



U.S. Department of Housing and Urban Development
New England Office of District Inspector General
for Audit, 1AGA
Thomas P. O'Neill, Jr. Federal Building
Room 370
10 Causeway Street
Boston, Massachusetts 02222-1092

Audit Memorandum

No: 2002-BO-1801

December 20, 2001

MEMORANDUM FOR: Donna J. Ayala, Director, Office of Public Housing, 1APH

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

SUBJECT: South Kingstown Housing Authority
South Kingstown, Rhode Island

.As requested by your office, we performed a review of the South Kingstown Housing Authority (Authority). The overall objective of our review was to determine if the Authority was administering its Public Housing and Section 8 Programs in an efficient, effective and economical manner. Specifically, our objective was to evaluate the allegations regarding the misuse of Authority funds by the former Executive Director and the misuse of the Authority's credit cards.

Our review disclosed that the Authority does not administer its Public Housing and Section 8 Programs in an efficient, effective and economical manner. Specifically, the Authority lacks the proper internal controls contributing to the improper use of the Authority's credit cards; the poor safeguarding of assets; and the failure to enforce their own travel policies. Further, the Authority has been unable to adequately recover outstanding tenants' accounts receivables.

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

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

Background

The South Kingstown Housing Authority (Authority), located at 364 Curtis Corner Road, Peace Dale, Rhode Island is responsible for oversight and management of 52 family housing units, 18 elderly units and 138 Section 8 vouchers. A five-member Board of Commissioners governs the Authority.

On January 16, 2001, the Director, Office of Public Housing, New England District requested that we perform a review of the Authority's financial records. Concerns and third party allegations were that the former Executive Director misused Authority funds and purchased items for her personal use including gas on Authority credit cards. In addition, it was alleged that the Authority's maintenance personnel may have been involved with the delivery and installation of equipment at the former Executive Director's residence.

On November 7, 2000, the Executive Director was terminated. On January 10, 2001, the Rhode Island Affordable Housing Corporation (Corporation) was hired by the Board of Commissioners to provide technical assistance to the Authority's staff, evaluate the staff's operations, and to assist in hiring a new Executive Director. On April 16, 2001, a new Executive Director was hired to run the day-to-day operations of the Authority.

On April 30, 2001, the Corporation issued its report to the Board of Commissioners, consisting of eleven findings with recommendations for corrective action. The most significant item reported was that the Authority needs a long range Capital Improvement Program to address health and safety issues, and statutory and regulatory requirements of their properties. The Corporation estimated that \$560,000 of capital expenditures would be needed over a three to five year period.

Scope and Methodology

To accomplish the audit objectives, we:

- Reviewed the Authority's organizational and administrative structure, personnel policies, administrative plans and recorded minutes of the Board of Commissioners meetings.
- Interviewed the Vice President of Rhode Island Affordable Housing Corporation to determine its responsibilities and goals in accordance with the Corporation's contract with the Authority.
- Interviewed Authority staff regarding its procedures for accounting, maintenance, occupancy, travel and cash receipts to determine if the Authority's procedures were adequate.

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- Interviewed the Massachusetts Office of Public Housing staff concerning the allegations made against the Authority.
 - Reviewed charges made on the Authority's gas credit card for March 1999 through October 2000 and the Authority's Visa and national chain credit cards for April 1998 through August 2000 to determine if the charges were reasonable, properly supported, and related to the operation of the Authority.
 - Conducted physical inspections on 10 units to ensure that reported Health and Safety Issues were corrected in accordance with HUD regulations.
 - Examined from a universe of 170 tenant files, 10 percent or 17 tenant files, (7 Public Housing, 7 Section 8 vouchers and 3 Section 8 certificates) to verify that tenants' income was within income guidelines; that Housing Assistance Payments were calculated correctly; and to determine that re-certifications were performed on an annual basis.
 - Examined tenant accounts receivables, March 2000 to January 2001, for 5 out of 41 tenants with accounts receivables to determine if the Authority was taking actions to collect amounts past due and evict tenants that failed to comply with repayment plans.
 - Examined staff training (\$22,938) and travel (\$33,522) for Fiscal Years 1998 through 2001 to determine if the costs were reasonable, supported and related to the operation of the Authority.
 - Examined Independent Public Accountant audit reports and monitoring reviews conducted by the Massachusetts State Office of Public Housing to determine if there were any indicators of mismanagement.
 - Reviewed the Corporation's report to the Board of Commissioners.

For transaction testing methodology, we used a non-representational sample rather than a statistically valid sample. The non-representational sample methodology was more appropriate for testing the specific allegations addressed in this report.

During the course of the audit, the finding was discussed with the Authority's Executive Director and Board members. On November 28, 2001, an exit conference was held with the Executive Director and Board members. We received the auditee's response on December 7, 2001. The Executive Director and the Board of Commissioners generally agreed with the findings and recommendations.

Audit work was performed between January 2001 and April 2001 and covered the period April 1999 through March 2001. When appropriate, the review was extended to include

other periods. The issuance of the report was delayed at the request of the United States Attorney's office.

Review Results

The South Kingstown Housing Authority (Authority) does not administer its Public Housing and Section 8 Programs in an efficient, effective and economical manner. Specifically, the Authority lacks the proper internal controls contributing to the improper use of the Authority's credit cards; the poor safeguarding of assets; and the failure to enforce their own travel policies. Further, the Authority has been unable to adequately recover outstanding tenant accounts receivables, which have increased fifty percent over a ten-month period. The Authority needs to recognize its weaknesses and strengthen its administration to ensure HUD and the community that they can operate in the most resourceful manner.

Improper Use of Credit Cards

There were eight credit cards in the name of the Authority (two for gas, three Visas and three national chain credit cards). The Chairman of the Board of Commissioners stated that to his knowledge the Authority had only one credit card. In addition, the former Executive Director declined to talk to us about credit cards.

Our review disclosed that for the period April 1999 through August 2000, the former Executive Director used the Authority's Visa credit card for personal use and made purchases of goods or services of \$15,092. Our review of the Authority's records disclosed that the Authority did not pay for these items. The former Executive Director paid back \$16,751. The difference resulted in debits/credits received and finance charges owed by the former Executive Director. The Commissioners did not know that the former Executive Director was using the Authority's Visa card for her own personal use.

In addition, the former Executive Director has used the Authority's credit cards for unauthorized purchases resulting in \$4,796 (\$2,311 gas charges and \$2,485 Visa and national chain credit card charges) of inappropriate charges which were not reimbursed by the former Executive Director. The improper use of the credit cards can be attributed to the lack of internal controls, including the Board of Commissioners' failure to monitor the actions of the former Executive Director. Therefore, HUD has no assurance that the former Executive Director was conducting the Authority's programs in an efficient and effective manner.

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, provides that to be an allowable cost, it must be necessary and reasonable for proper and efficient administration, and allowable to the extent of benefits received by the program (Attachment A, paragraphs C.1.a. and C.3.a.).

During the period March 1999 through October 2000, the former Executive Director improperly used the Authority's credit card for \$2,311 in gasoline purchases. The

Authority's policies and procedures state that the Executive Director is entitled to reimbursement for use of a personal vehicle on official business at the rate of 31.5 cents per mile. The Authority's office staff stated that the former Executive Director used a personal vehicle two or three times a week to travel to the various Authority properties. The maximum local, round trip travel mileage between the Authority's main office and the other developments is estimated to be six miles.

An analysis of the charges by date of gasoline purchase disclosed questionable issues such as multiple gasoline purchases on the same day, or on consecutive days including purchases on Saturday and Sunday when the former Executive Director was not on official duty. The former Executive Director declined to discuss this issue with us. The Chairman of the Board stated that the former Executive Director only submitted the total gasoline bill, and not the individual statement to support these charges, and therefore, the Board never saw the individual charges.

Furthermore, during the period April 1998 through December 2000, the Authority's Maintenance Director believes the former Executive Director acquired maintenance items and supplies for unauthorized purposes through use of the Authority's credit cards. The Maintenance Director identified specific items purchased, totaling \$2,485, (\$2,289 Visa charges and \$196 national chain credit charges) including appliances, customized patio doors, light fixtures and a toolbox. A maintenance worker advised that he delivered and installed a refrigerator, stove and doors at the former Executive Director's home. The Authority could not provide any written documentation to support these allegations.

The misuse of the Authority's credit cards can be contributed to Commissioners' failure to monitor the actions of the former Executive Director. The Commissioners can make a difference by being more involved in management of the operation and taking appropriate action when management problems are apparent.



Controls Over Inventory Needed

The Authority needs to adhere to its internal control procedures regarding inventory of equipment and accounting for materials expended on each maintenance job. The Authority's procedures for Property Records/Inventory Maintenance state that a physical inventory of non-expendable equipment will be taken every two years and the results reconciled with property records.

Our review disclosed that both the Maintenance Director and the Administrative Assistant maintain manual logs to track non-expendable equipment. However, the logs were missing information such as date of installation, item purchased, model and serial number, and the purchase price. We have identified instances where the Maintenance Director and the Administrative Assistant did not know the unit in which the items had been installed.

Further, the Authority uses a computerized work order system to track maintenance work by job. The Authority's procedures require that material used on each job be tracked as

well. Our review of completed work orders disclosed that materials used were not entered into the system. To ensure that the Authority's assets are properly safeguarded, the Authority needs to maintain overall compliance with its policy and procedures in tracking inventory and materials.

Training and Travel Needs to be Supported

The Authority's Training and Travel policy requires travel vouchers to be completed for all authorized travel showing any payments relative to each trip. The cost of travel necessary to perform the Authority's business is considered reimbursable with submitted receipts. Without submitting detailed travel vouchers upon completion of the travel, expenditures may not be valid and reasonable.

The Authority spent over \$56,000 on training and travel during the past four fiscal years. Charges included hotels, airline tickets, car rentals, and deposits for conferences. We have determined that members of the Board of Commissioners went on many trips along with Authority staff members. In the absence of supporting documentation justifying the need for the travel, the staff attending, and the cost, we cannot be assured that these costs are reasonable and necessary.

Further, in May 2000 the Authority prepaid the hotel lodging charges totaling \$2,190, for the former Executive Director and three of the Board of Commissioners to attend a conference on Martha's Vineyard in September 2000. None of the four persons went to the conference, and the reservations were never cancelled thereby forfeiting the entire lodging charge. However, hotel documentation explicitly stated that the reservations could be canceled up to fifteen days prior to the event.

There was no documentation to support reasons the four members did not attend the conference, or the date that it was determined the members were not going. The Authority needs to strengthen control over their travel procedures, not only to ensure that costs are reasonable and necessary, but also that funds are not needlessly wasted.

Collection of Tenants' Accounts Receivable is not Adequate

The amount of tenant accounts receivables have significantly increased from \$38,804 to \$57,565 in the last two fiscal years, even though the Authority wrote off \$38,547 of tenants' accounts receivables during fiscal years 1999 and 2000. These conditions occurred because the Authority does not enter into repayment agreements with tenants on a timely basis, and does not enforce court decisions to evict tenants for non-payment of rent. As a result, the Authority is not collecting the rent it needs to operate effectively and efficiently.

The Authority's tenant lease procedures state that rent is due and payable on the first day of each month. If the tenant does not pay the rent by the fifth day of the month, the Authority will send a "Notice of Intent to Terminate Tenancy for Non-Payment of Rent" and "Notice

of Grievance Rights”. After receipt of these notices, the tenant has fourteen days to file a grievance or pay the rent due. If the rent is not paid within fourteen days, the Authority sends out a demand notice to the tenant. The demand notice states that, if rent is not paid within five days, the Authority will begin the eviction process. If the tenant still does not pay the overdue rent, then the Authority has the option to evict or enter into a court ordered repayment plan with the tenant. The policy is to evict the tenant if they do not meet the terms of the plan.

Our review disclosed that the Authority did not follow its own policies regarding over due rent. As a result, tenants’ accounts receivables increased to \$57,565 as of January 31, 2001. The tenant accounts receivable of \$57,565 is comprised of \$17,204 due from 12 vacated tenants, and \$40,361 due from 41 active public housing tenants. We identified examples of no action taken against tenants who did not pay rent for periods of up to two years. When court ordered repayment plans were finally entered into, the plans were not enforced.

For example, the Authority’s records indicate that a tenant entered into a Judgment Stipulation on January 31, 2000 owing approximately fourteen months back rent. The stipulation stated that the tenant must pay a monthly rent of \$178, and an additional \$100 per month towards arrearage of \$2,492. Further, the tenant was required to pay \$50 per month towards utility arrearage of \$2,165. Our review indicated that the tenant failed to comply with the stipulation, and the Authority took no action against the tenant to enforce the judgment. The total arrearage initially decreased to \$4,337 before subsequently increasing to \$5,892 by February 2, 2001.

Immediate Improvement is Needed

The Board of Commissioners has the ultimate responsibility for the Authority’s operations to ensure that the Authority is acting legally with integrity in its daily operations. Instances of poor internal controls contribute to the Authority’s inability to operate efficiently, effectively and economically. The Authority not only needs to develop proper internal control procedures, but also needs to implement such practices to ensure appropriate administration and compliance with HUD regulations.

Recommendations

We recommend that you:

- 1A. Require the Authority to develop and implement internal control procedures ensuring that the Authority’s credit cards are used only for eligible, necessary, reasonable and appropriate charges.
- 1B. Require the Authority to perform an inventory of all non-expendable equipment and reconcile results with property records.

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- 1C. Require the Authority to strengthen and implement internal control procedures ensuring that all inventory is tracked on a periodic basis, and that all materials and equipment are identified to a specific maintenance job.
 - 1D. Require the Authority to strengthen and implement internal control procedures ensuring that all training and travel cost are eligible, necessary, and reasonable.
 - 1E. Require the Authority to develop and implement procedures to aggressively recover outstanding tenant accounts receivable; including enforcing court judgments and repayment agreements, and evicting tenants when necessary.
 - 1F. Impose appropriate administrative sanctions against persons responsible for the misuse of low-income operating funds.

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The Honorable Fred Thompson, Ranking Member, Committee on Governmental Affairs, 340 Dirksen Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706 Hart Senate Office Bldg., United States Senate, Washington, DC 20510

The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn Bldg., House of Representatives, Washington, DC 20515

The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Bldg., House of representatives, Washington, DC 20515

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