
AUDIT REPORT



ALLEGHENY COUNTY HOUSING AUTHORITY
PUBLIC HOUSING DRUG ELIMINATION
GRANT PROGRAM
PITTSBURGH, PENNSYLVANIA

2004-PH-1002

JANUARY 16, 2004

OFFICE OF AUDIT, MID-ATLANTIC
PHILADELPHIA, PENNSYLVANIA



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| Issue Date | January 16, 2004 |
| Audit Case Number | 2004-PH-1002 |

TO: James Cassidy, Director of Public Housing, Pittsburgh Area Office, 3EPH

FROM: Daniel G. Temme, Regional Inspector General for Audit, 3AGA

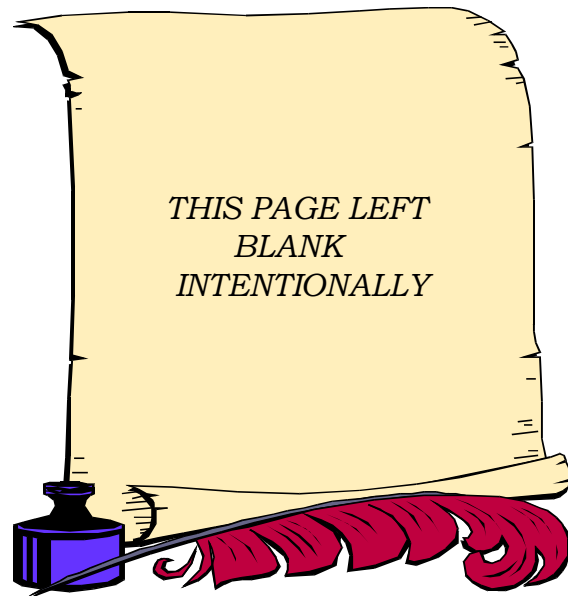
SUBJECT: Allegheny County Housing Authority
Public Housing Drug Elimination Grant Program
Pittsburgh, Pennsylvania

In response to an anonymous complaint, we performed a review of the Public Housing Drug Elimination Program (Grant Program) grant funds awarded to the Allegheny County Housing Authority (Authority) for Fiscal Years 1996 through 2000. The complaint alleged the Authority was misspending Grant Program funds on various ineligible expenditures.

We found the allegation relating to the Authority misspending the Grant Program funds had merit. In addition, we noted the Authority's administration of the Grant Program does not meet HUD's requirements to ensure the Grant Program is operating efficiently and effectively. We also found the Authority did not properly award a number of service contracts related to obtaining computer and workplace training for its residents. This report contains two findings and applicable recommendations to recover ineligible and unsupported Program expenditures and improve the Authority's operations.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 110 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued as a result of the audit.

We appreciate the cooperation extended to us during the audit by the staff at the Authority and the local Pittsburgh Field Office. Should you or your staff have any questions, please contact Ms. Christine Begola, Assistant Regional Inspector General for Audit, at (410) 962-2520.



Executive Summary

In response to an anonymous complaint, we performed a review of the Public Housing Drug Elimination Program (Grant Program) grant funds awarded to the Allegheny County Housing Authority (Authority) for Fiscal Years 1996 through 2000. The complaint alleged the Authority was misspending Grant Program funds on various ineligible expenditures, such as payments to consultants, a \$19,914 wood chipper and entertainment activities. The primary objective of the audit was to determine whether the complainant's allegations had merit. Specifically, we wanted to determine if the Authority spent its Grant Program funds in accordance with the applicable HUD rules and regulations.

To accomplish our audit objective, we reviewed all grant expenditures for the period January 1, 1998 through September 30, 2001¹ to determine if the expenditures were properly supported and eligible under the Grant Program. The grant expenditures subject to our review totaled \$3,641,718. The results of our review are summarized below, and detailed in the Finding sections of this report.

Weak Program Administration Resulted In Ineligible And Unsupported Payments

The Authority did not administer its Drug Elimination Program according to its grant agreements with HUD and the applicable HUD rules and regulations. Specifically, the Authority did not always ensure program expenditures were eligible and properly supported and it did not properly follow Federal procurement requirements when it awarded a number of service contracts. As such, the complainant's allegations that the Authority misspent grant funds had merit. These problems occurred because the Authority did not have the proper controls in place to enable management to detect and prevent these weaknesses from occurring within the administration of its Grant Program. As a result, the Authority spent \$615,636 on ineligible expenditures and drew down another \$761,950 of grant funds for expenditures that were not properly supported.

Recommendations

We made a number of recommendations to HUD's Office of Public and Indian Housing to improve the Authority's management of the grant funds. We requested HUD's Director of the Pittsburgh Area Office of Public Housing ensure the Authority reimburse HUD for the ineligible and questioned costs it cannot properly support, and develop and implement appropriate management controls to correct the weaknesses cited in this report.

¹ Grant funds can be expended up to two years after the issuance of the grant. During our review we looked at documentation through September 30, 2001, which would include only one year of the FY 2000 grant expenditures.

Auditee Comments

We provided a draft of this report to HUD staff and to the Authority's Executive Director on August 1, 2003, and discussed the findings and recommendations with all parties at an exit conference on August 8, 2003. After the exit conference the Authority provided additional information. We reviewed this information and made appropriate changes to the report as necessary. A second draft report was provided to the Authority on October 6, 2003 for comment. On November 10, 2003, we received the Authority's response. Altogether, the response contained 157 pages consisting of a 3-page summary letter, 45-page narrative section and 12 attachments totaling over 109 pages.

Generally, the Authority agreed with our recommendations on improving their management processes, however, they strongly disagreed with our findings and recommendations concerning the ineligible and unsupported expenditures, and disagreed with our conclusions that they improperly awarded a number of service contracts. At the end of each finding we summarized the Authority's comments and provided our evaluation of those comments. Further, we included statements relating to their comments throughout the report. However, due to the overall volume of the Authority's response, we only included the three-page summary of the response as an attachment. The full response will be made available upon request.

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Abbreviations

| | |
|-----------|-----------------------------------------|
| Authority | Allegheny County Housing Authority |
| CFR | Code of Federal Regulations |
| LOCCS | Line of Credit and Control System |
| NOFA | Notice of Funding Availability |
| OMB | Office of Management and Budget |
| PHDEP | Public Housing Drug Elimination Program |

Introduction

The Allegheny County Housing Authority (Authority) was established under Commonwealth of Pennsylvania law to provide decent, safe, and sanitary housing for its tenants in the most efficient and economical manner, as defined by its Annual Contributions Contract with HUD. The Authority is governed by a Board of Directors, which is comprised of five members appointed by the County Executive with the approval of the County Council of Allegheny County. The Board's Chairperson is Michelle Pagano Heck. The Board appoints an Executive Director to administer the affairs of the Authority. The Authority's Executive Director is Frank Aggazio. The Authority's books and records are located at 625 Stanwix Street, Pittsburgh, PA 15222.

The regulatory requirements for the Public Housing Drug Elimination Program are published under Title 24 Code of Federal Regulations (CFR) Part 761. The purpose of the Grant Program is to provide funding to help owners of Federally assisted housing properties develop and carry out plans to eliminate drug-related crimes and the problems associated with those crimes, in and around the Federally assisted properties. As of FY 2002, the Drug Elimination Program is no longer funded as a separate set aside. Instead, Congress provided for an increase in the FY 2002 public housing operating fund account to reflect the merger of the funds previously provided for under the Drug Elimination Program.

Prior to October 14, 1999, funding under the Drug Elimination Program was a competitive process. An Authority would submit an application for the grant under the Notice of Funding Availability (NOFA) published in the Federal Register. To be competitive, the Authority had to demonstrate among other things, how the funds would be used to eliminate drug-related crimes and activity around the premises of the Federally assisted housing properties. Each NOFA provided a description of the types of activities that would be considered eligible under the Drug Elimination Program. Examples of eligible activities include the employment of security personnel; physical improvements which are specifically designed to enhance security; programs designed to reduce the use of drugs in and around public housing projects; and sports programs and sports activities that are operated in conjunction with an organized program or plan designed to reduce or eliminate drugs and drug-related problems in and around such projects.

For the 1996 through 2000² grant years (grant years), HUD awarded the Authority \$4,194,158 in Drug Elimination grants. Typically a recipient has two years to spend the funding awarded, however, HUD can extend the time period for an additional six months. The Authority draws funds periodically from the HUD Line of Credit and Control System (LOCCS). HUD records show the following authorization and draw down of funds for the Authority's grant years as of September 30, 2001:

² For this report, when we discuss the funds received by the Authority, the reader can assume this includes all five grant years (1996, 1997, 1998, 1999 and 2000) unless it is otherwise annotated in the report.

| Grant Year | Authorized | Total Amount Disbursed to 9/30/01 | Balance Remaining as of 9/30/01 | Expiration Date |
|--------------|--------------------|-----------------------------------|---------------------------------|-----------------|
| 1996 | \$ 976,327 | \$ 976,327 | \$0 | 5/01/99 |
| 1997 | \$ 495,903 | \$ 412,695 | \$ 83,208 ³ | 11/20/00 |
| 1998 | \$ 968,393 | \$ 953,238 | \$ 15,155 ³ | 11/20/00 |
| 1999 | \$ 858,648 | \$ 679,266 | \$179,382 ⁴ | 1/17/02 |
| 2000 | \$ 894,887 | \$ 651,029 | \$243,858 ⁴ | 11/09/02 |
| Total | \$4,194,158 | \$3,672,555 | \$521,603 | |

Audit Objective

The primary objective of our review was to determine whether the complainant’s allegation had merit. Specifically, we wanted to determine if the Authority was spending the Grant Program funds in accordance with the HUD rules and regulations. To accomplish our audit objective, we reviewed all grant expenditures for the period January 1, 1998 through September 30, 2001 to determine if the expenditures were properly supported and eligible under the Grant Program.

Audit Scope And Methodology

To achieve our objective we:

- Interviewed HUD staff and various Housing Authority staff, including staff from the security, resident services, finance, management information system, and procurement departments during our review.
- Reviewed the appropriate Federal requirements, Authority’s grant applications for Fiscal Years 1997 – 1999 and its Fiscal Year 2000 annual plan, Board Minutes, and Authority’s policies and procedures used over the Grant Program.
- Used audit related software to analyze all of the expenditures for the period January 1, 1998 through September 30, 2001, totaling \$3,641,718, to determine

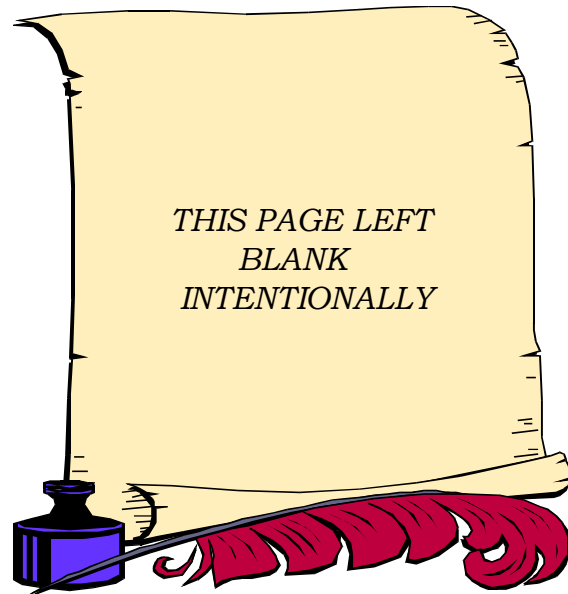
³ Grant funds were not drawn down from LOCCS and used by the Authority before they expired.

⁴ Grant funds were drawn down by expiration date.

if the expenditures were properly supported and were eligible under the Grant Program.

- Reviewed the Authority's accounting records including source documentation used to support the expenditures for the Grant Program.

The audit generally covered the period January 1, 1998 through September 30, 2001, but was expanded when necessary to include other periods. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.



The Authority Did Not Administer Its Drug Elimination Grant Program In Accordance With HUD Requirements

The Authority did not administer its Grant Program in accordance with its grant agreements nor with HUD's applicable rules and regulations. Specifically, we found the Authority did not always ensure:

- Program expenditures were eligible, properly supported, allocated and accounted for; and
- Service contracts were awarded according to the applicable Federal procurement regulations (Finding 2).

This occurred because the Authority lacked the necessary internal controls to ensure the staff assigned to work on the Grant Program were familiar with the administrative requirements for the program, which include the specific restrictions on what types of costs are eligible under the Grant Program. As a result, the Authority charged the Grant Program \$595,430 and \$532,545 in ineligible and unsupported costs, respectively. These costs represent 31% of the \$3.6 million we reviewed for the grant years 1996 through 2000.

The table below summarizes the ineligible and unsupported costs we identified from our review of 140 LOCCS payment vouchers totaling \$3,641,718.

| Description | Ineligible | Unsupported |
|----------------------------------------------------------|------------------|------------------|
| Construction Costs | \$330,000 | |
| Same Supporting Documentation Used More Than Once | \$134,638 | |
| Miscellaneous Expenditures | \$130,792 | \$ 54,567 |
| LOCCS Draws | | \$ 37,516 |
| Salaries for Investigative and Administrative Staff | | \$241,909 |
| LOCCS Draws for Payroll Expenses | | \$ 15,248 |
| Use of Other Federal Funds to Pay for Grant Expenditures | | \$ 183,305 |
| Total | \$595,430 | \$532,545 |

Following is a detailed explanation for the various questioned costs by category.

The Authority Used Grant Funds to Pay Ineligible Expenditures Totaling \$595,430

From our review of the \$3,641,718 in payment vouchers charged to the Grant Program, we identified \$595,430 of ineligible expenses. This included \$330,000 of ineligible construction costs, \$134,638 of expenses that were used to draw down program funds more than once, and \$130,792 of miscellaneous ineligible expenses. A more detailed discussion of these expenditures follows.

Authority Used Grant Funds To Pay For Ineligible Construction Costs

During the review of the FY 1998 grant, we found the Authority inappropriately requested Grant Program funds to pay for the construction of the community building located at its Hays Manor property. The NOFA specifically states funding is not permitted for the costs of construction of any facility space in a building or unit; however, funding is permitted to modify an existing building space for eligible activities, such as: community policing mini-station, adult/youth education and employment training facilities.

On October 17, 2000, the Authority requested HUD revise its FY 1998 grant budget to allow for the preparation of a daycare facility at Hawkins Village. Specifically, the Authority requested \$330,000 of its FY 1998 grant be accounted for under their budget as physical improvements so they could obtain the funding via LOCCS. On November 9, 2000, the Authority drew down the full \$330,000 from the LOCCS payment system. When HUD contacted (via telephone) the Authority to discuss the \$330,000 funding, the Grants Administrator confirmed the funds were drawn down for expenses incurred at its Hawkins Village and Hays Manor properties for the purchase of equipment, computers, educational items, and the preparation of the facilities to implement the after school programs and training programs.

However, our review of the supporting documentation, which included copies of a journal voucher and copies of construction contract payment schedules for this LOCCS draw, showed the Authority had actually requested the funds to reimburse itself for extraordinary contract costs it had previously paid for the construction of the Community Building at Hays Manor, and not for the preparation of a daycare facility at Hawkins Village. The supporting

construction contract payment schedules totaled \$1,130,752 and listed expenditures consistent with those necessary for the construction of a facility, such as: demolition, excavation, concrete, foundations, roofing, drywall, etc. The Grants Administrator annotated on each schedule how much of the extraordinary contract costs were to be charged to the Drug Elimination Program. These annotations totaled to the \$330,000 that was later drawn down from LOCCS. As discussed previously, construction costs are not considered an eligible activity under the grant and thus we are requesting the full \$330,000 be paid back to HUD.

Authority Used The Same Documentation More Than Once To Draw Down Grant Funds

Our review of all of the documentation the Authority used to support the LOCCS draws during our audit period showed the Authority often used the same documentation (purchase orders, vouchers, invoices, etc.) more than once to draw down an extra \$134,638 in HUD funds for grant years 1997 through 2000. This situation occurred because the Authority lacked the internal controls necessary to prevent staff from using the same records to draw down funds from LOCCS on multiple occasions.

The Director of Budget and Revenue concurred with our finding. He stated he was not aware they had used the same documentation to draw down grant funds more than once, but believed it was an honest mistake. Since grant funds must be requested before the end of the grant term to avoid losing the funds, the Director of Budget and Revenue admitted they often “scrambled” to find support for the LOCCS draws to avoid losing the grant funds. We believe this contributed to the problem.

By requesting grant funds without an actual need at the time of the LOCCS draw, the Authority violated the requirements of its grant agreement. The grant agreement states that HUD funds are only to be made available based on actual need at the time the grantee plans to make payment of costs. If the Authority had the proper internal controls in place, such as utilizing original documentation as support instead of copies, and completing a reconciliation between expenditures and reimbursements, this problem would likely have been prevented. Since the Authority violated the requirements of their grant agreement and used the same supporting documentation more than once as support, we consider the \$134,638

ineligible and recommend the Authority reimburse HUD the full amount.

Authority Paid For
Miscellaneous Ineligible
Expenditures

As noted earlier, the purpose of the Drug Elimination Program is to reduce or eliminate drug-related crime in public housing developments. According to the NOFAs, an eligible drug prevention program activity must correlate to the overall purpose of the Grant Program. Eligible activities under a drug prevention program include educational opportunities, youth services, and economic and educational opportunities for resident adult and youth activities.

We found the Authority violated the requirements of the NOFAs and its grant agreements by requesting \$130,792 in Grant Program funds that was used to pay for ineligible miscellaneous expenditures. The table below summarizes the ineligible expenditures and is followed with a more detailed discussion of several of the more pertinent categories.

| Miscellaneous Ineligible Expenditure | Total Charged to the Program Grants |
|---------------------------------------------------------------------------------------------------|-------------------------------------|
| Interior Decorations and Designer’s Fees | \$ 49,163 |
| Cooks’ Wages and Food | \$ 29,353 |
| Maintenance Expenses | \$ 25,596 |
| Amusement, Entertainment, and Transportation Expenses | \$ 9,256 |
| Community Celebrations | \$ 8,297 |
| Expenditures Supported with Voided Checks | \$ 2,472 |
| Transportation for Non-Program Residents | \$ 2,250 |
| Gift Cards and Merchandise, Centerpieces for Tables, Petty Cash, Cell Phone, and Kitchen Supplies | \$ 2,196 |
| Expenditures Paid Prior to Effective Date of Grant | \$ 1,689 |
| Masseuse Services and Gift Certificates | \$ 520 |
| Total | \$130,792 |

Interior Design Fees

The Authority charged the Grant Program \$49,163 for the services of an interior designer and an artist for artwork. This included \$15,913 for interior designer services and artwork for its Hays Manor Community Building and \$33,250 for interior designer services and artwork for its Millvue Acres Community Center. The Authority staff confirmed these charges were related to the construction of the new Community Building at Hays Manor and the rehabilitation of the Arsenal Children's Center at its Millvue Acres property. The Authority explained that these buildings house after school programs designed to keep children occupied through a number of cultural and recreational activities. However, these types of extraordinary construction costs are specifically cited in the NOFA as ineligible costs.

Cooks' Wages and Food

We found the Authority used \$29,353 in grant funds, as part of its after school program to pay for cooks' wages and food. The Authority explained that the purpose of the program was to provide the children a safe place to go to after school and to provide a dinner and evening snack. These expenditures, although they may be well intended, are not eligible for payment with the grant funds.

The NOFAs state funding is permitted for reasonable, necessary and justified program costs, such as meals and beverages incurred only for training, education and employment activities, and youth services directly related to reducing drugs and drug-related crime for groups composed of young people ages 16 through 18.

Routine Maintenance Expenses

Routine maintenance expenses are ineligible under the Grant Program. However, in our review we identified \$25,596 of such expenditures. These expenses included: \$19,914 for a wood chipper, \$1,959 for flats and containers of flowers, \$1,383 for cleaning supplies, and \$2,340 other miscellaneous maintenance expenses.

Amusement and Entertainment Expenses

One of the main goals of the Drug Elimination Program is to provide the youth of the low-income housing properties alternatives to drugs and drug-related criminal activity. To assist in this goal, the Grant Program allows for certain youth activities to be paid with grant funds. According to the NOFAs, eligible youth service activities for a drug prevention program may include: youth sports, youth leadership skills training, and cultural and recreational activities.

We found the Authority used Grant Program funds to pay for ineligible expenditures while claiming they were for educational, cultural, and recreational activities for its youth services drug prevention program. Specifically, these ineligible expenditures included amusement and entertainment activities totaling \$9,256.

| Ineligible Amusement and Entertainment Expenditures | |
|------------------------------------------------------------|----------------|
| Transportation Costs | \$2,883 |
| Kennywood Park | \$2,804 |
| Movies | \$1,703 |
| Pittsburgh Zoo | \$ 623 |
| Circus | \$ 528 |
| Just Ducky Tours | \$ 375 |
| Harlem Globetrotters | \$ 340 |
| Total | \$9,256 |

The NOFAs state that funding is not permitted for the costs of entertainment, amusements, or social activities and for the expenses of items such as meals, beverages, lodging, rentals, transportation, and gratuities related to these ineligible activities.

Community Celebrations

The Authority requested and received \$8,297 in grant funds to pay for community celebrations. The NOFAs identify community celebrations as an ineligible expense. The majority of these expenses included payments for food and other miscellaneous items to support community day celebrations and holiday parties, such as Halloween and Christmas. For example, on July 14, 2000, the Authority requested \$419 in grant funds to pay for the rental of a cotton candy machine, candy floss, set-up charges, etc. Also, on July 26, 2001, the Authority requested and received reimbursement in grant funds for \$618 in expenses incurred for the rental of 300 folding chairs, a helium tank, sound system, delivery, and carpet floor lectern. The Authority incurred these expenditures to facilitate celebrations, not eligible drug prevention program activities.

The Authority Could Not Adequately Support \$532,545 of Program Expenditures

The Authority could not adequately support \$532,545 of the \$3,641,718 of Grant Program expenditures we reviewed. Specifically, the Authority did not maintain the required documentation to fully support a number of LOCCS draws, miscellaneous Grant Program expenditures, and payroll activities. These unsupported Grant Program expenditures are discussed below.

LOCCS Draws Were Not Sufficiently Supported

We reviewed the supporting documentation for each of the 140 LOCCS payment requests (draws) the Authority made from January 1, 1998 through September 30, 2001. These LOCCS draws totaled \$3,641,718. We found the Authority did not have sufficient documentation to support 13 of the LOCCS Draws which totaled \$37,516.

HUD regulations require the Authority to maintain adequate documentation to support each draw from LOCCS for audit purposes. Further, this requirement is reinforced by the authorized personnel's certification on each LOCCS voucher that the data reported and funds requested are correct and the amount requested is not in excess of immediate disbursement needs for the Grant Program.

Investigative And
Administrative Staff
Salaries Were Not
Adequately Supported

We found the Authority did not follow Office of Management and Budget (OMB) Circular A-87 guidance when maintaining their support for the compensation for personal services charged to the grants. The Authority charged \$241,909 to the Grant Program based upon predetermined allocation rates for certain salaries. The Grants Administrator established these percentages before staff ever worked under the Grant Program. Thus, the Authority could not support or justify some of the payroll allocations. The table below summarizes the unsupported payroll expenses.

| Summary of Grant Salary Expenses | | | | |
|-----------------------------------------|-----------------------------------------------|----------------------------|-------------------------|----------------------------------------|
| Grant Employee Charged | Percentage of Salary Charged to Grants | Number of Employees | Dates of Expense | Total Expenses Charged to Grant |
| Investigator | 33% | 2 ⁵ | 5/16/97-8/31/01 | \$176,227 ⁶ |
| Grants Administrator | 50% | 1 | 10/13/00-6/8/01 | \$ 47,260 |
| Director of Residential Services | 25% reduced to 5% | 1 | 6/22/01-8/31/01 | \$ 9,937 |
| Associate Director of Resident Services | 25% | 1 | 6/22/01-8/31/01 | \$ 8,485 |
| Total | | | | \$241,909 |

According to Title 24 CFR Part 85.20, the Authority can use Drug Elimination Program funds for employee salaries, provided the personnel are necessary and the grant funds only cover the portion of the employee’s salary earned while performing grant-related activities. To be allowable, OMB Circular A-87 places specific salary recordkeeping requirements on the grantee. Specifically, the grantee must maintain reports that: (1) account for the total activity for which the employee is compensated, (2) reflect an after the

⁵ Three investigators were employed and paid using PHDEP grant funds from February 4, 2000 to September 14, 2001. However, only two investigators were employed at one time during this period.

⁶ On June 2, 1998, the Authority requested reimbursement of the investigator’s salary, via a LOCCS Payment Voucher, for \$52,243 of this payroll expenditure. The Authority paid these payroll expenses with other program funds between May 16, 1997, and May 29, 1998.

fact determination of actual activity of each employee, and (3) are prepared at least monthly for an employee that works on multiple activities and semiannually for an employee that works only on one Federal award. In addition, the report is to be signed by the employee and/or responsible supervisor. Further, the OMB Circular states that budget estimates or other distribution percentages the grantee establishes before the employee performs the services do not qualify as support for the charges to the grant.⁷

According to the Assistant Finance Director, employees did not document the actual time they spent on specific activities for the grants. Thus, the Authority could not properly account for the salaries and benefits charged to the Drug Elimination Grant Program. Although the Assistant Finance Director said only employees directly related to Grant Program activities were charged to the Program, without the proper documentation to support the allocation charged to the grant, HUD has no assurance the allocation is accurate.

Payroll Records Did Not Always Support LOCCS Draws

During our review of the payroll, we found the Authority made six LOCCS payment requests, from December 29, 1998 to August 17, 2000, to cover payroll expenses totaling \$55,692. However, a review of the actual payroll record for this corresponding period showed the Authority only paid out \$40,444 to employees working on Drug Elimination activities. Thus the Authority could not support \$15,248 of the grant funds it drew down from LOCCS.

Number of Miscellaneous Grant Expenditures Were Not Properly Supported

For a number of miscellaneous program expenditures the Authority could only provide us with documents that it generated internally as support for the expenditure. These documents consisted primarily of copies of purchase orders, vouchers and journal entries. HUD requirements state grantees must support costs charged to the grants with adequate source documentation including cancelled checks, invoices, and contracts. However, the Authority was not able to provide the original documents and could not provide cancelled checks to support many of these purchases. For example, on March 26, 1999, the Authority

⁷ Grantees may use such methods for interim accounting purposes subject to specific requirements, which include at least quarterly comparisons to actual costs on a monthly basis and an adjustment of the accounting records to reflect actual cost.

requested \$1,452 for reimbursement for a Teen Club Ski Trip taken at Hidden Valley Resort. This expenditure was supported with a booking agreement and a cancelled check. However, no statement of account was included to support this expenditure to assist in determining who participated in the trip and what was paid for.

In another example, on August 16, 2001, the Authority requested \$1,991 for an expenditure that was supported by a voucher and a copy of an invoice dated July 23, 2001. However, the corresponding check could not be identified in the Authority's check register indicating payment for this Grant Program expenditure had been made. In total, the Authority did not have sufficient documentation to support \$54,567 of miscellaneous expenditures.

The Authority Needs to Improve Accountability of its Drug Elimination Funds

We found the Authority pays all Grant Program expenditures from its Conventional Program cash account. This account includes funding from the Drug Elimination Program and other funding from HUD. The general grant requirements state the accounting systems of the grantee must ensure that HUD funds are not commingled with funds from other HUD programs, such as the low-rent operating funds or Comprehensive Grant Program funds. Funds specifically budgeted and/or received for one program shall not be used to support another. Accounting for the various program funds in one cash account is not a violation, however, the grantee must establish an auditable system to provide adequate accountability for the funds it has been awarded.

The Authority Drew Down Grant Funds For Expenses It Had Already Charged To Other Program Accounts

We found the Authority requested and drew down \$183,305 of Grant Program funds from LOCCS to pay for expenditures it had already charged to its Conventional Program Operating Subsidy Account. The Authority drew down these funds to reimburse its Conventional Program Account for these expenditures; however, we found no record that the Authority reimbursed the Conventional Program Operating Subsidy Account. Further, the Authority had no support that the funds that were drawn down were used for other valid expenditures.

For example, on February 23, 1999, the Authority requested \$21,262 in Grant Program funds to pay for contract services provided by the City of Duquesne Police Department. The Authority paid this expenditure on February 24, 1999, by using its Operating Subsidy funds. To record this expenditure, the Authority charged a non-drug elimination grant account. However, once the funding was received from the Drug Elimination grant LOCCS draw, an adjusting entry was not made by the Authority to properly reflect the request and use of the grant funds for this expenditure in its accounting records. Therefore, the Authority paid for this expenditure using other funding sources, and reported it as such, in its accounting records.

The Authority contends that by paying for Grant Program eligible expenses using the Conventional Program funds, and then reimbursing the Conventional Program subsequently through the LOCCS requests, it has in essence minimized the time lapsed from the LOCCS request to disbursement. However, our review of the records showed that the funds received to “reimburse” the Conventional Program for the Drug Elimination Program charges were never properly accounted for as Drug Elimination expenditures in the accounting records. Until these funds are properly accounted for within their records, we consider them to be unsupported.

Auditee Comments

The Authority expressed its appreciation for the auditor’s positive suggestions on improving its management controls and stated it has started to implement many of them before the issuance of the final report. However, the Authority strongly disagreed with almost all of the items that the OIG identified as ineligible expenditures. For example, the Authority disagreed with our opinion that the \$330,000 in construction costs it applied to Hays Manor were ineligible. In their response, the Authority stated HUD approved the use of these funds prior to the funds ever being expended and thus they were used in accordance with the Grant Program.

The Authority also disagreed with the auditor’s use and interpretation of many of the applicable laws and regulations cited in this report. In particular, the Authority objected to the auditor’s use of the NOFAs as the criteria for questioning

many of the ineligible costs, stating “NOFAs are not subject to the rule-making procedures required under the federal Administrative Procedures Act (APA) and therefore are not binding on grant recipients as are regulations complying with the APA...” In other situations, the Authority simply disagreed with the auditor’s interpretation of HUD requirements. For example, the Authority argued a \$19,914 wood chipper was necessary to prevent rape and \$49,163 of expenditures for an interior designer and artist was necessary to improve the aesthetic appearance of two community centers. The Authority also expressed its opinion that the auditors could not fully appreciate the drug problems the Authority faces on its properties or the need to implement various innovative strategies to attack this difficult problem.

In addition, the Authority disagreed with the unsupported expenditures we questioned in this report. The Authority expressed confidence that it would eventually be able to fully support these costs during the audit resolution process with HUD Program staff.

OIG Evaluation of
Auditee Comments

We are pleased that the Authority started to take the appropriate action to improve their overall management process. However, we disagree with the Authority’s position that the NOFA criteria we cite in the report is non-binding. The NOFAs clearly define specific activities for which grant funds are not permitted. Further, under Article II of the grant agreement it states: “In executing this agreement, the Grantee agrees to abide by all applicable laws, regulatory requirements, including without limitation, all Federal, state, and local laws, regulations, executive orders, OMB Circulars, codes, and assurances and certifications in the approved application/proposal, as amended.” In addition, a copy of this draft report was provided to HUD staff and they too agreed with our use of the NOFA in determining the eligibility of specific grant expenditures.

We disagree with the Authority’s assessment as to why it believes the \$330,000 in construction costs is eligible under the Grant Program. The Authority obtained the funds under the pretense the funds would be used for computers, security lighting and to prepare a daycare facility at Hawkins Village,

not for the associated costs to construct the Hays Manor Community Center. Further, the NOFA is clear that funding is not permitted for the costs of construction of any facility space. In addition, HUD staff stated they were unaware that these funds were expended for only the construction of the Hays Manor Community Center.

Finally, during the review and on several occasions during the draft report stage, the Authority was provided the opportunity to support the unsupported expenditures. At each presentation of supporting documentation, the audit staff reviewed the documents provided and made adjustments when appropriate, however, for the questioned costs that remain, adequate support was never provided during this process.

Recommendations

We recommend the Pittsburgh Office of Public Housing require the Authority to:

- 1A. Establish an effective cash management system to ensure grant funds are drawn down timely to meet expenditures.
- 1B. Reimburse HUD with non-Federal funds, \$330,000 for the ineligible construction expenditures.
- 1C. Reimburse HUD with non-Federal funds \$134,638 for the ineligible grant expenditures, where the supporting documentation was used more than once to obtain funding from a LOCCS draw.
- 1D. Repay HUD \$130,792 with non-Federal funds for the miscellaneous ineligible expenditures.
- 1E. Reimburse HUD with non-Federal funds, \$54,567 for unsupported miscellaneous expenditures, unless proper supporting documentation can be provided.
- 1F. Reimburse HUD with non-Federal funds, \$37,516 for unsupported LOCCS draws, unless proper supporting documentation can be provided.

- 1G. Reimburse HUD with non-Federal funds a total of \$241,909 for unsupported payroll allocations unless proper supporting documentation can be provided to fully support the allocations.
- 1H. Reimburse HUD with non-Federal funds a total of \$15,248 for unsupported grant payroll expenditures, unless proper supporting documentation can be provided to fully support the funds drawn from LOCCS.
- 1I. Reimburse the Conventional Program account \$183,305 for those Grant expenditures paid with other program funds or return the Drug Elimination Funds to HUD. If those funds are not available then, reimburse HUD with non-Federal funds.
- 1J. Establish and implement policies and procedures to ensure all future LOCCS Payment Vouchers are supported with original supporting documentation, such as invoices or timesheets, at the time of the LOCCS draw. These policies should include a requirement for routinely completing reconciliations between the LOCCS vouchers to the expenditures charged.
- 1K. Complete a review of Drug Elimination grant funds expended from September 30, 2001 to verify that the funds expended after our audit period were properly supported and were used for eligible activities.
- 1L. Establish an effective grants administration system, which includes the designation of a person to act as the Authority's representative with respect to the services and the agreements for each of the grants awarded to the Authority.

The Authority Improperly Awarded Service Contracts

The Authority violated a number of Federal procurement requirements and its own procurement policy in awarding six service contracts totaling \$400,000. Specifically, the Authority did not develop the required cost or price estimates necessary to ensure the prices paid were reasonable for the services provided, split bids to avoid various procurement requirements, and overpaid a number of vendors with questionable qualifications. In part, these problems occurred because the Authority's Procurement Policy violated Federal laws and regulations and the Purchasing Manager misinterpreted the Authority's own procurement policy. As a result, the Authority paid \$20,206 of ineligible expenses and could not adequately support \$229,405 of expenditures for the six service contracts we reviewed.

Authority Did Not Complete A Required Cost Or Price Analysis For All Procurements

As part of the Drug Elimination Program, the Authority contracted with vendors to provide computer and workplace skills training to the tenants at its various properties. During our review of the FY 1997 and FY 1998 grants we conducted a limited review of four service contracts. Two of the contracts provided computer skills training and two contracts provided workplace skills training. The Authority awarded each contract for \$40,000. Although the Authority completed separate Requests for Proposals for these two services, they did not complete a cost or price analysis prior to issuing each request. Title 24 CFR Part 85.36 requires a cost or price analysis be performed in connection with every procurement action. Grantees must make independent estimates before receiving bids or proposals to ensure contract prices are fair and reasonable. The Authority's procurement policies and procedures have similar requirements.

When we presented this finding to the Housing Authority officials, they told us the Authority was not required to complete a cost or price analysis in connection with the procurement of these four contracts because they followed the small purchases procedures of 24 CFR Part 85.36. However, the Authority's own procurement policy as well as Title 24 CFR Part 85.36 requires a cost or price analysis be performed in connection with every procurement action before receiving bids or proposals.

Further, the Purchasing Manager explained the Authority's procurement policy gives the Executive Director the authority to approve a contract obtained non-competitively if it does not exceed \$40,000. Since the service contracts were under the \$40,000 threshold, the Authority believed it could obtain these contracts non-competitively and without preparing a price analysis. This policy is a direct violation of Title 24 CFR Part 85.36, which states all procurement transactions must be conducted in a manner that provides full and open competition. Thus, the Authority's procurement policy is only partially compliant with the Federal requirements.

After this issue was discussed at the exit conference, the Authority acknowledged their procurement policy needed to be revised and the Board adopted a new procurement policy on September 17, 2003. The Authority requested the Pittsburgh Field Office review the updated policy to ensure it is fully compliant with all HUD rules and regulations.

Authority Issued Multiple Contracts Under Two Separate Requests For Proposals To Avoid The Competitive Process

The contract files showed the Authority executed contracts valued at \$160,000 against its 1997 and 1998 grants to fund four contracts for computer skills and workplace skills training. In doing so, the Authority issued separate Requests for Proposals for the computer training and workplace skills training with each solicitation valued at \$80,000. However, under these two solicitations, the Authority decided to select two different vendors under each solicitation and awarded each of the four vendors a \$40,000 contract for their services.

Although the Authority's procurement policy provides the Executive Director the discretion to approve and contract out services valued under \$40,000, this policy violates Federal procurement regulations which requires all procurements to be completed on a competitive basis. The Authority's procurement policy cannot override this requirement. In addition, based on the Authority's files, it appears that the bids were split into four separate contracts to avoid following more stringent procurement requirements, which is also a violation of Federal Procurement regulations.

Authority Paid
Unreasonable Fees To
Contractors

Each of the four contractors received a contract valued at \$40,000 for a time period of 5 months. A review of the Request for Proposals along with the issued contracts provided no evidence as to the number of training courses or hours of training that each contractor was to provide. In fact, both documents were very generic in nature when they discussed the scope of work to be performed. Since the Authority did not complete a cost estimate on these contracts or provide specific details behind the services needed, we questioned whether the Authority paid a reasonable price or received the best value for the services purchased.

A review of the invoices show the Authority actually paid the computer vendors \$375 per hour and one of the workplace skills trainers \$350 per hour (lead instructor was paid \$200 and the assistant was paid \$150) for their services. We could not determine the exact hourly rate of the second workplace skills vendor because the invoices the vendor submitted to the Authority did not support a constant hourly rate. However, based on the available records, we estimate the Authority paid the vendor between \$27 and \$77 per hour.

Also, the Authority's records indicated one of the contract panel members independently identified a more technically qualified vendor that would have charged a rate in the range of \$93 - \$156 per hour (see below under Qualifications of Vendors Questioned). Further, we noted the Authority paid the two computer training vendors \$100,206 but only received 144 hours of actual training. Likewise the Authority paid the two workplace skills training vendors \$76,254 but only received 137.5 hours of training. Thus, we question the reasonableness of the rates paid to the selected contractors.

Authority Paid Vendors
More Than Contract
Amount

In addition to the questioning the hourly rates the Authority paid to its training vendors, we noted the Authority also paid the two computer skills training vendors above their contracted amounts. The contracts stated that each vendor would be paid no more than \$40,000. However, the Authority did not comply with the terms of these contracts. The Authority paid one vendor \$50,757 and the other vendor \$49,449 for a total of \$100,206 on the two

Later Issued Service
Contracts Had Similar
Issues

contracts. Thus, in total the Authority paid these vendors \$20,206 above the specified contract price.

We also completed a more limited review of the computer skills training and workplace skills training contracts the Authority awarded with the FY 1999 and FY 2000 grant funds. We found the Authority awarded both these contracts to one of the workplace skills vendors it had previously awarded a contract. However, this time the contract amounts were slightly higher: \$113,000 for the computer skills training and \$127,000 for the workplace skills training. Based on the cost estimate provided by the Authority each contract called for 180 classes, which would come to approximately \$157 per hour for the computer skills and \$176 for the workplace skills.⁸

As with the previous contracts, the Authority did not complete an actual cost or price analysis before it awarded the new contracts. However, the Authority used the cost it paid under the previous contracts as justification that the cost of the new contracts were reasonable. Thus, as with the previous contracts, we question whether the Authority received the most competitive price for the new contracts. The Authority paid this vendor \$73,151 from July 13, 2001 to September 20, 2001.

Qualifications Of Vendors
Questioned

During our review, we found information in the procurement files that indicated the vendors selected may not have been the best qualified for the tasks. For example, notes in the file showed that during the review of the Request for Proposals, one of the Authority's employees on the review panel questioned the qualifications of the vendors. Specifically, this panel member noted the computer vendors that submitted a proposal did not have the necessary accreditation for providing the proposed computer classes. The panel member then contacted a number of vendors that had the appropriate accreditations, and based upon the file notes, indicated those vendors would have been able to provide the training in the range of approximately \$93 to \$156 per hour. This was \$282 to \$219 per hour less than what the Authority had previously paid its vendors. Thus, we question whether the Authority actually received the best service at the best price.

⁸ For these contracts, the Authority's documentation only provided a contract cost and the number of classes to be taught. We calculated the hourly rates by estimating an average class would be 4 hours.

In summary, since the Authority did not complete the required cost or price analysis, split bids, executed these contracts under a Procurement policy that violated Federal regulations, and paid unreasonable fees to less qualified vendors, we are questioning the entire \$400,000 in awards on these six contracts.

Auditee Comments

With the exception of the overpayment that occurred on the contracts for the FY 1997 and FY 1998 grants, the Authority disagreed with the finding. In their response, they stated that the appropriate price analyses were prepared, there was no bid splitting, all vendors were properly qualified and the fees charged were reasonable. A summary of the Authority's response follows:

(1) The Authority said the required cost or price analyses were prepared. Prior to issuing the Request for Proposals, the Authority received a price quote of \$40 per hour from the local Community College for providing the computer training and workplace skills training. The Authority originally planned to have the local Community College provide the training for the residents. However, the negotiations between the Authority and Community College did not result in the issuance of a memo of understanding to provide these services. Thus, the Authority decided to issue a Request for Proposals for the services. The Authority asserts it used the price quotation provided by the Community College as the basis for the price analysis before going out for bids under the Request for Proposals. Although the Community College did not submit a bid under the Request for Proposals, five vendors did bid on the contract. The bids for the four vendors that were determined to be responsive, ranged from \$132 to \$375 per hour.

The Authority stated that since the bids were too expensive, it abandoned the Requests for Proposals. The Authority determined the best way to proceed was to develop an experimental "pilot" project where it used two separate vendors for each type of training. Further, it decided to use what it called an "informal procurement", available for "small purchases". Since the Authority's procurement policy specifies that small purchases cannot be over \$40,000; it awarded each vendor a contract not to exceed \$40,000.

The Authority then stated that since it awarded the contacts as small purchases, it used a price analysis based upon the pricing data from the original bids, which is appropriate under a small-purchase procurement. The Authority justified its actions stating 24 CFR 85.36 “specifies that an independent cost estimate is to be prepared before solicitation when the estimated amount will be above the small purchase limitation”. Thus the Authority said a required price analysis was performed relevant to the informal procurement carried out.

(2) The Authority said it did not split bids when it procured the computer and workplace contracts. As noted above, the Authority said it used its informal procurement process to obtain vendors based upon a price comparison. The Authority stated that based on the proposals it received under the original Requests for Proposals, each vendor had its own area of expertise that would benefit the Authority. Therefore, the Authority determined it would enter into agreements for separate “pilot” programs with all four firms who had bid on the discarded Requests for Proposals. The Authority said it determined this approach was the most advantageous way for the Authority to proceed. Lastly, the Authority said it used its small purchase authority and informal procurement to facilitate its commitment to encourage contracts with small, minority and women-owned businesses to participate in its work.

(3) The Authority believes all vendors were properly qualified. The Authority said it was the unanimous opinion of the selection panel that all the vendors selected presented adequate qualifications sufficient to perform the work. Further, the Authority stated the computer vendors were not required to be accredited with the Microsoft Software to be qualified to perform the task.

(4) The Authority asserts that the fees charged by the vendors were reasonable. The Authority said it used several criteria to determine the reasonableness of the prices paid for both the 2000 (awarded with 1997/98 grant funds) and 2001 contract awards. Specifically, for the four contracts awarded in 2000, the Authority used the original bids it received under the original Requests for Proposals it had cancelled as the basis for determining price reasonableness. The Authority referred to HUD’s Procurement Handbook which states for small

purchases a price analysis can be satisfied if the Authority compares proposed prices received.

For the two contracts issued in 2001, the Authority stated it compared the competitive proposals it received for the previous contracts issued in 2000 to independent price estimates it received in 2000. In the Authority's opinion, this comparison showed that the 2001 contract prices were reasonable. Further, the Authority said that current market rate information it obtained from its October 2003 market inquiry showed the prices it paid for all contracts were reasonable, and in many cases lower than market rates.

OIG Evaluation of Auditee Comments

We disagree with the Authority's assessments.

(1) The Authority did not complete a proper price analysis. Although we agree that it was probably the Authority's original intention to use the Community College as the trainer for the services they required, using their initial estimate as the basis for its price estimate was not appropriate. Authority staff acknowledged that the reason a memo of understanding could not be reached with the Community College to complete the training was because the Authority had made changes in the scope of work that the Community College was not able to accommodate. Thus, the Authority's use of a cost estimate based upon a different scope of work than what was issued under the Request for Proposals has little basis or value. This was evidenced by the fact that the bids received under the Requests for Proposals ranged from \$132 - \$375 per hour, when the Community College's estimate was only \$40 per hour.

The Authority's position that since it decided to award the contracts as an informal small purchase procurement it could now use the original vendor bids under the cancelled Requests for Proposals to satisfy the independent cost estimate, is seriously flawed. The decision by the Authority to issue four contracts just under the small purchase threshold to avoid following Federal procurement requirements does not legitimize its action. Once the Authority decided to cancel the Requests for Proposals, it should have reissued them with the correct scope of the work to be performed and obtained an accurate price analysis.

Further, since the Authority used the invalid pricing data from the four contracts it awarded in 2000 as the primary basis for its independent cost estimate for later contracts, the price analysis for the 2001 contracts was not appropriate either.

(2) The Authority did split bids. The Authority's explanation and justification why they issued four service contracts just under its small purchase threshold of \$40,000 is a classic example of bid splitting. The Authority obtained the bids, did not like what they received and then changed the method of procurement to obtain contracts to avoid the competitive process.

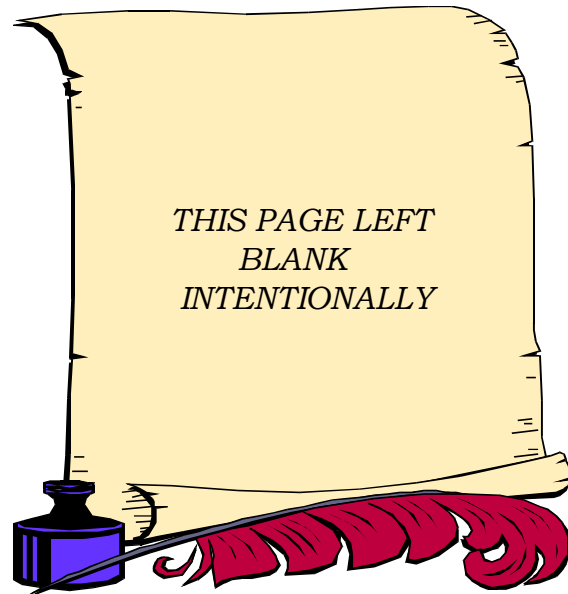
(3) Based on the evidence we obtained during the audit, the vendors did not appear to be the best qualified to perform the work for the fees charged the Authority. While we agree that the Requests for Proposals did not require the computer vendors to be accredited with the Microsoft Software, one of the Authority's own selection panel members questioned the qualifications of the selected computer vendors and their associated fee. This panel member independently obtained prices from vendors who had the accreditation, and found the prices obtained were several hundred dollars less than what was actually contracted out to vendors that did not have a higher level of accreditation. Thus, we believe it is appropriate to question the qualifications of the vendors and the prices the Authority paid for those services.

(4) The fees charged by the vendors and paid by the Authority did not appear to be reasonable. As we discussed above, the Authority never obtained an independent price estimate or performed a proper price analysis of the vendors' bids as is required under the Federal procurement requirements. Also, prices obtained by one of the Authority's own selection panel members for three better qualified vendors indicated the prices paid by the Authority were several hundred dollars higher than what probably could have been obtained if the proper procurement procedures were followed. Further, due to the timing and nature of the market pricing information the Authority provided us from its October 2003 market pricing inquiry, we were not able to evaluate the reliability or validity of the data to draw any conclusion that the pricing data showed the prices paid by the Authority were reasonable.

Recommendations

We recommend the Pittsburgh Office of Public and Indian Housing:

- 2A. Determine a fair and reasonable price for the six contracts issued by the Authority. For any costs in excess of what is determined to be reasonable, the Authority should be required to reimburse HUD with non-Federal funds all funds expended under these six contracts. At the time of our review this amount consisted of:
 - i. \$156,254 paid for contracted computer and workplace skills training services under the FY 1997 and FY 1998 Grant Program funds. (\$80,000 – Computer Skills and \$76,254 – Workplace skills)
 - ii. \$73,151 paid for contracted computer and workplace skills training services for FY 1999 and FY 2000 Grant Program funds.
- 2B. Conduct periodic reviews of the Authority's procurement activities to determine if the Authority is complying with HUD's requirements.
- 2C. Require the Authority to reimburse HUD \$20,206 with non-Federal funds for the contract overpayments made on the FY 1997 and FY 1998 computer skills training contract.
- 2D. Require the Authority to update its procurement policy to bring it in line with the Federal Procurement Regulations. Specifically, the policy should include steps to insure that a cost and price analysis is prepared for every procurement action; all procurement actions are competitively completed; provisions that would prohibit bid splitting; and provisions to ensure insure the best qualified contractor is selected.



Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

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

- Cash management of the program,
- Documentation to support activity and cost eligibility,
- Procedures over the reporting of activities and associated costs, and
- Policies and procedures in awarding service contracts.

We assessed all of the relevant control categories identified above, to the extent they impacted our audit objective.

Significant Weaknesses

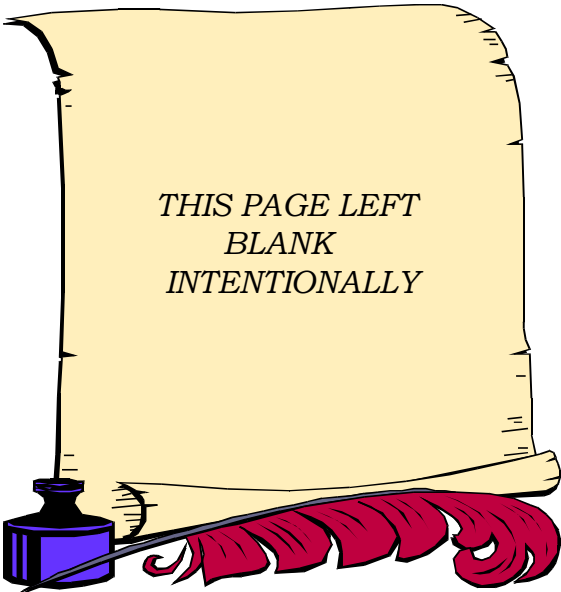
A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on our review, we believe the following items are significant weaknesses:

- The Authority did not have a system to ensure costs incurred were for eligible activities, properly supported by appropriate source documentation, and were allocable as grant expenditures (see Finding 1).
- The Authority did not have a system to ensure proper cash management and use of budgetary control over expenditures (see Finding 1).

- The Authority did not have effective policies and procedures in place to ensure service contracts were awarded according to Federal procurement requirements (see Finding 2).

Follow Up On Prior Audits

The Office of Inspector General completed a review of the Allegheny County Housing Authority Public Housing Drug Elimination Grant Program and issued an audit report on July 22, 1992 (Audit Report 92-PH-209-1010). The audit report had four recommendations which have all been closed.

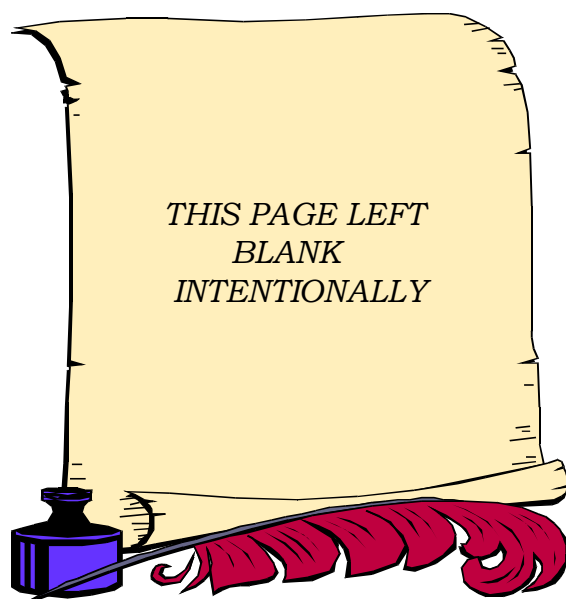


Schedule of Questioned Costs

| <u>Recommendation Number</u> | <u>Type of Questioned Cost</u> | |
|----------------------------------|--------------------------------|-----------------------|
| | <u>Ineligible 1/</u> | <u>Unsupported 2/</u> |
| 1B. | \$330,000 | |
| 1C. | \$134,638 | |
| 1D. | \$130,792 | |
| 1E. | | \$ 54,567 |
| 1F. | | \$ 37,516 |
| 1G. | | \$241,909 |
| 1H. | | \$ 15,248 |
| 1I. | | \$183,305 |
| 2A. | | \$229,405 |
| 2C. | \$ 20,206 | |
| Totals | \$615,636 | \$761,950 |

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 costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future 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.



Auditee Comments



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November 10, 2003

Mr. Daniel G. Temme
Regional Inspector General for Audit
U. S. Department of Housing and Urban Development
100 Penn Square East, Suite 1005
Philadelphia, PA 19107-3380

Dear Mr. Temme:

Thank you very much for providing the Allegheny County Housing Authority (ACHA) with your draft audit report on our Public Housing Drug Elimination Grant Program (DEP). We especially appreciate your positive suggestions on management improvements and have already implemented almost all of them, prior to the issuance of the final audit report. We are pleased that so many of our earlier responses have resulted in the very substantial reduction of the number of items that were originally questioned and the consequent reduction in the amounts involved in your several earlier audit drafts. We believe the interactive process between your auditors and ACHA has been a productive one as these changes reflect.

Where appropriate, we have implemented a variety of improvements in our management systems, in some instances directly as a result of your suggestions and also based upon a second look at our own systems stimulated by your review. For instance, we have implemented the following changes:

- On September 17, 2003, the ACHA Board of Directors approved modifications of our procurement policy that we believe will enhance its effectiveness in competitive bidding. We have submitted the revised policy to the Pittsburgh HUD Field Office and requested they review it and suggest any further needed changes.
- We have instituted a new LOCCS control system that will provide a more comprehensive internal tracking system for voucher payments.
- We have installed an improved internal audit process and structure that better allocates responsibilities and enhances checks and balances.
- We have designed and implemented a time recording system that recognizes multiple tasks by program on a daily basis and instilled greater accountability.

On the other hand, we continue to strongly disagree with almost all of the items that you have identified as "ineligible" expenditures. Those items identified by you as "unsupported," that require additional

documentation and review by the Pittsburgh Field Office, we believe will be fully supported after further review by that Office. We have already supplied your auditors with literally thousands of pages of documentation, a good deal of which resulted in reductions in the number of items and amounts of expenditures that had been challenged, and we have done this on three distinct occasions, in addition to providing auditors requested documentation during the audit process itself.

There are fundamental differences in perspective between your auditors and ACHA regarding the propriety of expenditures you identified as "ineligible." The Drug Elimination Program is no longer separately funded and this was a reflective view by auditors of how a local government entity exercised the considerable flexibility inherent in a program that attempted to deal with an almost intractable problem of reducing drug problems in public housing. Of particular concern to ACHA is that any review of the activities carried out under this program should provide considerable deference to local decisions regarding how best to implement various innovative strategies to attack this difficult problem of drug elimination. If there were clear remedies for this problem, the experimental drug elimination program would not have been needed.


We believe that the legal and regulatory basis underlying many of your recommendations for determinations of ineligibility and requests for repayment of funds are not consistent with the reasonable interpretation of applicable federal requirements. All of the efforts put forth by ACHA were based upon what we believe to have been reasonable readings of relevant program requirements.

Our disagreement with your interpretations of applicable laws and regulations, however, does not mean that we are not both trying to ensure that effective programs are carried out. We consistently operated cooperatively with the Pittsburgh Field Office in trying to comply fully with technical requirements for the program. The funds that have been challenged were utilized appropriately by our many partners, such as the Pittsburgh Foundation and other non-profit organizations and public agencies, for carrying out drug prevention and law enforcement programs. Other funds were used to construct facilities and operate activities that are clearly authorized under DEP requirements. These activities are primarily directed toward our younger residents. Many parents and children in our developments have benefited from these programs, and the uses of the funds provided have been consistent with projects carried out by the majority of housing authorities across the nation that were provided DEP funds

Our detailed position on each of the expenditures and issues you have challenged is provided in ACHA's attached response to the draft audit report. ACHA's response details how the Authority through needed activities provided both within the DEP program and supported by the regular operations of the Authority, implemented its drug prevention activities. ACHA operated consistently with the requirements prescribed by Congress and subsequently adopted administrative regulations that were a result of the rule-making process required under the Administrative Procedures Act.

We look forward to a continued dialogue with the HUD Field Office in Pittsburgh to resolve the remaining relatively few issues still in disagreement between ACHA and your auditors. We truly appreciate the efforts you and your auditors have made, in particular, to work with us to make this a productive process and generate useful management improvements in ACHA's operations.

Sincerely,



Frank Aggazio
Executive Director

Enclosure

