adequately support the required operating improvements.

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Recommendations

We recommend that the Deputy Assistant Secretary for Field Operations, Public and Indian Housing

- 1A. Perform a comprehensive review of the procurement function at the Authority to ensure the procurement function is operating in accordance with federal and state regulations.
- 1B. Perform either staff or independent public accountant on-site review of the financial management internal controls to ensure that the Authority has adequate financial internal controls regarding the disbursement of funds prior to approval.

SCOPE AND METHODOLOGY

To achieve our audit objectives, we

- Obtained a general understanding of Public Housing's management control system;
- Obtained an understanding of Public Housing's agreement process, policies, and procedures;
- Obtained an understanding of 24 CFR [*Code of Federal Regulations*] 902.75, the U.S. Housing Act of 1937, and other applicable laws and regulations;
- Selected various areas of the agreement to test by reviewing supporting documentation submitted by the Authority in its monthly progress reports for accuracy and sufficiency;
- Obtained an understanding of the Authority's procedures for responding to the agreement;
- Obtained an understanding of Public Housing's oversight of the agreement from documented team review comments and correspondence with Authority staff; and
- Conducted interviews with Public Housing and Authority staff to follow up on discrepancies and issues noted during the review and to obtain information regarding policies and procedures.

The review focused on the completion and certification of the various sections of the agreement previously identified as at risk of noncompliance in the independent assessment. We reviewed tasks related to governance, organization, finance and procurement, and property maintenance sections of the agreement. We reviewed supporting documentation to determine whether it fully satisfied requirements. In some instances, additional documentation was requested from Authority staff such as minutes from board meetings, board resolutions, board training records, personnel files, check vouchers, invoices, contract files, and pest control logs to test implementation.

We interviewed Public Housing officials and Authority management and staff. We performed our site work between April and September 2007 at the Authority in Decatur, Georgia, and Public Housing in Atlanta, Georgia. The audit covered the period May 1, 2005, through June 30, 2006, the period during which the Authority was under the agreement, but was extended as necessary for the audit.

We performed our review in accordance with generally accepted government auditing standards.

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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 used in accordance with laws and regulations.
- 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 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 Weakness

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

- Public Housing did not ensure that the Authority accurately implemented its agreement (see finding 1).



APPENDIX

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

	<p>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT WASHINGTON, DC 20410-5000</p>
OFFICE OF PUBLIC AND INDIAN HOUSING	DEC 17 2007
MEMORANDUM FOR:	James D. McKay, Regional Inspector General for Audit, 4AGA
FROM:	 Deborah Hernandez, Deputy Assistant Secretary for Field Operations, Office of Public and Indian Housing, PQ
SUBJECT:	The Atlanta Office of Public and Indian Housing Response to the Housing Authority of the County of DeKalb Draft Audit Report dated, December 4, 2007
<p>This memorandum is in response to the Inspector General's (IG) Draft Audit Report of the Atlanta Office of Public and Indian Housing (Public Housing) monitoring of the Memorandum of Agreement (MOA) between the Atlanta Office of Public Housing and the Housing Authority of County of DeKalb (Authority). Following are our comments and our responses to the IG's recommendations to correct the Finding.</p> <p>The IG's primary objective was to determine whether Public Housing adequately monitored the Authority's implementation required by the MOA. Specifically, the IG's objective was to determine whether Public Housing's management controls and oversight processes used to monitor the implementation of the MOA were adequate.</p> <p>As stated within the IG's report, Public Housing could choose to provide either on-site or remote monitoring of the authority's MOA. The Atlanta Field Office chose remote monitoring. Had the authority submitted its financial audit on time, the authority would have been designated as a "High Performer" and there would have been no need for an MOA.</p> <p>The audit was late due to circumstances beyond the control of the authority and the authority had the opportunity to request a waiver of the late submission, but did not choose to do so. As a result, an MOA was implemented that held the agency responsible for fulfilling the actions included in the MOA.</p>	
<p>www.hud.gov espanol.hud.gov</p>	

Comment 1

Recommendation 1A:

Perform a comprehensive review of the procurement function at the Authority to ensure the procurement function is operating in accordance with federal and state regulations.

PIH Comments:

We agree that the agency experienced problems in the procurement area that were not adequately addressed in the agreement.

Public Housing will undertake a comprehensive procurement review. The review and the report will be completed by December 31, 2008. Since Public Housing does not have investigative authority, we will request investigative assistance from IG, if deemed necessary.

Comment 2

Recommendation 1B:

Perform either staff or independent public accountant on-site review of the financial management internal controls to ensure that the Authority has adequate financial internal controls regarding the disbursement of funds prior to approval.

PIH Comments:

The Atlanta Office will request that the independent public accountant includes in the audit for the period ending June 30, 2007, a review of the financial internal controls, specifically, that the authority has controls to ensure approval of expenditures prior to the disbursement of funds.

The independent public accountant has until March 2008, to submit the audit report with additional time for the audit to be accepted by the REAC. Therefore, the management decision for this recommendation is July 31, 2008. Should the independent public accountant identify deficiencies in this area, the MOA will be reopened.

OIG Evaluation of Auditee Comments

- Comment 1** Public Housing’s agreement with the finding and recommendation indicates its willingness to make necessary improvements. The planned corrective actions outlined in the comments are responsive to the recommendation. We concur with the management decisions for this recommendation.
- Comment 2** The planned corrective actions outlined in the comments are responsive to the recommendation. We concur with the management decisions for this recommendation.