



U. S. Department of Housing and Urban Development
Office of Inspector General
New York/New Jersey Office
26 Federal Plaza – Room 3430
New York, NY 10278-0068

MEMORANDUM NO. 2010-NY-1802

January 14, 2010

MEMORANDUM FOR: Joan Spilman, Director, Office of Public Housing, Buffalo Field Office, 2CPH

//SIGNED//

FROM: Edgar Moore, Regional Inspector General for Audit, New York/New Jersey, 2AGA

SUBJECT: Control Weaknesses at the Syracuse Housing Authority, Syracuse, New York May Affect Its Capacity to Administer American Recovery and Reinvestment Act Funds

INTRODUCTION

We conducted a review of the Syracuse Housing Authority's (Authority) administration of its capital funding program. We selected this Authority based upon indicators identified in a risk assessment of housing authorities that were allocated capital funds under the American Recovery and Reinvestment Act of 2009 (Recovery Act). The primary objective of our review was to evaluate the Authority's capacity in the areas of internal controls, eligibility, financial controls, procurement, and output/outcomes in administering its Recovery Act funds. This review identified several issues of concern that we wish to bring to your attention, related to the Authority's capacity to fairly and reasonably administer its capital fund program in light of its receiving an additional \$4.5 million in capital funds under the Recovery Act.

In accordance with U.S. Department of Housing and Urban Development (HUD) Handbook 2000.06, REV-3, within 60 days, please provide us, for each recommendation in this memorandum, a status report on (1) the corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is considered unnecessary. Additional status reports are required 90 days and 120 days after this memorandum is issued for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of this review.

Should you or your staff have any questions, please contact Karen A. Campbell, Assistant Regional Inspector General for Audit, at (212) 542-7977.

METHODOLOGY AND SCOPE

To gain an understanding of the Authority's administration of the capital fund program, we reviewed applicable laws, regulations, and HUD program requirements. In addition, we reviewed the Authority's procurement policy, conducted interviews with Authority personnel to gain an understanding of the internal controls, and tested the system of controls to determine whether the controls were functioning as intended. We also analyzed contract files and disbursement records for the period January 2008 through May 2009.

We performed our on-site work from June through September 2009 at the Authority's office located in Syracuse, New York. Our work was not conducted in accordance with generally accepted government auditing standards. Under the Recovery Act, inspectors general are expected to be proactive and focus on prevention; thus, this report is significantly reduced in scope.

BACKGROUND

On February 17, 2009, the President signed the Recovery Act. This legislation includes a \$4 billion appropriation of capital funds to carry out capital and management activities for public housing agencies as authorized under section 9 of the United States Housing Act of 1937. The Recovery Act requires that \$3 billion of these funds be distributed as formula funds and the remaining \$1 billion be distributed through a competitive process.

The Office of Management and Budget provided guidance establishing requirements for various aspects of Recovery Act planning and implementation. These requirements are intended to meet crucial accountability objectives. Specifically,

- Funds are to be awarded and distributed in a prompt, fair, and reasonable manner;
- The recipients and uses of all funds are to be transparent to the public, and the public benefits of these funds are to be reported clearly, accurately, and in a timely manner;
- Funds shall be used for authorized purposes, and instances of fraud, waste, error, and abuse are to be mitigated;
- Projects funded under the Recovery Act should avoid unnecessary delays and cost overruns; and
- Program goals are to be achieved, including specific program outcomes and improved results on broader economic indicators.

In April 2009, HUD conducted a tier 1 consolidated monitoring review at the Authority. The report identified one finding, three concerns, and 15 observations. HUD noted that the Authority's Capital Fund Program (CFP), Capital Fund Financing Program (CFFP), and Recovery Act grants were not fully obligated or were nearing critical deadlines. HUD reminded the Authority that the CFFP bond fund deadline had passed and that more than \$1.3 million remained not obligated and expended. In addition, HUD cited various procurement and financial management concerns in the monitoring report.

RESULTS OF REVIEW

Significant control weaknesses diminished the Authority's capacity to effectively administer its capital fund program in the areas of internal controls, eligibility, financial controls, procurement, and output/outcomes. Specifically, the Authority failed to (1) complete its 2002 CFFP in a timely manner, and additional CFP grants remain open; (2) follow HUD-required contracting and procurement regulations, thus limiting competition and potentially causing excessive and/or ineligible costs; and (3) implement a proper control environment, which contributed to management and financial control deficiencies.

1. The CFFP Bond Program Remained Incomplete and Additional CFP Grants Remained Open

The Authority intentionally failed to complete its 2002 CFFP in a timely manner. Specifically, it missed the deadline for expending its 2002 CFFP bond funds, as the \$6.495 million in bond proceeds was expected to be fully expended by June 2006. Instead, as of May 31, 2009, there was a balance of \$1,390,588 in unexpended 2002 bond proceeds. Authority officials maintained the bond fund proceeds as a contingency fund, although the proceeds were required to be used for capital improvements needed to improve the Authority's public housing. Therefore, we consider the \$1,390,588 as funds that can be put to better use. Many improvements remain to be completed with the bond proceeds, including improvements to the Authority's central office and the demolition of a vacant structure on Burt Street that is located on hazardous substance property. The photograph below illustrates the vacant Burt Street building.



Instead of completing work items such as those noted above, the Authority recently drew down more than \$62,000 in interest income earned on the remaining bond funds from the trustee and then used these funds for operating costs. Hence, the continued availability of the CFFP bond proceeds allowed the Authority to access extra operating funds. This is not the intent of the

CFFP, as the funds are intended to complete vital and necessary improvements to benefit the residents of public housing.

In total, the Authority had drawn down and used more than \$600,000 in interest income from the bond proceeds since 2002. At the same time, it disbursed more than \$2.4 million in capital funds to pay for interest charges on unused borrowed capital that did not fully provide the intended benefits to the public housing developments or its residents. The Authority had no financial incentive to complete the CFFP in a timely manner since the CFFP bond proceeds are maintained by the trustee and HUD is unable to recapture the unexpended funds. Under the normal CFP, HUD can deobligate or recapture funds from its Line of Credit Control System (LOCCS) that are not obligated or expended in a timely manner.

In addition to the above, the Authority’s capacity to implement the \$4.5 million in Recovery Act funds in a timely manner, while completing its current obligations under the CFP, is a matter of great concern. The Authority needs to obligate the following funding:

Source of funds	Amount unobligated	Obligation deadline
2008 capital fund	903,773	June 12, 2010
2002 bond CFFP	1,390,588	Overdue (1)
Recovery Act	3,518,825	Mar. 17, 2010
Total	\$ 5,813,186	

(1) The CFFP bond funds are overdue to be obligated and expended.

As of the end of our field work (September 30, 2009), the Authority had over \$5.8 million in funds required to be obligated on or before June 12, 2010. This includes Recovery Act funds that are required to be obligated by March 17, 2010. As of present date, the Authority has reported in HUD’s LOCCS system that nearly \$4 million has been obligated since the OIG review began. However, the Authority needs to obligate the additional \$5.8 million in less than a year. As such, HUD will need to monitor the situation closely to ensure that the Recovery Act funds will truly represent additional eligible expenditures as intended.

2. There Were Significant Contracting and Procurement Deficiencies

The Authority failed to follow HUD required procurement and contracting regulations, thus limiting competition and potentially causing excessive and/or ineligible costs. Specifically, the Authority failed to follow the contracting and procurement requirements at 24 CFR (*Code of Federal Regulations*) 85.36, pertaining to procuring professional services and executing change orders. The extent of the deficiencies demonstrates that the Authority used past capital funds inefficiently and undermined its assurance to HUD that it had adequate capacity to administer its Recovery Act funds in an effective manner. Contrary to 24 CFR 85.36 and its own policies, the Authority improperly procured contracts under its capital fund program as follows:

- a. For an underground steam line replacement contract, the original bid documents did not contain full disclosure of the scope of services sought. Rather, the Authority opted to initiate a change order process within days of awarding the contract and prior to the contract execution date. Documentation contained in the contract files suggests that additional work may have been sought as early as April 26, 2007, the date that bids for the above contract were received. Therefore, the other three bidders for the contract were not allowed to provide bids based on the full scope of services to be provided. Consequently, there was no assurance that the contract was awarded to the most responsible bidder or that the requirements for full and open competition were fulfilled.
- b. Two change orders were executed for work that was outside the original scope of an entry door replacement contract. Specifically, the change orders were for replacement doors at two additional locations not included in the original contract scope. Moreover, the change orders nearly doubled the amount of the costs incurred for the contract. Authority officials concurred that it would have been proper to obtain new quotes. Consequently, there was no assurance that the requirements for full and open competition were fulfilled pertaining to the additional work awarded through the change order process.
- c. The Authority incurred \$12,628 in architectural and engineering costs without following proper procurement standards and without the benefit of a binding contract. The services related to an exterior caulking contract, and the work was awarded verbally to the firm without following a formal request for proposals process, obtaining bids or quotes, or conducting a cost and price analysis. When the amount of services required in relation to a specific activity was small and limited in scope, it was a common practice for the Authority to solicit a firm that had not been awarded much work recently. Nonetheless, this practice was contrary to HUD's procurement requirements. Consequently, there was no assurance that the requirements for full and open competition were fulfilled.
- d. Without the benefit of competition, request for proposal, or cost estimate, as required by 24 CFR 85.36, the Authority paid an architectural firm more than \$230,000 for services pertaining to two improvement contracts at one of its projects (Vinette Towers) in 2008 and 2009. There were a number of problems and concerns with the billing invoices, including overhead charges that appeared to be unnecessary and unreasonable and a lack of adequate supporting documentation. Vinette Towers is the project that was targeted to receive the vast majority of the Recovery Act funds.
- e. On June 13, 2008, a \$27,825 contract was executed for emergency repair asbestos abatement in the mechanical room at an Authority project (Toomey Abbot Towers). However, on the same date, the contractor informed the Authority that a change order was needed for an additional \$8,475. In August 2008, the contractor submitted a proposal for additional asbestos abatement at the same mechanical room. This proposal was for \$29,500, more than the original contract of \$27,875. However, no

competing proposals were obtained, and the proposal was eventually accepted as another change order. Since two months had passed since the initial incident, it did not appear that this proposal constituted an emergency. In addition, the emergency work took several months to complete. Further, the Authority issued a field order to request a price for the additional abatement work after the contractor submitted the \$29,500 proposal. The field order is supposed to be executed before the contractor submits a price quote for the additional work. The contract eventually cost a total of \$71,075, an increase of 155 percent over the original price quote.

- f. A computer systems consulting firm was paid at least \$95,463, at billing rates of up to \$125 per hour, without the benefit of a cost estimate or request for proposals for competition. Moreover, there appeared to be no ceiling on the costs, and the Authority continued to pay for additional services from the firm without the benefit of price competition.

3. Control Environment Weaknesses Contributed to Management and Financial Control Deficiencies

Internal control is a major part of managing an organization. It serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Internal control also helps managers achieve desired results through effective stewardship of public resources. During the review, we noted that the Authority's control environment contributed to management and financial control deficiencies. The deficiencies identified diminished the Authority's capacity to efficiently and effectively administer its public resources and included the following:

- a. The Authority's lack of adequate segregation of duties allowed a purported employee embezzlement of laundry token cash receipts to go undetected for more than 10 years, with an estimated loss of more than \$170,000. Although the Authority identified the purported embezzlement in October 2008, it was not reported to HUD. Moreover, the Authority continued to accept cash for rental payments and until recently, did not have adequate bonding for employees who handle cash.
- b. The Authority's computer software system did not provide for automatic log-offs, and employees were not required to periodically change their passwords for system access. These practices could leave the system vulnerable to unauthorized access.
- c. Contrary to proper segregation of duties, the Authority's employees responsible for purchasing also approved vouchers for payment.
- d. HUD's 2009 monitoring of the Authority raised concerns over use of staff in the Modernization Department, suggesting a restructuring of staff duties into functional areas and adding an assistant to the director. The modernization coordinator concurred that due to staffing cuts in prior years, the department could use additional staff to help administer its capital funds and Recovery Act funds; however, no additional staff had been hired.

- e. HUD's 2009 monitoring also indicated that the Authority needed to strengthen its collection and follow-up of delinquent tenant accounts receivable, noting that over the past three years, the Authority had written off \$532,230 in tenant accounts receivable. Further, HUD noted staffing problems in the Collection Department and problems with the interaction between the Collection and Accounting Departments.

CONCLUSION

The Authority intentionally failed to complete its 2002 CFFP, and its capacity to implement the \$4.5 million in Recovery Act funds in a timely manner, while completing current obligations under the CFP, is a matter of great concern. In addition, capital funds were expended without (1) the benefit of full and open competition, (2) obtaining bids or quotes, (3) the completion of a cost or price analysis, and (4) adequate supporting documentation. Consequently, the Authority did not ensure that certain capital fund expenditures were necessary, reasonable, and eligible. Moreover, internal control weaknesses impaired the Authority's ability to properly safeguard assets, ensure adequate segregation of duties, and provide security of automated systems and the effective management of its workforce.

The Authority is required to obligate more than \$5.8 million in capital funds by June 12, 2010, including \$3.5 million of recovery Act funds that are required to be obligated by March 17, 2010. These requirements, coupled with the procurement and control deficiencies cited herein, may negatively impact the successful administration of stimulus funding to achieve the intended Recovery Act goals. Based on the issues presented in this report, we have major concerns regarding whether the Authority will have the capacity to effectively and efficiently manage its \$4.5 million in Recovery Act funding to achieve the benefits intended.

RECOMMENDATIONS

We recommend that the Director of HUD's Buffalo Office of Public Housing

- 1A Closely monitor and oversee the operations and progress of the Authority to ensure timely compliance with all CFFP, CFP, and Recovery Act deadlines and objectives.
- 1B Certify that the Authority's procurement practices meet the federal procurement requirements at 24 CFR Part 85.

We also recommend that the Director of HUD's Buffalo Office of Public Housing instruct the Authority to

- 1C. Immediately complete its 2002 CFFP bond program activities and use the remaining \$1,390,588 for eligible improvements as intended.
- 1D. Submit a viable plan to obligate capital funds and supplemental funds provided under the Recovery Act, so that HUD can reassess whether the Authority is capable of meeting its obligation deadlines.

- 1E. Establish and implement operational procedures to ensure compliance with all applicable federal, state, and local procurement policies and regulations for all future procurement activities when obtaining goods and services. HUD should verify compliance through their ARRA Recovery Act monitoring strategy of remote and onsite reviews of Authority procurement policies.

- 1F. Institute effective management and financial controls to ensure that (1) duties are adequately segregated, (2) assets are properly safeguarded from misappropriation and/or misuse, (3) automated systems have adequate controls in place to prevent unauthorized access, and (4) modernization staffing levels are adequate for successful administration and completion of the Recovery Act program and objectives.

APPENDIXES

Appendix A

SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use <u>1/</u>
1C	\$1,390,588

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. If the Authority implements our recommendation to use its remaining CFFP funds to improve its public housing and the lives of the residents, the above funds will be put to better use.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

December 14, 2009

Edgar Moore
Regional Inspector General for Audit
Office of Inspector General
U.S. Department of Housing and Urban Development
26 Federal Plaza
Suite 3430
New York, NY 10278-0068

Dear Mr. Moore:

The Syracuse Housing Authority would like to take this opportunity to comment on the Draft Audit Report issued by the Office of Inspector General for the Department of Housing and Urban Development.

For two months earlier this year the Syracuse Housing Authority worked with staff from the Office of the Inspector General in a capacity audit/risk assessment as part of a review concerning American Recovery and Reinvestment Act of 2009 funds. Throughout the process the Syracuse Housing Authority was appreciative of observations, insights, recommendations, and critiques by the HUD staff. As such, the Syracuse Housing Authority began to implement many of the draft report's recommendations while the audit process was still underway.

Comment 1 The only critical comment concerning the content of the report has to deal with Recommendation 1F. That recommendation uses the phrase "HUD approval for all procurement activities." The Syracuse Housing Authority understands that this review was focused on Capital Funds, and specifically those dispersed through the American recovery and Reinvestment Act of 2009, and therefore believes that this recommendation should only focus on HUD approval for those American recovery and Reinvestment Act of 2009 funds, not all procurement activities of the Housing Authority which may include operating and other funds as well.

As to the other recommendations, the Syracuse Housing Authority has already implemented the following:

Comment 2 Recommendation 1A – The Syracuse Housing Authority is working closely with the Buffalo Area Field Office on the timely use of current Capital Funds.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 3 Recommendation 1B – The Syracuse Housing Authority has implemented a new board-approved Procurement Policy(November 2009).

Comment 4 Recommendation 1C – A plan for the complete obligation and expenditure of 2002 CFFP Bond funds has been developed.

Comment 5 Recommendation 1D - A plan for the complete obligation and expenditure of American recovery and Reinvestment Act of 2009 funds has been developed.

Comment 6 Recommendation 1E – In addition to the new procurement policy, procedures and policies regarding Section 3, purchasing authorization thresholds, small contract solicitation, change order policy, procurement ethics, and substantial deviation definitions have all been implemented.

Comment 7 Recommendation 1F – By implementing the new Procurement Policy, and the various procedure and policy documents cited in 1E the Syracuse Housing Authority has effectively tightened its control and oversight of the full procurement of goods and services process.

Comment 8 Recommendation 1G – In addition to the procedure and policy implementation, the Syracuse Housing Authority has also added staff to its Accounting/Finance Department, brought in a Construction Manager for a large project, added a Clerk of the Works to its Modernization Department, begun the conversion process to new business software (Tenmast), and added job duties to some staff in order to provide a check and review process to the procurement of goods and services.

Comment 9 Overall, the review process by the Office of Inspector General for the Department of Housing and Urban Development was a smooth and positive experience for the Syracuse Housing Authority. It has afforded the Authority an opportunity to make itself a stronger business, a more efficient public sector model, and has furthered its ability to more strongly fulfill its mission.

I thank you for the opportunity to submit these comments.

Sincerely,

William J. Simmons
Executive Director

OIG Evaluation of Auditee Comments

- Comment 1** Officials for the Authority agree with our recommendations pertaining to the identified procurement weaknesses. However, officials contend that the draft recommendation 1F should only focus on procurement activities appropriated from Recovery Act funds, and not all procurement activities which include operating and other funds. The focus of our review was the Authority's administration of its capital funding program, which included funds allocated under the Recovery Act. However, we determined that the extent of the noted procurement deficiencies were systemic and need to be addressed by the Authority from an organizational-wide perspective. In consideration of comments received from both the Authority and HUD officials, we have elected to strengthen recommendation 1E detailed in the draft report, which covers all of the Authority's procurement issues, and we have eliminated recommendation 1F as originally detailed in the draft report. We continue to recommend that HUD verify the Authority's compliance with all pertinent procurement regulations and policies.
- Comment 2** Officials for the Authority contend that they are working closely with HUD on the timely use of CFFP and CFP funds.
- Comment 3** Officials for the Authority state that they have implemented a new procurement policy. The evidence necessary to provide closure of this recommendation would be a copy of the board-approved procurement policy and documentation to support HUD's corresponding certification.
- Comment 4** Officials for the Authority state that a plan for the complete obligation and expenditure of 2002 CFFP bond funds has been developed. As such, this plan should be submitted to HUD for review, and the provision of documentation supporting the completion of the 2002 CFFP activities and the use of the remaining funds for eligible activities would be the evidence necessary to reach a management decision.
- Comment 5** Officials for the Authority state that a plan for the complete obligation and expenditure of Recovery Act funds has been developed. Nevertheless, Authority officials still need to ensure that all Recovery Act funds are obligated by the March 17, 2010 deadline.
- Comment 6** Officials for the Authority state that in addition to the new procurement policy, they have implemented improved procurement procedures and policies. Nevertheless, as addressed above in comment 1, we have revised the draft recommendation 1E and have eliminated the draft recommendation 1F as originally detailed in the draft report. Thus, the Authority's procurement policies and procedures should be verified for compliance through HUD's remote and onsite reviews.

- Comment 7** Officials for the Authority state that they have tightened the controls and oversight of their procedures for the procurement of goods and services by implementing its new procurement policy. As noted above in comment 6, we have eliminated the draft recommendation 1F and incorporated its sentiment into our final recommendation 1E.
- Comment 8** In response to recommendation 1G in the draft report, now stated as 1F, officials for the Authority cite the addition of staff and the conversion to new business software to address various internal control weaknesses. Nevertheless, the extent of non-compliance noted during our review requires HUD to monitor the Authority to also ensure that its actions have a lasting impact for improving the control environment.
- Comment 9** Officials for the Authority have begun to implement OIG's recommendations since the review was a positive opportunity for the Authority. We encourage the Authority to continue to work with HUD to ensure that needed improvements are implemented.