

**Follow-Up Audit  
Minor Home Repair Program**

March 1999

**City Auditor's Office  
City of Kansas City, Missouri**

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March 29, 1999

Honorable Mayor and Members of the City Council:

This follow-up audit of the Department of Housing and Community Development's Minor Home Repair Program (MHR) was initiated in accordance with the City Auditor's Office policy of assessing the implementation of audit recommendations.

Our 1994 audit found that MHR's management control structure was not adequate to prevent collusion between contractors or between a contractor and the program manager. The program manager was exclusively responsible for administering the program, including determining which contractors would be asked to bid on jobs, developing the job specifications, and determining whether contractors had performed as expected. We made a number of recommendations designed to strengthen controls in order to minimize opportunities for fraud. Specifically, we recommended that key activities be segregated between several employees to prevent irregularities and increase the chances that illegal acts could be detected promptly.

Our follow-up determined that management controls have been strengthened. Key responsibilities are now segregated between a program manager, hired subsequent to our original audit, and two additional staff members. The same individuals rarely perform initial and final inspections on the same job, all eligible contractors are invited to bid on jobs, and several employees determine contractor eligibility. The number of contractors participating in the program has increased, although the number of bids received has not increased significantly.

We also found that some procedures are out of date, and some program activities are not described in the program's procedures manual. We make a number of recommendations designed to further improve administration of the program.

The draft follow-up report was sent to the director of Housing and Community Development on March 3, 1999. His response is included as an appendix. We appreciate the courtesy and cooperation extended to us during this project by staff of the Minor Home Repair Program. This follow-up audit was conducted by Douglas Jones with assistance from Sean Hennessy and Joyce Patton.



Mark Funkhouser  
City Auditor

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# Follow-Up Audit: Minor Home Repair Program

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# Follow-Up Audit: Minor Home Repair Program

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## Introduction

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### Audit Objectives

This follow-up audit of the Housing and Community Development Department's Minor Home Repair Program was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A compliance audit is a financially related audit that determines whether the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve control objectives.<sup>1</sup> A follow-up audit is an examination to determine whether an agency has taken timely and appropriate corrective actions in response to the problems identified and recommendations made in a previous audit.

This follow-up was designed to answer the following questions:

- To what extent have recommendations from the June 1994 audit of the Minor Home Repair Program been implemented?
- Have recommendations resulted in desired improvements?
- Where recommendations have not been implemented, do conditions warrant that the original recommendations be implemented, changed, or withdrawn?

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### Scope and Methodology

This follow-up audit was not designed or intended to be another full scale audit of the Minor Home Repair Program (MHR); rather, it was designed to determine the progress made by the Housing and Community Development Department (HCD) in implementing recommendations related to management controls over the program. The audit was performed in accordance with generally accepted government auditing standards, with the exception of the completion of

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<sup>1</sup> Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 1994), p. 13.

an external quality control review of the office within the last three years.<sup>2</sup> Our methods included:

- Reviewing our June 1994 audit, selected workpapers, and Audit Report Tracking System (ARTS) reports submitted by HCD management in response to the audit.
- Interviewing HCD staff responsible for administering the MHR program.
- Examining HCD procedures and documents related to the MHR program.
- Examining MHR contractor files, project files, database records, and other city records related to the program.

We relied on computer-processed data in the Minor Home Repair database to achieve some of the objectives of this audit. To assess reliability of the database, we interviewed staff about the system, reviewed available system documentation, and performed limited tests on the database. When the data are viewed in context with other available evidence, we believe the opinions, conclusions, and recommendations in this report are valid.

No information was omitted from this report because it was deemed privileged or confidential.

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## Background

The Minor Home Repair Program's stated goal is "to assure a safe and sanitary living environment for all lower income single family homeowners in Kansas City, Missouri. This shall be accomplished by providing appropriate home repair assistance to all qualified households in a timely manner."<sup>3</sup>

The program contracts for basic home repair services for single-family homes owned by persons with gross household incomes of no more than 50 percent of the median income of the Kansas City metropolitan statistical area. Homeowners in this income category are generally not able to participate in other citywide housing loan programs, which usually require some homeowner contribution. Applicants must have owned and occupied their home for at least five years, and are generally not eligible for MHR assistance if they received MHR assistance within

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<sup>2</sup> The last review was performed in April 1995. A peer review is planned for the current year.

<sup>3</sup> Minor Home Repair Program, *Scope of Services/Policies and Procedures*.

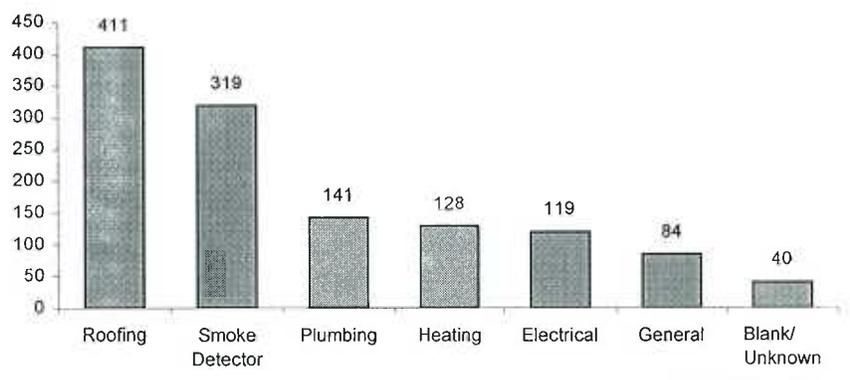
the last five years. Program participants are required to submit proof of home ownership and income.

**Application process.** The program accepts requests for normal repairs from as many applicants as can likely be served in a year. Applicants are served on a “first come, first serve” basis. MHR staff contact the applicant to schedule an initial inspection, inspect the home to determine what needs to be done, and then develop a cost estimate for the job. Homeowners sign an agreement to allow contractors and city staff to inspect the premises at reasonable times.

As a matter of program policy, requests for emergency repairs are responded to within approximately 30 days. These type of repairs include water and gas service line leaks, inoperable hot water tanks and furnaces, exposed electric wires, and severely leaking roofs.<sup>4</sup> Urgent requests may receive an inspection the same day if an inspector is available.

**Services provided.** The prior audit found that roof and gutter replacements were the most common jobs, followed by plumbing and heating work. Between June 1, 1990, and December 6, 1993, the program funded 887 repair projects. Between June 1, 1995 and December 1, 1998, the program funded 1,242 repair jobs, including 143 emergency repair requests. (See Exhibit 1.)

Exhibit 1. Distribution of Jobs for Program Years 1995 - 1998<sup>5</sup>



Source: MHR program database.

In addition to repairs, the program also installs smoke detectors in properties receiving MHR assistance. The program manager said they

<sup>4</sup> Furnace repairs are considered an emergency repair between October and March.

<sup>5</sup> The MHR program year runs from June 1 through May 31. We examined data from June 1, 1995 through December 1, 1998. Data for program year 1998 was limited to June 1, 1998 through December 1, 1998.

decided to go an extra step and have smoke detectors installed on all MHR jobs after building codes were changed to require hard-wired smoke detectors to be installed when a permit was needed for a repair or alteration to a property.

### **Funding**

The MHR program is funded by the federal Community Development Block Grant Program. MHR expenditures are shown in Exhibit 2.

Exhibit 2. Program Expenditures, Fiscal Years 1995 – 1999

Fiscal Year	1995	1996	1997	1998	1999
Expenditures	\$701,113	\$858,385	\$829,938	\$749,961	\$1,000,000 <sup>6</sup>

Source: Kansas City Financial Management System (FMS).

### **Staffing**

A program manager and two staff members administer the MHR program. These employees also administer four other city grant-funded programs.<sup>7</sup> HCD's clerical staff provides assistance to the program.

### **Summary of the 1994 Compliance Audit**

We initiated the June 1994 audit in response to a citizen complaint that a contractor on a MHR job was committing fraud. The audit evaluated the management control structure of the program and focused on ways to improve program operations and minimize opportunities for fraud or abuse by employees and contractors.

The audit concluded that the program's management control structure was not adequate to detect or prevent collusion between contractors or between a contractor and the program manager. The former program manager administered the program almost exclusively with little systematic oversight by other HCD staff. The audit also identified problems with bidding and contract monitoring.

The prior audit made recommendations directed towards strengthening the control structure and improving contractor oversight. The status of the prior audit recommendations based on our audit work is provided in Exhibit 3. One Audit Report Tracking System (ARTS) report was submitted in June 1995. (See Appendix A.)

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<sup>6</sup> Budgeted amount.

<sup>7</sup> Barrier Removal Program, Home Rehabilitation Rebate Program, Project Lead-Safe 2000, and HOPE III.

## Exhibit 3. Status of Prior Recommendations as Determined by Audit.

Recommendation	Status
1. Develop and employ some method of selecting additional contractors for the pre-qualified bidder lists.	Implemented
2. Increase competition for MHR jobs by soliciting bids from more than three contractors on each job.	Implemented
3. Develop written internal operating procedures for key program operations, such as estimating job costs, selecting bidders for solicitation, and conducting final job inspections.	Partially Implemented
4. Restructure the MHR program so that two or three different persons perform key program functions and consider rotating similar job functions in MHR and other CDBG programs administered by the department.	Implemented
5. Develop clear written standards of conduct for employees engaged in the award and administration of contracts.	Implemented
6. Design and implement procedures to ensure enforcement of program contractor participation requirements, including: 1) certificate of insurance; 2) occupation license; 3) contractor's license; 4) affirmative action plan; and 5) city earnings or gross profits tax.	Partially Implemented
7. Develop a system to track the time elapsed from job award to job completion and enforce reasonable time limits as prescribed in the MHR contract.	Partially Implemented
8. Require contractors to obtain building code inspections on permitted work.	Implemented
9. Describe all enforcement policies and procedures in detail in internal operating procedure documents.	Partially Implemented



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## Findings and Recommendations

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### Summary

Controls in the Minor Home Repair program have significantly improved. Program duties are now segregated, so that key activities are not under the control of one individual. Different employees perform initial and final inspections, bid openings are generally witnessed by at least two employees, and all staff members are involved in evaluating contractors. Expected standards of employee conduct have been clearly defined.

The bid solicitation process has also improved. The former program manager chose which contractors would be invited to bid on jobs; under the current procedures, all eligible contractors are sent bid solicitations.

We also found that more detail and direction is needed for a number of program functions. Contractor participation requirements are not always current and there is no procedure to review these records at regular intervals. Elapsed job time has decreased, but could be improved further if program management routinely assessed and enforced job completion times.

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### Management Control Has Been Strengthened

Our follow-up work determined that management controls in the Minor Home Repair Program (MHR) program have been strengthened. The program is no longer under the exclusive control of a single employee; instead, restructuring resulted in key program functions being shared by a program manager and two staff members. Less than 7 percent of jobs have both initial and final inspections performed by the same person, at least two employees generally observe bid openings, and all employees are involved in evaluating contractors. Finally, currently participating contractors are asked to submit bids for all jobs for which they are eligible. We had found in our original audit that the former program director had personally selected contractors that would be invited to bid.

Although it is not possible to design a program that is impervious to employee dishonesty, segregating duties places obstacles in the path of

those who might be tempted to commit fraud while allowing for prompt detection of errors or irregularities.

### **Duties Are Segregated**

At the time of our original audit, the MHR program was exclusively administered by a program manager, with clerical assistance provided by HCD's clerical supervisor. Since that time, the department has assigned more staff to the MHR program. The program manager and two employees administer the MHR program and HCD staff provides clerical assistance. As a result, key administrative duties are spread between the three-person program staff. Segregating administrative responsibilities has strengthened controls over inspections, bid openings, and contractor application evaluations, and has reduced the likelihood that fraud could occur.

No individual should be in a position to both commit and conceal illegal activities or irregularities. One fraud text states: "Do not rely solely on one individual to perform an important function. The opportunity to commit fraud is especially prevalent when one employee has total control over an operation that no one else observes or understands."<sup>8</sup>

### **Different employees usually perform initial and final inspections.**

Under the current procedures, one employee performs most of the initial inspections, while another primarily performs final inspections. We reviewed 655 database records for program year 1997; 556 records had a completed initial inspector field and 653 records had a completed final inspector field. We determined that one MHR staff member performed about 67 percent of the initial inspections and another conducted about 65 percent of the final inspections. Thirteen different MHR and HCD staff members conducted inspections for the program. Only 6.7 percent of the jobs had initial and final inspections conducted by the same MHR staff member.

In our original audit, we found that the program manager controlled most aspects of project administration including conducting final inspections that determined whether contractors should be paid. Project administration duties included developing job specifications and cost estimates, selecting contractors, and approving change orders. Since final inspections are a key element in the payment process, they should be performed by an employee other than whoever administered the project.

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<sup>8</sup> W. Steve Albrecht, et al., *How to Detect and Prevent Business Fraud* (New Jersey: Prentice-Hall, Inc., 1982), p. 185.

**Bid openings and eligibility determination duties are shared.**

Program procedures require at least two staff members to be present when bids are opened and sign the bid summary sheet. Of the 21 competitive bid openings we reviewed, 18 contained two staff signatures.<sup>9</sup> Five different MHR/HCD staff members participated in bid openings. Three bid summary sheets contained only one signature; all were signed by the same MHR staff member. Contractor bids are now entered into the program's database, which determines the low bidder for each job.

The process for reviewing contractor applications has also been revised to increase input from MHR staff. Two staff members review contractor applications: one reviews the submitted documents and references, and another examines examples of the contractor's work. The program manager has final approval over contractor selection.

We had recommended that MHR program administration be restructured so that two or three different persons perform key program activities. The restructuring resulted in sufficient segregation for us to consider the prior recommendation implemented.

Although program duties are segregated, our review did find some exceptions to stated program procedures for inspections and bid openings. The primary purpose of segregation of duties is the prevention and prompt detection of errors or irregularities in the performance of assigned responsibilities.<sup>10</sup> Exceptions to normal procedures and processes should be reviewed and documented by program management to ensure that the exceptions are proper actions or honest errors, and not unacceptable activity.

**Expected Standards of Conduct Are Defined**

In February 1995, the director of HCD provided all department staff, including MHR staff, with copies of laws and regulations governing the conduct of city employees. These laws and regulations were contained in the city charter, city code, state statutes, and federal regulations. In his memo, the director summarized key elements from these sources and directed staff to review and comply with all laws and regulations governing individual standards of conduct. MHR staff produced their copies of the memo and standards of conduct during the follow-up audit fieldwork. Our original audit recommended that HCD management

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<sup>9</sup> Dates on the bid summaries ranged from May 21, 1998 to December 31, 1998.

<sup>10</sup> Walter G. Kell, William C. Boynton, and Richard E. Ziegler, *Modern Auditing, 3<sup>rd</sup> Ed.* (New York: John Wiley & Sons, 1986), p. 145.

publish clearly written standards of conduct for employees engaged in contracting as a means of reducing the risk of dishonest behavior.

**Efforts Made to Increase Contractor Participation**

The number of contractors participating in the program has increased. The program currently has four (about 15 percent) more contractors by trade than in 1993. The contractor trades with the largest increases were electrical and plumbing. (See Exhibit 4.) The actual number of contractors differs because some contractors work in more than one trade. In 1993, one heating contractor also did electrical work. In 1998, one plumbing and two heating contractors also do electrical work, and one general contractor also does plumbing work.

Exhibit 4. Contractors by Trade

Trade	1993	1998	Change
General / Roofing	11	12	1
Heating	10	8	-2
Plumbing	3	5	2
Electrical	3	6	3
<b>Total</b>	<b>27</b>	<b>31</b>	<b>4</b>

Source: Minor Home Repair files.

Efforts to increase the number of contractors participating have been concentrated on advertising annual contractor meetings and involving all staff members in the process for reviewing contractor applications. Attendance at the contractor meeting is not mandatory; the program will accept and evaluate contractor applications throughout the year. The program manager said that meetings have been advertised since 1994. During the prior audit the former program manager said he did not usually advertise for contractors.

**Bid solicitation is more open.** Procedural changes in the MHR program have created a more open bid solicitation process. Staff now send bid solicitations to all currently participating contractors. In our review of 21 competitive bid openings, an average of 5.7 contractors were solicited. (See Exhibit 5.) Our original audit had found that the former program manager selected contractors from a small list of those that had been pre-qualified and usually solicited only three bids for each job. Limiting the number of potential bidders could increase the risk of collusion and reduces the efficiency and effectiveness of the program’s operations.

Although staff generally follows the new procedures, we found instances where the number of contractors solicited differed from the number of contractors on the active list. The program manager explained that this

was because some general contractors only do roofing jobs, other contractors have asked to be excluded from bid solicitations for certain types of jobs, and contractors periodically ask program staff to not send bid solicitations until the contractors request them. Additionally, contractors who do not respond to three consecutive bid solicitations are taken off the mailing list even though they are still considered active. The program manager said that contractors who have not responded to two consecutive bid solicitations are informed about this policy. Contractors with current participation documentation on file can be reinstated on the mailing list simply by contacting program staff.

**Increase in the number of bids received is slight.** While the process is more open now than in the past, the effect on the number of bids received has been limited. The average number of bids received per job was 2.6 (see Exhibit 5) compared to 2.3 during the prior audit.

Exhibit 5. Competitive Bid Openings, May 21, - December 31, 1998

Type of Job	Number of		Average Number	
	Bid Openings	Jobs	Contractors Solicited	Bids Per Job
Electrical	5	82	5.2	2.7
General	10	158	5.8	2.7
Furnace	3	33	6.7	2.7
Plumbing	3	35	5.3	1.9
<b>Total/Average</b>	<b>21</b>	<b>308</b>	<b>5.7</b>	<b>2.6</b>

Source: Minor Home Repair files.

To ensure an open and competitive bid process for MHR jobs, the program should continue efforts to increase the number of contractors on the pre-qualified bidder list and send bid solicitations to all active contractors on the list. Program management should document exceptions to the bid solicitation mailing list to provide a record and clear direction regarding contractors that receive bid solicitations.

### **Further Procedural Improvements Are Needed**

Although the program's procedures manual addresses key program functions, it provides insufficient direction regarding performing and documenting some of the tasks necessary to administer the program. We found that the MHR staff, including the program manager, were able to describe in detail the processes, procedures, and documentation they use to administer the program. Relying on oral procedures introduces the risk, however, that processes, tasks or functions will be diluted or forgotten over time and as staffing changes.

**Emergency repair job procedures should be documented.** The program's procedures manual defines emergency repair jobs but does not provide details about how to process and document the requests. The procedures manual should accurately reflect the activities necessary to administer the program and should be updated to provide direction on processing and documenting emergency repair requests and associated contractor bids.

**Enforcement policies need further detail.** MHR procedures provide a list of reasons why a contractor can be suspended or disqualified from program participation, but lack details for processing and documenting enforcement actions. The list of reasons for program disqualification given to contractors differs from the one in the procedures manual.

The procedures manual should be updated to include more direction on processing and documenting enforcement actions against contractors. Inconsistencies between the list of reasons for suspension and disqualification in information given to contractors and the procedures manual need to be corrected.

**Code inspection documentation should be required.** MHR's procedures manual and standard contract state that contractors are only required to obtain and provide copies of permit documents; codes inspection documents are not mentioned. We conducted a limited review of project files from program year 1997 and found that all of the files we reviewed contained appropriate code inspection documentation. MHR staff told us that permit and inspection documents are required and checking for these documents is part of the final file review before authorizing payment to the contractor. Although inspection documents are being obtained and staff understands that they are required, the procedures manual and standard contract should be updated to require contractors to provide copies of inspection documents.

**Database documentation and user guide needed.** The MHR database program was developed in-house by department staff. No documentation of the system code, instructions for system maintenance, overall description of the system, or guidelines/manuals for its use exist. HCD staff explained that they are in the process of converting the program to a server-based database.

The lack of a user guide has resulted in inaccurate information recorded in the system. Although the effect of this appears minimal, staff has not developed procedures to ensure that entered data is accurate and complete. We found cases where project end dates occur before beginning dates, and other cases where fields were left empty. Staff

explained that they arbitrarily enter a date into the system when they notice that a date is missing from the database. This is done in order to generate a system report. Entering erroneous dates results in management information that does not accurately reflect program results. Further it reduces the effectiveness of the database and associated information as a management tool.

Complete and current program documentation of a custom database or program provides future users and administrators with critical knowledge about the system and types of information it contains. A user guide provides direction on how to use and effectively maintain the database program. The program's database system should be documented and a user guide should be developed. Converting to a new system offers department staff an excellent opportunity to create necessary documentation.

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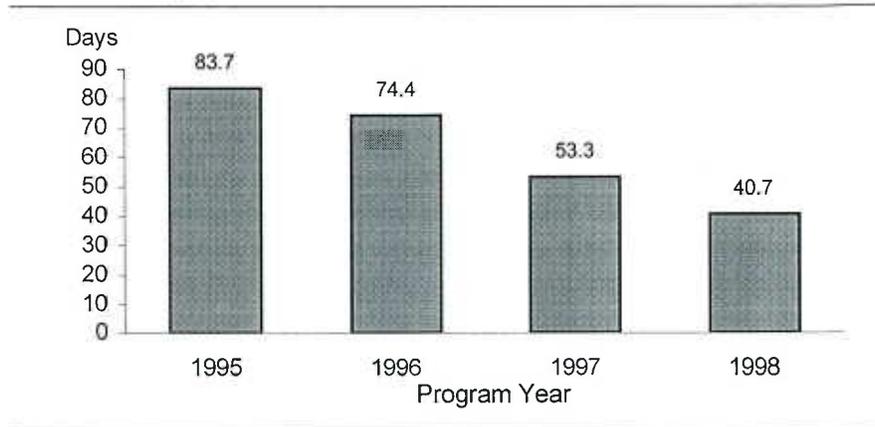
## **Contracting Oversight Has Improved**

Our follow-up found that contractor monitoring has improved. The average time to complete MHR jobs has decreased by about 43 days since 1995. We also found, however, that files still do not contain current eligibility documentation.

### **Elapsed Job Time Has Decreased**

Since program year 1995, the average number of days to complete a MHR repair job has decreased by 43 days. (See Exhibit 6.) We compared notice to proceed dates with completion dates in the MHR database to determine the average number of days for job completion for program years 1995 through 1998. We also compared completion dates to the maximum contract time limits. The percentage of jobs exceeding the maximum contract time limit and the number of days beyond the contract time limit have significantly decreased since program year 1995. MHR's standard contract provides contractors with an additional 10 days past the completion date established in the contract to finish the work. On the eleventh day after the expected completion date, program management could begin to apply remedies allowed under the contract; removing the contractor from the job or assessing liquidated damages.

Exhibit 6. Average Days to Complete Jobs, Program Years 1995 - 1998<sup>11</sup>



Source: Minor Home Repair Database.

**System to track elapsed job time developed, but not consistently used.** MHR staff said that time limit monitoring and enforcement could be improved. The MHR database has been used to prepare reports on elapsed job time and contractors were contacted based on the information in this report. However, this report has not been prepared on a consistent basis. As a result, staff rely more on homeowner complaints or an ad hoc review of projects to know when to contact contractors about late work.

MHR staff said they tend to be lenient on job time limits based on their determination of a “reasonable” time for completion. Staff said the reason for this leniency is because of the difficulty in attracting and retaining contractors to participate in the program. Weather, contractor workload, and availability of the homeowner can also affect job completion times. A determination of “reasonable” based on the discretion of MHR staff members and lenient treatment related to completion dates could lead to inequitable treatment of contractors.

Instead of relying on homeowner complaints or manually reviewing files, MHR staff should use the information in the database to systematically identify jobs that are taking too long. Staff should develop contract completion times using information in the database to determine the time normally needed to complete jobs.

<sup>11</sup> We determined program year based on the year shown in the project number. Program year 1998 includes only six months (June 1, 1998 through December 1, 1998).

**Contractor Participation Requirements Are Not Current**

We reviewed ten contractor files and corresponding database records and found that they did not always have current participation documentation and contained conflicting information. One contractor's file contained no occupational license documentation and the date for the occupational license in the contractor's database record had been expired for about three and a half years. The contractor received bid solicitations and awards as recently as December 31, 1998. The same contractor is listed as performing both heating and electrical work and only had a current craftsman license for heating work.

Program eligibility requires contractors to have proof of: liability insurance; city affirmative action plan or exemption; city occupation license; earnings/gross profits tax payment; and a craftsman license for plumbers, electricians and heating contractors. Our original audit determined that the MHR program's procedures for verifying ongoing contractor compliance with the city's eligibility requirements were ineffective.

**No procedure to review contractor participation requirements.**

We found no specific written procedures directing when and how contractor requirements are reviewed to ensure they are current. We received conflicting information from staff about how often contractor participation requirements are reviewed. However, all staff members said that when they become aware of expiring participation requirements, contractors are notified in writing.

Additionally, information given to contractors and the program's procedures manual contain incomplete and conflicting information. The procedures manual makes no mention of the earnings/gross profits tax and the contractor information packet makes no mention of a craftsman license requirement for certain contractors.

MHR and HCD administrative staff said they review contractors' affirmative action status in the Kansas City Financial Management System (FMS) table maintained by Human Relations. We checked the FMS table for the 10 contractors in our review and found that all were current. Accounts Division staff said that FMS will not process a payment for a vendor who does not have a current affirmative action status with the city.

To avoid awarding jobs to contractors who are not in compliance with program requirements, procedures should be developed and implemented to ensure that contractor participation requirements are routinely verified

and updated. Additionally, the procedures manual and information given to contractors should be updated to provide complete and consistent information.

### **Standard Contract Should Be Updated**

The program's standard contract does not appear to include some of the language or clauses required in city contracts. For example, the contract does not include a contract clause prohibiting gratuities and kickbacks as required by city code.<sup>12</sup> We compared elements of MHR's contract to the contract templates being developed to standardize city contracting forms. MHR's standard contract does not appear to follow the standard language or clearly separate the business terms from the general/statutory terms. The effort to standardize city contracts is in response to the Red Flag Commission's report, which contained recommendations directed towards contracting issues. MHR's standard contract should be reviewed and updated to ensure it contains required language and clauses and that it is in line with efforts to standardize city contracting forms.

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<sup>12</sup> Code of Ordinances, Kansas City, Missouri, Sec. 2-1765. (c).

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## Recommendations

1. The program manager should review and document exceptions to normal procedures and processes, as they occur.
2. The program manager should update the MHR procedures manual. Inconsistencies between information in the procedures manual, information given to contractors, and contract language should be corrected.
3. The program manager should ensure that the program's database system is documented and a system user guide developed.
4. The program manager should use information in the database to develop expected contract completion times, routinely track elapsed job times, and enforce contract time limits.
5. The program manager should develop and implement procedures to ensure that contractor participation requirements are routinely verified, updated, and enforced.
6. The program manager should work with the Law Department to review and update MHR's standard contract to ensure it contains required language and clauses and that it is in line with efforts to standardize city contracting forms.



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**Appendix A**

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**Audit Report Tracking System (ARTS) Report**



<b>Audit Report Tracking System</b>			
<b>1. Audit Title</b> Compliance Audit: Housing and Community Development - Minor Home Repair Program	<b>2. This Report Date</b> June 6, 1995		
<b>3. Department</b> HOUSING AND COMMUNITY DEVELOPMENT	<b>4. Last Report Date</b> NA		
<b>5. Department Head</b> James M. Vaughn	<b>6. Contact Person/Phone</b> Stan Barrett - 274-2201		
<b>7. Audit Release Date</b> June 6, 1994	<b>8. ARIS Number</b> 94-8-1		
<b>9. Status of All Audit Recommendations</b>			
<u>Status</u>	<u>Date</u>	<u>Status</u>	<u>Date</u>
#1. Implemented	June 6, 1994		
#2. Implemented	June 6, 1994		
#3. Implemented	June 6, 1994		
#4. Implemented	June 6, 1994		
#5. Implemented	June 6, 1994		
#6. Implemented	June 6, 1994		
#7. Implemented	June 6, 1994		
#8. Implemented	June 6, 1994		
#9. Implemented	June 6, 1994		
<b>10. Recommendations Included in this Report</b>			
<p><b>RECOMMENDATION #1:</b>                      Develop and employ some method of selecting additional contractors for the pre-qualified bidders list.</p> <p><b>STATUS:</b> Additional Contractors were solicited by utilizing old contractor listings, other program listings, that utilize same services and City licensing section. (Attachment: MHR Contractor listing.)</p>			
<p><b>RECOMMENDATION #2:</b>                      Increase competition for MHR jobs by soliciting bids from more than three (3) contractors on each job.</p> <p><b>STATUS:</b> All contractors are invited to participate in every bid package that is released for bid. See attached Policies and Procedural Manual, Section VI.B., Invitation to Bid.</p>			
<p><b>RECOMMENDATION #3:</b>                      Develop written internal operating procedures for key program operations such as estimating job costs, selecting bidders for solicitation, and conducting final job inspections.</p> <p><b>STATUS:</b> Attached Policies/Procedures for MHR.</p>			
<p><b>RECOMMENDATION #4:</b>                      Restructure the MHR program so that two or three different persons perform key program functions, and consider rotating similar job functions in MHR and other CDBG programs administered by the department.</p> <p><b>STATUS:</b> Attached Policies/Procedures for MHR, Section X., Final Inspections.</p>			

Audit Report Tracking System		Page 01
<b>Audit Title:</b> Compliance Audit: Housing & Community Dev. - Minor Home Repair Program		
<b>Report Date:</b> June 6, 1995		
10. Recommendations Included in this Report (continued)	Response	
<b>RECOMMENDATION #5:</b> Develop clear written standards of conduct for employees engaged in the award and administration of contracts.  STATUS: Attached Policies/Procedures for MHR. Memo to all staff dated November 1, 1994. (Attached).		
<b>RECOMMENDATION #6:</b> Design and implement procedures to ensure enforcement of program contractor participation and requirements, including: 1) certificate of insurance; 2) occupation license; 3) contractor's license; 4) affirmative action plan; and 5) City earnings or gross profits tax.  STATUS: Attached Policies/Procedures for MHR, Section IX., Contractor Participation.		
<b>RECOMMENDATION #7:</b> Develop a system to track the time elapsed from job award to job completion, and enforce reasonable time limits as prescribed in the MHR contract.  STATUS: Attached Policies/Procedures for MHR, Section X., Final Inspections, Quality Control.		
<b>RECOMMENDATION #8:</b> Require contractors to obtain building code inspections on permitted work.  STATUS: Attached Policies/Procedures for MHR, Section XI.A., Contract Reimbursement Procedure.		
<b>RECOMMENDATION #9:</b> Describe all enforcement policies and procedures in detail in internal operating procedure documents.  STATUS: Attached Policies/Procedures for MHR., Section IX.C., Contractor Participation.		

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## **Appendix B**

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### **Director of Housing and Community Development's Response**

Also included with the director's written response was an updated copy of the Minor Home Repair Program policies and procedures. A copy of this document is on file in the City Auditor's Office and may be reviewed upon request.





## Inter-Departmental Communication

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**DATE:** March 24, 1999

**TO:** Mark Funkhouser, City Auditor

**FROM:** James M. Vaughn, Director, DHCD *James M. Vaughn*

**SUBJECT:** Minor Home Repair Program Audit Response

This responds to the draft follow-up audit report for the Minor Home Repair program administered by this Department. Page 5 of the audit report, Exhibit 3, "Status of Prior Recommendations as determined through Audit Work", indicates that all prior recommendations have been either fully or partially implemented. Based on the review of the audit and discussions with you and your staff it has been determined that the four items considered Partially Implemented were primarily due to inadequate written documentation in the MHR Policies and Procedures Manual even though in practice they were implemented. Accordingly, the Policies and Procedures Manual has been revised (see Attachment I) to include and document all updated procedures to be followed under the MHR Program. We concur with the status of prior recommendations and affirm that the revised Policies and Procedures Manual has properly addressed these issues. Staff has been fully briefed on all current policies and procedures for the MHR Program, including the most recent revisions.

We address each of the summary recommendations (Page 17) as follows:

1. The program manager should review and document exceptions to normal procedures and processes, as they occur.

**Response:** The revised Policies and Procedures Manual documents the procedures and processes that are to be adhered to by staff. This should eliminate any exceptions or deviation from the required policies and procedures for the MHR Program.

2. The program manager should update the MHR procedure manual.

**Response:** We concur and the updated revised Policies and Procedures Manual which is Attachment I.

3. The program manager should ensure that the program's database system is documented and a system user guide developed.

**Response:** The current database system or Management Information System (MIS) is being converted to a Local Area Network environment. This is to ensure Year 2000 Compliance and easier connectivity to our users. After the MIS is converted, it will be rewritten in a new generation language. We currently will begin the rewrite in Visual Basic 6 and SQL server, both Microsoft applications. The new application will be a Graphical User Interface (GUI) based system with context sensitive help. This will be printed by the program manager and utilized as a user guide and incorporated in the Policies and Procedures Manual.

The anticipated date of conversion and Y2K testing should be completed by October, 1999.

4. The program manager should use information in the database to develop expected contract completion times, routinely track elapsed job time, and enforce contract time limits.

**Response:** The current system has the capacity for this tracking information, and the increased documentation with the revised Policies and Procedures Manual include facilitate staff usage of the database system for job tracking for all MHR jobs.

5. The program manager should develop and implement procedures to ensure that contractors participation requirements are routinely verified, updated and enforced.

**Response:** The revised Policies and Procedures Manual has incorporated revised policies and procedures for contractors participating in the MHR Program (see Page 5, VI. Contract Participation)

6. The program manager should work with the Law Department to review and update MHR's standard contract to ensure it contains required language and clauses and that it is in line with efforts to standardize city-contracting forms.

**Response:** We concur with this recommendation and are working with the Law Department to revise and/or update all new contracts to include the requisite clauses.

JMV/ph