



Irvington Housing Authority, Irvington, NJ

Public Housing Program

**Office of Audit, Region 2
New York - New Jersey**

**Audit Report Number: 2017-NY-1008
March 10, 2017**



To: Catherine D. Lamberg, Acting Director, Office of Public Housing, Newark Field Office, 2FPH

Craig T. Clemmensen, Director, Departmental Enforcement Center, CACB

//signed//

From: Kimberly S. Dahl, Regional Inspector General for Audit, 2AGA

Subject: The Irvington, NJ, Housing Authority Did Not Always Administer Its Public Housing Program in Accordance With Program Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Irvington Housing Authority's public housing program.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at 212-264-4174.



Audit Report Number: 2017-NY-1008

Date: March 10, 2017

The Irvington, NJ, Housing Authority Did Not Always Administer Its Public Housing Program in Accordance With Program Requirements

Highlights

What We Audited and Why

We audited the Housing Authority of the Township of Irvington, NJ, regarding the administration of its public housing program because it was classified as a troubled public housing agency and based on a complaint from the union representing its maintenance and clerical employees. The complaint alleged serious financial and operational mismanagement. The audit objectives were to determine whether the issues identified in the complaint could be substantiated and whether the Authority administered its public housing program in accordance with U.S. Department of Housing and Urban Development (HUD) regulations and had sufficient financial controls.

What We Found

The allegations in the complaint regarding serious financial and operational mismanagement were valid. Authority officials did not always administer the Authority's public housing program in accordance with program requirements. Specifically, officials spent program funds for unsupported and ineligible costs, excessive compensation was provided to the former executive director, HUD was not notified about litigations, deficiencies were noted in rent collection, program income was spent for ineligible and unsupported costs, and controls over procurement were inadequate. We attributed these deficiencies to the Authority officials' unfamiliarity with program requirements, disregard for the financial condition of the Authority, and failure to establish a proper control environment. As a result, HUD had no assurance that \$1.2 million in expenditures charged by the Authority was eligible and adequately supported.

What We Recommend

We recommend that HUD require Authority officials to (1) reimburse the public housing program from non-Federal funds for \$95,240 in ineligible expenditures, (2) provide supporting documentation to justify \$1.1 million in unsupported expenditures charged to the public housing program or repay the program from non-Federal funds, and (3) establish adequate controls to ensure compliance with program requirements. We also recommend that the Director of HUD's Departmental Enforcement Center pursue administrative sanctions against any current or former Authority officials found to have spent public housing program funds for personal or unallowable use.

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Background and Objectives

The Housing Authority of the Township of Irvington, NJ, was incorporated in 1949 to develop, maintain, manage, and provide decent, safe, affordable rental housing for eligible, low-income senior and family tenant households. The Authority is governed by the provisions of a consolidated annual contributions contract between the Authority and the U.S. Department of Housing and Urban Development (HUD). A seven-member board of commissioners, including one resident commissioner, is responsible for the operational, financial, and compliance oversight of the Authority. The board appoints the executive director, who is responsible for the day-to-day operations at the Authority. The Authority is responsible for administering 664 low-income public housing units and 240 housing choice vouchers.

Under the Authority's consolidated annual contributions contract, it receives operating subsidies for the operation and maintenance of its low-income housing projects. The Authority's contract is amended annually to provide the Authority with a Public Housing Capital Fund subsidy for the development, capital, and management activities of its projects. HUD awarded the Authority more than \$2.5 million in operating funds and more than \$800,000 in capital funds for fiscal years 2014 and 2015. The Authority set aside more than \$390,000 in capital funds for bond debt obligation and used more than \$160,000 of its capital funds under the Public Housing Operating Fund requirements.

Based on the Authority's 2014 Public Housing Assessment System (PHAS)¹ troubled designation and concerns over the Authority's financial position and its ability to continue administering the HUD-funded programs, HUD's Departmental Enforcement Center conducted an onsite review in August 2015. The Center's September 2015 "snapshot" review report noted that the Authority's ability to improve its financial condition was hindered by its negative cash flow, long-term debt obligations associated with the Capital Fund Financing Program, and a decrease of more than \$1 million in revenue less expenses during fiscal year 2014. It further stated that if the Authority maintained its current spending and if revenues did not increase, the Authority would be insolvent in approximately 5 years. In the 2014 financial report, the Authority's independent public accountant issued a going concern disclosure pertaining to the size of the deficit in relation to the current asset balance, raising substantial doubt about the Authority's ability to continue as a going concern.

The Authority had been designated as troubled by HUD's Real Estate Assessment Center for the last 3 consecutive fiscal years, ending March 31, 2014, 2015, and 2016. The troubled designation was based on an overall PHAS score of less than 60 percent, and the Authority had failed every indicator, including an assessment of its physical condition. As a result, HUD and the Authority entered into a recovery agreement on October 24, 2016, stating that the Authority would begin the

¹ The Public Housing Assessment System, developed by HUD's Office of Public and Indian Housing, provides a management tool for effectively and fairly measuring the performance of a public housing agency in essential housing operations, including financial, physical, and management assessments.

required actions listed in the recovery action plan. This plan describes the measures that need to be implemented to improve the performance and the desired outcomes to be achieved and establishes a timetable for achieving those outcomes and reporting requirements. The agreement states that if the Authority fails to comply with any measureable outcome, HUD may impose sanctions, up to and including contracting out the Authority's management operations. Further, as of December 5, 2016, HUD had placed the Authority on a "zero threshold," requiring the Authority to obtain prior HUD approval for all procurement actions and any payments made from the Operating and the Capital Fund program budgets.

The audit objectives were to determine whether the issues identified in the complaint could be substantiated and whether the Authority administered its public housing program in accordance with HUD regulations and had sufficient financial controls.

Results of Audit

Finding: Authority Officials Did Not Always Administer the Authority's Public Housing Program in Accordance With Program Requirements

While validating the merits of the complaint and performing additional testing, we found that Authority officials did not always administer the Authority's public housing program in accordance with program requirements. Specifically, officials spent program funds for unsupported and ineligible costs, excessive compensation was provided to the former executive director,² HUD was not notified about litigations, deficiencies were noted in rent collection, program income was spent for ineligible and unsupported costs, and controls over procurement were inadequate. We attributed these deficiencies to the Authority officials' unfamiliarity with the program requirements, disregard for the financial condition of the Authority, and failure to establish a proper control environment. As a result, HUD had no assurance that \$1.2 million in expenditures charged by the Authority was eligible and adequately supported.

Unsupported Expenditures

Authority officials charged \$143,620 in unsupported costs for travel related to training, meetings and conferences; health coverage waiver incentives; supplies, food, and decorations to the public housing program. Authority officials did not maintain documentation to support costs were reasonable and necessary. These conditions occurred because of Authority officials' unfamiliarity with the program requirements, disregard for the financial condition of the Authority, and failure to establish a proper control environment. The various unsupported expenses are explained below.

While validating the merit of the complaint about excessive travel costs (refer to appendix C), we found Authority officials spent \$88,534 to attend out-of-State trainings, meetings, and conferences. They did not provide adequate documents, such as meeting agendas, completion certificates, copies of hotel bills, airline or rail tickets, and parking receipts, to support these expenditures. Further, the documents attached with the travel reimbursements did not generally support that trainings and meetings were completed. Contrary to the Authority's policy, which states that the minimum number of required employees will attend any training, it appeared that the former executive director and board members were the main beneficiaries of frequent out-of-State training. Authority officials could not justify the necessity and reasonableness of the training travel costs. For example, the Public Housing Authorities Directors Association held a conference in January 2015, which included two courses that were instructed by a New Jersey-based university. However, Authority officials attended the courses in Florida, when the same two courses were provided in New Jersey. The Authority's travel policy did not provide for

² Our audit period included the period of the former executive director's tenure. Five days after we provided the draft audit report to the Authority, the board terminated the executive director.

accountability, as funds were advanced before the travel and per diem rates were not based on location and not prorated for the travel dates or when a meal was included. There was no certification that the travel took place and no support for the amount of costs incurred or that the training was attended.

In addition, Authority officials attended quarterly meetings and trainings offered by the Housing Authority Insurance (HAI) group. Authority officials serving as HAI committee members stated that they were required to attend these trainings and conferences to receive full reimbursement from the HAI group. Authority officials' travel costs and per diem expenses associated with the quarterly meetings and training, which were paid from the public housing program funds, totaled \$27,599. Authority officials could not provide documentation to support that reimbursements from the HAI group had been received and deposited into an appropriate bank account.

Authority officials were reimbursed \$27,487 for various costs, such as health coverage waiver incentives to the former executive director, purchases of goods and supplies for the Authority, food, decorations, and dinner for the public housing residents. However, adequate supporting documentation, such as invoices and receipts, was not provided.

Regulations at 24 CFR (Code of Federal Regulations) 85.20(b)(6) require that accounting records be supported by source documents, such as canceled checks, paid bills, payrolls, time and attendance records, contract and subgrant award document, etc. Regulations at 2 CFR 200.403 state that to be allowable under Federal awards, a cost must be necessary and reasonable for the proper and efficient performance and administration of Federal awards.

Ineligible Expenditures

Authority officials spent \$73,383 for various ineligible costs, consisting of \$61,145 for personal expenses, \$8,190 in advanced salary payments, and \$4,048 in State fines. The former executive director was frequently reimbursed for meals at restaurants, which were often located in surrounding towns and in Long Branch, NJ, which is approximately 45 miles from the Authority. In some instances, the receipts were illegible and did not show what was purchased, and the time detailed on the receipts appeared to be outside normal business hours. The receipts were noted as business meetings, but the meeting purpose and attendee list were not included. In addition, in some instances, the receipts were marked as meetings with HUD officials. Authority officials also purchased meals during board and staff meetings. Some receipts showed purchases of grocery items, holiday gift cards, and flowers for Authority officials and board members. Authority officials also spent funds for golf outings, an award dinner, Costco and AAA memberships, and church "deductions." In addition, the former executive director was reimbursed for gasoline, tolls, vehicle repair, and maintenance. However, there was no mileage log to show the vehicle's personal and business use. In some instances, the Authority did not pay the gasoline bills in a timely manner due to a shortage of funds and as a result, incurred late fees. Regulations at 2 CFR 200.438 do not allow the costs of entertainment, and section 200.445 states that the costs of goods or services for personal use are unallowable. The above conditions occurred because of Authority officials' unfamiliarity with program requirements and disregard for the financial condition of the Authority. As a result, \$61,145 was spent for ineligible costs.

The former executive director received advance salary payments of \$8,190 during the first week of January 2016, but those funds had not been repaid. This condition occurred because the Authority did not have a policy for disallowing advance payments. The Authority's supervisor of accounts, who was responsible for payroll, stated that she did not have the authority to deny such requests from a higher ranking official. Regulations at 2 CFR 200.403 state that to be allowable under Federal awards, a cost must be necessary and reasonable for the proper and efficient performance and administration of Federal awards. The \$8,190 in advance salary payments was not necessary and was, therefore, considered ineligible.

While validating the merit of violations of the New Jersey Civil Service regulations (refer to appendix C), we found that the Authority paid \$4,048 from public housing funds to the New Jersey Civil Service Commission for three staff members because it failed to select these individuals from the list of candidates. Authority officials did not provide an explanation for not selecting candidates from the list. Regulations at 2 CFR 200.441 state that fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of or failure of the government unit to comply with Federal, State, local, or Indian tribal laws and regulations are unallowable payments. As a result, the \$4,048 in State fines was considered ineligible.

Excessive Compensation

While validating the merit of the complaint about excessive compensation (refer to appendix C), we found that for calendar year 2014, the former executive director's salary of \$215,381 exceeded the \$157,100 appropriation law salary cap by \$58,281. On August 12, 2016, HUD officials sent a letter to the Authority's attorney requesting repayment of \$58,281 and to immediately execute a repayment agreement. However, Authority officials had not responded to HUD's request. HUD's Federal Fiscal Year 2012 Appropriations Act (public law 112-55) restricts the use of Federal funds to pay the salaries of public housing agency employees. The board of commissioners approved the former executive director's employment agreement, which included a 7 percent merit pay increase, based on the Authority's PHAS score. However, the Authority had been designated as a troubled and substandard performer for the past several years. This condition occurred because the board members disregarded the financial condition of the Authority and failed to ensure that funds were spent in the most efficient and economical manner for the benefit of the Authority's residents.

Failure To Notify HUD Regarding Litigation

Contrary to paragraphs 5-3(a) and (c) of HUD Handbook 1530.1, REV-5, Litigation Handbook, Authority officials did not obtain HUD's written concurrence before filing a civil law suit in 2015 against a contractor for issues related to an elevator installation and before a legal settlement payment of \$90,000 to a former employee in May 2014. Authority officials did not provide an explanation for not obtaining HUD's concurrence. As a result, HUD was not informed about the litigations. We attributed this deficiency to the Authority officials' unfamiliarity with or disregard for the requirement to obtain prior HUD written approval.

Deficiencies in Rent Collections

Authority officials could not provide documentation to support \$13,340 in rent collections and \$106,971 in tenant account writeoffs. Specifically, the \$13,340 in rent collected in March 2016

could not be traced to bank statements. In addition, 52 of 125 tenant accounts receivable totaling \$106,971 were written off from April 2014 through March 2016 without adequate documents to support the amount past due or whether the amounts were written off for tenants who moved out either voluntarily or involuntarily (evicted). The Authority's writeoff policy stated that every effort would be made to collect past-due accounts; however, no documents were provided to support that attempts were made to collect the past-due rent. While validating the merit of the complaint about the past due rent of the resident commissioner (refer to appendix C), we found she owed more than \$10,164 in outstanding rent since January 2015. A repayment agreement was signed, but the resident commissioner did not comply with it. In May 2016, a partial payment of \$3,000 was paid by a relative; however, the resident commissioner still owed the remaining \$7,164. The Authority's policy stated that any amount of outstanding rent would trigger eviction. Authority officials could not explain why the resident commissioner had not been evicted. This condition occurred because Authority officials did not maintain adequate documents, always take action to collect on delinquent accounts, and use alternative methods to collect past-due rents. Further, the resident commissioner disregarded her fiduciary responsibilities. As a result, there was no assurance that \$13,340 in rent collected was deposited into an appropriate bank account, and the Authority wrote off \$106,971 without adequate supporting documents and failed to collect \$7,164 in rental income.

Ineligible or Unsupported Use of Program Income

The Authority collected program income of more than \$70,000 between April 2014 and March 2016 but used it for unallowable activities or without adequate supporting documentation. This income included compensation fees for the space or utilities used for laundry and vending machines, an antenna space rental fee, and automated teller machine use fees. The Authority did not have a policy related to program income. Authority officials deposited these program funds into the Authority's business account and used them for various activities, and employees were not aware of the regulations pertaining to program income.

The United States Housing Act of 1937, section 9(k), states that income from nonrental sources must be used for low-income housing or to benefit the residents assisted by the housing authority. Regulations at 2 CFR 200.307(e)(1) require the Authority to spend program income on eligible program costs in the same manner as it would treat regular program funds. Although regulations at 2 CFR 200.420 to 475 disallow costs for entertainment, donations, and advertisement, the Authority used its program income for golf outings, banquets, or dinner shows sponsored by various social organizations near the former executive director's home town³ or where he had previously held an official position. The Authority spent \$21,857 for unallowable activities. Regulations at 2 CFR 200.403 require the Authority to have adequate documentation for the costs to be allowable. However, the Authority made advance payments ranging from \$850 to \$1,500 to the former executive director and the director of staff operations to purchase food for seasonal events but did not request and maintain the receipts with the vouchers. In addition, there was no explanation of how the funds were used for low-income housing or how

³ The former executive director resided in Long Branch, NJ, which is approximately 45 miles from the main office of the Authority.

they benefited the residents assisted by the Authority. Therefore, the Authority spent \$37,671 without adequate supporting documentation.

Inadequate Controls Over Procurement

Authority officials did not always follow Federal procurement requirements, HUD Handbook 7460.8, REV-2, and its own procurement policies when obtaining legal services and procuring the service vendors for its boilers and elevators. Officials also did not execute proper contracts with the mandatory Federal clauses. We attributed the weakness in procurement to officials' unfamiliarity with procurement requirements. As a result, there was no assurance that more than \$700,000, consisting of approximately \$500,000 in operating and approximately \$200,000 in capital funds, disbursed for services between January 2014 and March 2016 was for costs that were reasonable.

Legal Services

While procuring legal services, the Authority (1) advertised for 1 day in a newspaper⁴ and received and accepted one proposal from the same law firm that it had used since 2001 without an independent cost estimate, (2) did not execute the proper contract with the mandatory Federal clauses in accordance with 24 CFR 85.36(i), and (3) extended the contract for 12 months without an explanation and board approval when the 2-year contract expired on March 1, 2015. The letter to the law firm for the extended services stated that the Authority would re-procure the legal service in 2016 and the not-to-exceed fee amount was \$48,000. However, in March 2016, officials extended the service for the next 12 months through April 1, 2017, without an explanation and board approval. The total amount paid for the legal services between January 2014 and March 2016, which included monthly retaining fees, was more than \$140,000.

Boiler Services

From January 2014 to March 2016, the Authority paid more than \$410,000 in capital and operating funds to four different boiler companies without full and open competition, independent cost estimates, and fully executed contracts. Authority officials explained that the procurement of boiler services was an emergency procurement because the Authority failed the inspection conducted by the State of New Jersey in December 2013 and was ordered to shut down the boilers in the middle of winter when it failed the inspection again in the following year. However, the service expenses incurred for the boilers were due to the Authority's noncompliance with State requirements and lack of oversight of the procurement of boiler service before and after the inspection in December 2013.

To be more specific, after the Authority failed the inspection in December 2013, Authority officials did not address violations identified during the inspection but certified on January 31, 2014, that all of the violations had been abated. As a result, the Authority failed the inspections again in October and December 2014. The Authority received the "final order" to comply, pay a penalty of \$46,500, and abate violations from the State in May 2015, based on the inspections,

⁴ HUD Procurement Handbook 7460.8, REV-2, requires that the solicitation be run for a period sufficient to achieve effective competition, which in the case of paid advertisements, means that they should generally be run not less than once each week for 2 consecutive weeks.

including the last inspection, dated February 5, 2015. The issued “final order” notice stated that the inspectors found the Authority to be negligent and that it willfully operated equipment in an unsafe manner.

After the inspection failure in December 2013, the Authority paid a total of \$67,435 to two companies:

- \$19,735 for boiler cleaning performed in October 2013 and 2014 without full and open competition, an independent cost estimate, and an executed contract.
- \$47,700 to shut down and drain the boilers for the off-season and to address violations and emergency issues for boilers during 2014 without full and open competition, an independent cost estimate, and an executed contract.

After the December 2014 inspection failure, the Authority contacted the same company to abate the violations in January and February 2015. A total of \$64,792 was paid in 2015 without full and open competition, an independent cost estimate, and a contract.

After January 2015, the Authority paid a total of \$280,375 to two other companies:

- \$39,708 for the rental of a temporary boiler and water tank. Although the board resolution stated that three quotes were received and the Authority selected the lowest bidder for the amount of \$16,850, the Authority did not have documentation to support this claim. The Authority also accepted the same company’s proposal for the replacement of a hot water tank for the cost of \$6,040 without obtaining two more quotes.
- \$240,667 for boiler cleaning and correcting the violations identified during the inspection when the original proposal amount was \$117,835. The Authority received three proposals based on the bid specifications but did not select the lowest bidder. No adequate explanation was provided.

Elevator Services

During our audit period, Authority officials paid more than \$150,000 in capital and operating funds to an elevator company without full and open competition and an independent cost estimate. Contrary to the Authority’s own procurement policy, the Authority allowed the previous maintenance supervisor and the current maintenance director to contact the company to request the repair services on an “as needed” basis in 2014 and 2015.

In February 2015, the Authority executed a 5-year agreement with the same company for monthly “full service maintenance” at \$240 per elevator for six elevators (\$1,440 per month) without proof of full and open competition, a cost estimate, and a procurement history.

The Authority paid for the monthly service without verifying whether the service was provided. For example, on November 1, 2015, the Authority received a monthly maintenance invoice of \$1,440 for the month of November 2015 without the service date. The invoice did not include the work order form, which was supposed to be completed by the mechanic with a checklist for routine monthly services and a column for time started and completed. However, the Authority

received other invoices for the repair services provided before and after the maintenance date, which included the labor and the parts.

The Authority could not be assured that the monthly maintenance was conducted in November 2015 and that the Authority saved funds by executing this agreement.

Conclusion

Authority officials did not always administer the Authority's public housing program in accordance with program requirements. These deficiencies were attributed to Authority officials' unfamiliarity with the program requirements, disregard for the financial condition of the Authority, and failure to establish a proper control environment. As a result, HUD had no assurance that \$1.2 million in expenditures charged to the Authority was eligible and adequately supported. Specifically, of the \$1.2 million charged to the public housing program, \$398,766 and \$95,240 were spent for unsupported and ineligible costs, respectively, and more than \$700,000 was paid for services that were not properly procured.

Recommendations

We recommend that the Acting Director of HUD's Newark Office of Public Housing instruct Authority officials to

- 1A. Provide supporting documentation to justify the \$88,534 in unsupported travel and training costs related to out-of-State trainings, meetings, and conferences. Any amount determined to be ineligible should be repaid from non-Federal funds to the Operating Fund.
- 1B. Provide supporting documentation to justify the \$27,599 in unsupported training travel and per diem expenses related to quarterly meetings and trainings offered by HAI. Any amount determined to be ineligible should be repaid from non-Federal funds to the Operating Fund.
- 1C. Provide supporting documentation to justify the \$27,487 reimbursed to Authority officials for various costs, such as health coverage waiver incentives, supplies, food, and decorations. Any amount determined to be ineligible should be repaid from non-Federal funds to the Operating Fund.
- 1D. Implement policies and procedures to ensure accountability for travel and training costs and require the Authority to maintain adequate supporting documents for travel, training, health coverage waiver incentives, supplies, food, decorations, and any other costs charged to the Capital Fund and Operating Fund to ensure that costs were actually incurred, necessary, reasonable and allowable.
- 1E. Reimburse the Operating Fund from non-Federal funds for \$61,145 in ineligible expenditures for personal expenses, such as meals, grocery items, gift cards, flowers, golf, an award dinner, Costco and AAA memberships, and a church deduction.
- 1F. Reimburse the Operating Fund from non-Federal funds for \$8,190 in ineligible salary advance.

- 1G. Reimburse the Operating Fund from non-Federal funds for the \$4,048 in ineligible civil service fines.
- 1H. Obtain retroactive approval from HUD for the \$90,000 lawsuit settlement related to a former employee. If approval is not obtained, the Authority should reimburse \$90,000 to the Operating Fund from non-Federal funds.
- 1I. Obtain retroactive approval from HUD for the pending litigation related to issues with the elevators. If approval is not obtained, the Authority should withdraw the lawsuit.
- 1J. Provide documentation to support that \$13,340 in rent collected in March 2016 was deposited into an appropriate bank account or repay the Operating Fund from non-Federal funds for any amount not properly deposited.
- 1K. Provide documentation to justify the \$106,971 in unsupported rent that was written off for 52 tenants. Any amount determined to be ineligible should be repaid from non-Federal funds to the Operating Fund.
- 1L. Collect \$7,164 in outstanding rent from the resident commissioner and if past-due rent is not paid, take appropriate legal action.
- 1M. Reimburse the program income account from non-Federal funds for \$21,857 in ineligible expenditures for golf outings, banquets, or dinner shows.
- 1N. Provide documentation to justify \$37,671 that did not have receipts or other support showing how these transactions were used for low-income housing and benefited the residents or repay the program income account from non-Federal funds for any amount not supported.
- 1O. Develop and implement an appropriate policy for program income, including the proper use, accounting, and reporting of program income in accordance with the Federal definition and treatment of program income.
- 1P. Provide documentation to show that the \$710,721 paid for services procured was for costs that were reasonable or repay from non-Federal funds approximately \$500,000 to the Operating Fund and approximately \$200,000 to the Capital Fund.⁵

We recommend that the Director of HUD's Departmental Enforcement Center

- 1Q. Pursue administrative sanctions against any current or former Authority officials found to have spent public housing program funds for personal or unallowable use.

⁵ Regulations at 24 CFR 905.306(f) require that all capital funds be spent within 48 months after the date on which they become available. Funds that have not been properly spent within 48 months have to be recaptured and returned to the U.S. Treasury.

Scope and Methodology

The review generally covered the period January 1, 2014, through March 31, 2016, and was expanded as necessary. Audit fieldwork was performed onsite from June through October 2016 at the Authority's administrative office located at 101-A Union Avenue, Irvington, NJ.

To accomplish our audit objectives, we

- Reviewed applicable laws and regulations and HUD's guidance.
- Reviewed the Authority's policies and procedures.
- Interviewed the Authority's staff and fee accountant.
- Interviewed HUD staff responsible for overseeing the Authority.
- Reviewed board minutes and resolutions.
- Reviewed the Authority's financial and management data in HUD's Line of Credit Control System, Financial Assessment Submission-Public Housing system, and Public and Indian Housing Information Center system.
- Reviewed the Authority's audited financial statements covering our review period.
- Reviewed physical and electronic records, including bank statements, check registers, invoices, receipts, check vouchers, and maintenance work orders.
- Analyzed the Authority's 2014 and 2015 Capital Fund program obligations.
- Selected and reviewed \$723,046, representing 9 percent of the total check register amount of more than \$8.3 million during the audit period. We focused our review in the areas that were either identified in the complaint or known to be high risk.
- Selected and reviewed a sample of \$165,382 in Capital Fund program drawdowns, representing 30 percent of the \$553,165 for hard and soft cost budget items drawn down during the audit period. We identified the highest drawdown in the categories selected.
- Selected and reviewed 9 of 11 contractors and 1 independent contractor to determine the Authority's compliance with the procurement requirements.
- Selected and reviewed program income expenditures totaling \$66,798 (100 percent) to determine whether the funds were spent in accordance with program requirements.
- Selected and reviewed a randomly selected 25 maintenance work orders (5 from each priority level - Emergency, High, Medium, Low, and Other), using Audit Command Language software, representing 0.5 percent of 5,099 work orders, to evaluate the effectiveness and efficiency of the maintenance operations.

In addition, to test controls over rental collection, we selected and reviewed the March 2016 rent register, 125 tenants' accounts that were written off (100 percent), and 26 of 166 move-in security deposit collections representing units from each building (16 percent).

We relied in part on computer-processed data from HUD's Line of Credit Control System, Financial Assessment Submission-Public Housing system, and Public and Indian Housing Information Center system. We used this data as background information and to select items for review. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes. The testing included matching information from these systems for the sampled items to the Authority's records. Further, while our use of nonstatistical sampling did not allow us to make a projection to the population, it was sufficient to accomplish our audit objectives. We based our conclusions on source documentation obtained from HUD and the Authority.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Program operations: Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations: Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources: Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.
- Validity and reliability of data: Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

We assessed the relevant controls identified above.

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

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The Authority did not always comply with program requirements and did not have sufficient financial controls to ensure that funds were used for eligible, reasonable, and properly supported expenses (finding).

Appendices

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A		\$88,534
1B		27,599
1C		27,487
1E	\$61,145	
1F	8,190	
1G	4,048	
1H		90,000
1J		13,340
1K		106,971
1L		7,164
1M	21,857	
1N		37,671
1P		710,721
Totals	95,240	1,109,487

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1



624 Nye Avenue
Irvington, NJ 07111
O: 973-375-2121
F: 973-375-4581
ianj.org

COMMISSIONERS
Carolyn V. Jenkins, Chairperson
Annette L. Beasley, Vice-Chairperson
Darlene Brown
Sean Evans
Calvin L. Bethea
Zorana M. Figueroa

March 3, 2017

Kimberly Dahl
Regional Inspector General for Audit
26 Federal Plaza Room 3430
New York, New York 10278

Re: Response (s) to Audit Report #2017-NY-100X

Dear Ms. Dahl:

Enclosed please find our response to the Office of Inspector General's draft Audit Report Number 2017-NY-100X. We have considered your findings and recommendations, and as stated in the enclosed response, we will work diligently with representatives of HUD's Newark Field Office to resolve all findings and recommendations noted in the report. We appreciate the professionalism exhibited by your staff in the performance of the audit.

If you have any questions or require any additional information, please do not hesitate to contact me at (973) 375-2121, x 102. Thanking you for your assistance in this matter.

Very truly yours,

Commissioner Carolyn V. Jenkins, Chairperson
Acting Interim Executive Director
Irvington Housing Authority

/brj

Cc: IHA Board of Commissioners
Mr. Raymond D. Hamlin, Esq. (IHA Attorney)
Ms. Fatimah A. Holder, PHRS (GEN) HUD-Newark
Ms. Catherine D. Lamberg, Acting PIH Director (HUD-Newark)
Ms. Margaret McGilvray, Senior Project Manager (Econometrica, Inc.)
Mr. Anthony Polcari, CPA (Polcari & Co.)
File

VIA: REGULAR MAIL & E-MAIL

Ref to OIG Evaluation

Auditee Comments

Comment 2

Finding 1: Authority Officials Did Not Always Administer the Authority's Public Housing Program in Accordance with Program Requirements

Unsupported Expenditures

Irvington Housing Authority (IHA) acknowledges that proper documentation was not maintained for various invoices. As suggested in Recommendation 1A, management of the Irvington Housing Authority will review the documents available related to OIG-determined unsupported expenditures in the amount of \$88,534 to determine whether sufficient documentation exists to support said expenditures as reasonable, necessary, properly approved and properly chargeable to Irvington Housing Authority's federal award programs. The \$27,599 of Irvington Housing Authority funds expended related to Housing Authority Insurance (HAI) quarterly meetings will be reviewed in the same manner. In the event that management believes that sufficient documentation exists to prove that the questioned costs are properly supported and allowable costs of its federal award programs, we will provide said documentation to representatives of HUD's New Jersey office for their consideration. All costs not found to be properly supported or otherwise ineligible will be reimbursed to the federal award program to which they were charged from non-federal funds.

Comment 3

Further, the Irvington Housing Authority acknowledges that it needs to implement better control over travel expenses, including the maintenance of appropriate receipts, airline tickets, conference attendance records and other supporting documentation. Accordingly, IHA will review and update both its procurement and travel policies to ensure that all future expenditures are made in accordance with said policies; properly supported by receipts and other documents and properly approved prior to the obligation of federal funds.

Comment 4

With regard to payments made to the former Executive Director for health coverage waivers, it was management's contention that said payments were allowable since they were permitted by New Jersey state law. However, management will again review these expenditures to determine whether they are a reasonable and necessary cost of IHA's federal award programs, particularly in light of the former Executive Director's total compensation, which as noted in the IG Report exceeded the appropriation cap contained in HUD's Federal Fiscal Year 2012 Appropriations Act (public law 112-55).

Comment 3

As previously noted, IHA will, in response to Finding 1D, implement travel and procurement policies that:

1. Require maintenance of invoices, receipts and other documents to properly support the authenticity and amount of the expense

Ref to OIG Evaluation

Auditee Comments

Comment 3

2. Require contemporaneous documentation stating the nature of the expense, parties attending the event, conference, meeting, etc. to support that the expenditure is reasonable necessary and properly chargeable to the federal award program
3. Require proper approval of the expenditure prior to the obligation of funds
4. Require that travel advances be fully accounted for subsequent to the event and any unspent funds be returned to the authority.

Ineligible Expenditures

Comment 5

Irvington Housing Authority's Board of Commissioners is in the process of reviewing payroll records to determine whether the \$8,190 advance made to the former Executive Director in January 2016 was properly repaid to the IHA via the subsequent omission of a payroll check later in 2016. As discussed later in this response, the former director's total compensation is questioned, and IHA will seek to recover any unallowable compensation paid. A preliminary review of payroll records indicates that the former Executive Director received payments for longevity. Longevity pay is not addressed or included in his employment contract, nor was the payment approved by Board resolution. Therefore, management must now seek legal advice to determine whether said payments are proper and/or allowable costs under its programs.

Notwithstanding the above, management recognizes that payroll advances are not allowable transactions within its federal programs and has discontinued the practice of making payroll advances to employees.

Comment 6

IHA acknowledges that Civil Service levied fees against the Authority for not using the Civil Service prepared list to hire employees. It was the Authority's understanding that these fees were not fines (unallowable costs under OMB Circular A-87), but rather fees for Civil Service's maintenance of the list of qualified candidates. Management will again review the circumstances surrounding these costs. If they are found to be ineligible, the costs will be reimbursed to the program from non-federal funds.

Excessive Compensation

Comment 7

The Authority is aware of HUD's notification stating that they were in violation of HUD's Federal Fiscal Year 2012 Appropriations Act (public law 112-55) with regard to the Executive Director's compensation. Upon receipt of the OIG report and recommendation, the former Executive Director agreed to reduce his salary to levels approved under the Appropriations Act. IHA agrees that salaries already paid in excess of allowable limits will be reimbursed to the PHA program from non-federal funds, and will seek advice from counsel regarding potential means of recovering these funds.

Ref to OIG Evaluation

Auditee Comments

Comment 8

Failure to Notify HUD Regarding Litigation

The Board Chair maintains that the Board of Commissioners of IHA was informed that HUD's approval was, in fact, obtained prior to payment of \$90,000 to settle the litigation with the Authority's former employee. Also, the Authority's fee accountant indicated that he discussed this settlement with the former Executive Director and included a comment in the Authority's unaudited FDS submission that stated these costs were not allowable under the program since HUD's approval of the action was not obtained. The Board of Commissioners will review this expenditure with Counsel and seek to obtain retroactive approval from HUD's Newark office.

Comment 9

Deficiencies in Rent Collections

The Authority recognizes that its history of rent collections is poor and write-offs have been excessive. This condition is directly related to the increased number of residents who are young, disabled and who often have various medical conditions that impact their ability to pay rent. The Authority continues to file for evictions for many of these residents who are habitually late in making rent payments. Thus, while the policy results in excessive current write-offs, management believes that replacing these tenants with more responsible tenants will benefit the housing authority's long-term financial performance. Over the past three years, the Authority has taken over 250 residents to court for non-payment of rent. It should also be noted that over 72% of IHA residents are classified as very poor or extremely poor in the most recent HUD-50058 statistics, making the job of controlling receivables very challenging.

In the future, the Authority will gather information necessary to properly support prior tenant write-offs and will obtain after-the-fact Board approval for any accounts written-off. More importantly, IHA will establish policies and procedures to guide housing managers in their rent collection duties. At a minimum, such policies will require that managers document all collection efforts made (such as phone calls, meetings, etc.) and will also reaffirm its policy that no accounts shall be written-off without Board approval. Accounts will only be written-off after senior management has determined that all possible measures have been taken to collect the delinquent account.

Comment 10

Ineligible or Unsupported Use of Program Income

The Irvington Housing Authority deposited program income into its business activities fund believing that the IHA PHA management program had an inter-fund payable to the business activities account. These funds were properly accounted for as program revenue of the PHA program and an offsetting receivable from business activities. Management has since determined that such a payable did not exist. No additional funds have since been deposited (loaned to) the business activities account and management will take steps to ensure that the PHA funds so "loaned" to business activities will be repaid to the federal awards program as soon as reasonably possible.

Ref to OIG Evaluation

Auditee Comments

Comment 11

Inadequate Controls over Procurement

Legal Services:

Management of the Authority believed that legal services were procured correctly, in accordance with requirements for New Jersey Professional Services contracts. The Board of Commissioners will review the facts and circumstances identified in the OIG audit report to determine whether IHA had complied with 24 CFR85.36(i). Additionally, management will discuss these issues with HUD's Newark office to determine whether approval for prior procurement activities can be obtained. In the future, the Board will take steps to ensure that federal as well as state procurement regulations are followed.

Boiler Services:

OIG states that boiler cleaning performed in October 2013 and 2014 was done "without full and open competition, an independent cost estimate and an executed contract". The Irvington Housing Authority requires additional time to review its procurement files to determine where violations of procurement regulations may have occurred. The OIG report further states that issuance of contracts in connection with boiler activities to address violations and emergency issues during 2014 was done "without full and open competition, an independent cost estimate and an executed contract". Our staff will fully investigate these issues and gather all procurement documents available so a complete and accurate report of these procurement actions can be made to the Newark field office. At that time, we will, with the assistance of the field office, determine whether these actions can be approved. If it is determined that costs are unallowable, the PHA and Capital Fund Programs will be reimbursed for all ineligible costs charged to these programs.

Elevator Services:

The OIG audit indicates that \$153,300 in capital and operating funds were paid to an elevator company without full and open competition. Management will review the procurement files related to these items and determine whether procurement actions were in accordance with federal and state regulations. Our findings will be discussed with HUD Newark field office representatives who will make a final determination with regard to the allowability of these costs.

OIG Evaluation of Auditee Comments

- Comment 1 The Authority submitted written comments through its acting interim executive director, who is also a member of its board, and indicated that it would work diligently with HUD to resolve all findings and recommendations. As discussed at the end of the audit, the board terminated its executive director on February 8, 2017, which was 5 days after we provided our draft audit report to the Authority. We commend the Authority for its plan to work with HUD to resolve the findings and recommendations identified in this report.
- Comment 2 The Authority acknowledged that proper documentation was not maintained for various invoices, indicated that it would review and provide supporting documentation to HUD, and agreed to reimburse its program from non-Federal funds for any costs found not to be eligible. As part of the normal audit resolution process, the Authority will need to work with HUD to determine what costs are supported and eligible. The Authority will need to reimburse its Operating Fund from non-Federal funds for any costs that it is unable to support or are otherwise found to be ineligible.
- Comment 3 The Authority acknowledged that it needs to implement better controls over travel expenses and indicated that it will review and update both its procurement and travel policies. As part of the normal audit resolution process, the Authority will need to show that it has implemented policies and procedures to ensure accountability for travel and training costs and that require it to maintain adequate supporting documents to ensure that costs were actually incurred, necessary, reasonable, and allowable.
- Comment 4 The Authority contended that the payments made to the former executive director for health coverage waivers were permitted by State law, but agreed to review these expenditures to determine whether they were reasonable and necessary. As part of the normal audit resolution process, the Authority will need to provide supporting documentation to justify the amount reimbursed to the former executive director for health coverage waivers or reimburse its Operating Fund from non-Federal funds.
- Comment 5 The Authority indicated that it is reviewing payroll records to determine whether the \$8,190 advanced to the former executive director had been repaid and will seek to recover any unallowable compensation paid. As part of the normal audit resolution process, the Authority will need to reimburse its Operating Fund from non-Federal funds for the advanced salary payments regardless of whether it is able to recover the unallowable compensation from the former executive director.
- Comment 6 The Authority indicated that it believed the fees levied by the New Jersey Civil Service Commission were not fines, which it acknowledged are unallowable costs, but rather fees to cover maintenance of the list of qualified candidates. However, the Authority indicated that it plans to review the circumstances

surrounding these and will reimburse its program from non-Federal funds if it finds that they are ineligible. OIG asserts that the fees charged were for not using the list of candidates and should be considered a fine or penalty. Therefore, as part of the normal audit resolution process, the Authority will need to reimburse its Operating Fund from non-Federal funds for these costs.

- Comment 7 The Authority acknowledged that HUD notified it that it was in violation of public law 112-55 with regard to the former executive director's compensation. Further, the Authority agreed to reimburse its program for salaries paid in excess of allowable limits and indicated that it will seek advice from counsel regarding potential means of recovering these funds. The Authority's planned actions are responsive to our finding.
- Comment 8 The Authority indicated that the board will review the expenditure for the legal settlement with counsel and seek to obtain retroactive approval from HUD. The Authority's comments are responsive to our recommendation. However, if HUD approval is not obtained, the Authority should reimburse \$90,000 to its Operating Fund from non-Federal funds.
- Comment 9 The Authority indicated that it planned to gather the information necessary to properly support prior tenant write-offs and obtain after-the-fact board approval for any accounts written-off. Further, the Authority indicated that it will establish policies and procedures to guide housing managers in their rent collection duties and will reaffirm its policy that accounts should not be written off without board approval. As part of the normal audit resolution process, the Authority will need to justify \$106,971 in rent that was written off for 52 tenants and repay its Operating Fund from non-Federal funds for any amount that it cannot support. Further, the Authority will need to provide documentation to HUD to show that \$13,340 in rent collected in March 2016 was deposited into an appropriate bank account and that it collected \$7,164 in outstanding rent from the resident commissioner or took appropriate legal action.
- Comment 10 The Authority indicated that no additional funds have been deposited into the business activities account and that it will take steps to ensure that the program funds loaned to business activities will be repaid as soon as reasonably possible. As part of the normal audit resolution process, the Authority will need to provide documentation showing that funds have been repaid to its program income account. Further, to prevent this issue from reoccurring, the Authority will need to show that it has developed and implemented an appropriate policy for program income, including the proper use, accounting, and reporting of program income.
- Comment 11 The Authority contended that management believed the legal services were procured in accordance with requirements for New Jersey Professional Services contracts. However, it indicated that the board will review the issues identified to determine whether the Authority complied with regulations at 24 CFR 85.36(i) and will take steps to ensure that applicable requirements are followed in the

future. The Authority also indicated that it would review the procurement files for boiler and elevator services to determine whether it procured services in accordance with requirements and will discuss the results of its review with HUD so that a final determination could be made regarding the allowability of these costs. As part of the normal audit resolution process, HUD will need to assess any documentation the Authority provides to determine whether these costs were reasonable and require the Authority to repay its Operating Fund and Capital Fund for any amounts that it cannot show were reasonable.

Appendix C

Complaint Allegations and OIG's Evaluation

We received a number of allegations from the union representing the Authority's clerical and maintenance employees. The complaint alleged serious financial and operational mismanagement. The following allegations were determined to be material.

Allegation 1

Capital Improvements Were Not Properly Completed

The allegation had some merit. Authority officials stated that the installation of elevators at two buildings (101 & 141 Union Avenue) began in December 2006 and the expected completion date was December 2008. However, work was not completed and, therefore, they filed a lawsuit in April 2015. However, we were not able to substantiate the issues related to fire panels and electric generators because of a lack of information from Authority staff.

Allegation 2

Plan To Eliminate the Authority's Maintenance Department and Outsource This Function to the Irvington Township Without the Commissioners' Public Vote and Cost Saving Analysis

The allegation was valid. The Authority sent a notice to affected employees on March 4, 2016, to notify them that the layoff effective date was April 20, 2016. The board approved the layoff plan on July 3, 2016. Therefore, the Authority laid off maintenance workers before receiving the board's approval. The layoff was due to economic and efficiency issues. Authority officials stated that a request for proposal and bidding was not issued because they planned to outsource the maintenance function to Irvington Township. On April 27, 2016, the Authority's attorney provided financial analysis and savings projection information to the union representing maintenance workers.

Allegation 3

Budget Shortfall and No Plan To Balance the Budget

The allegation was valid. The Authority was on the brink of financial insolvency. While evaluating the merit of the complaint and performing additional testing, we found that Authority officials did not always administer the Authority's public housing program in accordance with program requirements. Specifically, officials spent program funds for unsupported and ineligible costs, excessive compensation was provided to the former executive director, HUD was not notified about litigations, deficiencies were noted in rent collection, program income was spent for ineligible and unsupported costs, and controls over

procurement were inadequate. Authority officials failed to reduce the spending and ensure that funds were expended for necessary, reasonable and eligible expenses. In addition, we found that HUD requires the Authority to obtain prior approval for all procurements and payments made from program funds.

Allegation 4

Executive Director's Salary Exceeded Federal Limits

The allegation was valid. For fiscal year 2014, the former executive director's salary exceeded the cap.

Allegation 5

Violation of New Jersey Civil Service Regulations and Paid Fines

The allegation was valid. The Authority paid a \$4,048 fine to the New Jersey Civil Service Commission for three staff members.

Allegation 6

Excessive Travel Costs While Buildings Lacked Repair and Renovations Were Not Completed

The allegation had some merit. Authority officials and board members spent an excessive amount for out-of-State travel. Due to emergency procurements related to boilers and excessive travel costs, compensation, and other benefits given to the former executive director, the Authority lacked funds for repairs and needed renovations. The Authority had been designated as troubled by HUD's Real Estate Assessment Center for the last 3 consecutive fiscal years, ending March 31, 2014, 2015, and 2016. The troubled designation was based on an overall PHAS score of less than 60 percent, and the Authority had failed every indicator, including an assessment of the physical condition of the properties.

Allegation 7

Resident Commissioner Was Delinquent in Paying Rent and Residents Paid Rent in Cash

The allegation had some merit. The resident commissioner owed a significant amount of past-due rent. Authority officials stated that the rent was collected either by personal check or a money order. We noted no instance in which cash was collected; therefore, we could not substantiate that cash was accepted for rent.