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Audit Report Number 2011-BO-1011
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TO: Robert P. Cwieka, Acting Director, Office of Public Housing, Boston Hub,  
1APH

FROM:   
John A. Dvorak, Regional Inspector General for Audit, Boston Region 1, 1AGA

SUBJECT: Fall River Housing Authority, Fall River, MA, Did Not Always Administer Its  
Housing Choice Voucher Program in Accordance With HUD Regulations and Its  
Annual Contributions Contracts

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Housing Choice Voucher program at the Fall River Housing Authority as part of our annual audit plan. The overall objective of the audit was to determine whether the Authority efficiently and effectively administered its Voucher program in compliance with its annual contributions contracts and U.S. Department of Housing and Urban Development (HUD) regulations. Our specific subobjectives were to determine whether (1) the Authority performed its housing quality standards inspections in a timely manner and adequately monitored its contract inspectors, (2) housing units met Voucher program housing quality standards and rents were properly abated if necessary, (3) the Authority complied with HUD procurement regulations and its own procurement policy, and (4) the Authority ensured that travel incurred for its Federal programs was in accordance with HUD regulations.

## What We Found

The Authority generally administered the Voucher program efficiently and effectively and in compliance with its annual contributions contract and HUD regulations. However, it did not always perform its housing quality standards inspections in a timely manner, adequately monitor the results of its contract inspectors, and properly abate rents if necessary. Thirty-eight housing quality standards inspections were late and clearly outside the timeframes required by HUD under the Authority's third-party inspection contract. As a result, the Authority did not earn a portion of the \$7,453 in paid administrative fees, did not always comply with HUD procurement regulations and its own procurement policy, and did not ensure that travel incurred for Federal programs was in accordance with HUD regulations.

## What We Recommend

We recommend that the Director of the Office of Public Housing, Boston hub, require the Authority to (1) repay a portion of the unearned \$7,453 in administrative fees paid by HUD and document the results of the remaining 17 housing quality standards inspections to determine whether rents needed to be abated;(2) update delegation and procurement policy to include duties assign and delegated, maintain a Voucher program contract register, develop procedures to ensure that a cost benefit analysis is conducted and documented, and document the method for conducting technical evaluations of bid responses and proposals; and (3) revise its travel policy and obtain approval of the policy from the Authority's board of commissioners.

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

## Auditee's Response

We provided the Authority a draft report on August 29, 2011, and held an exit conference with officials on September 1, 2011. The Authority provided written comments on September 7, 2011, generally agreed with our findings and recommendations, and has taken corrective actions that should eliminate the conditions noted in this report. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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The United States Housing Act of 1937 established the Federal framework for government-owned affordable housing. The Act also authorized public housing as the Nation's primary vehicle for providing jobs and building and providing subsidized housing through the U.S. Department of Housing and Urban Development (HUD). HUD disperses funds to public housing agencies under annual contributions contracts to provide subsidy payments or housing assistance payments for participating low-income families.

In addition, the Act was amended by the Quality Housing and Work Responsibility Act of 1998 to create the Section 8 Housing Choice Voucher tenant-based program. The Voucher program is funded by HUD and allows public housing authorities to pay HUD subsidies directly to housing owners on behalf of the assisted family.

The Voucher program is administered by the Fall River Housing Authority for the City of Fall River, MA. HUD contracts with the Authority to administer 2,089 housing choice voucher units through annual contributions contracts.<sup>1</sup> The Authority received \$28.5 million in Voucher program funds during the period April 1, 2009, through March 31, 2011, and earned administrative fees of approximately \$4.2 million during the same period. The annual contributions contracts require the Authority to follow appropriation laws, HUD requirements including public housing notices, and the Authority's administrative plan.

The principal staff member of the Authority is its executive director, who is hired and appointed by the Authority's board of commissioners. The executive director is directly responsible for carrying out the policies established by the commissioners and is delegated the responsibility for hiring, training, and supervising the remainder of the Authority's staff to manage the day-to-day operations of the Authority and ensure compliance with Federal and State laws and directives for the programs managed.

Our overall audit objective was to determine whether the Authority effectively and efficiently administered its Voucher program in compliance with its annual contributions contracts and HUD regulations. Our specific audit objectives were to determine whether (1) the Authority adequately performed its inspections a timely manner and monitored the results of the third-party inspections, (2) units met Voucher program housing quality standards and rents were properly abated if necessary, (3) the Authority followed HUD procurement regulations and its own procurement practices, and (4) the Authority ensured that travel incurred for its Federal programs was in accordance with HUD regulations.

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<sup>1</sup> As of March 31, 2011, the Authority administered 2,089 vouchers, including 1,887 Section 8 vouchers, 146 mobility vouchers, and 56 enhanced vouchers.

## RESULTS OF AUDIT

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### Finding 1: The Authority Did Not Always Perform Its Housing Quality Standards Inspections in a Timely Manner, Monitor the Results of Its Third-Party Inspectors, and Properly Abate Rents if Necessary

The Authority did not always perform its required Voucher program housing quality standards inspections in a timely manner. Thirty-eight inspections were late and clearly outside the timeframes required by HUD under the third-party inspection contract. These conditions occurred because the Authority did not establish sufficiently detailed procedures to deal with contingencies in conjunction with its normal quality control program and did not aggressively enforce the conditions of its inspection contract. As a result, it did not earn a portion of the \$7,453 in administrative fees paid by HUD and properly abate rents if necessary.

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#### **The Authority's Third-Party Inspector Failed To Perform 38 Inspections**

The Authority did not always perform its Section 8 Voucher program inspections in a timely manner, which was needed to ensure that housing quality standards were met. We identified that 38 inspections were late and clearly outside of the timeframes required by HUD under the third party inspection contract. Our review disclosed that the third-party inspector was hired by the Authority to conduct initial, annual, and special inspections outside the Fall River area but within the State of Massachusetts. The contract was for a period of 2 years starting February 19, 2009, and ending February 16, 2011. The Authority was informed by the inspectors that it had major software problems, which resulted in inspections not being performed. As a result, 38 inspections were not performed in a timely manner. The time between third-party inspections ranged from 12 to 19 months.

This condition occurred because the Authority had not established sufficient detailed procedures to deal with contingencies in conjunction with its normal quality control program and did not aggressively enforce the conditions of its inspection contract. Our review of e-mails disclosed that the Authority made many attempts to contact the original third-party contractor regarding its failure to perform its inspection services. All e-mails had the same central theme, that its inspector was not performing its annual inspections. We were also informed that Authority staff made many telephone calls to the contractor but to no avail. The Authority was informed by the original third-party inspector that it had major

software problems, which resulted in inspections not being performed. As a result of the 38 units that were not inspected in a timely manner, the Authority housed 17 families in units that did not meet HUD's standards for decent, safe, and sanitary housing and failed to earn a portion of the administrative fees paid by not conducting the required inspections on the 38 units. The Authority recognized that a problem existed, and the Authority took corrective actions by hiring a new inspection company.

### **Results of 38 Inspections Were Not Timely**

For the 38 inspections that were late, the Authority's new third-party contract inspectors failed 23 units and passed 12 units, 2 units still needed to be scheduled, and there was 1 vacant unit. Of the 23 failed units, 6 units passed reinspections, whereas the remaining 17 failed units' results had not been determined as of our audit fieldwork cutoff date of June 30, 2011. We were informed by the Authority that for other than emergencies, the owner has 30 days to correct deficiencies.

### **Administrative Fees of \$7,453 Were Not Earned**

Timely corrective action by the Authority was not taken to ensure that its units were inspected and met housing quality standards. Paragraph 20-6 of the Financial Management Housing Choice Voucher Program Guidebook states that under certain conditions, HUD may impose penalties against public housing agencies' administrative fees. One such condition is when as there is failure to take corrective action when there has been evidence of intentional program abuse or unintentional administrative errors by the agency, owners, or families housed. The Authority's failure to ensure that its units met housing quality standards and its untimely corrective action were conditions that warrant administrative penalties such as the refund of the administrative fees.

The Authority did not earn a portion of the administrative fees of \$7,453 paid by HUD. We determined this amount by taking the number of months beyond 1 year of the date of the last inspection and when the late inspection was conducted and multiplying the number of months late by the \$89.80 monthly administrative fee paid by HUD. In addition, there were two units for which housing quality standards inspections had not been scheduled; therefore, we used June 30, 2011, as our cutoff date.

## **Conclusion**

Thirty-eight inspections were late and clearly outside the timeframes required by HUD under the third-party inspection contract. The time between third-party inspections ranged from 12 to 19 months. In addition, the Authority did not aggressively enforce or pursue the conditions of its inspection contract. Although, the Authority made attempts to resolve its inspection problems, its lack of timely action result in its failure to adequately monitor its inspection contractor and implement an effective quality control program.

## **Recommendations**

We recommend that the Director of the Office of Public Housing require the Authority to

- 1A. Repay a portion of the unsupported \$7,453 in administrative fees to its Voucher program from non-Federal funds.
- 1B. Document the results of the remaining 17 housing quality standards inspections for which the Authority needs to determine whether the owners have made the necessary repairs or the units need to be abated.
- 1C. Develop and implement policies and procedures to address the roles and responsibilities regarding its quality control inspection program with its newly hired inspection contractor.

## RESULTS OF AUDIT

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### Finding 2: The Authority Failed to Fully Comply with HUD Procurement Regulations and Its Own Procurement Policy

The audit identified several instances in which the Authority's procurement practices did not comply with HUD regulations and its own procurement policy. Specifically, the Authority failed to

- Update the delegation of procurement documentation and the Authority's procurement policy to include specific procedures to be performed and to whom procurement duties were to be assigned and delegated;
- Maintain a Voucher program contract register that included the effective date of the contract, contract terms, the amount, and other details pertinent to the services;
- Develop procedures to provide for timely identification, cancellation, and substitution of contracts in the event that a breach of contract occurred for failure to live up to the contract's terms;
- Develop procedures to ensure that a cost benefit analysis was conducted and documented; and
- Adequately document the method for conducting technical evaluations of bid responses and proposals.

These deficiencies occurred because the Authority's contracting officer (executive director) did not adequately fulfill his responsibility to establish and maintain effective management controls over procurement. As a result, HUD had little assurance that the Authority's procurement process was fair and equitable and resulted in the best quality of services being obtained or at the lowest possible cost.

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#### Delegation of Procurement and Procurement Policy Were Out of Date

As required by 24 CFR (Code of Federal Regulations) 85.36(b) (2), delegation of procurement responsibilities, the Authority's executive director did not adequately delegate his procurement authority and procurement responsibilities to persons to whom procurement and contracting responsibilities had been assigned. The Authority's procurement process was not adequately defined due to the implementation of its central office cost center and the hiring of a procurement officer. The procurement responsibilities of the Voucher program versus the cost center (main offices) were not defined. For the first outside contract inspector, the Voucher program procurement duties were not carried out by the procurement

officer. Duties were carried out by several personnel, including the deputy director and the coordinator for Voucher program housing assistance, although these individuals had not been delegated these responsibilities. In addition, the Authority did not update its procurement policy to account for personnel and organizational changes to deal with how procurement and monitoring duties were assigned, delegated, and performed. The executive director agreed that updated delegation forms and procurement policy would be presented and approved at the next meeting of the board of commissioners.

### **The Voucher Program Contract Register Was Inadequate**

The Authority failed to maintain a contract register for Voucher program contracts that provided current, accurate, and complete contract information as required by 24 CFR 85.36(b)(2).<sup>2</sup> At a minimum, the register should show the effective date of the contract, contract terms, the amount, and other details pertinent to the services procured.

### **The Voucher Program Contract Monitoring Was Inadequate**

HUD Handbook 7460.8, paragraph 2.5, states: “The signature of the Contracting Officer on PHA [public housing agency] contracts is a legal commitment and requires continuing performance by the PHA under the terms and conditions of the contract. Performance includes such duties as monitoring contractor performance and acceptance or rejection of contractors’ requests for changes in performance, specifications, or price.” Of the two leased housing inspection contracts and one lease proposal reviewed, one of the three was in breach of contract, but procedures to cancel and rebid this contract by the procurement staff did not occur until the contract expired and several of the contracted inspections were severely past due.

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<sup>2</sup> Although the operation of the Voucher program is exempt from 24 CFR 85.36, procurement activities within the Voucher program are governed by applicable State and local law, which includes Federal regulations such as 24 CFR 85.36. Since the Authority has acknowledged that it would also follow Federal procurement rules, we have applied these rules to its contracting of leased housing services.

### **Inadequate Cost Benefit Analysis**

The Authority did not adequately document the method for conducting a technical evaluation of proposed services as required by 24 CFR 85.36(d) (3). Regarding outside inspection contracts, the Authority needed to base its decision to enter into such contracts on more substantial documentation. Documentation obtained should have included evidence of the ability to perform, such as inspection capacity, data dependability, filing and storage capability, and the method of service delivery. Documentation of such ability should have been acquired directly from the vendor for evaluation before contract award.

### **Technical Evaluations of Proposals Were Not Documented**

The Authority did not consistently document in its requests for proposals. It could not provide a cost analysis showing data on costs for the inspection services, such as whether providing this service in house was prohibitive in comparison to outsourced services as required by 24 CFR 85.36(d) (2) (iii), which states: “Grantees and sub grantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees.”

### **Conclusion**

We identified several instances in which the Authority’s procurement practices did not comply with HUD regulations and its own procurement policy. These deficiencies occurred because the Authority’s contracting officer (executive director) did not adequately fulfill his responsibility to establish and maintain effective management controls over procurement. As a result, HUD had little assurance that the Authority’s procurement process was fair and equitable and that the process resulted in the best quality of services being obtained or at the lowest possible cost. The Authority’s executive director was correcting these deficiencies by submitting delegation paperwork to place his procurement powers and responsibilities with the proper individuals, and new procurement procedures were being implemented. The executive director agreed that the Authority’s procurement procedures did not always reflect its own policy and applicable Federal laws and standards.

## Recommendations

We recommend that the Director of the Office of Public Housing require the Authority to:

- 2A. Update delegation of procurement documentation and the procurement policy to include specific procedures to be performed and to whom procurement duties are to be assigned and delegated.
- 2B. Maintain a Voucher program contract register that includes the effective date of the contract, contract terms, the amount, and other details pertinent to the services procured.
- 2C. Develop procedures to provide for timely identification, cancellation, and substitution of contracts.
- 2D. Develop procedures to assure that a cost benefit analysis is conducted and documented.
- 2E. Adequately document the method for conducting technical evaluations of bid responses and proposals.

## RESULTS OF AUDIT

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### Finding 3: The Authority's Travel Policy Did Not Ensure Valid, Necessary, and Reasonable Travel Costs

The Authority's travel policy did not adequately address some of the basic travel requirements. The policy did not adequately address items such as travel authorizations, methods of payment, expense reporting (including when receipts were necessary), or typical eligible travel expenses applicable to various travel locations. This condition occurred because the Authority did not develop an adequate travel policy. As a result, the Authority could not ensure that travel expenses incurred by its employees and charged to its various programs were always valid, necessary, and reasonable.

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#### **The Authority's Travel Policy Did Not Address Basic Travel Requirements**

The Authority's travel policy was a half-page document which was general in nature. As such, it did not address in detail the responsibilities of the Authority or the traveler(s). The policy also did not address items such as travel authorizations; methods of payment; expense reporting (including when receipts are necessary); and eligible travel expenses to include air travel, ground travel, and rail travel or the authorized per diem rates for each given location of travel.

The Authority did require travelers to submit detailed local travel vouchers for mileage. The majority of travel at the Authority was for local travel. In these instances, employees submitted a detailed day-by-day travel voucher for their travel between properties. These local travel vouchers were approved by management. However, management did not require employees traveling overnight to submit a consolidated detailed expense travel vouchers. Without a detailed expense report upon completion of travel, the Authority could not assure HUD that related travel expenses were valid and necessary costs charged for administration of its programs.

## **Management Had Taken Steps To Revise Its Travel Policy**

Authority management agreed that its travel policy needed revision. The executive director said that the revised policy would address in detail the responsibilities of the Authority and those of the travelers. He also informed the Authority's board of commissioners in August 2011 that the travel policy needed to be revised and indicated that he would present to the board the revised travel policy no later than September 2011.

## **Conclusion**

The Authority's travel policy did not adequately address basic travel requirements, such as travel authorizations, methods of payment, expense reporting (including when receipts were necessary), typical eligible travel expenses applicable to various travel locations, or submission of detailed expenditure travel vouchers. This condition occurred because the Authority did not develop an adequate travel policy. Without an adequate travel policy, the Authority could not ensure that travel expenses incurred by its employees and charged to its various programs were always valid, necessary, and reasonable.

## **Recommendations**

We recommend that the Director of the Office of Public Housing require the Authority to

- 3A. Prepare and obtain board approval of a new travel policy. The policy should address the responsibilities of the Authority, as well as, the traveler.

## SCOPE AND METHODOLOGY

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We conducted the audit between April and July 2011. Our fieldwork was conducted at the Authority's main office located at 85 Morgan Street and the Voucher program office located at 180 Morgan Street, Fall River, MA. Our audit covered the period April 1, 2009, to March 31, 2011, and was extended when necessary to meet our objectives. To accomplish our audit objectives, we

- Interviewed the Authority's executive director, deputy executive director, coordinator of housing assistance, director of finance, and fee accountant to determine policies and procedures to be tested;
- Reviewed the financial statements, general ledgers, tenant files, rent reasonableness data, and cost allocation plans as part of our testing for control weaknesses;
- Reviewed program requirements, including Federal laws and regulations, Office of Management and Budget circulars, the consolidated annual contributions contracts between the Authority and HUD, and the Authority's administrative plan, to determine the Authority's compliance with applicable HUD procedures;
- For the period April 2009 to March 2011, reviewed 100 percent of Voucher program contracts awarded to determine whether the Authority followed its contract procedures; and
- For the period April 2009 through March 2011, reviewed the Authority's management, accounting, and computer controls over cost allocations, interprogram fund transfers, mobility, abatements, procurement, and travel to determine whether the Authority had controls in place to safeguard its assets.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

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

- Controls over tenant eligibility, calculating housing assistance payments, tenant payments, and utility allowances;
- Controls over rent reasonableness;
- Controls over housing quality standards inspections;
- Controls over expenditures to ensure that they are eligible, necessary, and reasonable;
- Controls over accounting for cost allocations and interprogram receivables and payables;
- Controls over procurements;
- Controls over travel expense vouchers;
- Controls over voucher use (eligibility, waiting lists, and use); and
- Controls over the Voucher program administrative plan.

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 Deficiencies**

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

- Inadequate controls over housing quality standards, specifically monitoring the results of the third-party inspections and whether units met Voucher program housing quality standards and rents were properly abated if necessary (see finding 1).
- Inadequate procurement documentation to support its procurement practices (see finding 2).
- Lack of policies and procedures regarding payment of travel expenses (see finding 3).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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<u>Recommendation number</u>	<u>Unsupported 1/</u>
1A	\$7,453

1/ 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. In this case, the Authority did not earn a portion of the administrative fees of \$7,453 paid by HUD.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### OIG Evaluation of Auditee Comments

#### Ref to OIG Evaluation

#### Auditee Comments

### FALL RIVER HOUSING AUTHORITY

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September 7, 2011

John A. Dvorak, Regional Inspector General for Audit, Region 1  
Thomas P. O'Neill Federal Building  
10 Causeway Street, Room 370  
Boston, Massachusetts 02222-1092

Dear Mr. Dvorak:

We have reviewed the Draft Audit Report and discussed it with your staff at the exit conference. Your staff was both professional and courteous during the audit and provided us with valuable assistance in analyzing our operation and developing corrections and improvements. We thank you for the opportunity to provide you with a response to the Audit.

**Finding 1: The Authority did not always perform its Housing Quality Standards inspections in a timely manner, monitor the results of its third-party inspectors and properly abate rents if necessary.**

We acknowledge that the contractor, performing our Section 8 Housing Quality Standards (HQS) inspections, was late in performing some of the inspections and that our efforts to enforce the inspection contract were not sufficient.

We are developing a "Contract Administration Plan" that will provide guidelines on how to administer any Fall River Housing Authority (FRHA) Contract. This plan will include methods of monitoring and tracking contact performance, maintaining contract registers and terminating contracts when necessary.

**Finding 2: The Authority failed to comply with HUD procurement regulations and its own procurement policy.**

We have implemented several steps and procedures to implement the suggested changes. Our Procurement Policy has been amended to specifically address several of the issues raised with this finding.

Comment 1

Comment 1

**Ref to OIG Evaluation**

**Auditee Comments**

- 1) We have updated our Procurement Policy to technically acknowledge, authorize and assign purchasing responsibility to our Procurement Officer. The Role of the Central Office Cost Center in the procurement process was also clarified.
- 2) As stated in the response to Finding 1 we are developing a "Contract Administration Plan" that will require the maintenance of contract registers for all contracts, provide procedures for terminating contracts where the contractor does not live up to contract terms.
- 3) The "Contract Administration Plan" will also contain procedures for conducting cost benefits analyses and technical evaluations of bid responses.
- 4) During the audit period the FRHA hired a professional procurement specialist that has gradually assumed the responsibility for all procurements. As of now the Procurement Officer performs all procurements and will be responsible for administering and enforcing our "Contract Administration Plan".

**Comment 1**

**Finding 3: The Authority's Travel Policy did not insure valid, necessary, and reasonable travel costs.**

In some cases the FRHA paid for hotel and airline expenditures directly. This resulted in situation where our travel voucher reimbursements to a traveler did not include all costs.

We have amended our travel policy to require that the traveler pay for all costs and include them in a Travel Voucher with appropriate bills and receipts for documentation. We will also maintain an Authority wide Travel Log to track and control all out of town travel requiring an overnight stay. All overnight travel will now require advanced written approval of the Executive Director or his designee.

This policy was adopted by the Board.

Your audit has provided us with some valuable help in strengthening our oversight of all public funds and we will work with the Office of Public Housing to resolve all three findings.

If you have any questions or need additional information, please contact me.

Very truly yours,



Thomas J. Collins, Jr., Executive Director

### **OIG Evaluation of Auditee Comments**

**Comment 1** The Authority agreed with our recommendations and will work with the office of Public Housing to implement the required corrective action for all the recommendations in the report.