



Compton Housing Authority, Los Angeles, CA

Housing Choice Voucher Program

**Office of Audit, Region 9
Los Angeles, CA**

**Audit Report Number: 2019-LA-1008
July 11, 2019**





To: Marcie Chavez, Director, Office of Public Housing, Los Angeles, CA, 9DPH

//SIGNED//

From: Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

Subject: The Compton Housing Authority, Compton, CA, Did Not Administer Its Housing Choice Voucher Program in Accordance With HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Compton Housing Authority's Housing Choice Voucher Program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 213-534-2471.



Audit Report Number: 2019-LA-1008

Date: July 11, 2019

The Compton Housing Authority, Compton, CA, Did Not Administer Its Housing Choice Voucher Program in Accordance With HUD Requirements

Highlights

What We Audited and Why

We audited the Compton Housing Authority's Housing Choice Voucher Program, based on a referral from the U.S. Department of Housing and Urban Development's (HUD) Los Angeles Office of Public Housing, due to concerns regarding its financial activity control weaknesses. The objective of the audit was to determine whether the Authority administered its Housing Choice Voucher Program in accordance with program requirements, with an emphasis on its procurement, financial transactions, and portability.

What We Found

The Authority did not follow proper procurement or financial management procedures for professional auditing services and ensure the timely submission of audited financial statements in accordance with HUD requirements. It also overreimbursed housing assistance payment (HAP) administrative fees to the City's general fund account. As a result, \$77,542 in program funds spent on professional auditing services was not reasonable and appropriate, HUD had no assurance regarding the financial condition of the Authority's programs, and \$30,562¹ in HAP funds was not available for the operation of the program.

What We Recommend

We recommend that the Director of the Los Angeles Office of Public Housing require the Authority to (1) repay the program \$77,542 from non-Federal funds for the unreasonable professional auditing service payments; (2) establish and implement additional procedures and controls to ensure that procurement and contracting requirements are followed, along with the associated maintenance of applicable documentation; (3) complete and submit the audited financial statements for all past-due fiscal years; and (4) develop and implement additional procedures and controls to ensure that the administrative fees for the portability HAP are accurately calculated. We also recommend that the Director consider imposing sanctions on the Authority for not completing and submitting audited financial statements for all delinquent fiscal years.

¹ The City reimbursed the program during the course of the audit, resulting in no recommendation for repayment.

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Background and Objective

The Compton Housing Authority was established in 1969, and its activities and operations are administered by the City of Compton. With the exception of banking services, which are performed by the City Treasurer's Office, the City Controller's Office performs all financial services on behalf of the Authority. On December 1, 1976, the Authority entered into an annual contributions contract with the U.S. Department of Housing and Urban Development (HUD) and received an allocation of Section 8 certificate units.

The Authority operates the Housing Choice Voucher and Family Self-Sufficiency Programs, which are funded by HUD. The Housing Choice Voucher Program provides rental assistance to very low-income families, the elderly, and the disabled to enable them to secure decent, safe, and sanitary housing in the private market. Participants are free to choose any housing that meets the requirements of the program and are allowed portability to move to other public housing agencies' (PHA) jurisdictions. This portability process allows a family to obtain a voucher from one PHA (initial PHA) and use it to lease a unit in the jurisdiction of another (receiving PHA). The receiving PHA has the option of administering the family's voucher for the initial PHA or absorbing the family into its own program. Under the first option, the receiving PHA provides all housing services for the family and bills the initial PHA for the family's housing assistance payments (HAP) and the fees for administering the family's voucher. Under the second option, the receiving PHA pays for the family's assistance with its own program funds, and the initial PHA has no further relationship with the family.

Between July 2016 and June 2018, the Authority received more than \$11.3 million in HAP and more than \$1.4 million in administrative fees from HUD. As of June 2018, the Authority reported 575 vouchers leased, 5 port-out vouchers, and 91 port-in vouchers from other PHAs.

The Authority's audited financial statements for fiscal years 2011 forward were not issued to and approved by HUD, with the last submission being the audited statement for 2010.

The Los Angeles Office of Public Housing referred the Authority to the Office of Inspector General (OIG) because of deficiencies related to the financial management and procurement of the Housing Choice Voucher Program identified by HUD's Departmental Enforcement Center in a June 2018 review. Additionally, a State controller's report issued in March 2018 identified potential undetected fraud in the City, which caused the City's independent auditors to withdraw the Authority's fiscal year 2014 draft financial audit report. The withdrawal of the draft financial audit report resulted in the City's terminating the professional auditing services of its independent auditors.

Our audit objective was to determine whether the Authority administered its Housing Choice Voucher Program in accordance with program requirements, with an emphasis on its procurement, financial transactions, and portability.

Results of Audit

Finding 1: The Authority Did Not Properly Procure, Manage, or Submit Its Audited Financial Statements

The Authority did not follow proper procurement or financial management procedures to support payments for professional auditing services and ensure the annual submission of audited financial statements in accordance with HUD regulations and requirements. Specifically, the Authority did not provide supporting documentation to show that a competitive process was used to procure professional auditing services, and it paid for auditing services when no end product was produced and no valid contract or agreement was provided. In addition, the audited financial statements had not been provided to HUD since 2010. This condition occurred because the Authority did not have sufficient controls to ensure that written procurement policies and procedures were followed and did not have internal written policies and procedures to properly submit its audited financial statements to HUD. As a result, \$77,542 in Housing Choice Voucher Program funds spent on professional auditing services was not reasonable and appropriate. Further, the lack of financial data prevented HUD from assuring proper oversight of the Authority's financial condition and HUD-funded programs.

Lack of Procurement and No Executed Contract

Neither the Authority nor the City could provide the necessary supporting documentation to show that a competitive process was used to obtain professional auditing services of Macias, Gini & O'Connell (MGO).² The payments to MGO exceeded the City's spending limit of \$7,500, requiring a formal bid or proposal of services, as stated in the City's Standard Operating Manual (Section V, Methods of Procurement (C)) (appendix C). However, the City did not provide the necessary procurement documentation detailing MGO's professional auditing services to complete the audited financial statements for fiscal years ending June 30, 2014, and June 30, 2015 (for either the Authority or the City), as required under 2 CFR (Code of Federal Regulations) 200.318(i). Also, the City could not provide a signed contract or agreement between the Authority and MGO for the auditing services it provided. As a result, there was no evidence that the Authority chose the lowest responsible or most qualified bidder to provide auditing services under a competitive process, which did not comply with HUD requirements under 2 CFR 200.319(a) and 200.320(d)(2).

² The City performs all financial services on behalf of the Authority, which includes procuring professional goods or services. (See the Background and Objective section.) The City's administration of the procurement process for the Authority establishes that any services procured are obtained in the most economical manner.

Inadequate Invoices and No End Product

We reviewed invoices from MGO, which recorded progressive billings sent to the Authority for the preparation of the audited financial statements related to fiscal years ending June 30, 2014, and June 30, 2015. The invoices stated only that work hours (for example, partners, managers, associates, and administrators) were charged to the Authority in relation to the 2014 and 2015 audits, but there was no detailed description of what auditing services were provided or whether they were exclusively for the Authority and not City-wide. Further, the audited financial statements for fiscal years ending June 30, 2014, and June 30, 2015, were not produced for the Authority or the City by MGO. As noted in the Background and Objective section of this report, the State controller's report stated that MGO withdrew the Authority's draft financial audit due to a potential undetected fraud in the City. This issue resulted in the City's terminating the professional auditing services of MGO. Therefore, the Authority paid \$77,542 for auditing services that were not completed.

Since the audited financial statements were not produced and the costs were not reasonable and appropriate, the Authority did not properly account for the management of its Federal funding under 2 CFR 200.302(b)(3) and (4) requirements (appendix C).

Annual Audited Financial Statements Not Submitted

As discussed in the Background and Objective section, the audited financial statements for fiscal years 2011 forward were not provided to or approved by HUD in accordance with 2 CFR 200.507 (appendix C). The last audited financial statement that was submitted and approved was for fiscal year 2010. The audited financial statements for fiscal years 2012 to 2015 were overdue³ when the City canceled MGO's professional auditing services in January 2017. Further, the City did not contract with new auditors until January 2018, a year later. Due to the lack of sufficient and timely corrective action, the submissions remained overdue as of early May 2019, along with those of later years.⁴ The unaudited and audited financial data are vital to HUD in determining an entity's financial condition and providing oversight of the Authority's HUD-funded programs. The Authority's not providing this information also raised questions as to the soundness of its financial management practices. The inability or unwillingness to conduct an audit led to a lack of confidence from Federal awarding agencies that the Authority could administer its Federal funding properly, which could result in sanctions and remedies being imposed under 2 CFR 200.338(a) through (f) and 2 CFR 200.505.

Lack of Sufficient Controls

These issues occurred because the Authority and the City did not have sufficient controls to ensure that procurement policies and procedures were followed or to ensure the preparation and submission of the Authority's audited financial statements. The City did not follow its own procurement policies (appendix C) when it contracted with MGO. There were no

³ The audited financial statements for fiscal years ending June 30, 2011, June 30, 2012, June 2013, June 30, 2014, and June 30, 2015, were due March 31, 2012, March 31, 2013, March 31, 2014, March 31, 2015, and March 31, 2016, respectively.

⁴ The audited financial statements for fiscal years ending June 30, 2016, June 30, 2017, and June 30, 2018, were also overdue.

effective measures to ensure that City staff administered the City's written procurement policies and procedures correctly in relation to the Authority under HUD requirements at 2 CFR 200.318(i). The City also had no measures to ensure that the audited financial statements were prepared and submitted to HUD. Further, the Authority lacked procedures and controls to ensure that the City followed HUD requirements.

Conclusion

The Authority did not provide the necessary documentation to support that a competitive process was used to procure professional auditing services, did not provide a valid signed contract or agreement for the auditing services provided, and did not ensure that required audited financial statements were submitted to HUD. This condition occurred because the Authority did not have sufficient controls to ensure that written procurement policies and procedures were followed or that HUD requirements were met. The City's termination of MGO's professional services resulted in no end product or return for \$77,542 paid by the Authority and further contributed to HUD's inability to provide proper oversight of the Authority's financial condition and HUD-funded programs.

Recommendations

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

- 1A. Repay the Housing Choice Voucher Program \$77,542 from non-Federal funds for the unreasonable professional auditing service payments.
- 1B. Establish and implement additional procedures and controls to ensure that City personnel responsible for administering procurement on the Authority's behalf follow procurement and contracting requirements and maintain applicable supporting documentation in accordance with HUD requirements.
- 1C. Establish and implement additional procedures and controls to ensure that audited financial statements are prepared and submitted in accordance with HUD requirements.
- 1D. Complete and submit to HUD the audited financial statements for all past-due fiscal years in accordance with HUD regulations.

We also recommend that the Director of the Los Angeles Office of Public Housing

- 1E. Consider imposing administrative sanctions and remedies on the Authority for the nonsubmission of audited financial statements for all overdue fiscal years.

Finding 2: The Authority Miscalculated Portability Housing Assistance Payments

The Authority overreimbursed \$30,562 in HAP administrative fees to the general fund account. This condition occurred because procedures and controls were insufficient to ensure HAP portability payments were calculated accurately. As a result, funds were not available for the operation of the Housing Choice Voucher Program.

Portability HAP Discrepancies

Our review of portability HAP determined discrepancies in the calculation of the Authority's administrative fees by the City Controller's Office, resulting in the overreimbursement of administrative fees to the City's general checking account.⁵ These actions were not in accordance with HUD requirements under 2 CFR 302(b)(2) (appendix C). We identified several instances in which the Controller's Office miscalculated administrative fees occurring over several periods from December 2017 through June 2018.

- A miscalculation of administrative fees from December 2017 to February 2018 resulted in an overreimbursement of \$13,436 to the general fund from the Authority's administrative fee bank account.
- Portability HAP was not deducted from total administrative fees, resulting in a duplication of charges to the HUD accounts. This issue caused an overreimbursement of administrative fees of \$16,898 to the general fund from March 2018 to May 2018.
- An incorrect amount used to calculate administrative fees for portability HAP resulted in an overreimbursement of \$228 for June 2018.

Overall, the miscalculated and incorrectly applied HAP administrative fees resulted in ineligible overreimbursements of \$30,562 to the City's general fund account. This condition occurred because procedures and controls were insufficient to ensure HAP portability payments were calculated accurately.

After bringing these issues to its attention, the Controller's Office acknowledged the overreimbursement from administrative fees. The City later reimbursed the administrative fee account from the City's general fund and repaid the \$30,562 in overreimbursements to the program.

Conclusion

The City controller overreimbursed the general fund by \$30,562 due to the miscalculation of the Authority's administrative expenses from December 2017 to June 2018. This condition occurred because procedures and controls were insufficient to ensure that portability HAP was calculated accurately. As a result, HAP funds were not available for the operation of the Housing Choice Voucher Program. After the completion of our audit fieldwork, the overreimbursed amount of \$30,562 was repaid to the administrative fund from the general

⁵ See the Background and Objective section for general information on the portability process.

fund. Therefore, we have not included a recommendation to repay the Housing Choice Voucher Program.

Recommendations

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

- 2A. Develop and implement additional procedures and controls to ensure that City employees properly calculate administrative fees for portability HAP related to the Authority.

Scope and Methodology

We performed our audit fieldwork at the Authority, located at 700 Bullis Road, Compton, CA, from October 29, 2018, to March 14, 2019. Our audit generally covered the period July 2016 to June 2018 and was expanded to other periods when necessary⁶.

To accomplish our objective, we

- Reviewed relevant background information, including organizational charts and employee job descriptions.
- Reviewed related program requirements and applicable HUD Federal regulations.
- Reviewed internal control procurement policies, financial policies, and the Authority's administrative plan.
- Reviewed the Authority's HAP and administrative fee bank statements.
- Reviewed the Authority's budgets for fiscal years 2016-2017 and 2017-2018.
- Reviewed general ledgers for HAP (fiscal years ending June 30, 2016, June 30, 2017, and June 30, 2018), the HAP general ledger check register, and portability landlord summaries.
- Reviewed Authority and City employee payrolls for allocated costs.
- Reviewed relevant Authority and City written policies and procedures.
- Reviewed annual action plans and annual contributions schedules
- Interviewed appropriate Authority and City personnel.

Sampling of Expenditures

Our audit universe consisted of operational and vendor line item expenses totaling \$348,019 in disbursement expenditures for the two periods within our scope, fiscal years 2016-2017 and 2017-2018 (table 1 below). We could not review all operational and vendor line item expenses in the audit universe within our audit timeframe and, therefore, selected a nonstatistical sample comprising the largest disbursement expenditures totaling \$53,906 for detailed testing (table 2 below). During our review, we determined that sample expenditure items appeared to have adequate support, so we curtailed our review of the remaining sample items totaling \$29,704 to

⁶ We reviewed an additional \$36,875 of invoice payments made to MGO that preceded our audit scope.

focus audit resources on the identified finding issues (findings 1 and 2). Our audit results were limited to the line item expenses in our sample and cannot be projected to the universe.

Table 1 - Audit universe

Fiscal year	Amount
Fiscal years 2016-2017	\$198,212
Fiscal years 2017-2018	149,807
Total audit universe	348,019

Table 2 - Nonstatistical subsample

Fiscal year	Amount
Fiscal years 2016-2017	\$22,521
Fiscal years 2017-2018	31,385
Total audit universe	53,906

The total subsample of expenditures selected for review represents 15 percent (\$53,906/\$348,019) of the total expenditures from our universe.

We also expanded our review of additional invoice payments made to MGO, which preceded our audit period of July 2016 to June 2018, and determined that the Authority paid an additional \$36,875⁷ from the Housing Choice Voucher Program to MGO for the same questioned professional auditing services (finding 1).

Sampling of Portability

The audit universe of the port-in payments totaled more than \$3 million in HAP and \$195,839 in administrative fees, and port-out payments totaled \$221,149 in HAP and \$15,338 in administrative fees for the period July 2016 to June 2018. We could not sample all port-in and port-out HAP and administrative fees in our universe within audit timeframes. We, therefore, selected a nonstatistical subsample of months for detailed testing, which included April to June 2018 (totaling \$342,658 in HAP and \$19,532 in administrative fees for port-ins and \$17,334 in HAP and \$1,250 in administrative fees for port-outs). Our audit results were limited to the selection in our sample and cannot be projected to the universe.

We determined that data contained in source documentation provided by the Authority agreed with data contained and recorded in related landlord summary reports. Additionally, the data in the detailed general ledger obtained from the Authority matched the related source documentation (for example, purchase requisition, purchase order, invoice(s), and check copy or remittance advice documentation). We, therefore, assessed the computer data to be sufficiently reliable for our use during the audit.

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

⁷ We reviewed invoice payments to MGO for the preparation of the audited financial statements totaling \$77,542. This includes \$40,667 within our audit scope and an additional \$36,875 that preceded our review period.

evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). 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 a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of program operations,
- reliability of financial reporting for internal and external use, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls 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 objective:

- Effectiveness and efficiency of program operations – Implementation of policies and procedures to ensure that program funds are used for eligible purposes.
- Reliability of financial information – Implementation of policies and procedures to reasonably ensure that relevant and reliable information is obtained to adequately support program expenditures.
- Compliance with applicable laws and regulations – Implementation of policies and procedures to ensure compliance with applicable HUD rules and requirements.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The Authority lacked sufficient procedures and controls to ensure that procurement and contracting and the submission of annual financial statements complied with HUD requirements (finding 1).
- The Authority did not have sufficient procedures and controls to ensure that City staff properly calculated administrative fees for portability HAP (finding 2).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unreasonable and unnecessary costs 1/
1A	\$77,542
Totals	77,542


- 1/ Unreasonable or unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business. The unreasonable and unnecessary costs in this case include \$77,542 in Housing Choice Voucher Program funds spent on professional auditing services by the Authority when no supporting documentation was provided to show that a competitive process was used to procure those services, no signed contract or agreement for the auditing services was provided, and there was payment for auditing services when no end product was produced.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



Rafaela T. King, CPA, MB/

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City of Compton
OFFICE OF THE CITY CONTROLLER

June 27, 2019

Tanya E. Schulze
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
Office of Audit (Region 9)
300 N. Los Angeles Street, Suite 4070
Los Angeles, CA 90012

Re: Results of Audits

Dear Ms. Schulze:

*Finding 1: The Authority Did Not Properly Procure, Manage, or Submit Its Audited
Financial Statements*

Response to Audit Finding:

In response to your letter dated June 6, 2019 and the audit findings in regards to Annual Audited Financial Statements Not Submitted. Your finding notes that fiscal years 2011 forward were not provided. Please see attached audited financial statements for fiscal years 2011, 2012, and 2013. Your finding suggests that the 2014 audit was in draft form and was withdrawn by the City's prior auditors, MGO. In actuality, the 2014 audit was **completed** and received and filed at a council meeting. However, the auditors in place at the time pulled their opinion for the 2014 audit, and therefore it is not attached. MGO, did indeed complete the audit and the Authority paid for the services that were rendered. However, the City did terminate the contract with MGO due to undetected fraud that should have been detected and is currently undergoing legal proceedings regarding this matter.

I am also attaching a copy of the City's formal response regarding the completion of the FY 2015, 2016 and 2017 financial audits that were previously delivered, along with the Single Audits for FY 2014, 2015, 2016 and 2017. This letter and transmittal was sent to Director, Housing Choice Voucher Program and copies were delivered to HUD-OIG, Chief Operating Officer, State Controller's Office, and Chief, Division of Audits, State Controller's Office in

- Comment 1
- Comment 2
- Comment 3
- Comment 4

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 5

March of 2019 by our current auditors. They also delivered a Corrective Action Plan to the State Controller's Office to address all outstanding audit findings from prior and current years.

Over the past 18 months, the City of Compton has made significant progress in getting the audits caught up and improving our internal controls by writing and implementing new policies and procedures. At the present, the City is on target to present an audited Balance Sheet for FY 2018 by December 31, 2019 and completion for the FY 2018-19 Financial Statement Audit is on target to be completed by March 31, 2020.

If you have any further questions about the audits and the corrective action plan that is currently in place, please feel free to contact me directly. Our auditors have also made themselves available to come to your office to discuss the ongoing plan and progress of the city.

Sincerely,



Rafaela T. King, CPA, MBA
City Controller
City of Compton
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(310) 605-5576

c: Cecil W. Rhambo, Jr.
City Manager

Delmonsha Green
Housing Director

Marcie Chavez
Director, HUD Los Angeles Office of Public Housing, 9DPH

Vincent Mussetter
Assistant Regional Inspector General for Audit

Attachments available upon request.

OIG Evaluation of Auditee Comments

- Comment 1 The City provided the audited financial statements for fiscal years ending 2011, 2012, and 2013 in response to the audit findings. However, the fiscal year 2011 audited financial statements was not submitted appropriately, and the statements were subsequently rejected and not approved by HUD. The 2012 and 2013 audited financial statements were not sent to HUD for evaluation. Therefore, we restate our assertion that the audited financial statements for fiscal years 2011 forward have not been submitted by the Authority for issuance and approval by HUD. We maintain our recommendations for the Authority to submit all audited financial statements for all past-due fiscal years in accordance with HUD requirements, and that HUD should consider imposing administrative sanctions and remedies on the Authority for nonsubmission of audited financial statements.
- Comment 2 The City maintains the fiscal year ending 2014 audit was completed and received and filed at their council meeting. However, the City's prior auditors withdrew their opinion from the 2014 audit, which the City has also acknowledged in their response to the draft report. The financial statements for fiscal year ending 2014 were subsequently not issued to or approved by HUD. Therefore, our recommendation to submit the audited financial statements for all past-due fiscal years still stands, and the City must work with HUD during the resolution process to issue and obtain HUD approval for the statements.
- Comment 3 We acknowledge the City's statement that the contract with their prior auditors was terminated due to City fraud. The City fraud was unrelated to the Authority and its Housing Choice Voucher program. The termination of the contract resulted in no end product being produced and submitted to HUD for the Authority's Housing Choice Voucher program.
- Comment 4 The City stated it provided a letter and information that fiscal years 2015, 2016, and 2017 financial audits were completed, along with the Single Audits for fiscal years 2014, 2015, 2016, and 2017. This information was mailed to State and Federal agencies in March 2019, with a corrective action plan sent to the State Controller's Office to address outstanding audit findings. However, they were not appropriately submitted to HUD for evaluation and approval in accordance with program requirements. Therefore, our recommendation to submit the audited financial statements for all past-due fiscal years still stands, and the City must work with HUD during the resolution process to issue and obtain HUD approval for the statements.
- Comment 5 We agree with the City's plans to get caught up on prior audits, complete its current fiscal year audit, and to implement new policies and procedure for their internal controls.

Appendix C

Criteria

2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

2 CFR 200.302, Financial Management.

(b)(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance.

(3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

(4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes.

2 CFR 200.318, General Procurement Standards.

(i) The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

2 CFR 200.319, Competition.

(a) All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section.

2 CFR 200.320, Methods of Procurement To Be Followed.

(d) Procurement by competitive proposals. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed price or cost reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids.

(2) Proposals must be solicited from an adequate number of qualified sources.

2 CFR 200.338, Remedies for Noncompliance

If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions, as described in § 200.207 Specific conditions. If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions, the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

2 CFR 200.505, Subpart F-Audit Requirements, Sanctions

In cases of continued inability or unwillingness to have an audit conducted in accordance with this part, Federal agencies and pass-through entities must take appropriate action as provided in § 200.338 Remedies for noncompliance.

2 CFR 200.507, Subpart F-Audit Requirements, Program-Specific Audits

(c) *Report submission for program-specific audits.*

(1) The audit must be completed and the reporting required by paragraph (c)(2) or (c)(3) of this section submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a different period is specified in a program-specific audit guide. Unless restricted by Federal law or regulation, the auditee must make report copies available for public inspection. Auditees and auditors must ensure that their respective parts of the reporting package do not include protected personally identifiable information.

24 CFR 902.33, Financial Reporting Requirements

(a) Annual financial report. All PHAs must submit their unaudited and audited financial data to HUD on an annual basis. The financial information must be:

- (1) Prepared in accordance with Generally Accepted Accounting Principles (GAAP), as further defined by HUD in supplementary guidance; and
- (2) Submitted electronically in the format prescribed by HUD using the Financial Data Schedule (FDS).

(b) Annual unaudited financial information report filing dates. The unaudited financial information to be submitted to HUD in accordance with paragraph (a) of this section must be submitted to HUD annually, no later than 2 months after the PHA's fiscal year end, with no penalty applying until the 16th day of the 3rd month after the PHA's fiscal year end, in accordance with § 902.62.

(c) Annual audited financial information compliance dates. Audited financial statements will be required no later than 9 months after the PHA's fiscal year end, in accordance with the Single Audit Act and 2 CFR part 200, subpart F.

(d) Year-end audited financial information. All PHAs that meet the federal assistance threshold stated in the Single Audit Act and 2 CFR part 200, subpart F, must also submit year-end audited financial information.

(e) *Submission of information.* In addition to the submission of information required by paragraph (a) of this section, a PHA shall provide one copy of the completed audit report package and the Management Letter issued by the Independent Auditor to the local HUD field office having jurisdiction over the PHA.

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V. Methods of Procurement.

(C) Formal Bids and Proposals--Bids and proposals estimated to cost \$7,500 and over. Departments are required to follow a formal process. City Council approval is required. Two types of formal competitive procurement (Formal Bids and Competitive Sealed Proposals) are authorized. Formal Bids (Invitation For Bids - IFB) will be used for all major purchases and construction projects, except where there is uncertainty as to appropriate specifications, where professional services are needed, unusual risks which cannot be adequately evaluated in procurement planning, or we seek to buy to "best value" where the factors determining value may not be quantifiable. In such a case a competitive sealed proposals (Request For Proposals - RFP) may be used to procure. It is the responsibility of the department, through the procurement officer, to evaluate each purchase and to initiate the appropriate method of purchase.