

**CHICAGO HOUSING AUTHORITY  
OFFICE OF THE INSPECTOR GENERAL  
CHICAGO, IL**

**OIG FILE #A2023-06-002 - EQUIPMENT,  
APPLIANCE, AND MATERIALS INVENTORY  
FOLLOW-UP AUDIT**

**June 28, 2024**

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## **OUTSTANDING OIG RECOMMENDATIONS**

### **ACRONYMS**

- **CHA:** Chicago Housing Authority
- **HUD:** U.S. Department of Housing and Urban Development
- **OIG:** Office of the Inspector General
- **PPM:** Private Property Management Company
- **PAM:** CHA Property of Asset Management Company
- **PO:** Purchase Order
- **WO:** Work Order

## **EXECUTIVE SUMMARY**

The Chicago Housing Authority (CHA) Office of the Inspector General (OIG) conducted a performance audit of the Public Housing Equipment, Appliance, and Materials Inventory in 2021. The 2021 audit found a lack of managerial control and oversight of equipment and appliances purchased for CHA public housing units and a lack of utilization by the private property management companies (PPMs) of the Yardi fixed assets module, which can be used to track CHA equipment and appliances. The OIG made six recommendations to CHA management for better tracking and control of appliances, equipment, and other materials purchased for use in CHA public housing.

The OIG's follow-up audit found that CHA's Property and Asset Management Department (PAM) has fully implemented just two of the six recommendations. Of the remaining four, Asset Management has partially implemented three and developed an alternative solution for the last recommendation. Asset Management reportedly continues to work on fully implementing the remaining partially implemented OIG audit recommendations.

Below, the OIG summarizes its audit findings and recommendations, and will include CHA management's response to the follow-up inquiry. The OIG thanks the staff and leadership of the Property and Asset Management Division for their cooperation during the audit and their responsiveness to the follow-up inquiry.

## **AUTHORITY AND ROLE**

The authority to perform this audit is pursuant to the CHA Board of Commissioners approved Inspector General Charter, which states that the OIG has the authority and duty to review CHA programs. The OIG is tasked with identifying any inefficiencies, waste, and potential for misconduct therein; and recommending policies and methods for the elimination of inefficiencies and waste, as well as for the prevention of misconduct. Accordingly, the OIG conducts independent audits of CHA operations and programs and makes recommendations for improvement when appropriate.

## **STANDARDS**

The OIG conducted this performance 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.<sup>1</sup>

## **INDEPENDENCE**

The OIG auditors involved in this audit are free both in fact and appearance from personal, organizational, and external impairments to independence. All opinions, judgments, conclusions, and recommendations are impartial and should be viewed as impartial by third parties.

## **RELEVANT MATERIALS**

The OIG reviewed the following relevant contracts, policies, and procedures in preparing this audit:

1. Contractual Agreements between CHA and Lowe's Home Centers
2. Contractual Agreements between CHA and W.W. Grainger
3. Contractual Agreements between CHA and Home Depot U.S.A
4. Property Management Procedural Manual for the Traditional Portfolio
5. Private Managers Financial Procedures Manual
6. CHA General Business Expense Policy

## **AUDIT OBJECTIVES**

The original audit was issued in September 2021 and covered the period of January 1, 2017, to December 31, 2019. The objectives of the original audit included the following:

<sup>1</sup> THE U.S. GOVERNMENT ACCOUNTABILITY OFFICE, COMPTROLLER GENERAL OF THE U.S. (2018), GOVERNMENT AUDITING STANDARDS (THE YELLOW BOOK). WASHINGTON, DC: GAO.

- 1) Assess whether CHA has adequate controls over equipment, appliances, and materials for each public housing community or site managed by PPMs.
- 2) Review the sufficiency of internal controls underlying the recording and tracking process associated with equipment and appliances purchased for CHA sites.
- 3) Review the sufficiency of PPM equipment, appliance, and material disposal procedures and related transactions.
- 4) Assess the risk environment and determine whether the current internal controls are sufficient to minimize fraud, waste, and abuse.

### **SCOPE**

The scope of the follow-up audit is from January 1, 2021, to December 31, 2022. This audit is limited to verifying the current status of the OIG's previous findings and recommendations.

### **METHODOLOGY**

To determine the current status of our previous findings and recommendations, the OIG requested an updated response from PAM on the 2021 Audit findings and recommendations. Upon reviewing the status report submitted by PAM, the OIG performed the following steps:

- Identify if a recommendation was implemented.
- If a recommendation was implemented, the OIG assessed its effectiveness in addressing the risks identified. This assessment is performed through analytical and substantive testing. Testing consisted of a review of receiving reports maintained on site to determine whether they matched the quantity with the invoice quantity.
- If a recommendation was partially implemented, the OIG identified what was and what was not implemented and assessed the degree of the residual risk.
- If management chose an alternative action plan, an evaluation was conducted to ensure management actions effectively mitigated the risk identified.
- If a recommendation was not implemented, the OIG asked management to provide an explanation and projected implementation timeline.

**IMPLEMENTATION STATUS OF RECOMMENDATIONS**

This report reflects the status of OIG’s audit recommendations as of June 16, 2023. Field work and testing was complete as of February 22, 2024. The OIG contacted PAM directly to gather recommendation status information, reviewed all outstanding recommendations, and placed the recommendations into the following status categories:

- Implemented – Management fully implemented actions as stated in the Public Housing Equipment, Appliance, & Materials Inventory report.
- Partially Implemented – Management did not fully implement actions as stated in the Public Housing Equipment, Appliance, & Materials Inventory report.
- Acceptable Alternative – Management implemented an acceptable action, but different from the actions stated in the Public Housing Equipment, Appliance, & Materials Inventory report.
- Not Implemented – Management has not implemented any actions as stated in the Public Housing Equipment, Appliance, & Materials Inventory report.
- No Longer Applicable – The recommendation is no longer valid for the department.



This section reports the follow-up review on actions taken by management on the recommendations made in the original audit report. The findings and recommendations contained herein are those of the original audit, followed by the current status of the recommendation.

	<b>OIG Finding</b>	<b>OIG Recommendation</b>	<b>Current Status</b>
I.	No written SOPs on Receipt and Disposal of Equipment and Appliances	Establish SOPs for both the receipt and disposal of equipment and appliances valued at less than \$5,000 per item	Partially Implemented
II.	Missing Proof of Delivery	Instruct and or train PPMs to maintain equipment and appliance receiving documents, and independently ensure PPMs keep copies of receiving reports	Fully Implemented  (With exceptions in PPM compliance)
III.	Incomplete Deliveries	Ensure Lowe's provides proof of delivery for missing equipment or cure the default. Require PPM staff to reconcile all equipment invoices with receiving reports to ensure all items have been received. Conduct regular audits of PPMs to ensure compliance with procedures.	Partially Implemented
IV.	Conflicting Governing Documents	Clarify and reconcile the treatment of appliances in PPM Manuals and provide clear instructions on the receipt and disposal of equipment	Partially Implemented
V.	Lack of Control over Maintenance Tools	Ensure all maintenance tools purchased with CHA funds are inventoried and maintained for use at CHA property.	Fully Implemented  (With exceptions in PPM compliance)
VI.	Lack of PPM Training for Yardi Fixed Asset Module	Train PPM staff how to record equipment and appliances in CHA's Yardi Fixed Assets Module.  Regularly monitor fixed asset inventories to ensure compliance and tracking.	Acceptable Alternative

## **I. Lack of Managerial Control and Oversight of Purchased Equipment and Appliances**

Based on detail testing and interviews with PAM and PPM staff, the OIG found that PAM lacked proper managerial oversight and control over the equipment and appliances purchases through Contract No. 11843 Supplemental Agreement for Maintenance, Repair and Operations Supplies with Lowe's. PAM had not implemented a control system to track the equipment and appliances obtained from Lowe's. This lack of managerial control resulted in sub-findings A - E.

### **A. No Written Standard Operating Procedure on Receipt and Disposal of Equipment and Appliances**

The OIG found that, during the original audit period, the CHA did not have a written procedure and/or process to track acquired and disposed equipment and appliances valued at less than \$5,000. The absence of clear policies and/or procedures for items under this threshold meant that PPMs did not consistently maintain records of appliances delivered to properties, nor did they document the disposal of appliances. Furthermore, there was inconsistency among PPMs in documenting the acquisition of equipment and appliances at each site. OIG's site visits and interviews revealed that PPMs maintained various forms of inventory records with inconsistent or incomplete information.

Additionally, PPMs exhibited inconsistency in their approaches to disposing of equipment and appliances. For instance, while the PPM responsible for Scattered Site 4 opted to place old appliances in the alley for collection by a scavenger service, others, like the PPM at Ada S. Dennison McKinley, arranged for pickup by Lowe's through a formal request process.

#### **Recommendation:**

The OIG recommended that PAM establish a standardized operating procedure for both the receipt and disposal of equipment and appliances valued at less than \$5,000 per item.



**Current Status of Recommendation from PAM: Partially Implemented**

Management Current Status				
<input type="checkbox"/> All Recommendations Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Acceptable Alternative	<input checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> No Longer Applicable
(If implemented, please provide a copy of the standard operating procedure and samples of the current appliance spreadsheets)				
PAM is in the process of updating our manuals to reflect current verbiage regarding this item, with expected completion in Q4 2024.				
In the interim, PPM's have been reminded regarding the MRO binders for supplies. In addition to our 2020 PPM procedural manual, Section 16.21 Salvage and Disposition of Material: It states - The disposal of obsolete or broken appliances, equipment, and materials MUST be approved by Portfolio Management. We will provide direction on what should be disposed and how it will be disposed according to CHA, Local, state, and federal guidelines. Attached is the disposition form that is required to be used and Appliance Logs are also required.				

**Current OIG Finding: Partially Implemented**

The OIG acknowledges PAM's efforts to address this issue. However, the guidance outlined in the 2020 PPM Procedural Manual does not provide explicit procedures for the disposal of faulty appliances and materials. During fieldwork, the OIG observed that not all PPMs were informed about the process for disposing of appliances. In one instance, a property manager informed the OIG that they had accumulated two basements' worth of broken appliances. When asked whether they had been informed of CHA's procedure for appliance disposal, the property manager stated that they had not yet confirmed the process with PAM and had to contact them during the meeting with the OIG to seek clarification.

During discussions with PPM staff at various sites, the OIG discovered that many had not received recent guidance from CHA regarding the disposal of appliances and equipment. Some site managers had partial familiarity with the disposal procedure; for instance, one site contacted Lowe's to pick up the broken appliances but did not follow the requirement in section 16.21 of the PPM Procedural Manual, which mandates contacting CHA prior to disposal. PPM staff who did possess some knowledge of the disposal procedures typically had previous experience working with CHA's portfolio at other sites.

**B. Missing Proof of Delivery**

PPMs failed to consistently maintain receiving reports for equipment and appliances purchased from Lowe’s. Neither PPMs nor Lowe’s were able to furnish the OIG 244 receiving reports or loading tickets. Consequently, there was no guarantee that the CHA received the 1,255 items invoiced by Lowe’s, totaling \$664,304.86.

**Recommendation:**

The OIG recommended that PAM:

- a) instruct and or train the PPMs on the importance of maintaining equipment and appliance receiving documents, and
- b) independently ensure PPMs maintain copies of receiving reports through regular methods of oversight and review.

**Current Status of Recommendation from PAM: All Recommendations Implemented**

Management Current Status				
<input checked="" type="checkbox"/> All Recommendations Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Acceptable Alternative	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> No Longer Applicable
(If implemented, please provide sample copies of records to show auditing of the delivery tickets)  PAM requires PPMs to keep a binder with material delivery tickets on site, and Portfolio Managers are required to audit the binder.				

**Current OIG Finding: Process was Implemented**

OIG testing and field work determined this recommendation was implemented. However, some PPMs are not complying with procedures. OIG was unable to locate delivery receipts for 48% of the appliances and materials delivered, indicating that not all documentation has been retained.

OIG was unable to locate any delivery receipts for the Grainger orders at five of the sites. At ABLA Homes (ABLA), the property supervisor informed OIG that they did not have access to the Grainger order delivery receipts. Consequently, OIG had to verify the receipt of the appliances/tools using the serial numbers provided by the supervisor.

**C. Incomplete Equipment and Appliances Delivery**

The OIG discovered that of those 490 selected invoices submitted by PPMs and Lowe’s, 29 invoices corresponded to partial receiving reports. These 29 invoices accounted for a total of 298 appliances and equipment invoiced to eight different sites, but with incomplete delivery reported. The number of invoiced items did not match the number of items reported in the corresponding receiving reports for these 29 invoices. The total value of the missing items from the incomplete receiving reports amounted to \$160,193.

**Recommendation:**

The OIG recommended that PAM:

- a) ensure that Lowe’s provides proof of delivery of the missing equipment and appliances or cure the default.
  
- b) establish a process by which PPM staff reconcile all invoices from CHA equipment and appliance suppliers with receiving reports to ensure all items paid for are received and retain all such records for a specified period of time. PAM should regularly audit or review PPMs to ensure compliance with those established procedures.

**Current Status of Recommendation from PAM: Partially Implemented**

Management Current Status				
<input type="checkbox"/> All Recommendations Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Acceptable Alternative	<input checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> No Longer Applicable
(If implemented, please provide supporting records.)				
PAM requires delivery ticket binders to be onsite and we will follow up with LOWES regarding reconciling any and all invoices with deliveries on an ongoing basis.				

**Current OIG Finding: Partially Implemented**

OIG concurs with PAM that this recommendation has been partially implemented. The delivery receipts reviewed by OIG during the field test were not consistently complete. Some receipts indicated partial receipt of the ordered items, while others lacked signatures or initials from the receiving staff. Specifically, at the offices for Scattered Site 2 and Henry Horner Homes, many delivery receipts were unsigned and lacked initials next to line items. These initials serve to indicate that the items were received and that the correct amount was received at the time of delivery. At other sites, OIG found receipts indicating partial deliveries, but no additional documentation was found to confirm receipt of the entire order. The incomplete delivery receipts amounted to a value of **\$37,261.58**.

**D. Conflicting Governing Documents**

The Property Management Procedural Manual and the Property Management Financial Procedures Manual, both governing documents provided by the CHA to PPMs, present conflicting guidance regarding the treatment of appliances and their recording in CHA books, specifically whether they should be categorized as capitalized or expensed assets.

According to section 16.7.3 of the Property Management Procedural Manual, titled "Appliance Control," all appliances are capitalized and shall have serial numbers. The Property Manager is responsible for maintaining a log that tracks the transfer of appliances out of a unit."

In contrast, the Financial Procedures Manual, dated August 1, 2015, specifies on page 101, under the Property and Asset Management Office section "Ranges and Refrigerators will be expensed."

**Recommendation:**

PAM should clarify and reconcile the treatment of appliances in its governing PPM Manuals and provide clear guidance as to the receipt and disposal of equipment and appliances.

**Current Status of Recommendation from PAM: Partially Implemented**

Management Current Status				
<input type="checkbox"/> All Recommendations Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Acceptable Alternative	<input checked="" type="checkbox"/> Partially Implemented	<input type="checkbox"/> No Longer Applicable
(If implemented, please provide copies of any updated documents or procedures.)				
PAM procedural manual is currently under revision and once completed/approved, with expected completion in Q4 2024. .				

**Current OIG Finding: Partially Implemented**

The OIG has reviewed the latest editions of both the Property Management Procedural Manual and the Property Management Financial Manual. The language in both manuals has remained unchanged since the previous audit. PAM informed OIG that revisions to the Procedural Manual were scheduled for Q3 of 2023, but these revisions have not yet taken place.

**E. Lack of Control over Maintenance Tools**

During the audit, the OIG observed that at least 129 tools were purchased by PPMs through the Lowe’s contract. These tools varied from simple household tools to power tools. However, the OIG discovered that one of the PPMs could not confirm the presence of the tools on-site, even though they were specifically acquired for that site.

**Recommendation:**

The OIG recommended that PAM take necessary action to ensure all power tools or maintenance equipment purchased with CHA funds are appropriately inventoried and maintained for use at the CHA property.

**Current Status of Recommendation from PAM: All Recommendations Implemented**

Management Current Status				
<input checked="" type="checkbox"/> All Recommendations Implemented	<input type="checkbox"/> Not Implemented	<input type="checkbox"/> Acceptable Alternative	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> No Longer Applicable
(If implemented, please provide records to show quarterly auditing.)				
PAM emphasized the PPMs responsibility to maintain inventory records and ensure tools and equipment purchased with CHA funds remain on CHA property and portfolio managers are required to conduct quarterly auditing to ensure compliance. Power tools also are required to be on the appliance log as well.				

**Current OIG Finding: Fully Implemented**

The OIG confirmed that PAM has fully implemented the recommendations. Site managers and staff provided OIG with spreadsheets listing the property’s current inventory. Additionally, there were not many tools ordered from Loewe’s during the follow up audit’s scope. When OIG inquired about the use of tools on the property, PPM staff explained that all tools were kept onsite and were not permitted to be taken home for personal use.

**II. Lack of PPM Training for the Yardi Fixed Asset Module**

PPMs were not provided training on the Yardi Fixed Asset Module, and PAM did not ensure their utilization of this module for tracking appliances. Consequently, the CHA experienced a loss of visibility and traceability of equipment and appliances.

The Property Management Procedural Manual, in Chapter 16.7.2 and 16.7.3, explicitly categorizes appliances as capitalized items that should be inventoried and maintained in the Yardi Fixed Assets Module:

1. Your community should have an extensive Inventory Log in the binder listing all capitalized equipment and property at the site, the model number, make, date of purchase (if available) and the dollar amount. As additional items are bought or replaced, the log should be updated. This log should be periodically reconciled to CHA’s Yardi Fixed Assets Module.

2. All appliances are capitalized and shall have serial numbers. The Property Manager maintains a log of appliances that tracks whenever appliances are transferred out of a unit. This log should be updated whenever changes or replacements are made. These serial numbers should be verified on the annual unit inspection and any changes made at that time.

Although the Procedural Manual states that equipment and appliances should be inventoried and reconciled to CHA's Yardi Fixed Assets Module, PPMs were not trained to record appliances in the system. The OIG's review of Yardi revealed that as of the start of the audit on June 1, 2020, no entries had been made in the Fixed Assets Module. During OIG interviews, PPM staff were unaware of the existence of the Yardi Fixed Assets Module.

**Recommendation**

PAM should train PPM staff on the recording of equipment and appliances in CHA's Yardi Fixed Assets Module and take steps to regularly monitor such fixed asset inventories to ensure PPM compliance and tracking.

**Current Status of Recommendation from PAM: Not Implemented**

Management Current Status				
<input type="checkbox"/> All Recommendations Implemented	<input type="checkbox"/> Not Implemented	<input checked="" type="checkbox"/> Acceptable Alternative	<input type="checkbox"/> Partially Implemented	<input type="checkbox"/> No Longer Applicable
(If implemented, please provide reporting from Yardi to show use of the fixed asset module.)				
Work orders are created for all appliance orders. Appliances and their serial numbers are included on work orders when they are installed in a unit. Additionally, the appliances, serial numbers, and work order numbers are logged together on the appliance log so appliances are properly tracked from the initial order to installation.				

**Current OIG Finding: Acceptable Alternative**

PPMs are recording appliance models and serial numbers in the Yardi Work Order modules. The OIG review confirmed this alternative is implemented. However, some PPMs, namely those managing Flannery Apartments, Ada S. Dennison -Mckinley, Elizabeth Davis Apartment, and Patrick Sullivan Apartment are not complying with procedures.

**OUTSTANDING OIG RECOMMENDATIONS**

OIG’s recommendations remain consistent with that of the previous audit. Remaining open audit findings and recommendations include:

1. Establish a standardized operating procedure for both the receipt and disposal of equipment and appliances valued at less than \$5,000 per item.
  
2. Train the PPMs on the importance of maintaining equipment and appliance receiving documents, and independently ensure PPMs maintain copies of receiving reports through regular methods of oversight and review.
  
3. Establish a process by which PPM staff reconcile all invoices from CHA equipment and appliance suppliers with receiving reports to ensure all items paid for are received and retain all such records for a specified period of time. PAM should regularly audit or review the PPMs’ records to ensure compliance with those established procedures.
  
4. Clarify and reconcile the treatment of appliances in PPM Manuals and provide clear guidance as to the receipt and disposal of equipment and appliances.