
AUDIT REPORT



NEWPORT RESIDENT COUNCIL, INC.

NEWPORT, RHODE ISLAND

2002-BO-1003

APRIL 30, 2002

OFFICE OF AUDIT, NEW ENGLAND
BOSTON, MASSACHUSETTS



Issue Date	April 30, 2002
Audit Case Number	2002-BO-1003

TO: Donna Ayala, Director, Office of Public Housing, 1APH



FROM: Barry L. Savill, District Inspector General, Office of Audit, 1AGA

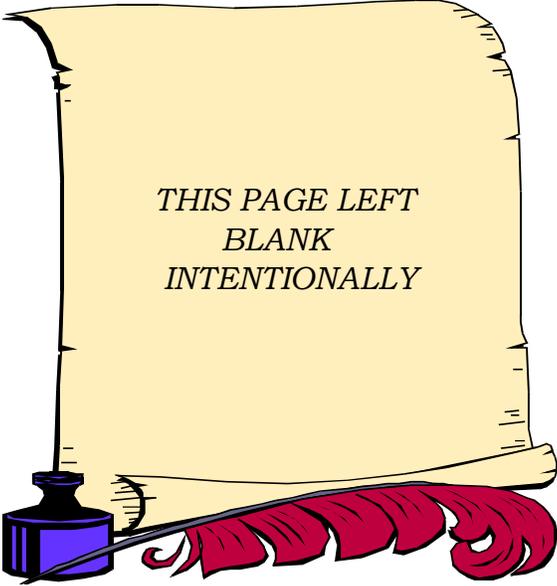
SUBJECT: Newport Resident Council, Inc.
Newport, Rhode Island

As requested by your office, we performed an audit of the Newport Resident Council, Inc.,(NRC). The overall objective of our audit was to determine if the NRC was administering its federal funds in an efficient, effective and economical manner and in compliance with the terms of its federal contracts and regulations. The NRC received \$195,275 from the Housing Authority of the City of Newport, Rhode Island through the Comprehensive Grant Program and Tenant Services Program between August 1, 1999 and January 31, 2001. The NRC also received \$70,000 from the City of Newport, Rhode Island through the Rhode Island Small Cities Community Development Block Grant for the Employment Readiness Program.

Our audit disclosed the NRC did not establish accountability over these funds. Specifically, the NRC failed to maintain adequate accounting records and monitoring procedures resulting in \$42,887 in questionable costs. These deficiencies occurred because the NRC Board of Directors did not effectively manage and account for its federal funds.

Within 60 days, please provide us a status report for each recommendation listing: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued because of this audit.

If you have any questions, please contact our office at (617) 994-8380.



Executive Summary

As requested by your office, we performed an audit of the Newport Resident Council, Inc. (NRC). The overall objective of our audit was to determine if the NRC was administering all federal funds it received in an efficient, effective and economical manner and in compliance with the terms of its federal contracts and regulations. The NRC received funds from the Housing Authority of the City of Newport, Rhode Island (Authority) through the Comprehensive Grant Program and Tenant Services Program. The NRC also received funds from the City of Newport, Rhode Island (City) through the Rhode Island Small Cities Community Development Block Grant for the Employment Readiness Program.

Audit Results

Our audit disclosed the NRC did not establish accountability over all federal funds it received from the Authority and City, including Comprehensive Grant Program (CGP), Tenant Services Program and Employment Readiness Program funds, which as of January 31, 2001 totaled \$265,275. Specifically, the NRC failed to maintain adequate accounting and monitoring records over Comprehensive Grant Program, Tenant Services Program and Employment Readiness Program funds provided by the Authority and City. We also noted \$42,887 in questionable costs. The deficiencies occurred because the NRC Board of Directors did not effectively manage and account for its federal funds.

Since the NRC received CGP and Tenant Services Program funds from the Authority, we recommend that you require the Authority to ensure that the NRC reimburses the Authority for all ineligible expenditures made from federal funds and that appropriate administrative action is taken against NRC individuals who improperly used federal funds.

We also recommend that you require the Authority to ensure that the NRC evaluates the reasonableness and eligibility of all expenditures charged to the Comprehensive Grant Program and Tenant Services Program. Lastly, we recommend that you require the Authority to ensure that the NRC establishes fiscal accountability and effective management controls in regards to the use of federal funds.

Findings and
Recommendations
Discussed

We discussed the findings in this report with the Authority and the NRC staff and Board members during the course of the audit. On February 26, 2002, we provided the Authority and NRC a copy of the draft audit report for comment. We received the NRC's written response on March 15, 2002 and the Authority's response on March 25, 2002. We included their pertinent comments in the Finding section of this report. The NRC's full response is included in Appendix C and the Authority's full response is included in Appendix D.

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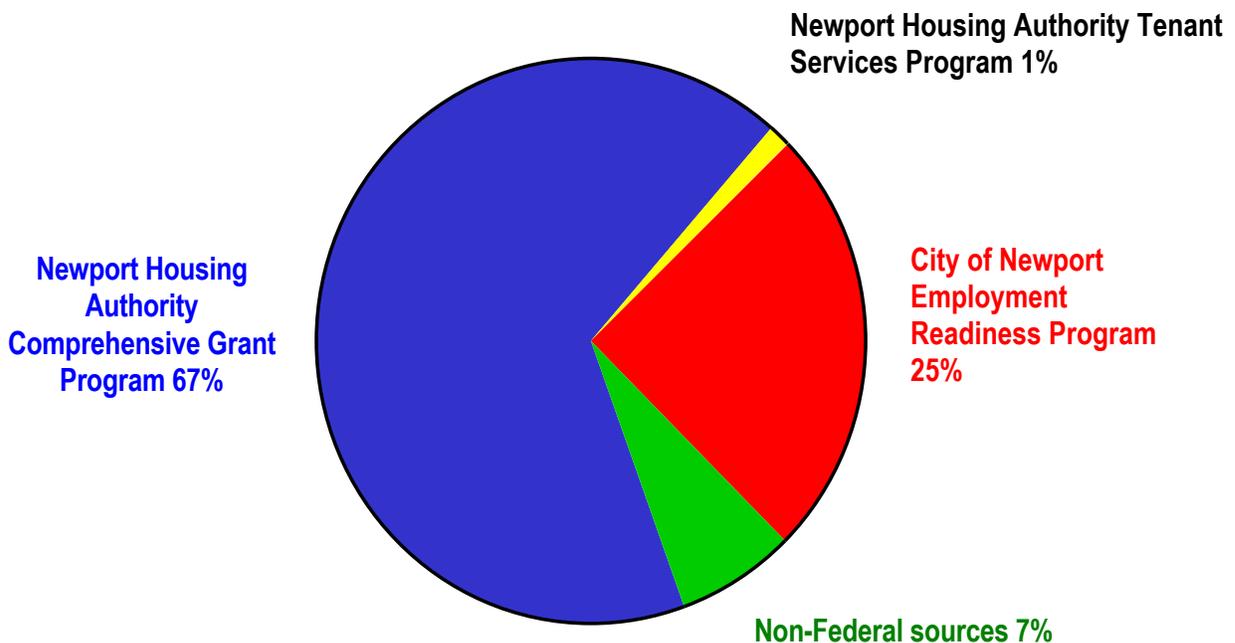
Introduction

The Newport Resident Council, Inc. (NRC) is an organization of and for residents of the public housing developments within the Housing Authority of the City of Newport, Rhode Island (Authority). As of May 17, 2001, the Authority had six developments with 1,096 units and 3,451 residents. The NRC's mission is to provide programs and services to maximize residents' dignity, respect, standard of living and quality of life.

The Board of Directors is the governing body of the NRC. Any resident of a development managed by the Authority may join the NRC. The residents elect the fourteen members of the Board of Directors, which include the President of the Board and Development Representatives. The minimum number of Board members allowed is seven. The Board is responsible for overseeing the operation of the NRC and appointing an Executive Director who runs the day-to-day operations of the NRC. As of the time of our review, the NRC had no Executive Director and had effectively ceased operations.

During the period of our review, NRC received funding from the Housing Authority, the City of Newport, RI and several non-federal sources.

Funding for Newport Resident Council



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NRC Contracts with the Authority

The Authority used its Comprehensive Grant Program (CGP) to fund a contract with the NRC. Under this contract NRC would provide services to low-income residents for the period of August 1, 1999 to July 31, 2000. Tasks under this contract included:

- outreach and organizing;
- computer training;
- job development training; and
- workshops and seminars on skills training and development.

NRC and the Authority entered into a one-year contract for August 1, 1999 and July 31, 2000 for \$130,000 with an additional \$12,133 for the purchase of laptop computers and \$3,942 for other tenant-related services. When this contract expired, on July 31, 2000, the Authority did not enter into another contract because the Authority was not satisfied with the NRC's performance. Although the contract had expired, the Authority agreed to continue funding NRC if the NRC could: (1) document their expenses and (2) demonstrate their achievement of the specified goals and objectives stated in the initial contract. Using funding from the Comprehensive Grant Program and the Tenant Services Program, the Authority provided another \$49,200 to the NRC between August 1, 2000 and January 31, 2001.

NRC also contracts with the City

The City of Newport used its Small Cities Community Development Block Grant to fund a \$70,000 contract with the NRC for job training under the Employment Readiness Program. The Employment Readiness Program exists to fill the gap left by traditional training programs that are not prepared to address many of the social, economic and educational problems impacting disadvantaged individuals and their families. NRC was contractually required to assist forty to fifty residents of the Authority and an additional ten to twenty low-income individuals from subsidized housing developments in the area. During the contract's term of August 1, 1999 to July 31, 2000, NRC would teach various skills to residents such as:

- shaking hands in the business world,
- being responsible and dependable,
- dressing in appropriate business attire,
- conducting interviews,
- writing a resume,
- utilizing a telephone professionally
- using a computer

Non federal funding.

NRC received almost \$20,000 from non-HUD sources including national non-profit organizations, state-wide non-profit organizations and local fund raising efforts.

Audit discovers problems

NRC hired an independent public accountant to conduct an audit of its operations. Dated June 30, 2000, the audit report identified operational problems such as:

- personal charges made to NRC credit cards,
- loans to employees and board members, and the
- absence of NRC credit card and travel policies.

In January 2001, a second independent audit was scheduled by the Authority in response to allegations of credit card abuse by NRC personnel published in local newspapers. The NRC refused to provide records to the Authority subsequent to July 31, 2000. The NRC believed that the Authority had no justification for reviewing its records after July 31, 2000 because the contract between the Authority and the NRC had expired. As a result, the Authority has refused to provide additional funds to the NRC until an audit is completed.

In February 2001, the Massachusetts Office of Public Housing requested that our office audit the NRC's books and records.

Audit Objectives

The overall objective of our audit was to determine if the NRC was administering all federal funds it received in an efficient, effective and economical manner and in compliance with the terms of its federal contracts and regulations.

Audit Scope and Methodology

To accomplish our audit objective, we:

- Obtained and reviewed the NRC's contracts with the Housing Authority of the City of Newport, Rhode Island and the City of Newport, Rhode Island, and federal regulations.
- Obtained and reviewed the independent audit report dated June 30, 2000;
- Reviewed the NRC's financial records of cash receipts and disbursements;
- Selected and reviewed a sample of 119 out of 502 check disbursements made between August 1999 through January 2001 to determine whether items were reasonable and necessary under the contract and were adequately supported. We determined that a non-

representational sample was appropriate for testing the allegations.

- Reviewed petty cash account transactions between August 1999 and January 2001 to determine the nature and reasonableness of expenditures;
- Determined whether NRC staff and members of the Board of Directors have repaid all loans from NRC funds identified during our audit period;
- Reviewed the NRC's credit card policies and procedures to determine if policies and procedures are reasonable, adequate and comply with federal regulations governing the funding;
- Reviewed all credit card charges between August 1999 and January 2001 to determine if the charges were reasonable and necessary for the operation of the NRC and in compliance with the contracts and federal regulations;
- Evaluated the reasonableness and eligibility of all out-of-state travel costs charged to HUD programs between August 1999 and January 2001;
- Inventoried the laptop computer equipment purchased with HUD funds;
- Held discussions with NRC staff, the President of the Board of Directors, the NRC's independent auditors, the NRC's attorney, and the HUD Massachusetts State Office of Public Housing staff.

We conducted our audit at the NRC's office located in Newport, Rhode Island. Our audit covered the period between August 1, 1999 and January 31, 2001. Where appropriate, the review was extended to include other periods. Audit work was performed from February 2001 through March 2001.

Our audit was conducted in accordance with generally accepted government auditing standards.

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Accountability for Federal Funds Not Established

The Newport Resident Council, Inc. (NRC) did not establish accountability for HUD funds. The NRC failed to maintain adequate accounting records and failed to perform their contractual obligation. As a result, the NRC is unable to assure either the Authority or the City that charges to its programs are reasonable, eligible and effectively utilize limited federal funds. These deficiencies occurred as a result of the NRC's Board of Directors' inability to effectively manage and account for its federal funds. Between August 1999 and January 2001, NRC incurred questionable costs of \$42,887.

Adequate Financial Management System Required

The NRC's contract with the Authority requires NRC to comply with all applicable federal and state financial audit requirements pertaining to non-profit organizations. The NRC's contract with the City also requires that the NRC comply with federal regulations including OMB Circular A-110 Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.

In Subpart C paragraph 21 (b) 2, 3, and 7, OMB Circular A-110 states that recipients' financial management systems shall provide for:

- (2) Records that identify adequately the source and application of funds for federally sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest . . .*
- (3) Effective control over and accountability for all funds, property, and other assets. Recipients shall adequately safeguard all such assets and assure that they are used for authorized purposes . . .*
- (7) Accounting records including cost accounting records that are supported by source documentation.*

NRC's accounting records were not accurate because expenses were not accurately posted to the accounting records. The NRC received \$265,275 in HUD funds and almost \$20,000 from various other non-HUD sources

Finding 1

including national non-profit organizations, state-wide non-profit organizations and local fund raising efforts. Although the NRC received \$285,275 between August 1, 1999 and January 31, 2001, it expensed \$292,945 or \$7,670 more than it received.

Funding Source	Amount Funded	Amount Expensed on Books	Difference
Comprehensive Grant Program	\$191,333	\$229,084	(\$37,751)
Tenant Services	\$3,942	\$4,911	(\$969)
Employment Readiness Program	\$70,000	\$51,513	\$18,487
non-federal sources	\$20,000	\$7,437	\$12,563
Total	\$285,275	\$292,945	(\$7,670)

Between August 1999 and January 2001, NRC charged \$41,938 on their credit cards. During this same period, it expensed \$20,629, posted \$13,882 to their Accounts Payable and did not account for the remaining \$7,427.

However, when we manually calculated the amount of credit card charges not recorded as Accounts Payable between November 2001 and January 2001, we found that \$7,591 was not recorded. NRC personnel were unable to reconcile or explain the difference between the \$7,427 and \$7,591.

Questionable Expenditures Paid

Between August 1999 and January 2001, NRC paid \$42,887 in questionable expenditures. Of this amount \$26,342 represented credit card charges (Appendix B) and \$16,545 represented check disbursements (Appendix C).

OMB Circular A-122, Cost Principles for Non-Profit Organizations advises that allowable costs must be reasonable for the performance of the award, allocable to the award and adequately documented. To determine the reasonableness of a given cost, consideration shall be given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.

Used Credit Cards for Personal Expenses

The \$26,342 of questionable credit card charges included personal expenses of the NRC's former Executive Director such as meals, hotel lodging, flowers, grocery, alcohol, and jewelry. NRC also made purchases for events such as staff birthdays, going-away parties, Secretary's Day, Valentine's Day, and the wedding of a relative of a Board member. There was no supporting documentation available to evidence that any of the \$26,342 in credit card charges were necessary for the performance of NRC's federally funded programs. Attachment A lists these questionable expenditures.

Questionable Check Disbursements

The \$16,545 of questionable disbursements by check included cash bonuses to the NRC's former Executive Director, NRC staff members, volunteers, and members of the Board of Directors; and loans to NRC staff and Board members. In addition, proper supporting documentation was not available for services such as cleaning, instructor fees, and bookkeeping, as well as, trips made by NRC staff, and meal reimbursements. Attachment B shows a listing of these questionable expenditures.

Credit Card Policy not in Accordance with Federal Regulations

Prior to August 2000, the NRC did not have a credit card policy. When the NRC promulgated a credit card policy in August 2000, it contradicted federal regulations by stating, in part:

Purchases of items for personal use, which are of a non-business nature, is not allowed without direct authorization of the Board of Directors or the Executive Director.

OMB Circular A-122, Attachment B, paragraph 18 specifically states that: *costs of goods or services for personal use of the organization's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.* NRC's policy should be revised to prohibit this practice under all circumstances.

Accrual of Credit Card Finance Charges

The NRC issued three credit cards: (1) NRC's former Executive Director, (2) President of the Board of Directors, and (3) the Office Manager. Between August 1999 and January 2001, \$41,938 was charged to these cards. The unpaid balance in January 2001 totaled \$8,055. However, the NRC bank account as of February 2001 showed only

\$3,497 in funds available, which is approximately \$4,500 less than the credit card balance. With no active funding sources, the NRC will continue to needlessly incur interest expenses on the credit cards.

Travel Policies Not Enforced

Prior to August 2000, the NRC did not have a travel policy. However, subsequent to August 2000 when NRC developed a policy they did not follow or enforce their policy. Our review disclosed that NRC employees received travel advances, but did not reconcile actual travel costs with the advances. As a result, NRC staff used credit cards to pay travel-related expenditures for which they had previously received an advance. NRC did not maintain adequate documentation to identify the traveler, identify the purpose of the trip, or compute actual expenditures less any travel advances. Supporting documentation typically consisted of either a check requisition form or a memo from the NRC's former Executive Director regarding the trip.

Inadequate Oversight by Board

NRC's Board of Directors was aware that the NRC's former Executive Director was using NRC resources for personal expenses. In October 2000, the Board of Directors discussed the significant amount of personal charges on the credit cards with the NRC's former Executive Director and requested that he sign a repayment agreement. According to the President of the Board of Directors, the former Executive Director acknowledged to the Board that he used the credit cards for personal reasons and he refused to sign the repayment agreement. Although the Board was aware of the personal charges and the former Executive Director's refusal to sign a repayment agreement, the Board did not remove the credit cards from the former Executive Director's possession until January 2001. Failure to close the credit card accounts allowed the former Executive Director to charge an additional \$6,880 in questionable costs after October 2000.

Improvements Needed

As a result of the lack of accountability, the NRC is unable to assure the Authority and HUD that its expenditures are reasonable, eligible, and an effective use of limited Federal funds. The NRC Board of Directors needs to ensure:

- accountability over all Federal funds,
- policies and procedures are appropriate, implemented, and comply with Federal regulations.

Auditee Comments**Authority and NRC Comments**

As the NRC is funded by HUD through the Authority, both the Authority and the NRC were given the opportunity to comment on the report. A complete text of the Authority's response is available in Appendix B and a complete text of the NRC's response is available in Appendix C.

Both the Authority and the NRC advise that they have implemented a system to avoid re-occurrence of the questionable expenditures. Both the NRC and the Authority believe that individuals should be held accountable for their actions. Both the Authority and the NRC contend that they will be unable to determine the eligibility of expenditures with the available records when professional auditors are unable to determine eligibility. Both the Authority and NRC contend that the NRC has no substantial source of funds other than HUD funds therefore reimbursement from non-federal funds is not practical.

Additional Comment by the Authority

The Authority noted that it made the request to HUD for an audit to assist with dealing with stone-walling of the former Executive Director and it continues to request HUD's assistance to impose appropriate sanctions as recommended.

Additional Comment by the NRC

The NRC contends that the Board instructed the employees to no longer use the credit cards when it learned of questionable expenditures. The NRC's response also

contends that the Board had no reason to believe its instructions would not be followed.

OIG Evaluation of
Auditee Comments

The new system to avoid re-occurrence of questionable expenditures needs to be evaluated by HUD to ensure recurrence is avoided. Individuals should be held accountable for their actions. Expenditures whose eligibility cannot be proven should be reimbursed to the program. NHA and NRC should pursue their plan to obtain reimbursement from individuals. Repayment of remaining funds should be discussed with HUD.

NRC contends that it did not know that its instructions would not be followed. The existence of questionable expenditures gives reason to believe that instructions would not be followed.

Recommendations

We recommend that you require the Authority to:

- 1A. Require the NRC to reimburse the Authority for all ineligible costs.
- 1B. Impose appropriate administrative sanctions against individuals who improperly used federal funds.
- 1C. Require the NRC to provide your staff documentation of the amount, the eligibility and the reasonableness of all expenditures
- 1D. Require the Authority to ensure that NRC establishes fiscal accountability and effective management controls to assure that Federal funds are used effectively and efficiently.
- 1E. Require the NHA to monitor the performance of its contractors to ensure that all expenditures are reasonable for the performance of the contract and accurately reflect expenditures necessary to the contract.

Management Controls

In planning and performing our audit, we considered management controls of the Newport Resident Council, Inc. (NRC) as specifically related to funding provided by the Housing Authority of the City of Newport, Rhode Island (Authority) and by the City of Newport, Rhode Island (City). We evaluated management controls to determine our auditing procedures to be used, and not to provide assurance on management controls.

Management controls consist of a plan or organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports.

Relevant Management Controls

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

- Financial controls over program funding
- Management controls over program expenditures
- Policies and procedures over travel and credit card usage

Assessment Results

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in financial statements and reports.

Significant Weaknesses

Our review identified significant weaknesses at the NRC including their lack of accountability over HUD funds received from the Authority and the City. Specific weaknesses were identified in all of the management control areas discussed above. These weaknesses are described in the Finding section of this report.



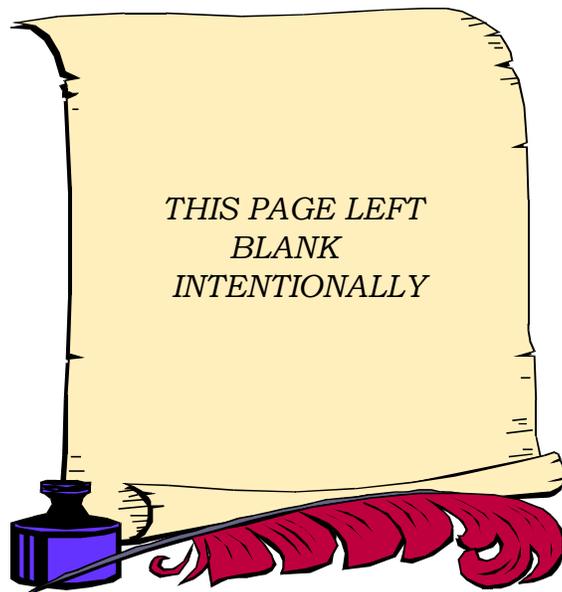
Questioned Costs

Finding 1	Amount
Questionable Disbursements via check, Details in Appendix B	\$26,342
Questionable Disbursements via credit card, Details in Appendix C	\$16,545
Total	\$42,887



Questionable Credit Card Charges

Category	Amounts
Cash Advances	\$ 9,093
Local Meals	3,925
Local Hotels	1,975
Hotel charges for out-of-state travel (includes movies, phone, parking)	1,689
Department Store Purchases	1,542
Other Purchases	1,158
Meals for out-of-state travel	1,078
Finance Charges/Late Payment Charges/Cash Advance Fees	974
Cash Advances for out-of-state travel (including ATM fees)	921
Jewelry Store Purchases	842
Grocery Store Purchases	701
Transportation costs for out-of-state travel	501
Video Store Purchases	392
Pharmacy Purchases	344
Liquor Store Purchases	303
Merchandise/Department Store Purchases for out-of-state travel	243
Other Purchases for out-of-state travel	207
Music Store Purchases	189
Flower Shop Purchases	81
Toy Purchases	75
Alcoholic Beverages for out-of-state travel	45
Convenience Stores/Gas Station Purchases	34
Gas for out-of-state travel	30
Totals	\$26,342



Questionable Check Disbursements

Description	Amount
1999 Bonus to Executive Director	\$ 5,000
Loans to NRC staff and Board Members	2,500
Payments for Services (bookkeeping, cleaning, instructors, landscaping)	2,480
Trips made by NRC staff and food reimbursements	2,070
2000 Christmas bonus to Board Members (\$675)and volunteers (\$400)	1,075
Payments for volunteer services	760
1999 Christmas bonus to Board Members (\$500) and volunteers (\$250)	750
1999 Christmas bonus to NRC staff members	700
Flowers	609
2000 Christmas bonus to NRC staff members	450
Charitable contribution	100
Pantyhose	26
NRC staff member parking ticket	25
Total	\$16,545

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Auditee Comments

Newport Resident Council, Inc.

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March 15, 2002

Barry L. Savill
District Inspector General
Office of Audit
Dept. of HUD
10 Causeway Street
Boston, MA 02222-1092

re: Comments to Draft Audit
On behalf of the NRC

Dear Mr. Savill:

I recently obtained a courtesy copy of your draft audit report from the Housing Authority as the report was not sent to me although I had identified myself as the attorney for the NRC. For this reason, I request that these comments be considered as a timely response to the draft report.

In the meeting with representatives of your office on January 8, 2002 to discuss the initial draft, the NRC made several comments regarding the report which are not reflected in the revised draft and are therefor reiterated herein.

Comment - Your auditors were at the NRC office on numerous occasions over a two month period examining the books and records of the organization. At our meeting of January 8, 2002, your auditors agreed with the NRC statement that the NRC was completely cooperative with the audit investigation, provided access to all its books and records, and that there was no indication that any information was withheld.

Comment - Your report identifies approximately \$43,000 in "questionable costs" but fails to identify any "ineligible" expenditures. As your staff indicated "questionable costs" are just that, "questionable", meaning lacking the appropriate documentation, as opposed to illegal. Your report indicates that

the NRC and the HACN should now determine which costs are "ineligible".

We pointed out at our meeting that the persons that allegedly incurred the questionable expenditures are no longer employed by or associated with the NRC. The NRC and the HACN only have access to the very books that your expert auditors had available to them. If your auditors after two months of thorough review were unable to determine which expenditures were ineligible (versus "questionable"), then it is unreasonable and disingenuous for your office to expect the NRC or the HACN to do so.

Comment - Your report faults the NRC Board for not taking action when they learned of questionable expenditures. That is not accurate. The Board instructed its employees to no longer use the credit cards. The Board had no reason to believe that its instructions would not be followed. When it discovered that their instructions were not followed, it did take additional action. Obviously, in hindsight, the NRC Board would have taken stronger action.

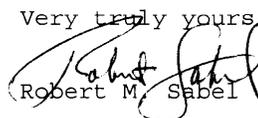
Comment - The NRC fully agrees with the Audit recommendations that changes in procedure need to be implemented so that the kind of activity that led to this audit cannot and does not recur. The NRC and the HACN have begun that process. At present all expenditures by the NRC are through a requisition process that insures adequate documentation and HACN oversight.

Comment - The report calls for HACN to ensure the NRC repayment of ineligible expenditures. As indicated above, no ineligible expenditures were identified by the audit, and if your auditors are unable to do so, it is difficult to see how anyone else could make such determination. Most importantly, as HUD well knows, the NRC is supported by HUD funds and has no independent source with which to make any repayment even if ineligible costs could be ascertained. At present the NRC has no employees and is sustained solely by the efforts of volunteers. If there has been individual wrongdoing for private benefit then the NRC has no argument with those persons being held accountable.

Comment - The issues raised by the audit are of extreme concern to the current board of the NRC. No employee associated with any questionable expenditure is associated with the NRC, as an employee or board member. The current board wants to take whatever action is necessary to rebuild the trust of the residents, the HACN and the community. However, it cannot do the impossible and the audit should not suggest courses of action which are manifestly infeasible. It is very important for the benefit of the approximate 3000 residents of the HACN that the residents have an

organization that can represent their interests and comment on their behalf. For this reason the NRC urges that the audit fully consider the implications of its recommendations so that our residents are not penalized for acts done by others.

Very truly yours,


Robert M. Sabel

cc: NRC
HACN

Auditee Comments

Newport Housing Authority

**THE HOUSING AUTHORITY
OF THE
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March 25, 2002

Barry L. Savill
District Inspector General
Office of Audit
Department of Housing and Urban Development
10 Causeway Street
Boston, MA 02222-1092

RE: Comments on Draft Audit of the Newport Residents Council

Dear Mr. Savill:

The Housing Authority of the City of Newport, Rhode Island requests that the following comments be considered in response to the above Draft Audit Report received on February 26, 2002:

Comment- The Authority fully supports the Audit recommendation that procedural changes must be made to be sure that this situation does not happen in the future. The Authority has currently implemented a system by which any expenditures on behalf of the Newport Residents Council are made directly by the Authority, are limited in scope, and adequately authorized and documented to insure oversight by the Authority. The Authority strongly feels that, if there have been misdeeds on the part of Newport Residents Council Executive Staff or Board Members, then those persons should be held accountable and we pledge to do whatever we can to insure that this unfortunate situation can never occur again.

Comment- The Authority intends to present a copy of this Audit to the Newport Police Department for investigation of any possible criminal wrongdoing on the part of former Newport Residents Council Staff and/or Board Members. The Authority hopes that you will cooperate in this by providing any additional information that you have as a result of the Audit Procedure that could be helpful to the police should they agree to investigate further.

Comment- We wish to note that it was the Authority that made the request to HUD for this Audit. As noted in the Audit, Newport Residents Council refused to cooperate with the

Barry L. Savill
March 25, 2002
Page two

Authority's investigation of their finances and refused to adopt policies and procedures recommended to the Newport Residents Council as a result of the two audits conducted in 2000 and 2001. The Authority became frustrated by the stone-walling of the former Executive Director and when a deadline set by the Authority to produce financial records came and went without a word, the Authority requested assistance in dealing with this situation from the Providence HUD Office. When it became apparent that the Authority could not monitor the performance of the Newport Residents Council we requested your help.

Comment- The report recommends that the Authority require the Newport Residents Council to reimburse the Authority for all ineligible costs from non-federal funds. The report identifies \$42,887 in "Questionable Costs" but does not identify which of these are "Ineligible Costs". It appears that this determination is being placed on the Newport Residents Council and the Authority. If professional auditors were unable to make that determination in reviewing the records it is unreasonable to expect that the Authority's staff working with the same inaccurate records and new volunteer members of the Newport Residents Council will be able to do it.

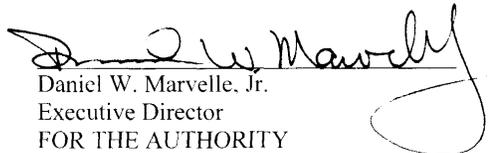
Additionally, the Authority is not aware that the Newport Residents Council receives any substantial amounts of non-federal funds. We question how the Newport Residents Council would be able to reimburse ineligible costs from non-federal funds.

Comment- One of the audit objectives was to determine whether Newport Residents Council staff and members of the Board of Directors have repaid all loans from Newport Residents Council funds identified during the audit period. Appendix C Questionable Check Disbursements shows loans to Newport Residents Council staff and Board Members of \$2500. The report does not state if these loans were repaid.

Comment- The Audit recommends that the Authority impose appropriate administrative sanctions against individuals who improperly used federal funds, but does not specifically identify these individuals or specify what sanctions can be imposed. The Authority requests guidance in complying with this recommendation.

The Authority thanks you for your efforts and for this opportunity to comment on the Audit. The Authority is extremely troubled by the findings in the Audit Report. The Authority will take whatever actions are necessary to insure that type of mismanagement and lack of accountability can not occur in the future.

Sincerely,


Daniel W. Marvelle, Jr.
Executive Director
FOR THE AUTHORITY

DWM/jw

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Change Number: 3
Last Saved On: 4/30/02 4:53 PM
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Total Editing Time: 4 Minutes
Last Printed On: 4/30/02 5:01 PM
As of Last Complete Printing
Number of Pages: 36
Number of Words: 4,072 (approx.)
Number of Characters: 23,214 (approx.)