



West Warwick Housing Authority, West Warwick, RI

Housing Choice Voucher and Public Housing Programs

**Office of Audit, Region 1
Boston, MA**

**Audit Report Number: 2017-BO-1006
August 18, 2017**



To: Marilyn B. O'Sullivan
Director, Office of Public Housing, 1APH
//Signed//

From: Ann Marie Henry
Regional Inspector General for Audit, 1AGA

Subject: The West Warwick Housing Authority, West Warwick, RI, Needs To Improve Its Compliance With Federal Regulations for Its Housing Choice Voucher and Public Housing Programs

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 West Warwick Housing Authority's Housing Choice Voucher and public housing programs.

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 617-994-8345.



Audit Report Number: 2017-BO-1006
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The West Warwick Housing Authority, West Warwick, RI, Needs To Improve Its Compliance With Federal Regulations for Its Housing Choice Voucher and Public Housing Programs

Highlights

What We Audited and Why

We audited the Housing Choice Voucher and public housing programs at the West Warwick Housing Authority as a result of concerns from the U.S. Department of Housing and Urban Development (HUD) and a hotline complaint. The audit objectives were to determine whether (1) procurements were executed in accordance with Federal regulations, (2) West Warwick officials established adequate controls over the Housing Choice Voucher and public housing programs to ensure compliance with HUD regulations, and (3) purchases and inventory were reasonable and adequately supported.

What We Found

West Warwick's procurements did not comply with Federal requirements. Thirteen procurements totaling more than \$2 million had deficiencies, including no independent cost estimates, no contracts, no record of bids or requests for proposals, no price evaluations, no completion certifications, and only one notice to proceed. West Warwick's Housing Choice Voucher and public housing programs did not operate in compliance with HUD requirements due to a lack of policies and procedures and inadequately trained staff. In addition, its credit card charges and petty cash purchases were not supported, and its assets were not protected.

What We Recommend

We recommend that the Director of Public Housing require West Warwick to (1) provide support for procurements totaling more than \$2 million or repay HUD from non-Federal funds, (2) develop and implement controls over its procurement process, (3) develop and implement policies and procedures for the Housing Choice Voucher and public housing programs, (4) provide support for \$18,501 in credit card charges or repay HUD from non-Federal funds, (5) provide support for \$4,530 in petty cash purchases or repay HUD from non-Federal funds, and (6) develop and maintain property records and conduct an inventory in accordance with Federal regulations.

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Background and Objectives

West Warwick is a public nonprofit public housing agency (PHA) created under Rhode Island law, which provides the largest stock of low-income housing in the town of West Warwick through its federally funded housing programs. West Warwick is governed by a five-member board of commissioners, each of whom is appointed by the local government to serve a 5-year term. The board is responsible for oversight of the overall operation of the PHA, careful review of outside contracts and subcontracts, and implementation of internal controls. West Warwick has experienced significant personnel turnover, including three executive directors in the last 5 years.

West Warwick owns and manages 250 housing units in 2 highrise buildings under its public housing program. West Warwick Manor is a 7-story highrise building with 12 2-bedroom units, 75 1-bedroom units, and 39 studio units for a total of 126 units. Clyde Tower is an 11-story highrise with 31 2-bedroom units and 93 1-bedroom units for a total of 124 units. West Warwick also administers 97 housing choice vouchers.

The Housing Choice Voucher program is the Federal Government's major program for assisting low-income families in affording decent and safe housing in the private market. PHAs receive U.S. Department of Housing and Urban Development (HUD) funds to administer the program. The PHA, on behalf of a participating family, pays a housing subsidy directly to the landlord. The family pays the difference between the actual rent charged by the landlord and the amount subsidized by the Housing Choice Voucher program. West Warwick received \$3.3 million in Housing Choice Voucher program funds from 2012 to 2016.

The public housing program provides decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. HUD provides Federal aid to local PHAs that manage the housing for low-income residents at rents they can afford. West Warwick received \$2.2 million in public housing operating funds from 2012 to 2016.

HUD's Office of Capital Improvement administers the Public Housing Capital Fund program, which provides funds annually via a formula to approximately 3,200 PHAs across the country. PHAs may use Capital Fund grants for development, financing, modernization, and management improvements. West Warwick received \$1.1 million in Capital Fund program funds for its public housing units from 2012 to 2016.

We received a complaint and followed up on the complainant's concerns. The audit validated procurement issues, a conflict of interest with a vendor, misuse of credit cards, and unsupported petty cash purchases. HUD also conducted reviews of West Warwick operations and identified significant deficiencies in addition to the ones identified in this report (appendix E).

Our audit objectives were to determine whether (1) procurements were executed in accordance with Federal regulations, (2) West Warwick officials established adequate controls over the Housing Choice Voucher and public housing programs to ensure compliance with HUD regulations, and (3) purchases and inventory were reasonable and adequately supported.

Results of Audit

Finding 1: Procurements Were Not in Accordance With Federal Requirements

West Warwick's procurements had multiple deficiencies, and it did not maintain a contract administration system. These conditions occurred because West Warwick did not have a procurement policy and did not follow Federal, State, or local procurement requirements. In addition, it did not have internal controls to ensure that procurements were properly awarded, and there was a lack of oversight by its board of commissioners. As a result, West Warwick and HUD had no assurance that the prices paid using Federal funds were fair and reasonable. In addition, we questioned more than \$2 million spent on the procurements reviewed.

All Procurements Reviewed Had Multiple Deficiencies

We reviewed 13 procurements, which totaled more than \$2 million (19 percent of the total amount of disbursements). Each procurement had at least 11 deficiencies (appendix C). These deficiencies included no independent cost estimates, no contracts, vendors noncompetitively selected without justification, and violations of conflict-of-interest regulations. The board of commissioners' responsibilities included approving the procurement policy, monitoring procurement activities with regular meetings, and avoiding conflicts of interest.¹ As a result of the deficiencies noted above, the board did not fulfill its obligation to ensure that West Warwick complied with Federal, State, or local procurement requirements. See appendix D for the schedule of HUD-required procurement documentation by contract type.²

Independent Cost Estimates Were Not Performed

For the 13 procurements reviewed, West Warwick did not perform independent cost estimates. An estimate must be prepared before receipt of bids or proposals to ensure that the costs are reasonable.³ As a result of not performing the cost estimates, West Warwick had no assurance that the procurement costs were reasonable. This deficiency resulted from West Warwick's lack of internal controls and procurement policies and its failure to follow Federal, State, and local regulations.⁴

Procurements Did Not Always Have a Contract

For six procurements, West Warwick did not have a contract. The disbursements made on these procurements totaled \$1.3 million. West Warwick did not have a contract with an asbestos abatement contractor that was paid \$323,050 and had one unit left to complete for \$6,100. HUD

¹ Board of commissioners' roles and responsibilities are included in Procurement Practices at Public Housing Agencies.

² The contract types included small purchase, noncompetitive proposals, sealed bid, and competitive proposals.

³ 24 CFR (Code of Federal Regulations) 85.36(f). Effective December 26, 2014, many of the requirements of 24 CFR 85.36 were placed in 2 CFR 200.317 through 200.326.

⁴ 2 CFR 200.318

requires that records be maintained in sufficient detail to include the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and basis for the contract price. West Warwick did not perform the required cost or price analysis to determine that the price was reasonable for every procurement.⁵ This deficiency resulted from West Warwick's lack of internal controls and a procurement policy. Additionally, the West Warwick board of commissioners failed in its oversight responsibility to monitor procurement activities.

Vendors Were Noncompetitively Selected Without Justification

West Warwick could not provide documentation showing that it competitively awarded eight procurements or that it had justification for noncompetitively awarding the \$1.2 million in procurements. The Federal Register states that all procurements must be conducted in a manner providing full and open competition.⁶ The deficiency noted above resulted from West Warwick's lack of internal controls and a procurement policy. Since the procurements were not awarded in full and open competition, West Warwick may not have obtained the best price for goods and services.

West Warwick Violated Federal Conflict-of-Interest Regulations

West Warwick violated Federal conflict-of-interest regulations when it conducted business with a related party. The Federal Register states that a non-Federal entity must disclose in writing any potential conflict of interest to the Federal awarding agency.⁷ No employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest. However, West Warwick conducted business with a company having a family member on its board of commissioners without proper HUD disclosure, which resulted in an inappropriate payment of \$1,696. West Warwick staff also made credit card purchases from the same company. Thus, credit card purchases of \$1,056 also violated Federal conflict-of-interest regulations. The purchases from the related-party vendor totaled \$2,752. These purchases occurred because West Warwick lacked procurement policies and procedures regarding related-party transactions. Also, a board member failed to disclose this conflict of interest.

West Warwick Did Not Maintain a Contract Administration System

West Warwick did not maintain a contract administration system, which would allow effective oversight of the contracts and contractors it conducted business with. HUD requires PHAs to maintain a contract administration system, which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts.⁸ This system would provide a complete listing of contracts and contractors. For example, West Warwick made multiple disbursements to one vendor under three name variations. It did not have policies and procedures for maintaining a contract administration system. A complete and accurate contract register would ensure that West Warwick knew the universe of contracts.

⁵ Procurement Handbook for Public Housing Agencies, HUD Handbook 7460.8, REV-2

⁶ 2 CFR 200.319

⁷ 2 CFR 200.112

⁸ 24 CFR 85.36(b)(2) and Procurement Handbook for Public Housing Agencies: HUD Handbook 7460.8, REV-2

Conclusion

West Warwick did not have written procurement procedures and a system of internal controls, which resulted in more than \$2 million in questionable disbursements. It did not follow Federal procurement requirements when it did not perform independent cost estimates, made disbursements to vendors with no contract in place, and procured vendors noncompetitively without justification. In addition, the board of commissioners' responsibilities included approving the procurement policy, monitoring procurement activities with regular meetings, and avoiding conflicts of interest. Since the board did not effectively meet its responsibilities, West Warwick did not comply with Federal, State, or local procurement requirements. As a result, HUD had no assurance that West Warwick obtained the best services at the lowest possible cost. In addition, the board of commissioners did not provide oversight of the procurement process and adequately review and approve contracts.

Recommendations

We recommend that the Director of Public Housing require West Warwick officials to

- 1A. Provide documentation to support that \$2,063,351 was spent for reasonable and necessary costs. Any amount that cannot be supported should be repaid to the Housing Choice Voucher or public housing programs from non-Federal funds.
- 1B. Reimburse the Housing Choice Voucher and public housing programs \$2,752 from non-Federal sources for improper conflict-of-interest purchases.
- 1C. Deobligate \$6,100 from the asbestos abatement procurement and redistribute the funds to the public housing programs for eligible purposes.
- 1D. Develop and implement procurement policies and procedures that comply with Federal, State, and local laws.
- 1E. Develop and implement controls to ensure that contracts are in place when applicable.
- 1F. Develop and enforce written conflict-of-interest requirements in compliance with Federal rules and regulations.
- 1G. Develop and maintain a contract management system, including a contract register for all procurements.

We recommend that the Director of Public Housing

- 1H. Evaluate the training of West Warwick's board of commissioners and determine whether additional training is required or other changes are appropriate.

Finding 2: Housing Choice Voucher and Public Housing Programs Were Not Always Administered in Accordance With Requirements

West Warwick did not administer its Housing Choice Voucher and public housing programs in compliance with Federal requirements. In addition to deficiencies identified by HUD's Departmental Enforcement Center and Quality Assurance Division, we identified deficiencies including inadequate rent reasonableness determinations, uninspected public housing units, and improper utility allowances. These deficiencies occurred because West Warwick did not have policies and procedures or adequately train its staff to appropriately administer its Housing Choice Voucher and public housing programs. As a result, West Warwick performed inadequate rent reasonableness determinations, public housing units were not always inspected annually, and residents may not have received proper utility allowances.

Rent Reasonableness Determinations Were Inadequate

West Warwick did not document fully compliant rent reasonableness determinations for the eight files reviewed in accordance with Federal requirements.⁹ It did not comply with Federal requirements because there was no comparison between HUD-assisted units and unassisted units at initial occupancy or when the landlord requested a rent increase. It did not determine whether the rent was reasonable in comparison to rent for other comparable unassisted units. West Warwick must consider a unit's location, quality, size, type, age, amenities, housing services, maintenance, and utilities before approving a lease. In addition, although West Warwick was required to reassess the rent reasonableness before a rent increase, it approved rent increases without an adequate rent reasonableness determination. West Warwick did not comply with Federal requirements because its policies and procedures on rent reasonableness determinations were not effective and its staff was not properly trained. As a result, West Warwick could not ensure that the rents it paid were reasonable.

Public Housing Units Were Not Always Inspected Annually

West Warwick did not comply with HUD regulations requiring annual inspections.¹⁰ In a review of 12 public housing tenant files, we found that inspections were performed only when a tenant moved in or changed units in calendar years 2012 through 2014. If a tenant did not move, the required annual inspections were not performed during those years. The Departmental Enforcement Center reviewed physical condition scores, and West Warwick received a score of 19 out of 40 (48 percent) in fiscal year 2011, 26 out of 40 (65 percent) in fiscal year 2012, and 34 out of 40 (85 percent) in fiscal year 2013. The former West Warwick executive director stated that all public housing units were inspected in 2015 but did not think it was necessary to document inspections in the tenant files. In November 2015, West Warwick procured a contract for the inspection of Clyde Tower, which found 45 exigent health and safety hazards¹¹ and 220 additional deficiencies. In December 2015, the contractor's inspection of West Warwick Manor found 11 exigent health and safety hazards, a fire safety hazard, and 127 additional deficiencies.

⁹ 24 CFR 982.507, Rent to Owner: Reasonable Rent

¹⁰ 24 CFR Part 990, The Public Housing Operating Fund Program, and 24 CFR Part 5, Uniform Physical Condition Standards and Physical Inspection Requirements for Certain HUD Housing

¹¹ An exigent health and safety hazard is a deficiency that threatens the life, health, or safety of the residents.

These deficiencies occurred because West Warwick did not have policies and procedures for conducting and documenting the required inspections.

Utility Allowances for Clyde Tower Were Unsupported

West Warwick was unable to document the basis for Clyde Tower residents' utility allowances throughout our audit period,¹² and the last utility allowance update was November 1, 2009. While the effect on the tenants is unknown, a January 1, 2016, rate schedule from Rhode Island Housing provided a comparison. According to this document, the utility allowance for a one-bedroom unit was \$48 per month, and the utility allowance for a two-bedroom unit was \$64 per month. West Warwick provided an allowance of \$32 per month for a one-bedroom and \$42 for a two-bedroom. Thus, for a one-bedroom unit, the variance was \$16 per month ($\$48 - \$32 = \16), and for a two-bedroom unit, the variance was \$22 per month ($\$64 - \$42 = \22). This deficiency resulted from West Warwick's lack of public housing policies and procedures through May 16, 2015. While West Warwick had adopted policies and procedures, it had not updated utility allowance determinations. This deficiency was resolved in November 2016, when West Warwick discontinued the utility allowance and began paying for utility costs at Clyde Tower. However, Clyde Tower tenants may not have received the correct utility allowance before West Warwick took over the costs.

Conclusion

West Warwick did not have policies and procedures and sufficiently trained staff to administer its Housing Choice Voucher and public housing programs. As a result, it performed inadequate rent reasonableness determinations, public housing units were not always inspected annually, and Clyde Tower residents may not have received proper utility allowances.

Recommendations

We recommend that the Director of Public Housing require West Warwick officials to

- 2A. Develop and implement written policies and procedures to ensure that each Housing Choice Voucher program tenant file has an appropriately documented rent reasonableness determination.
- 2B. Develop and implement written policies and procedures to ensure that each public housing unit has an annual inspection, which is appropriately documented in the tenant file.
- 2C. Determine whether tenants were underpaid for utility allowances and if so, reimburse the tenants from non-Federal funds.

¹² An important difference between the two public housing locations was that West Warwick paid for most utility costs at West Warwick Manor and Clyde Tower residents paid their own electric bill and received a utility allowance.

2D. Evaluate the training of West Warwick employees and determine what additional training is necessary.

Finding 3: Purchases and Inventory Were Not Adequately Supported

West Warwick did not maintain supporting documentation for its credit card purchases, petty cash, or property records. This condition occurred because West Warwick did not have policies and procedures or they did not comply with Federal requirements. As a result, it disbursed \$23,780 for unsupported expenditures and could not ensure that its property was safeguarded.

West Warwick Did Not Support Credit Card Charges

West Warwick did not support credit card transactions with documented receipts for items purchased. It did not have procedures to ensure that credit cards were used only for their intended purposes. It also did not have credit card procedures for selecting merchants or vendors, tracking purchases, settlement, and payment. Although it had credit cards dating back to January 2012, it did not implement a credit card policy until January 2016. As a result, we questioned \$18,501 in credit card charges, and West Warwick could not ensure that credit card charges were for eligible purchases.

West Warwick Inappropriately Used Its Petty Cash Fund

West Warwick had no supporting documentation for \$4,530 in purchases made with petty cash funds from January 2012 through March 2015. A petty cash policy must comply with 24 CFR 85.36 and establish the amount of the fund, the maximum amount for each purchase, and one or more petty cash administrators. West Warwick did not have a petty cash policy until January 2016. It eliminated the petty cash fund around January 2017. As a result, it could not ensure that petty cash funds were used for eligible purchases.

West Warwick Had No Property Records or Inventories

West Warwick did not maintain property records or conduct inventories of public housing property or equipment as required. Federal requirements state that property records must include a description of the property; a serial number or other identification number; the source of the property; the acquisition date; the cost of the property; the location, use, and condition of the property; and any disposition data, including the date of disposal and sale price of the property.¹³ In addition, West Warwick had not conducted the required physical inventory of the property and reconciled its records at least once every 2 years. It did not have a control system and, therefore, could not ensure that adequate safeguards were in place to prevent loss, damage, or theft of the property. While the board of commissioners began developing policies in January and April 2016, these policies had not been implemented. West Warwick maintained no property records, conducted no inventory, and as a result, did not comply with Federal requirements.

Conclusion

West Warwick did not have policies and procedures regarding credit cards, petty cash, and property records. It developed policies for its credit cards in January 2016 and had eliminated its petty cash fund. However, it had not implemented its policies and procedures for property records. As a result, \$18,501 in credit card charges and \$4,530 in petty cash purchases were

¹³ 24 CFR 85.32

unsupported, and West Warwick could not ensure that purchases were for eligible expenses. In addition, West Warwick's property records did not comply with Federal requirements, and it could not ensure that its property was protected from loss, damage, or theft.

Recommendations

We recommend that the Director of Public Housing require West Warwick officials to

- 3A. Provide documentation to support that \$18,501 in credit card charges was spent for reasonable and necessary costs. Any amount that cannot be supported should be repaid from non-Federal funds and returned to the Housing Choice Voucher and public housing programs.
- 3B. Provide documentation to support that \$4,530 in petty cash funds was spent for reasonable and necessary costs. Any amount that cannot be supported should be repaid from non-Federal funds and returned to the Housing Choice Voucher and public housing programs.
- 3C. Develop and maintain property records and conduct an inventory in accordance with Federal regulations.

Scope and Methodology

The audit generally covered the period January 1, 2012, through June 30, 2016, and was extended as necessary. Audit fieldwork was performed from July 2016 through January 2017 at West Warwick located at 62 Robert Street, West Warwick, RI.

To accomplish our audit objectives, we

- Reviewed Federal rules and regulations, HUD notices, and Rhode Island procurement regulations.
- Reviewed West Warwick's organizational chart and interviewed West Warwick employees.
- Reviewed HUD reports, including an October 2014 Departmental Enforcement Center report and an April 2015 Quality Assurance Division report.
- Reviewed West Warwick's financial statements ending December 31, 2012, December 31, 2013, December 31, 2014, and December 31, 2015.
- Reviewed West Warwick's board minutes and board resolutions for the period January 2013 to June 30, 2016. The board minutes from 2012 could not be located.
- Reviewed a nonstatistical sample of 13 of 360 vendors to assess compliance with procurement requirements. West Warwick did not maintain a contract administration system, and there was no list of vendors or contracts. We evaluated West Warwick's disbursements through the check register and developed a consolidated list of vendors. We selected three vendors based on dollar value, nine vendors selected based on services provided, and one vendor from the hotline complaint. We reviewed more than \$2 million of the \$11 million disbursed by West Warwick. We did not use a statistical sample; therefore, our results were not projected.
- Reviewed a nonstatistical sample of 8 of 148 Housing Choice Voucher program tenants randomly selected through Audit Command Language (ACL), a computer software program. We did not use a statistical sample; therefore, our results were not projected.
- Reviewed a nonstatistical sample of 12 of 235 public housing tenants randomly selected through ACL. We selected 6 of 114 from Clyde Tower and 6 of 121 from West Warwick Manor. We did not use a statistical sample; therefore, our results were not projected.

To achieve our audit objectives, we relied in part on computer-processed data from West Warwick, including check register data from QuickBooks and check register data from HAB software. Although we did not perform a detailed assessment of the data, we performed a minimal level of testing and found the data to be sufficiently reliable for our purpose.

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(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 operations,
- reliability of financial reporting, 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 objectives:

- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of funds is consistent with laws and regulations.
- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Safeguarding 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 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:

- West Warwick did not ensure that procurements were in accordance with Federal laws and regulations (finding 1).
- West Warwick did not ensure that the Housing Choice Voucher and public housing programs operated in compliance with HUD requirements (finding 2).

- West Warwick did not ensure that credit card charges and petty cash purchases were supported with receipts and were reasonable and necessary (finding 3).
- West Warwick did not ensure that property was safeguarded because there were no property records and no inventories were conducted (finding 3).
- West Warwick's board of commissioners failed to provide oversight of West Warwick's operations and failed to implement internal controls (findings 1, 2, and 3).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 2/
1A		\$2,063,351	
1B	\$2,752		
1C			\$6,100
3A		18,501	
3C		4,530	
Totals	2,752	2,086,382	6,100

- 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 the 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.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. The deobligated funds will be available for other valid Housing Choice Voucher program uses.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Commissioners Thomas Zampa, Chairman Debra Tocco, Vice-Chairperson Joan Card Elizabeth Brunero Joshua Barrette		Executive Director Stephen J. O'Rourke
WEST WARWICK HOUSING AUTHORITY www.westwarwickha.org 62 Robert Street; West Warwick, RI 02893 Main: (401) 822-9430 Fax: (401) 822-9438 TDD: (401) 822-9435		
<p>July 18, 2017</p> <p>Ann Marie Henry, Regional Inspector General for Audit Department of Housing and Urban Development Thomas P. O'Neill, Jr. Federal Building, Room 370 10 Causeway Street Boston, MA 022201092</p> <p>SUBJECT: OIG AUDIT REPORT/WEST WARWICK HOUSING AUTHORITY</p> <p>Dear Ms. Henry:</p> <p>This letter is in response to the audit conducted by your office for the period January 1, 2012 through June 30, 2016 at the West Warwick Housing Authority.</p> <p>First, we would like to express our appreciation to the OIG staff that performed the field work for the audit. They were respectful and conducted their work in a professional and unobtrusive manner; their requests were never unreasonable. The staff appreciated their courtesy.</p> <p>It is important to make a statement about the housing authority and its current status before responding to each specific finding in the audit.</p> <p>The West Warwick Housing Authority that currently exists is not the housing authority that was audited. Only one person on the existing administrative staff is employed by the WWA from that period. During the audit period, that person served as a clerk. Several commissioners are also fairly recent appointees.</p> <p>The average time employed at WWA by the present administrative staff is less than 14-months. The remaining members of the staff, are recent hires. The Executive Director has been in his position for six months; although, he has 26 years of public housing experience elsewhere. There have been five Executive Directors in a span of three years. This lack of continuity, we believe, is a major contributing factor leading to the audit findings.</p> <p>The Board of Commissioners recognized the issues faced by the housing authority and was determined to seek out an experienced administrator who would assist the organization in improving the administrative and planning functions at the housing authority. They chose an administrator with 40 years of public administration experience – 26 at a large, high-performing public housing authority. When he assumed the directorship at that housing authority in 1987 it was classified as troubled by HUD and was considered for receivership.</p>		

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Under his direction, it was removed from the HUD troubled list in twenty-two months after extensive efforts by the staff and commissioners, undertaking a comprehensive strategic plan and implementing a performance monitoring and accountability system. During his long tenure there, it was considered a highly-rated and well-administered housing authority.

The current staff and commissioners of WWHA are dedicated to resolving, and, in fact, have already resolved, many of the issues that resulted in the audit findings. The many initiatives already taken are identified at the end of this letter.

It also needs to be stated that HUD has rated the West Warwick Housing Authority a high-performing housing authority (Score 94 out of 100) based on the Public Housing Assessment System. Its Section 8 program scored 93 points out of 100 to receive high performer status as well.

We state all this to ensure you that this organization is not the organization it was several years ago.

Following are the responses to the findings in the order they were delivered in the audit.

Finding 1: Procurements Were Not in Accordance With Federal Requirements

The housing authority is cited for non-compliance with HUD procurement policies. Most of the files for thirteen identified procurements were not adequately documented. It is our understanding that the audit did not find any illegal use or disappearance of funds. Rather, these finding are violations of procedural steps required by procurement policy and unsupported due to lack of documentation.

We believe that many of the cited procurements did go through the appropriate procurement process and contracts were executed based on assurances given to board members at meetings by previous administrators. Unfortunately, that documentation-with one exception-was not available during the audit, or now, since there was a substantial purge of the documents.

Three years ago, the authority hired a consulting firm, D&V Mainsail, to administer its day-to-day operations. While here, that firm disposed of many documents and files. Presumably, some of them contained documents related to the questioned procurements. Ironically, that consultant firm is subject to one of the procurement findings.

The housing authority will not dispute most of the findings cited in the report with one exception. In recent months, while reorganizing the physical space and the file cabinets, a staff member was assigned to organize and catalog contents of stored boxes. One of the files identified was a contract with ADS Construction-a procurement cited in the report for

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\$468,147 in unsupported costs. We believe this file contains all the documentation required by procurement policy. We will work with the Regional HUD Office of Public Housing to resolve the issue. As stated earlier, since most of the staff is new, this file couldn't be located at the time of the audit, since there wasn't an orderly filing system. We will continue to search through the files for other related procurements.

Another cited procurement involved unsupported costs in addition to an alleged violation of conflict of interest regulations. It involved purchases of gasoline for vehicles and equipment at WWAH developments. Staff were repeatedly instructed not to make purchases from the cited vendor because it could be a potential conflict of interest: a board member's relative owned and operated the company. Staff continued to make small purchases there due to its convenience. It is a block away from one of the WWAH's developments. The staff members making those purchases are no longer employed at WWAH.

Finding 2: Housing Choice Voucher and Public Housing Programs Were Not Always Administered in Accordance With Requirements

- **WWAH did not fully document rent reasonableness determinations.**
The housing authority does not dispute this finding, but does not believe any of the rents approved exceeded rent reasonableness. It has taken steps, however, to ensure that rent reasonableness determinations are fully documented for each file hereafter.

Recently, the authority undertook a town-wide *Rent Reasonableness Study* to back-up all future rent determinations. Each file, hereafter, will have a form using comparable rents from unassisted housing in the town. We will also conduct a rent reasonableness study annually. Further, the Executive Director will review and have final approval of all initial rents and rent adjustments.

- **Public Housing units were not always inspected annually**
The authority does not dispute that some units were not inspected annually. However, the files reviewed were for the period 2012-2014. Since that time, the housing authority has engaged US Inspection Services to conduct inspections of all WWAH units on an annual basis. The OIG field team was informed that inspections over the last two years have been undertaken and properly documented.

I believe it is important to note that the WWAH has scored High-Performer under HUD's Public Housing Assessment System for the last two years receiving a high score(35 out of 40) for physical inspections of the properties.

Comment 2

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- **Utility allowances at Clyde Tower were not supported**

The housing authority agrees that utility allowances were not updated for the period questioned. As stated in your report, the housing authority has switched to master-metering and utility allowances are no longer applicable.

We do not believe, however, that using a January 1, 2016 rate schedule from RI Housing is an adequate source to use to compare utility allowances from previous years. We will make every attempt to reconstruct the utility costs and allowance schedule and make adjustments accordingly.

Finding 3: Purchases and Inventory Were Not Adequately Supported

- **West Warwick did not support credit card charges**

We are unable to comment on credit card purchases from the previous administrations other than to say that a system is currently in place to track credit card purchases and they are used sparingly and only when a vendor will not accept a purchase order.

The current system records every purchase by credit card and maintains records for each transaction. The process is described in our *Finance, Accounting & Internal Controls Policy and Procedures Manual* nearing completion.

- **West Warwick inappropriately used its petty cash fund**

We are unable to dispute the finding concerning the petty cash fund, since records were either discarded or never maintained. The report rightly states that the new administration has eliminated the petty cash fund and has no plans to reinstate one.

- **West Warwick had no property records or inventories**

The housing authority does not dispute the finding. However, a property records database is currently being created. Our new *Maintenance Operations Plan and Finance, Accounting and Internal Controls Manual* require entries of any new purchases and annual inventories.

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Summary/Closing Remarks

The current members of the Board of Commissioners and staff of the West Warwick Housing Authority take the results of this audit report very seriously and are laser-focused on ensuring that the failures of past administrations will not be repeated.

The housing authority has undergone a reorganization and taken numerous steps to prevent issues like those found in the report from taking place again:

- Hired an experienced Executive Director with 40 years of public administration experience, including 26 years as a public housing executive director at the large public housing authority.
- Conducted a Capacity Assessment to determine the organizational capacity at WWHA. The assessment survey was completed by each current board and staff member. The assessment allowed the new Executive Director to identify those areas of capacity that are strongest and those that need improvement. The framework and the descriptions in the assessment were developed by McKinsey Consulting. (The assessment is an open market document. The housing authority did not engage or purchase the services of McKinsey Consulting.)

The assessment consists of seven major areas:

- Aspirations (Vision, Goals, Values)
- Strategy
- Organizational Skills
- Human Resources
- Systems and Infrastructure
- Organizational Structure
- Organizational Culture

The results of the capacity assessment were used as a starting point for conducting a Strategic and Goals Management Plan for the organization.

- The Executive Director administered an *Employee Engagement Survey* to the staff and a *Board Self-Assessment Survey* to the Board of Commissioners. Again, these surveys provided insight into how the organization was administered and where training and development needs of the commissioners and staff should be focused.
- A comprehensive strategic planning process was initiated in April 2017 to create a multi-year Goals Management Plan (GMP) for the organization. Using data gathered

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from various sources and surveys, the plan will redress issues identified in the audit report and far more. The Strategic Plan is scheduled for completion in August of 2017. The process was highlighted by a day-long planning session attended by all but one commissioner and the entire administrative staff.

Once completed, the *Strategic Plan/Goals Management Plan* will contain numerous Key Performance Indicators (KPI) for each functional area of the housing authority. They will be continuously monitored in our *Performance Management and Accountability Report*.

- A *Monthly Monitoring Report* was created to track performance by function. It is presented to the board at every monthly meeting. It, too, provides important data about every function at the housing authority, including finances, purchasing, housing operations and more.
- A *Board Governance/Orientation Manual* was created and distributed to the board. It will also serve as a board orientation manual for any new commissioner appointed to the board. Its contents include:
 - Board governance
 - Historical Timeline/Organizational Record
 - Board and Staff Structure, By-Laws
 - Board Policies
 - Board Standards
 - Property Portfolio Information
 - Budgets/Audits
 - RIGL 45-25/26 Housing Authority Laws
 - RIGL 42:46 Open Meeting Law
 - Several PowerPoint Presentations on Board Governance, Strategic Planning, etc.
 - Reading: *The Dynamic Board*
 - Strategic Planning Process (A summary will replace when completed in August 2017)
- A board training schedule was created to ensure that board members are fully informed of their duties and responsibilities as board members. Training modules include: *What is the Business of a Housing Authority?*, *Board Duties and Responsibilities*,

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Open Meeting Law requirements, Conflict of Interest, Policy and Procedures, Duties and Responsibilities of Board Members, PHA Subsidy Calculation and the Budget Process, and much more.

- The board was reorganized into functional committees, position descriptions were written for each officer and committee chair. One of the committees is the so-called Bills Committee, which meets weekly to review and execute all checks issued by the authority.
- A 42 page *Board Policies Manual* was created covering topics like: the conduct of board meetings, conflicts of interest, developing board policy, organizational finance, spending authorizations, budgeting & accounting, committees, etc.
- The WWHA staff has been reorganized and a new table of organization created, as well as all new position descriptions. One of the new positions created in the table of organization (Facilities/Procurement Manager) is responsible for all procurement at the WWHA. She has attended a three-day procurement policy and procedures training session and is assisting the Executive Director with re-writing the *Procurement Policies and Procedures Manual*.
- Performance Evaluation Forms have been created and evaluations scheduled for staff members. Training on how to conduct performance evaluations has also taken place.
- A training needs assessment is near completion. However, scheduled training has already been underway with 184 hours completed to date.
- Four of the five commissioners have been certified by NAHRO by completing a training curriculum on board governance.
- Revisions and/or total re-writes of the *Admissions and Continued Occupancy Policies* and *Section 8 Administrative Plan* are underway. *An Office Policy and Procedures Manual, an EIV Security Plan and Maintenance Operations Plan have been completed*
- Later this summer, a *Risk Control Plan* and a separate *Emergency Operations Plan* will be created.

And much more has been done over the last six months. We state this to emphasize how serious we take our role as responsible administrators of public funds and to ensure that

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the housing authority administers its funds and programs in a transparent and professional manner. Our new mission statement says it best.

MISSION STATEMENT

The West Warwick Housing Authority exists to provide quality, safe and affordable housing and to provide meaningful support and engaging services for our residents.

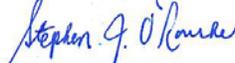
We are committed to forming productive partnerships to maximize social, economic and educational opportunities for our residents and staff.

This mission shall be accomplished in a fiscally responsible manner by an ethical and professional staff and Board of Commissioners. We are strongly committed to board and staff personal growth, excellence in public service, and being accountable and transparent to all our stakeholders.

Thank you for the opportunity to respond to your report. We look forward to working with the Office of Inspector General for Audit and Office of Public Housing to resolve these findings.

Sincerely yours,


Thomas Zampa
Chairman


Stephen J. O'Rourke
Executive Director

OIG Evaluation of Auditee Comments

- Comment 1 In response to Finding 1, West Warwick generally concurred that procurements were not adequately documented. West Warwick also stated that it had recently found additional documentation for the ADS Construction procurement. West Warwick needs to work with HUD to determine whether the new information adequately supports the procurement.
- Comment 2 In response to Finding 2, West Warwick stated that inspections have been conducted and properly documented over the last two years. There was no evidence in the individual files to document the inspection, the results, or the corrective actions needed and taken. According to the previous Executive Director he did not view this action as necessary. West Warwick needs to work with HUD to resolve the documentation issue regarding the individual tenant files not containing the inspection, results or corrective action.
- Comment 3 In response to Finding 2, West Warwick acknowledged that utility allowances were not updated for the period questioned. West Warwick also stated that they did not believe using the January 1, 2016 rate schedule was an adequate source. The rate schedule was used as an example and not intended to serve as the final basis for any adjustment.
- Comment 4 West Warwick is revising and developing new policies and procedures and should continue to work with HUD to ensure that actions will result in the necessary internal control and organizational improvements. West Warwick will continue to work with HUD to close the audit recommendations.

Appendix C

Schedule of Procurement Issues Identified and Questioned Costs

	Vendor	Contract type	Issues identified	Ineligible	Unsupported cost	Total questioned costs
1	A.A. Asbestos Abatement Co., Inc.	Sealed bid	13 of 18 ¹⁴	0	\$323,050	\$329,150
2	ADS Construction, Inc.	Sealed bid	18 of 19	0	468,147	468,147
3	Ballard Spahr, LLP	Competitive proposals	20 of 22	0	31,380	31,380
4	Campana, Sarza & Tatewosian	Noncompetitive proposals	16 of 18	0	47,980	47,980
5	Chaput & Feeney, LLP	Noncompetitive proposals	16 of 18	0	31,290	31,290
6	D & V Associates, LLC, or D & V – Mainsail Associates, LLC	Competitive proposals	21 of 22	0	200,884	200,884
7	Eagle Elevator Co, Inc., or Eagle Elevator Company	Competitive proposals	21 of 22	0	149,867	149,867
8	Marcus Law Offices	Competitive proposals	12 of 22	0	153,008	153,008
9	Metropolitan Oil Co., Inc.	Small purchase	14 of 15	\$2,752	0	2,752
10	Otis Elevator Company	Sealed bid	15 of 19	0	300,598	300,598
11	Professional Security Services Inc., or Professional Security Services	Noncompetitive proposals	12 of 18	0	76,104	76,104
12	The Bailey Group, LLC	Sealed bid	11 of 19	0	84,000	84,000
13	Total Construction	Sealed bid	11 of 19	0	197,043	197,043
	Totals			2,752	2,063,351	2,072,203

¹⁴ The procurement is in progress, thus the determination of a completion certificate is not applicable. Also, this procurement includes \$6,100 in funds to be put to better use.

Appendix D

Schedule of Procurement Documentation Required by HUD Contract Type¹⁵

Contract type	Small purchase	Noncompetitive proposals	Sealed bid	Competitive proposals
Presolicitation				
1. Independent cost estimate	X	X	X	X
Solicitation				
2. Sources (mailing lists, advertisements, etc.)	X	X	X	X
3. Solicitation notice and amendments	X	X	X	X
4. Invitation to bid or request for proposal		X	X	X
5. Notes of prebid or proposal conferences		X	X	X
6. Record of bids or request for proposals requested	X	X	X	X
7. Quotes, bids, or proposals received	X	X	X	X
8. Justification for other than full and open competition		X		
Evaluation and selection				
9. Bid opening (time stamped)			X	X
10. Technical evaluation report	X			X
11. Price evaluation report	X	X	X	X
12. Competitive range determinations				X
13. Previous participation and qualifications	X			X
Award				
14. Contract and award documents	X	X	X	X
15. Notification to unsuccessful bidders	X		X	X
Postaward and contract administration				
16. Insurance and bonding requirements		X	X	X
17. Record of postaward conferences		X	X	X
18. Notice to proceed		X	X	X
19. Contract modifications and documented support	X	X	X	X
20. Progress reports	X	X	X	X
21. Payment record and documentation	X	X	X	X
22. Inspection reports	X	X	X	X
23. Completion certificate	X	X	X	X
Number of items applicable	15	18	19	22

¹⁵ If there is an X, the item is applicable. If a box is shaded in grey, it is not applicable.

Appendix E

HUD Oversight of West Warwick

HUD's Departmental Enforcement Center performed an onsite review from September 15 to 17, 2014, to assess West Warwick's internal control policies, review payments to vendors, examine the petty cash account, and review physical inspection scores. The Departmental Enforcement Center found that West Warwick did not have a written or formal financial and accounting policy. It observed that West Warwick did not have a procurement policy and did not maintain procurement files. It determined that West Warwick did not maintain supporting documentation for expenditures made from petty cash. Its recommendations included that West Warwick develop financial internal control policies and procedures, develop and implement a credit card policy, develop and implement a petty cash policy, and implement a procurement policy and contract register to ensure that it follows Federal and HUD procurement regulations.

HUD's Quality Assurance Division performed a remote financial management review of West Warwick in December 2014 and January 2015. The primary goal of the review was to ensure that Housing Choice Voucher program funds had been spent and reported appropriately. HUD's review identified two findings and three concerns. The two findings were that the restricted net position and unrestricted net position balances were incorrectly calculated and reported in the Voucher Management System¹⁶ and West Warwick's source documentation did not allow for a speedy and effective audit. The three concerns were that West Warwick's Housing Choice Voucher program had an unexplained cash surplus, administrative expenses were misreported in the Voucher Management System, and West Warwick's administrative expenses for its Housing Choice Voucher program exceeded administrative expenses incurred by peer PHAs. The Quality Assurance Division provided technical assistance to West Warwick staff concerning an appropriate account structure for the Housing Choice Voucher program ledger. It also covered how the restricted net position and unrestricted net position should be calculated from month to month and how administrative expenses should be reported in the Voucher Management System. West Warwick's board of commissioners failed in its oversight of the operations of West Warwick, which resulted in many deficiencies in its Housing Choice Voucher and public housing programs.

The New England Office of Public Housing entered into a Corrective Action Plan with West Warwick on October 1, 2015 to address issues identified in its Section Eight Management Assessment Program submission for the period ending December 31, 2014. The Office of Public Housing then designated West Warwick substandard financially on March 2, 2016, as a result of West Warwick's financial score of zero for the fiscal period ending December 31, 2014. In addition, the Office of Public Housing was working with West Warwick to correct Independent Public Accountant findings from fiscal years 2013 and 2014. As a result of all the issues, HUD drafted a comprehensive Recovery and Sustainability Plan on March 31, 2016 to address all outstanding issues. This plan identified issues with West Warwick's Board of Commissioners,

¹⁶ The Voucher Management System supports the information management needs of the Housing Choice Voucher program. It collects PHA data that enable HUD to fund, obligate, and disburse funding in a timely manner based on actual use.

Public Housing leasing and occupancy, finance, procurement and Section Eight Management Assessment Program. According to HUD officials, they will continue to work with West Warwick to address issues identified in the Recovery and Sustainability Plan as well as the recommendations in this report.