Issue Date February 20, 2007
Audit Report Number 2007-PH-1005

TO: William D. Tamburrino, Director, Baltimore Public Housing Program Hub, 3BPH
Robert Jennings, Director, Richmond Office of Public Housing, 3FPH

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Regional Office, 3AGA

SUBJECT: The Newport News Redevelopment and Housing Authority, Newport News, Virginia, Did Not Always Follow HUD Requirements

HIGHLIGHTS

What We Audited and Why

We audited the Newport News Redevelopment and Housing Authority (Authority) as part of our fiscal year 2006 annual audit plan. Our main objective was to determine whether the Authority appropriately used low-rent public housing funds to support its other programs and whether it purchased goods and services in compliance with U.S. Department of Housing and Urban Development (HUD) and federal regulations. We also evaluated the Authority's compliance with HUD regulations for recertifying low-income housing tenants and its support for drawdowns of HUD funds.

What We Found

The Authority generally complied with HUD regulations for recertifying low-income housing tenants and properly supported its drawdowns of HUD funds. However, contrary to its consolidated annual contributions contract, the Authority used low-rent public housing funds to pay expenses of its other HUD and non-HUD programs and did not settle the $246,254 balance due to the low-rent public housing fund in a timely manner. It also did not always record financial transactions on its books in a timely manner. Additionally, contrary to federal procurement regulations and its own procurement policy, the Authority did not always adequately justify awarding contracts. These problems occurred because the Authority did not have internal controls requiring it to reconcile and settle its accounts monthly and ensure that it recorded financial transactions on its books in a timely manner. Further, the Authority's staff did not follow its established procurement policy and was unaware of pertinent requirements.

What We Recommend

We recommend that HUD direct the Authority to repay its low-rent public housing fund $246,254 owed by its other HUD and non-HUD programs and create and implement policies and procedures to ensure that all transactions are recorded on the books in a timely manner and that the due-to/due-from account is reconciled and settled monthly, thereby putting $489,522 in public housing funds to better use over a one-year period. Further, we recommend that the Authority develop and implement procedures to ensure that it properly awards contracts according to established policies and procedures and emphasize to responsible personnel the need to follow applicable policies and procedures and provide them training regarding federal procurement requirements.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the report with the Authority during the audit and at an exit conference on February 1, 2007. The Authority provided written comments to our draft report on February 8, 2007. The Authority agreed with the audit report and began taking corrective actions to satisfy our recommendations. The complete text of the Authority's response, without attachments, can be found in appendix B of this report. Copies of the attachments are available upon request.

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BACKGROUND AND OBJECTIVES

The Newport News Redevelopment and Housing Authority (Authority) was established in 1938 to create affordable housing, viable neighborhoods, and opportunities for self-sufficiency to enhance the quality of life for all citizens of Newport News. A seven-member board of commissioners governs the Authority. The Authority's executive director is Karen R. Wilds. Its main administrative office is located at 227 27th Street in Newport News, Virginia.

The Authority owned and operated 2,151 public housing units and administered 2,216 housing choice vouchers under consolidated annual contributions contracts with the U.S. Department of Housing and Urban Development (HUD) during the audit. The consolidated annual contributions contract defines the terms and conditions under which the Authority agrees to develop and operate all projects under the agreement. HUD authorized the Authority the following financial assistance from fiscal years 2004 to 2005:

- $26.7 million to provide housing assistance through tenant-based Section 8 housing choice vouchers,

- $9.4 million in operating subsidies to operate and maintain its low-income housing developments, and

- $6.6 million in Public Housing Capital Fund program funding to modernize its low-income public housing units.

Our main audit objective was to determine whether the Authority appropriately used low-rent public housing funds to support its other programs and whether it purchased goods and services in compliance with HUD and federal regulations. We also evaluated the Authority's compliance with HUD regulations for recertifying low-income housing tenants and its support for drawdowns of HUD funds.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Settle Interfund Balances Due to Its Low-Rent Public Housing Fund in a Timely Manner

Contrary to its consolidated annual contributions contract, the Authority used low-rent public housing funds[1] to pay expenses of other HUD and non-HUD programs and did not settle the balance due to the low-rent public housing fund in a timely manner. Additionally, the Authority did not always record financial transactions on its books in a timely manner. These problems occurred because the Authority did not have internal controls requiring it to reconcile and settle its accounts monthly and ensure that it recorded financial transactions on its books in a timely manner. As a result, at the end of the Authority's fiscal year 2006,[2] $246,254 had been owed to the low-rent public housing fund by the Authority's other HUD and non-HUD programs for more than 30 days, and its financial records were incomplete. By developing and implementing policies and procedures to ensure that the due-to/due-from account is reconciled and settled monthly, the Authority can put $489,522[3] in public housing funds to better use over a one-year period.

Interfund Balances Due to the Low-Rent Public Housing Fund Were Not Settled Monthly

The Authority used a due-to/due-from accounting system to account for transactions directly between other funds and/or other entities included within its general ledger but did not have adequate internal controls requiring it to reconcile and settle its accounts monthly. A program's or entity's due-to balance (payable) represents amounts it owes another fund or entity for disbursements and/or advances made on its behalf. A due-from balance (receivable) represents an amount owed to the program or entity.

At the end of the Authority's fiscal year 2005, three HUD program accounts[4] and three non-HUD program accounts owed the low-rent public housing fund $732,790. At the end of fiscal year 2006, two HUD program accounts and two non-HUD program accounts owed the low-rent public housing fund $246,254 as shown below.

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1 Public housing operating subsidy and rent revenues.
2 The Authority's fiscal year ends June 30.
3 Average amount of funds owed to the low-rent public housing program over a two-year period. $246,254 was owed to the low-rent public housing program at the end of the Authority's fiscal year 2006, and $732,790 was owed at the end of fiscal year 2005. Therefore, $246,254 + $732,790 = $979,044 divided by two years equals $489,522 annually.
4 Section 8 Housing Choice Voucher program, Community Development Block Grant program, and HOME Investment Partnerships Program.

Program type	Program account description	Amount due to the low-rent public housing program
Non-HUD	Property management	$124,669
HUD	Community Development Block Grant	$105,582
HUD	HOME Investment Partnerships	$ 11,747
Non-HUD	Tax-exempt bonds	$ 4,256
Total		**$246,254**

The Authority's use of low-rent public housing funds to support other HUD and non-HUD programs is a violation of its consolidated annual contributions contract. The contract states[5] that the Authority may withdraw funds from the general fund only for the payment of the costs of development and operation of the projects under the consolidated annual contributions contract with HUD, the purchase of investment securities as approved by HUD, and such purposes as may be specifically approved by HUD. It further states that program funds are not fungible and that withdrawals shall not be made for a specific program in excess of the funds available for the program.

The violation occurred because the Authority did not have controls in place to ensure that it reimbursed its low-rent public housing program in a timely manner. The Authority needs to reimburse its low-rent public housing fund $246,254 and create and implement policies and procedures to ensure that the due-to/due-from account is reconciled and settled monthly, thereby putting $489,522 in low-rent public housing funds to better use over a one-year period.

The Authority Did Not Always Record Transactions on Its Books in a Timely Manner

For fiscal year 2005, the Authority did not record its year-end adjusting entries on its books. The Authority's consolidated annual contributions contract[6] requires it to maintain complete and accurate books of account. Although its independent public accountant included the adjusting entries in the financial data reported to HUD, the independent public accountant did not provide the adjusting entries to the Authority to update its books until we requested them in October 2006. To prevent this from occurring in the future, the Authority needs to create and implement policies and procedures to ensure that all transactions are recorded on the books in a timely manner.

[5] Part A, section 9(C).
[6] Part A, section 15(A).

The Authority Is Taking Action

We discussed these problems with the Authority during the audit, and it began to take corrective action. It reimbursed its low-rent public housing program $246,254 owed from the other programs. The Authority's board of commissioners approved a resolution in November 2006, requiring the Authority to reconcile and settle the low-rent public housing fund's due-to/due-from account monthly or as soon as funds are available. In its written response, the Authority stated that it will establish and implement the necessary policies and procedures to satisfy recommendations 1B and 1C.

Recommendations

We recommend that the director of the Baltimore Public Housing Program Hub[7] direct the Authority to

1A. Repay its low-rent public housing fund $246,254[*] for funds advanced to pay expenses of other HUD and non-HUD programs.

1B. Create and implement policies and procedures to ensure that all transactions are recorded on the books in a timely manner and that the due-to/due-from account is reconciled and settled monthly, thereby putting $489,522 in public housing funds to better use over a one-year period.

1C. Accurately and completely record the year-end adjusting entries for fiscal year 2005 on its books.

[7] We also addressed this audit report to the director, Richmond Office of Public Housing, at the request of the director, Baltimore Public Housing Program Hub.

[*] The Authority took action to repay this amount. No further action concerning this recommendation is required.

Finding 2: The Authority Did Not Always Follow Federal Procurement Requirements When Awarding Contracts

Contrary to federal procurement regulations and its own procurement policy, the Authority did not always perform required cost or price analyses to justify awarding contracts. This occurred because Authority staff did not follow established policy and was otherwise unaware of the requirements. As a result, the Authority awarded three contracts to sole bidders totaling $560,207 without having assurance that the prices were fair and reasonable. During the audit, the Authority created the documentation to properly justify awarding the three contracts.

The Authority Did Not Always Perform Required Analyses

The Authority did not always follow federal procurement regulations or its own procurement policy for acquiring goods and services. It was not able to provide documentation to demonstrate that three contracts awarded to sole bidders, valued at $560,207, were fair and reasonable. We selected eight contracts with values greater than $50,000 totaling $1.2 million (about 70 percent) from 150 contracts valued at $1.7 million with ending dates of September 30, 2005, or later, as of May 2006. Contrary to federal regulations and the Authority's procurement procedures, the Authority did not prepare a cost or price analysis to justify awarding three of the eight contracts reviewed. Federal regulations[8] require that a cost or price analysis be completed when adequate price competition is lacking, such as when only one bid is received for a contract. Further, HUD Handbook 7460.8[9] states that for a sealed bid that only receives one bid, a cost analysis is required. Also, the Authority's procurement policy[10] requires a cost or price analysis for all procurement actions and specifically states that if only one responsive bid is received from a responsible bidder, the award shall not be made unless a cost or price analysis verifies the reasonableness of the price. The following chart provides details of the three contracts.

Contract type	Contract amount
Plumbing services	$292,500
Water heaters	$211,332
Heating, ventilation, and air conditioning services	$ 56,375
Total	**$560,207**

Although the Authority did not perform the required analyses before awarding the contracts, it created price analysis documentation, which properly justified

[8] 24 CFR [*Code of Federal Regulations*] 85.36(f)(1).
[9] Section 4-33(B).
[10] Sections F(1) and C(3).

awarding the three contracts, after we discussed this issue with the executive director and the procurement officer. Therefore, no further corrective action concerning the three contracts is needed.

Responsible Personnel Were Not Aware of Requirements and Lacked Training

The Authority's procurement officer was not aware of federal procurement requirements and the Authority's policies and procedures regarding contract awards in instances of a sole bidder. At the Authority, each department director is responsible for initiating purchases. The procurement officer is responsible for determining the proper method of contracting. Although the Authority's procurement policy adequately addressed federal procurement regulations, the procurement officer did not follow the policy due to an oversight. Before being employed by the Authority in November 2005, the procurement officer worked for the Commonwealth of Virginia and was not required to follow federal procurement regulations. We discussed these issues with the Authority during the audit. It sent its procurement officer to a two-day federal procurement training course in August 2006. To ensure that the Authority properly documents its contract award process in the future, it needs to develop and implement controls to ensure that responsible personnel award contracts according to established policies and procedures. Further, it needs to emphasize to responsible personnel the need to follow applicable policies and procedures and provide them additional training regarding federal procurement requirements.

Recommendations

We recommend that the director of the Baltimore Public Housing Program Hub[11] require the Authority to

2A. Develop and implement procedures to ensure that it properly awards contracts according to established policies and procedures.

2B. Emphasize to responsible personnel the need to follow applicable policies and procedures and provide them training regarding federal procurement requirements.

[11] See footnote 7.

SCOPE AND METHODOLOGY

We performed the audit at the Authority in Newport News, Virginia, from May through October 2006. The audit was performed in accordance with generally accepted government auditing standards and included tests of internal controls that we considered necessary.

The audit covered transactions representative of operations current at the time of the audit and included the period January 2004 through April 2006. We expanded the scope of the audit as necessary. During the audit, we assessed the reliability of computer-processed data relevant to our audit by comparing it to hard-copy information. We found the computer-processed data were sufficiently reliable to meet our audit objectives.

To accomplish our objectives, we

- Reviewed applicable regulations and guidance.
- Discussed operations with the Authority's management and staff and key officials from HUD's Richmond, Virginia, field office.
- Reviewed the Authority's internal control structure.
- Reviewed minutes of the Authority's board of commissioners' meetings.
- Nonstatistically selected eight contracts with values greater than $50,000 from 150 contracts that the Authority had in place with ending dates of September 30, 2005, or later, as of May 2006, to review the Authority's compliance with procurement regulations.
- Nonstatistically selected 10 Line of Credit Control System drawdowns, valued at $4.5 million, to determine whether the drawdowns were adequately supported.
- Reviewed 10 low-income housing tenant files to verify tenant eligibility and the accuracy of rent calculations and to determine whether inspections of the housing units were completed as required.
- Reviewed the Authority's audited financial statements for years 2004 and 2005 and other financial records as appropriate.
- Reviewed the Authority's interfund balances and notes payable.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Settling interfund balances monthly, and
- Conducting all procurement transactions in accordance with federal procurement regulations.

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

The Authority did not

- Ensure that interfund balances were settled monthly.
- Ensure that procurement transactions were conducted in accordance with federal procurement regulations.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A	$246,254*	
1B		$489,522

* The Authority took action to repay this amount. No further action concerning this recommendation is required.

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/ 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. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. If the Authority implements our recommendations, it will cease using low-rent public housing funds to pay expenses of its other programs. Once the Authority improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

Appendix B

AUDITEE COMMENTS

Auditee Comments

NNRHA **Newport News Redevelopment and Housing Authority**

Karen R. Wilds
Executive Director

February 7, 2007

Mr. John P. Buck, Regional Inspector
General for Audit, Philadelphia Regional Office, 3AGA
The Wannamaker Building
100 Penn Square East, 10th Floor, Suite 105
Philadelphia, PA 19107-3380

Dear Mr. Buck:

Re: Response to Draft Audit Report –
Newport News Redevelopment and Housing Authority

The following is the Authority's response to the audit findings from the Office of Inspector General draft audit report received January 27, 2007.

Finding #1:
The Authority did not settle inter-fund balances due to its low rent Public Housing Fund in a timely manner.

Response:
The Authority's fiscal year end close-out period is June 30 of each year. As such, a period of more than 30 days is required to complete the year-end settlement of outstanding accounts receivable and accounts payable.

Our last accounting entry for the close-out for the June 30, 2006 fiscal year occurred on September 10, 2006.

Our normal practice is to reimburse the inter-fund balances within 5 business days after the close out of each month.

Operating within this time frame of our normal practice, the following programs repaid the inter-fund balance as follows:

Community Development Block Grant	$105, 581.99	9/12/2006
Home Program	$3,863.00	7/14/2006
	$7,884.36	9/12/2006
Tax Exempt Program	$2,120.15	7/12/2006
	$4,726.46	9/12/2006

P. O. Box 797 Newport News, VA 23607-0797
(757) 928-2620 Fax (757) 247-6535

AN AFFIRMATIVE ACTION AGENCY

Management Fee Programs:		
Great Oak Direct	$5,300.55	7/12/2006
Phoenix Village I	$1,989.61	8/25/2006
Phoenix Village I	$1,025.36	8/31/2006
Total funds repaid within our normal practice:	$132,491.48	

The total payments outside the time frame of our normal practice were as follows:

Great Oak Direct	$2,544.44	11/9/2006
Phoenix Village I	$496.92	10/9/2006
Phoenix Village I	$958.19	11/16/2006
Great Oak Mgmt. Fee	$109,752.99	11/22/2006
Total repaid outside our normal practice:	$113,752.54	
Total repaid by 11/22/2006:	$246,254.02	

Per the draft audit report discussed at the OIG exit conference on February 1, 2007, we issued a revolving fund check #110732, dated 2/2/07 (copy attached) payable to the public housing general fund and deposited those funds into the public housing general fund (bank validated copy of deposit slip dated 2/2/07 attached).

This completes the corrective action for Recommendation 1A.

The Authority's Board of Commissioners at the November 21, 2006 meeting passed a resolution that the Executive Director establish and implement policies and procedures to ensure that the due to/due from accounts in the revolving fund are reconciled monthly and settled monthly or as soon as funds are available.

The Executive Director will establish and implement the policies and procedures necessary to adhere to the Board of Commissioners resolution within 90 days from this response. Once these policies and procedures have been established and implemented, Recommendation 1B will be resolved.

The Executive Director will establish and implement the procedures necessary to accurately and completely record the year-end audit adjusting entries for the fiscal year consultation with our auditor. These procedures will be in place within 90 days from this response. Once procedures are established and the entries completed, Recommendation IC will be resolved.

Finding #2:
The Authority did not always follow Federal Procurement Requirements when awarding contracts.

Response:
NNRHA agrees that we did not follow our own procedures and federal procurement requirements for these three contracts. We have taken the necessary steps and developed guidelines and procedures to prevent this oversight from occurring in the future. In these three instances, the bid purchases were properly procured but only one response was received. NNRHA believed as a result of our experience with past procurements for this type of service that each bid was fair and reasonable; however, we failed to appropriately document the analysis of such in the procurement file. We have now properly conducted the analysis and documented the file that these bids were fair and reasonable. This completes the corrective action for Recommendation 2A.

Per the recommendation, we have taken steps to re-emphasize to responsible personnel through both internal and external training the importance to always follow applicable policies and procedures, and the need to document the steps taken to determine that we are properly procuring and utilizing federal funds. This completes the corrective action for Recommendation 2B.

If there is any further information or clarification needed please let me know.

Sincerely,

Karen R. Wilds

Karen R. Wilds
Executive Director

KRW:bg