



Issue Date November 24, 2010
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Audit Report Number 2011-NY-1003
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TO: Edward T. De Paula, Director, Office of Public Housing, 2FPH

FROM: *Edgar Moore*  
Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: The Irvington Housing Authority, Irvington, NJ, Did Not Administer Its Capital Fund Programs in Accordance With HUD Regulations

## **HIGHLIGHTS**

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

We audited the Irvington Housing Authority's (Authority) administration of its Public Housing Capital Fund programs because it was classified as a troubled housing authority and because of an anonymous complaint regarding allegations of improper procurement, misuse of funds, and lack of controls and direction.

The audit objectives were to determine whether Authority officials (1) obligated and expended funds under the Capital Fund program and Capital Fund Financing Program (CFFP) in accordance with U.S. Department of Housing and Urban Development (HUD) regulations, and (2) had a financial management system in place that complied with program requirements. We also wanted to determine whether the complaint allegations could be substantiated.

### **What We Found**

Authority officials did not always administer the Capital Fund programs in accordance with HUD regulations. Specifically, (1) controls over procurements were not adequate, and (2) Capital Fund program and CFFP funds were expended without adequate support and for ineligible items. We attribute these deficiencies

to Authority officials' not establishing controls to ensure compliance with procurement requirements and that expenditures were properly supported and eligible. As a result, goods and services were not obtained in the most economical or efficient manner, funds were not properly safeguarded as expenses were unsupported or ineligible, and funds disbursed were not properly recorded. Consequently, more than \$2.4 million in expenses was unsupported, and \$209,391 was ineligible.

The Authority's financial management system did not always comply with program regulations. Specifically, Capital Fund program vouchers were not adequately approved before payment, and Capital Fund program expenses were improperly paid with Section 8 funds. We attribute these deficiencies to the Authority's inadequate controls over the approval of purchases and authorization of disbursements. As a result, the Authority did not adequately account for and safeguard program funds, and \$132,337 was inappropriately charged to the Section 8 program.

The allegations in the complaint regarding inadequate management controls appeared to be valid and are addressed in appendix B.

### **What We Recommend**

We recommend that the Director of the New Jersey Office of Public Housing require Authority officials to provide supporting documentation so that HUD can determine the eligibility of more than \$2.4 million in questioned costs, repay \$209,391 in ineligible disbursements along with any additional amounts determined to be ineligible, and establish adequate controls to ensure compliance with program requirements.

For each recommendation without a management decision, 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 discussed the results of our review with Authority officials during our audit. We provided a copy of the draft report to Authority officials and discussed the report with them at the exit conference held on October 27, 2010. Authority officials provided their written comments to our draft report on October 27, 2010. Authority officials generally disagreed with our findings. The complete text of the Authority's response, along with our evaluation of that response, can be found in appendix C of this report.

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## **BACKGROUND AND OBJECTIVES**

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The Irvington Housing Authority (Authority) is located at 101 Union Avenue, Irvington, NJ. The Authority is headed by an executive director and governed by a board of commissioners made up of seven members. One member is appointed by the mayor, five members are appointed by the City Council, and one member is appointed by the State as delegated by the governor. The executive director of the Authority is Mr. David A. Brown.

The Authority owns approximately 662 low-income housing units and administers 239 units under the Section 8 Housing Choice Voucher program. It received more than \$2.5 and \$2.7 million in operating subsidies for fiscal years 2008 and 2009, respectively. It also received more than \$1.1 and \$1 million for its Public Housing Capital Fund program in fiscal years 2008 and 2009, respectively.

The Authority obtained capital fund financing through revenue bonds in 2004. The amount funded by the bonds, including interest income, was approximately \$5.5 million, and the net debt service was approximately \$8 million. The funds were used to renovate and modernize low-rent program units and pay related expenses including those for relocation of tenants. The bonds are to be repaid over a 20-year term. Capital funds had not been pledged or guaranteed to pay the debt service, but the debt service was being paid with capital funds.

The Authority received more than \$1.3 million in American Recovery and Reinvestment Act of 2009 (Recovery Act) capital funds and obligated all funds received by March 15, 2010. The deadline date for the obligation of the Recovery Act funds was March 17, 2010.

The audit objectives were to determine whether the Authority (1) obligated and expended funds under the Capital Fund program and Capital Fund Financing Program (CFFP) in accordance with U.S. Department of Housing and Urban Development (HUD) regulations and the Recovery Act, and (2) had a financial management system in place that complied with program requirements. We also followed up on allegations in an anonymous complaint to determine whether the allegations could be substantiated.

## RESULTS OF AUDIT

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### Finding 1: The Authority Did Not Always Administer Its Capital Fund Programs in Accordance With HUD Regulations

Authority officials did not always administer the Capital Fund programs in accordance with HUD regulations. Specifically, (1) controls over procurements were not adequate, and (2) Capital Fund program and CFFP funds were expended without adequate support and for ineligible items. We attribute these deficiencies to Authority officials' not establishing controls to ensure compliance with procurement requirements and that expenditures were properly supported and eligible. As a result, goods and services were not obtained in the most economical or efficient manner, funds were not properly safeguarded as expenses were unsupported or ineligible, and funds disbursed were not properly recorded. Consequently, more than \$2.4 million in expenses were unsupported, and \$209,391 was ineligible.

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#### Inadequate Controls Over Procurement

##### Inadequate Contract Records Related to the Capital Fund Program and CFFP

Contrary to regulations at 24 CFR (Code of Federal Regulations) 85.36(b)(9), the Authority did not have documentation to show that it complied with applicable procurement requirements for executed contracts for the Capital Fund program and CFFP. Specifically, it did not always maintain complete records to show the history of its procurement contracts. We initially requested contract registers from Authority officials; however, they did not have contract registers and created one while we were at the site. We requested 6 of 23 contract files to review for the regular Capital Fund program. Five of the six contract files selected were missing contract agreements, cost estimates, evaluation of bids, etc., and two of the six contract files did not contain supporting documentation. Therefore, the Authority could not assure HUD that these contracts were procured in the most economical and efficient manner. The five regular Capital Fund program contracts without adequate supporting documentation were valued at \$146,890 (\$19,800 + \$30,000 + \$28,000 + 34,530 + \$34,560).

Review of the three contract files for the CFFP revealed that the files obtained did not contain all required documents. The contract files were missing cost estimates, evaluation of bids, contract agreements, etc. According to regulations at 24 CFR 85.36(b)(9), the grantee and subgrantee will maintain records sufficient to detail the significant history of a procurement. These records will include but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, and contractor selection or rejection and the basis of the contract price. As a result of the inadequate records maintained,

there was no assurance that goods and services were obtained in the most economical or efficient manner in compliance with procurement requirements. Therefore, we questioned the capital funds disbursed related to these contracts pending HUD's determination of the eligibility and reasonableness of these amounts.

Under the CFFP, a public housing authority may borrow private capital to make improvements and pledge a portion of its future-year annual capital funds to make debt service payments. Although the three CFFP contracts were valued at more than \$4.9 million, during fiscal years 2004 through 2009, the trustee for the CFFP disbursed more than \$5.5 million, of which approximately 88.66 percent related to these three contracts. Therefore, since more than \$1.9 million was paid from the Capital Fund program to cover the debt service related to capital fund financing activities for these periods, we questioned the proportionate share of these funds or more than \$1.7 million.

#### Inadequate Documentation Related to Noncontract Capital Fund Disbursements

In addition to the above, there was inadequate documentation to show that competition had been sought for noncontract Capital Fund program disbursements. Review of the disbursements for the Capital Fund program revealed that there was no documented procurement such as bid records or requests for price quotes for noncontract costs that were paid from the Capital Fund program. There was no documented evidence of the manner of procurement for items charged to line item 1430 – fee costs, 1450 – site improvements, 1460 – dwelling structures, 1465 – dwelling equipment, 1470 – nondwelling structure, and 1475 – nondwelling equipment. During Capital Fund program year 2008, the Authority made disbursements of \$189,295 related to these line items. The Authority's procurement policy states that "the Irvington Housing Authority (IHA) shall seek full and open competition in all of its procurement transactions." However, the Authority did not comply with its procurement policy. Therefore, there was no assurance that goods and services were obtained in the most economical and efficient manner. We attribute this deficiency to the Authority's inadequate controls over procurement transactions.

#### Total Questioned Cost Due to Inadequate Documentation of Compliance With Procurement Requirements

More than \$2 million in disbursements was made without adequate supporting documentation to show that procurement requirements had been followed and that procurement transactions had been accomplished in an economical and efficient manner. The unsupported costs included \$146,890 for the five regular Capital Fund program contracts, more than \$1.7 million disbursed from the regular Capital Fund program for debt service payments related to the three CFFP contracts, and \$189,295 disbursed for other Capital Fund program activities for which the manner of procurement was not documented.

## Unsupported Costs

A total of \$326,780 in unsupported costs was charged respectively to the Capital Fund program and the CFFP without adequate supporting documentation. Accordingly, Authority officials did not have adequate controls over program expenditures to ensure the accuracy of the amounts charged to the programs.

Regulations at 24 CFR 85.20(b)(6) require accounting records to be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, section C, Basic Guidelines, provides that for costs to be allowable under Federal awards, they must be necessary and reasonable, be properly allocable, conform to all applicable requirements, and be properly documented.

These unsupported costs are explained below and were for administration, nondwelling equipment, and travel and training expenses as follows:

For Capital Fund program year 2007 line item 1410 – administration, there was no supporting documentation in the *e*LOCCS (the Internet version of HUD’s Line of Credit Control System Voice Response System) Capital Fund program payment voucher files to show how \$111,818 was obligated and what type of administrative costs it was expended for; therefore, this amount was unsupported.

For Capital Fund program year 2007 line item 1475 – nondwelling equipment, the budget and the annual performance and evaluation report included costs for the purchase of a maintenance vehicle. However, the vehicle purchased for \$31,504 was an automobile for the personal use of the executive director. According to the executive director, his contract provided that he would receive a vehicle. However, the executive director did not provide us with his contract or supporting documentation to show that this was an allowable use of program funds. Therefore, we consider the \$31,504 as unsupported.

For Capital Fund program line item 1408 – management improvements, there was missing or inadequate supporting documentation for all \$8,138 in travel and training-related expenses tested; therefore, this amount is considered unsupported. In addition, for the Capital Fund program years 2007 and 2008, the Authority had expended \$121,243 (\$38,480 + \$82,763) for travel and training-related expenses also charged to line item 1408. However, due to the lack of controls over travel and training, the Authority’s travel policy in place did not provide for accountability, as per diem funds were advanced before the travel and there was no certification that the travel took place and no support for the amount of costs incurred or that the training was attended. Therefore, these amounts are also considered to be

unsupported. Accordingly, Authority officials could not assure HUD that travel and training costs were reasonable.

Nevertheless, if Authority officials were to implement improved controls over the Authority's travel and training expenses to ensure that it documents whether travel and training took place and that the costs were reasonable, it would result in improved accountability. Thus the Authority would be able to assure HUD that its annual expenditures for travel and training expenses of \$60,621 (one-half of the travel and training costs for the 2 years reviewed) would be put to better use.

In addition to the above, Authority officials did not have adequate controls to ensure that proper documentation was maintained to support the eligibility of disbursements for payroll and rental losses for vacant units charged to the CFFP. Therefore, a total of \$175,320 in CFFP expenses is also considered unsupported due to inadequate documentation. Specifically, a \$74,598 charge for rental loss for vacant units and \$100,722 in employees' salary costs charged to the program were not supported and are, therefore, questioned. Since the \$175,320 in question is approximately 3.16 percent of the more than \$5.5 million in CFFP bond funds received, we are only taking issue with \$61,998 of this amount, which is the proportionate share of Capital Fund program funds used to make CFFP debt service payments of more than \$1.9 million.

In summary, a total of \$151,460 (\$111,818 + \$31,504 + \$8,138) that was charged to the Capital Fund program and \$175,320 (\$74,598 + \$100,722) that was charged to the CFFP is considered unsupported due to inadequate documentation to show that the expenses were eligible program costs.

### **Ineligible Costs Incurred Before HUD Approval of Capital Funding**

A total of \$209,391 in costs related to the Capital Fund program was incurred before HUD approval of the 2007 and 2008 funding. As a result, these costs were ineligible. The charges were for administration, management improvements, dwelling equipment, nondwelling equipment, and dwelling structures. The charges were incurred before the annual contributions contract effective dates of September 13, 2007 (for Capital Fund program year 2007), and June 13, 2008 (for Capital Fund Program year 2008). These are the dates on which Capital Fund program assistance became available to the Authority for obligation. Thus, Authority officials did not have sufficient controls to ensure that the funding had been approved before charges were incurred, which resulted in its charging ineligible costs to the Capital Fund program. Regulations at 24 CFR 968.112(n) provide that costs incurred before HUD approval may not be reimbursed after HUD approval of the funding.



## Conclusion

Authority officials did not always administer its Capital Fund programs in accordance with regulations. Specifically, more than \$2 million in disbursements was made without adequate supporting documentation to show that procurement requirements had been followed and procurements had been accomplished in an economical and efficient manner. A total of \$326,780 was charged to the Capital Fund program and CFFP without proper supporting documentation, and \$209,391 in expenses incurred before HUD approval was ineligible. We attribute these deficiencies to Authority officials' not establishing controls to ensure compliance with procurement requirements and that expenditures were properly supported and eligible.

## Recommendations

We recommend that the Director, New Jersey Office of Public Housing, require Authority officials to

- 1A. Provide documentation related to the five Capital Fund program contract files that did not contain support for their procurement history so that HUD can determine whether the \$146,890 in capital funds disbursed was reasonable and for properly procured contracts. Any improperly procured and/or excessive costs should be repaid from non-Federal funds or recaptured from the Capital Fund program.
- 1B. Provide supporting documentation for the procurement of the three CFFP contracts that resulted in the disbursement of more than \$4.9 million and/or repay the amount expended from capital funds for CFFP debt service payments made related to these contracts from non-Federal funds (\$1,740,152 through fiscal year 2009).
- 1C. Provide supporting documentation for the unsupported charges of \$189,295 related to various line item expenses under the 2008 Capital Fund program and/or repay any costs determined to be ineligible from non-Federal funds.
- 1D. Develop and implement a contract administration system that includes an adequate contract register to help ensure that contractors perform in accordance with the terms, conditions, and specifications of their contract or purchase order.
- 1E. Develop procedures to ensure that the Authority follows its procurement policy and all regulations at 24 CFR 85.36 and provide adequate training to all directors and staff.

- 1F. Provide supporting documentation for the unsupported charges of \$151,460 related to the Capital Fund program and repay any amounts determined to be ineligible from non-Federal funds.
- 1G. Provide supporting documentation for the unsupported charges to the CFFP of \$175,320 or repay the amount determined to be ineligible from non-Federal funds. In this instance, since capital funds used to make CFFP debt service payments applicable to these disbursements amounted to 3.16 percent of the CFFP bond trustee disbursements, the amount to be repaid would be \$61,998 through fiscal year 2009.
- 1H. Reduce future Capital Fund program grants by \$209,391 for the ineligible expenses related to the costs that were incurred before the approval of the funds for the 2007 and 2008 Capital Fund programs.
- 1I. Establish travel and training policies that meet HUD requirements and ensure accountability over travel and training, thus ensuring that the \$60,621 in estimated annual travel and training costs will be put to better use.

## Finding 2: The Authority's Financial Management System Did Not Always Comply With Program Requirements

The Authority's financial management system did not always comply with program regulations. Specifically, Capital Fund program vouchers were not adequately approved before payment, and Capital Fund program expenses were improperly paid with Section 8 funds. We attribute these deficiencies to the Authority's inadequate controls over the approval of purchases and authorization of disbursements. As a result, Authority officials did not adequately account for and safeguard program funds, and \$132,337 was inappropriately charged to the Section 8 program.

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### **Capital Fund Program Vouchers Not Always Adequately Approved**

Capital Fund program vouchers were not always properly approved to prevent the misuse of capital funds. Review of the vouchers for the Capital Fund program disclosed that not all requests for checks were reviewed and approved and not all purchase orders were approved by the finance director or facilities directors to certify that the funds were available and verify that supplies were needed as required by the Authority's procurement policy. For example, the request for check for \$24,276 payable to a paving company was not signed and approved by the finance director or the executive director. Also, a purchase order used for a \$6,120 payment to an appliance company was not signed and approved by the finance director or the facilities director. As a result, capital funds were not properly safeguarded as funds were disbursed without adequate approval. Regulations at 24 CFR 85.20 provide that grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. In addition, these regulations require that effective control and accountability be maintained for all grant and subgrant cash and real and personal property and that assets be properly safeguarded and used solely for authorized purposes.

### **Capital Fund Expenses Paid With Section 8 Program Funds**

The Authority charged \$132,337 to its Section 8 program for renovation and improvement costs, including the purchase of generators, that pertained to its low-rent housing projects and non-Section 8 administrative offices. For example, Authority resolution 2009-57 indicated that the payment of \$264,674 related to the CFFP was to be made from Capital Fund program year 2009 funds. However, although the request for check was signed for approval by the executive director, the request was not properly reviewed by the accounting department, and half of the costs had been charged to the Section 8 program and not the Capital Fund

program. Regulations at 24 CFR Part 152 provide that Section 8 administrative fees may only be used for the administration of the Section 8 program. Therefore, the \$132,337 that was charged to Section 8 program was ineligible, and the Section 8 program should be repaid \$132,337 from the Capital Fund program.

## Conclusion

The Authority's financial management system did not always comply with program requirements. Review of the vouchers for the Capital Fund program disclosed that not all checks were reviewed and approved before they were issued and not all purchase orders were approved by the finance director or facilities directors to certify the availability of funds and verify that supplies were needed. Also, the Authority improperly charged \$132,337 to its Section 8 program for capital renovation and improvement costs, including the purchase of generators, that pertained to its low-rent housing projects and non-Section 8 administrative offices. We attribute the deficiencies to the Authority's inadequate controls for the authorization of purchases and approval of disbursements.

## Recommendations

We recommend that the Director, New Jersey Office of Public Housing, require Authority officials to

- 2A. Develop and implement an adequate financial management system that complies with Federal regulations and ensures that Capital Fund program vouchers are properly reviewed and approved before payment as a means of safeguarding funds from misuse.
- 2B. Provide supporting documentation to show whether the \$132,337 related to renovation and improvement costs and expenses to purchase generators should have been charged to the Section 8 program and not the CFFP or reimburse this amount to the Section 8 program from the Capital Fund program.

## SCOPE AND METHODOLOGY

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To accomplish our audit objectives, we performed the following: (1) reviewed applicable laws, regulations, and other HUD program requirements; (2) interviewed HUD and Authority officials; (3) reviewed the Authority's procurement and personnel policies; (4) reviewed the annual statements and eLOCCS Capital Fund program voucher request files; (5) reviewed records related to contracts including resolutions, disbursement records, and a contract register; and (6) reviewed reports from HUD systems, such as the Line of Credit Control System (LOCCS) and Financial Assessment Submission Public Housing Authority System (FAS-PHA).

The data obtained from the HUD systems was used to obtain an understanding of the Authority, as well as to compile and develop trends. We verified the applicable information found in the HUD systems with the actual source documents when developing the conclusions, findings, and recommendations. There were no significant problems with the reliability of the electronic data when traced to its source documents.

Based on the dollar value of the contracts, we selected a nonrepresentative sample of 6 of 23 contracts for review of procurements related to the Capital Fund program. The 23 contracts were valued at \$775,223, and the 6 selected contracts in the nonrepresentative sample were valued at \$177,050. For the CFFP, we selected all three contracts valued at nearly \$4.5 million for review of the Authority's procurement procedures.

For testing expenditures for the Capital Fund program, we obtained the voucher requests and the eLOCCS Capital Fund program payment vouchers. We selected a nonrepresentative sample of \$173,666 in vouchers from total voucher requests of more than \$1 million for testing expenses related to Capital Fund program fiscal years 2008 and 2009. For the CFFP, we selected a nonrepresentative sample of expenses totaling more than \$2.9 million from the nearly \$5 million in total expenditures approved by resolutions.

We performed the audit fieldwork from January through July 2010 at the Authority's offices located at 101 Union Avenue, Irvington, NJ. The audit covered the period April 1, 2007, through December 31, 2009. However, we extended the period as necessary to achieve our objectives.

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:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

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:

- The Authority did not have adequate support for its procurement transactions to ensure compliance with HUD requirements (see finding 1).
- The Authority expended funds from the Capital Fund program and CFFP without adequate supporting documentation (see finding 1).
- The Authority did not have adequate financial controls in place, as accounting records may not have been adequately reviewed and program funds may not be properly safeguarded (see finding 2).

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		\$146,890	
1B		\$1,740,152	
1C		\$189,295	
1F		\$151,460	
1G		\$61,998	
1H	\$209,391		
1I			\$60,621
2B		\$132,337	
Totals	\$209,391	\$2,422,132	\$60,621

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.

3/ 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 establish better controls over training and travel, it will ensure better accountability and help ensure that the average annual training and travel costs of \$60,621 are reasonable and have the proper accounting treatment.



## Appendix B

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### EVALUATION OF COMPLAINT ALLEGATIONS

We received a number of allegations from an anonymous complainant. The following allegations were determined to be material and relevant to our audit objectives and were reviewed as part of the audit.

#### Allegation 1

**The executive director is not concerned about expending considerable amounts of money and doesn't care whether there are sufficient funds.**

**Evaluation** – This allegation could not be substantiated because the executive director's level of concern is a subjective matter that is subject to interpretation. However, there were control weaknesses as some requests for checks were not reviewed and approved by accounting officials. Also, purchase orders were not approved by the finance director or facilities director to certify the availability of funds and verify that supplies were needed (see finding 2).

#### Allegation 2

**The executive director of the housing authority gave a contractor extra work without obtaining HUD approval or re-advertising for a bid.**

**Evaluation** - This allegation could not be substantiated. Although the executive director did not obtain HUD approval for the contracts funded by the CFFP and the Authority did not re-advertise or obtain additional bids for additional work, HUD approval was not required because the funds came from the bond trustee and not HUD. Nevertheless, since contract files were incomplete, there was no assurance that procurement transactions were conducted in the most economical and efficient manner (see finding 1).

#### Allegation 3

**The Authority received a bill for the purchase of generators for approximately \$200,000, and the executive director authorized Section 8 funds to pay half of the bill, even though the generators were already included in the leveraging program and, therefore, this transaction had already been paid.**

**Evaluation** – This allegation was partially valid. There was no evidence that this bill had previously been paid by the leveraging program. Although the American Institute of Architects documentation certified by the architect on December 20,

2008, indicated that the cost for purchasing the generators was \$142,000, the total cost of the invoice was \$264,674, and \$132,337 or half of this cost was paid from the Section 8 program. However, since this expense pertained to the low-rent housing program and not the Section 8 program, these costs were improperly charged to the Section 8 program and are, therefore, questioned (see finding 2).

#### **Allegation 4**

##### **Travel costs were excessive and not properly controlled.**

**Evaluation** – This allegation was valid. For Capital Fund program years 2007 and 2008, the Authority expended \$121,243 for travel and training-related expenses and charged these costs to line item 1408 – management improvements. However, the Authority’s policies did not require employees and commissioners to provide supporting documentation regarding travel and training expenses. As a result, travel costs appeared to be excessive and were not properly controlled (see finding 1).

#### **Allegation 5**

##### **The executive director doesn’t follow the rules and procedures for procurement (quotes and bids). The executive director gives contracts to his favorite people.**

**Evaluation** – This allegation was partially valid. It was not possible to determine whether the executive director awarded contracts to his favorite people. However, Authority officials inadequately documented compliance with procurement requirements. Specifically, the contract files reviewed were incomplete and missing material documentation to demonstrate compliance with procurement requirements (see finding 1).

#### **Allegation 6**

##### **The executive director is frequently absent from work or leaves early.**

**Evaluation** – This allegation could not be substantiated. The executive director is not an hourly rate employee who is required to punch a time card. We noted that the executive director was frequently not in his office during the course of the audit, but there was no requirement for him to be in his office for a core set of hours.

# Appendix C

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments



*Where the Road to  
Safe, Decent and  
Sanitary Housing  
Begins*

### *Housing Authority* *of the Township of Irvington, New Jersey*

#### COMMISSIONERS

LENEL D. JACKSON, Chairperson  
CAROLYN V. JENKINS, Vice Chairperson  
TERRY L. LUCAS  
D. BILAL BEASLEY  
JOANNE BENNETT  
JAMES DAVIS  
THECY FAUSTIN-GERMAIN

October 26, 2010

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

Attn: Mr. Edgar Moore, Regional Inspector General for Audit, New York/New Jersey

#### ***Re: Response to OIG Audit Findings***

Dear Mr. Moore:

I am responding to your "Draft Audit Findings" received via letter dated September 30, 2010. This response will address all your findings, recommendations and allegations noted in the report. I thank you for the opportunity to provide this response.

#### **Finding 1: The Authority Did Not Always Administer Its Capital Fund Programs in Accordance With HUD Regulations**

##### **Inadequate Contract Records**

The Inspector General noted that of six contracts selected for review, five were missing contract agreements, cost estimates, evaluation of bids, etc. and two of the contract files did not contain supporting documentation. Although certain documents could not be located at the time of the OIG audit due to personnel turnover, the Authority did, in all cases noted, comply with N.J.S.A. 52:32-44 (Business Registration of Public Contracts), N.J.S.A. 10:5-31 et seq., and N.J.A.A.C. 17:27 et seq. (Contract Compliance & Equal Opportunities in Public Contracts). The contract files in question were the following:

Contract valued at \$19,800 for emergency excavation and replacement of underground steam lines – Resolution # 2009-62 authorized management to purchase these services on an emergency basis. The Authority's procurement files clearly indicate that three competitive quotes were received and reviewed by the housing authority's Modernization Coordinator. The Modernization Coordinator evaluated these emergency proposals and issued a purchase order to the Company submitting the lowest responsible proposal.

**Comment 1**

**Comment 2**

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David Allen Brown, Executive Director

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**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 3**

Contract valued at \$30,000 for computer network maintenance (hardware and software) – The OIG report states that no cost estimate was prepared prior to awarding this contract. As allowed by HUD procurement regulations, the Authority used the amount of the prior year contract for these services as its cost estimate for the year in question. All firms responding to the bid were interviewed by both the Executive Director and Modernization Coordinator. All firms responding to the proposal were evaluated. Based on those interviews and the written proposals received, the contract was awarded to the most qualified bidder in accordance with the scoring criteria specified in the bid documents. Unfortunately, the Modernization Coordinator left the Authority in December of 2009, and the specific sheet formally evaluating the bids cannot be located. However, based on other documents available in the Authority files (e-mails, letters and Board Resolution #2008-57), we believe that an auditor can conclude that this process took place.

**Comment 4**

Contract valued at \$28,000 for fee accounting services – The Authority advertised for fee accounting services and received only one proposal. After attempting to get proposals from fee accountants a second time, the contract was awarded to the accounting firm that performed these services in the prior year. It should be noted that there was no significant increase in the fees charged for these services. Board Resolution # 2007-05 authorized the award of this contract.

**Comment 5**

Contract valued at \$34,530 for pest control – This contract was authorized by Board Resolution #2007-27 to the lowest responsible bidder. The OIG report states that no cost estimate was prepared prior to awarding this contract. As allowed by HUD procurement regulations, the Authority used the amount of the prior year contract for these services as its cost estimate for the year in question. All firms responding to the proposal were evaluated. Based on those interviews and the written proposals received, the contract was awarded to the most qualified bidder in accordance with the scoring criteria specified in the bid documents

**Comment 5**

Contract valued at \$34,560 for elevator repair service - This contract was authorized by Board Resolution #2007-28 to the lowest responsible bidder. The OIG report states that no cost estimate was prepared prior to awarding this contract. As allowed by HUD procurement regulations, the Authority used the amount of the prior year contract for these services as its cost estimate for the year in question. All firms responding to the proposal were evaluated. Based on those interviews and the written proposals received, the contract was awarded to the most qualified bidder in accordance with the scoring criteria specified in the bid documents

**Comment 6**

Furthermore, of the five (5) contracts questioned in the report, only one of those contracts pertains to the use of Comprehensive Grant Funding (Capital Fund Program). That contract was in the amount of \$19,800 and was for an emergency repair of underground steam pipes in September of 2009. As discussed above, it is the Authority’s position that these goods and services were procured through a public and open bidding process. Although certain documents were missing from the files, it is our opinion that sufficient

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 7**

documentation existed to conclude that the goods and services in question were procured in accordance with federal and state requirements.

**Capital Fund Financing Program**

The Inspector General's report notes that three (3) CFFP contracts were valued at more than \$4.9 million, and further states that the total disbursed by the trustee for CFFP expenditures totaled more than \$5.5 million, of which approximately 88.66% related to these three contracts. The report then states that "since more than \$19 million was paid from the Capital Fund Program to cover the debt service related to capital fund financing activities for these periods, we questioned the proportionate share of these funds of more than \$1.7 million". Although the wording is unclear, I believe what the report is trying to state is that approximately \$600,000 of the funds disbursed by the trustee was paid for expenses other than the three contracts noted. Supporting documents should exist for expenditures made from the trustee account since we had to provide support to the trustee before the trustee would make payment to the authority. Further, the trustee would not have made disbursements for items not included in the CFFP budget. We will gather the supporting documentation and provide it to HUD's representatives for their review. These documents will be presented to the HUD staff responsible for clearing these audit findings

**Comment 8**

**Inadequate Documentation Related to Noncontract Capital Fund Disbursements**

The report states that the Authority made disbursements of \$189,295 related to various disbursements of the Capital Fund Program. Specifically, items charged were as follows:

Line item 1460	\$48,674
Line item 1465	8,096
Line item 1475	2,603
Line item 1450	6,800
Line item 1460	3,165
Line item 1465	9,896
Line item 1470	14,311
Line item 1475	8,957
Line item 1460	4,920
Line item 1465	18,658
Line item 1470	6,809
Line item 1475	3,854
Line item 1460	20,913
Line item 1465	19,222
Line item 1450	2,175
Line item 1475	8,187

Many of these items were purchased under state contract; many others were under the bid threshold and we merely received quotes from vendors. I am certain that we can substantiate these items. Each draw is supported by detailed disbursements records. We

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**Auditee Comments**

simply need to trace the questioned costs back to the disbursements and then back to procurement files if required. Additionally, when purchases are made a Housing Authority Supply Requisition Form is completed, a purchase order is prepared before the goods and services are acquired, and these documents are matched to the vendor invoice prior to payment. We will present this documentation to the HUD representative assigned to follow-up on these audit findings.

**Unsupported Costs**

**Comment 9**

The Inspector General's report states that for capital fund program year 2007, there was no supporting documentation for \$111,818 of administrative costs charged to line 1410, therefore it was considered unsupported. Line 1411, Administration, under HUD's asset management model is intended to cover the central office costs of administering the capital fund program – i.e. it is intended to cover that portion of the executive director's salary and benefits, accounting department salaries and benefits, telephone, office supplies and other general and administrative costs that relate to the overall administration of the capital fund program. Those funds are transferred to the central office cost center (COCC) under the asset management model to support the operations of the COCC. Thus, there would be no reason to attach supporting documents to the draw-down. If however, the IG would like, we could simply prepare a schedule that would show an allocation of these costs from the COCC to the capital fund program. However, I believe such an exercise would not be beneficial, nor would it be required under the asset management model. This item should be deleted from the Inspector General's report before it is issued in final form.

**Comment 10**

The report states that funds budgeted for a maintenance vehicle were used to purchase a vehicle for administration. The Executive Director's contract states that he is to be provided the use of a housing authority vehicle for the performance of housing authority business. The Executive Director did provide a copy of his contract to support this position. Within the context of your report, this finding appears to be a personal attack aimed at the Housing Authority's Executive Director. As stated, the vehicle in question is a business vehicle used by the Executive Director in his official position with the housing authority. We believe this finding should be removed from your report.

**Comment 11**

For Capital Fund Program line item 1408, Management Improvements, the OIG report questions \$8,138 of unsupported travel costs. Since the PHA procedures provide that all travel by staff and commissioners is approved and that travel costs are covered by either the direct payment of travel costs by the Authority (airline tickets, hotel, etc.) or by per diem allowances, I am unsure how any travel expenses paid were not covered by these costs. The only way that I can imagine that this condition exists would be that the support was either lost or misplaced in the accounting department. We need to follow up on the specific items included in the \$8,138 and gather the appropriate support.

The OIG report also states that the Authority expended \$121,243 (CFP years 2007 and 2008) for travel and training related expenses which were not supported by either an employee certification or some other documentation that the travel for which the per

**Ref to OIG Evaluation**

**Auditee Comments**

**Comment 11**

diem was paid ever took place. Thus, these costs are also considered unsupported. In our opinion, sufficient back-up was provided for all travel. The report goes on to say that if the Authority were to implement controls over travel and training expenses, the result would be improved accountability, and therefore would be able to assure HUD that its travel and training expenses would be reasonable and those funds not used for travel would be put to better use. The OIG suggests that 50% of the \$121,243 noted above, or \$60,621 would represent a reasonable budget for travel and training. In response, it has long been the opinion of both the Authority's Board of Commissioners and Executive Director that adequate training is an important element of building a competent staff and a successful organization. However, after considering the Authority's current financial position and the budget constraints facing the Authority, The Board and senior management have concluded that limiting future travel and training budgets to \$60,000 would be in the best interest of the Irvington Housing Authority. Further, the Executive Director will prepare a new travel policy that will limit the travel of Board commissioners to one event per year and also limit the number of commissioners traveling to a single training event to two commissioners. We believe this will best serve the Authority during these difficult economic times. However, the Authority will remain committed to its program of staff and commissioner development by providing in-house training to employees where possible to ensure that the Authority continues to develop highly qualified employees.

**Comment 12**

The OIG report also states that adequate controls did not exist, nor did proper documentation exist to support the eligibility of disbursements for payroll and rental losses charged to the CFFP program. The rental loss charged (\$74,598) was supported by a detailed computation provided to the Trustee and was included in the CFFP budget. Therefore, we are unsure why it is being questioned at this time. Employee salary costs of \$100,722 were also budgeted and can be supported by payroll records.

**Comment 13**

The OIG reports that \$209,391 in costs related to the capital fund program for 2007 and 2008 were incurred prior to HUD approval of the funding, and therefore are ineligible. Unquestionably, the funds drawn down and charged to the program were incurred prior to grant approval. However, the Authority incurred expenditures subsequent to approval of the grant which were charged to operations, but could have been charged to the CFP program if the pre-approval expenditures were not. Therefore, before these expenditures are formally considered ineligible, we respectfully request that HUD grant the Authority the opportunity to review its operating expenditures and prepare amended annual statements for the 2007 and 2008 capital funds. During the past several years, the Authority has undertaken an aggressive program to improve the physical condition of its housing stock. As a result, the Authority has increased its spending in the areas of maintenance contract costs and has used operating funds to acquire capital assets and make improvements that have been capitalized. As a result, its unrestricted net assets have been used, but through this program, the Authority has been able to increase its PHA occupancy rate to over 98%. Thus, management believes that the Authority has positioned itself to meet its future financial challenges by achieving its maximum rental revenue stream and placing its housing stock in excellent physical condition. Many of the costs that were incurred to reach the position are costs that could be charged to the

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**Auditee Comments**

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**Comment 14**

capital fund in lieu of the pre-approval costs that were drawn down. Again, the Authority respectfully requests the opportunity to amend the CFP annual performance reports to include these costs and remove the pre-approval costs previously drawn down. We ask that the OIG consider that our rationale in incurring these costs was to fortify the Authority's ability to face future challenges.

In response to the specific recommendations made in Finding 1 of the report:

1A. As previously discussed, we will provide documentation related to the questioned contracts so that HUD can conclude that the disbursements were reasonable and made for properly procured contracts.

1B. We will provide documentation to HUD for the procurement of three contracts in connection with the Authority's capital leveraging program.

1C. We will provide supporting documentation for the \$189,295 charges to various line items within the 2008 capital fund program.

1D. We are in the process of developing a contract administration system that includes an adequate contract register to help monitor contract progress and to ensure that work is performed in accordance with the terms, conditions and specifications of their contract or purchase order.

1E. The Housing Authority is developing procedures to ensure that its procurement policy is adhered to and to properly document that all procurement transactions follow the regulations at 24 CFR 85.36.

1F. Supporting documentation will be provided for \$151,460 of charges to the capital fund program that have not previously been properly supported.

1G. The Authority will provide supporting documentation for the heretofore "unsupported" charges pertaining to the Capital Fund Financing Program.

1H. We respectfully disagree with the OIG's recommendation that CFP grants be reduced by \$209,391 for costs incurred prior to the approval of the 2007 and 2008 grants. As previously noted, Irvington Housing Authority incurred at least \$209,391 of expenses properly chargeable to the CFP grants, but charged these costs to operations since the CFP grants were charged costs prior to approval. This situation was the result of our bookkeeper not fully understanding the capital fund program. We will ensure that our bookkeeper is properly trained so that this situation does not recur in the future.

1I. The Executive Director will prepare a new travel policy that will limit the travel of Board commissioners to one event per year and also limit the number of commissioners traveling to a single training event to two commissioners. The agency's travel budget will be reduced to \$60,000 annually in future budgets.

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Housing Authority of the Township of Irvington, NJ 07111



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**Auditee Comments**

**Comment 15**

**Finding 2: The Authority's Financial Management System Did Not Always Comply with Program Requirements**

**Capital Fund Expenses Paid with Section 8 Program Funds**

The OIG report states that 50% of an invoice (\$132,337) was charged to the Section 8 Program and is an ineligible expense of that program. We respectfully disagree with the facts as presented in the report. While the amount in question was in fact paid with housing choice voucher program funds, the amount was not charged to the housing choice voucher program as an expense. Rather, it was recorded as a receivable from the public housing program on the books of the housing choice voucher program and a corresponding payable to the housing choice voucher program on the books of the public housing program. The amount has since been repaid to the housing choice voucher program.

In response to the specific recommendations made in Finding 2 of the report:

2A. Irvington Housing Authority will implement a financial management plan that will provide for the safeguarding of all program assets from misuse and ensure that funds for each of the Authority's programs are properly segregated.

2B. The Section 8 Program has been reimbursed for the costs in question.

**Appendix B**

Appendix B states that the Office of Inspector General received a number of allegations from an anonymous complainant. The report states that allegations 1, 2 and 6 could not be substantiated. Since they were found to be untrue, we believe they should be removed from the report.

**Comment 16**

The auditor concluded that allegation 3 was partially valid since Section 8 funds were used to pay contract costs of the public housing program. However, as previously noted, these costs have been repaid to the housing voucher program by the public housing program. Therefore, it is our contention that allegation 3 should also be removed from the report.

Allegation 4 stated that travel costs were excessive. This allegation was supported by the auditor's review and included as a finding since the auditor believes that travel expenses were excessive. However, the costs incurred were all related to reasonable and necessary business of the Authority and are supported by valid documentation. Thus, the implication made by this allegation that funds were recklessly spent on travel is unfounded. Thus, we believe that the allegation should not be mentioned in this public document.

Allegation 5 states that procurement rules and procedures weren't always followed and "the Executive Director gives contracts to his favorite people". The auditor concludes that this allegation is "partially valid" since some contract files reviewed were incomplete

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**Auditee Comments**

**Comment 16**

or missing documentation. We respectfully disagree with this conclusion. There is a material difference in having incomplete files and "giving contracts to favorite people". To state this allegation is partially true is misleading. Thus, we believe that this allegation should also be deleted from this report.

Since this report is a public document, we do not believe that unproven allegations should be included in the final report. Unproven allegations have no place in a public document, and we respectfully request that they be excluded from any document pertaining to this audit that is made public.

In summary, senior management and the Board of Commissioners of the Irvington Housing Authority realize that deficiencies in internal control exist and that policy and procedural changes must be made. To that end, we respect the work performed and recommendations made in this report and will work diligently to make improvements.

I am sure that with the appropriate technical assistance provided by the local field office, we will be able to resolve all of the above findings. It is important to note that during the fiscal years audited, the Authority had different people involved in the overall processes of procurement, cash management and capital fund management. Three (3) were terminated, one (1) resigned and one (1) is deceased. The employees responsible for these functions had not been properly trained due to the rapid turnover in personnel. Currently, the Irvington Housing Authority has hired and properly trained staff and has hired technical consultants as necessary to provide proper control over the procurement, finance, cash management and capital fund functions within the Authority. I trust that this response adequately addresses the issues raised in your response and I appreciate the opportunity to respond to your findings.

Very truly yours,



David A. Brown  
Executive Director

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Housing Authority of the Township of Irvington, NJ 07111

### OIG Evaluation of Auditee Comments

- Comment 1** Authority officials indicated that although certain documents could not be located for certain contracts, due to personnel turnover, the Authority was in compliance with the state of New Jersey's contract regulations. However, Authority officials did not maintain sufficient documentation to show that they complied with applicable procurement requirements. Therefore, if supporting documentation is available officials should provide them to HUD as part of the audit resolution process to resolve the deficiencies noted in the report, otherwise these costs are still questioned. Thus, for the specific contracts see below comments.
- Comment 2** For the contract valued at \$19,800, Authority officials indicated that this transaction was an emergency and that their procurement files clearly indicated that three competitive quotes were received and reviewed by the Authority's modernization coordinator. However, since Authority officials did not provide a contract file or other documentation for the procurement conducted in relation to this contract, it is still questioned.
- Comment 3** For the contract valued at \$30,000, Authority officials indicated that HUD procurement regulations allowed the Authority to use the amount charged to the prior year's contract as its cost estimate for the year. They believe that they complied with procurement requirements, but stated that they could not locate the bid evaluation due to staff turnover. HUD Handbook 7460.8 (3.2) provides that grantees must make independent estimates before receiving bids or proposals. We were provided with the bid tabulations, but they were missing the cost estimate, so the costs are still questioned.
- Comment 4** For the contract valued at \$28,000, Authority officials indicated that the contract was awarded to an accounting firm that performed the services in the prior year, there was no significant increase in the fees charged for the services, and a board resolution authorized the award of this contract. However, Authority officials did not provide a contract file or other documentation of the procurement transactions conducted in relation to this contract; as such, without documentation, officials cannot assure that this transaction was competitive or reasonable. In addition, the board resolution was also not enough to show that these costs were reasonable.
- Comment 5** For the contracts valued at \$34,530 and \$34,560 Authority officials indicated that HUD regulations permitted use of the amount of the prior year's contract for these services as a cost estimate. However, HUD Handbook 7460.8 (3.2) requires grantees to make independent estimates before receiving bids or proposals. Further, the Authority's contract files were missing documentation to show that officials complied with procurement regulations as with the above contracts. Therefore, these contracts are questioned pending review by HUD officials in the audit resolution process.

- Comment 6** Authority officials indicated that only one of the five contracts questioned pertained to the Capital Fund Program. They state that although certain documents were missing from the files, it is their opinion that sufficient documentation existed. However, it should be noted that Authority officials did not maintain a contract register and created one for us after the audit was begun and they listed these contracts as pertaining to the Capital Fund Program. Further, the documentation that was provided was not sufficient to show that procurements were done effectively and efficiently, therefore, the costs are still questioned.
- Comment 7** Authority official identified a typographical error in the draft report, which was corrected as more \$1.9 million was paid for debt service in relation to the questioned cost. Authority official indicated that they would obtain supporting documentation for the questioned costs and provide it to HUD staff. As such, the authority official's comments are responsive to the finding.
- Comment 8** Authority officials indicated that they would provide supporting documentation for the \$189,295 charged to various line items to the HUD representative assigned to follow-up on the findings. As such, the Authority official's comments are responsive to the finding.
- Comment 9** Authority officials indicated that supporting documentation was not required for \$111,818 of administrative costs charged to line 1410 for program year 2007 because the Authority was operating under the asset management model. Under this model administrative cost represents the central office costs of administering the Capital Fund Program, such as salary, benefits, telephone, supplies, etc, of the executive director and the accounting department. An Authority official informed us that the Authority had implemented the asset management model in April 2009. The drawdowns in question for line item 1410 were done for CFP year 2007. Thus, at the time of the drawdown, the asset management model had not been implemented by the Authority. Therefore, as recommended, Authority officials should provide HUD with the supporting documentation as part of the audit resolution process so that HUD can determine if the costs are supported and eligible.
- Comment 10** Authority officials stated that the executive director's contract indicate that he is to be provided the use of a housing authority vehicle for the performance of housing authority business, and that the executive director provided a copy of his contract to support this position. However, we were never provided with a copy of the executive director's contract during the audit. Furthermore, the vehicle was not listed in the annual statement for the Capital Fund Program. Regulations at 24 CFR 968.112(a)(1)(i) state that a PHA may use financial assistance received for eligible costs undertaking activities described in its approved annual statement and five year action plan. However, since the vehicle was not listed in the annual statement or five year plan the costs are still considered as unsupported.

**Comment 11** Authority officials state that their procedures provide that all travel by staff and commissioners that is approved, is covered by either the direct payment of travel costs by the Authority or by per diem allowances. Authority officials indicated that the only way travel costs would not be supported was if the documentation was either lost or misplaced in the accounting department, therefore, they will follow-up and gather the appropriated support for the specific items. However, due to the lack of controls over travel and training, the Authority's travel policy in place did not provide for accountability as in this instance the cost for airline tickets, hotel and per diem amounts were advanced before the travel took place. Further, there was no certification that the training was attended and no support for the amount of costs incurred. Therefore, these amounts are considered to be unsupported, and Authority officials could not assure HUD that travel and training costs were reasonable.

Authority Officials went on to say that in their opinion sufficient backup was provided for all travel. They assumed that OIG suggested that \$60,621 would be a reasonable budget for travel and training; however, the OIG auditor did not recommend this. Nevertheless, Authority officials indicated that a new travel policy will be prepared that will limit travel of board commissioners to one event per year, and also limit the number of commissioners allowed to travel to a single training event, to two commissioners. Thus the Authority official's comments are responsive to the finding and recommendations.

**Comment 12** Authority officials stated the rental loss charged (\$74,598) was supported by a detailed computation provided to the trustee and included in the CFFP budget. They also stated that employee salary costs (\$100,722) were budgeted and can be supported by payroll records. However, Authority officials did not provide the supporting documentation for these questioned costs even though numerous requests for the documentation had been made during the audit. Therefore, Authority officials should provide the supporting documentation for the unsupported charges pertaining to the CFFP to HUD as part of the audit resolution process.

**Comment 13** Authority officials agreed that the \$209,391 of costs were incurred prior to HUD approval of the funding, but stated that they incurred expenses subsequent to approval that was charged to operations, even though they could have been charged to the capital fund program. As such, they requested that the Authority be provided the opportunity to review their operating expenditures and prepare amended annual statements for the 2007 and 2008 Capital Funds and be allowed to charge these cost to the capital fund program in lieu of the incurred pre-approval costs. Authority official did not provide documentation during the course of the audit to support the eligibility of the costs incurred prior to HUD approval of the funding, therefore, the costs are ineligible per regulations at 24 CFR 968.112(n). In addition, Authority officials did not provide documentation during the audit regarding the additional costs charged to operations. As such,

during the audit resolution process, HUD officials will have to determine whether to allow costs to be substituted or repaid.

**Comment 14** Authority officials' comments are responsive to the recommendations.

**Comment 15** Authority officials indicate that although \$132,337 was paid with housing choice voucher program funds, this amount was also listed as a receivable on the books of the housing choice voucher program due from the public housing program. Authority officials also indicate that this amount has since been repaid to the housing choice voucher program. In addition, Authority officials agreed to implement a financial management plan that will provide for the safeguarding of all program assets from misuse and ensure that funds for each of the Authority's programs are properly segregated. The Authority charged \$132,337 to its Section 8 program for renovation and improvement costs, including the purchase of generators, that pertained to its low-rent housing projects and non-Section 8 administrative offices. Therefore, these costs were ineligible charges to the housing choice voucher program. Nevertheless, if the funds have been repaid, Authority officials need to provide documentation to HUD during the audit resolution process showing that these funds have been reimbursed. In addition, evidence that improved financial controls were implemented should also be provided to HUD officials.

**Comment 16** Authority officials indicated that since some of the allegations in an anonymous complaint could not be substantiated or were found to be un-true, they should be removed from the report. Authority officials indicated that allegation 3 should be removed because it was not true as the questioned costs were repaid to the Section 8 program. Authority officials disagreed with the evaluation of allegation 4 and state that travel costs incurred were all related to reasonable and necessary business of the Authority and were supported by valid documentation. Authority officials disagreed with the evaluation of allegation 5 regarding not always following procurement rules and they believe that stating that the allegation is partially true is misleading when it relates to the executive director giving contracts to favorite people. However, the allegations will not be removed from the report. Although Authority officials stated that the Section 8 program was repaid there no supporting documentation provided during the audit. Also since travel costs were not properly supported, these costs are not considered to be reasonable. In addition, the audit finding supports that there was a lack of documented compliance with procurement requirements. Further, since it was not possible to determine if preferences were shown to some contractors because of the lack of documented procurement procedures used, the report is not misleading. Therefore, the evaluation of the allegations was fair and reasonable based on the facts, and the report has not been changed.