Issue Date	September 25, 2006
Audit Report Number	2006-PH-1014

TO: James D. Cassidy, Director, Office of Public Housing, Pittsburgh Field Office, 3EPH

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Regional Office, 3AGA

SUBJECT: The Housing Authority of the City of McKeesport, McKeesport, Pennsylvania, Needed to Improve Its Low-Rent Housing Maintenance Program

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the City of McKeesport's (Authority) management of its low-rent maintenance program. We conducted the audit because of concerns identified during a previous audit we performed at the Authority. Our overall audit objective was to determine whether the Authority properly managed the maintenance of its low-rent housing program in accordance with U.S. Department of Housing and Urban Development (HUD) rules and regulations.

What We Found

The Authority did not properly manage the maintenance of its low-rent housing program in accordance with HUD rules and regulations and its annual contributions contract with HUD. The Authority's maintenance operations needed improvement; it received operating subsidies for ineligible units; and it did not prevent conflict-of-interest situations with its vendors. Additionally, the

Authority did not provide adequate management oversight and control and did not implement adequate policies and procedures to ensure its maintenance employees completed vacant unit work orders as required.

What We Recommend

We recommend that HUD require the Authority to

- Repay the program $90,119 from nonfederal funds for the ineligible expenditures resulting from the prohibited conflict-of-interest situations with its vendors identified in this report.

- Implement controls and procedures to prevent and resolve conflict-of-interest situations with its vendors, thereby putting $51,497 in vendor payments to better use.

- Provide adequate management oversight and control to ensure that maintenance employees document and complete vacant unit work orders in a timely manner as required, thereby putting $439,327 to better use.

- Bring its maintenance staffing levels in line with HUD guidelines or properly justify why the additional maintenance personnel are needed, thereby putting $437,346 to better use.

- Implement policies and procedures to justify hiring maintenance contractors to provide services that should be performed by the Authority's maintenance personnel, thereby putting $215,067 to better use.

- Repay HUD ineligible amounts from nonfederal funds after HUD recalculates the Authority's operating subsidy to exclude ineligible units from April 1, 2003, to December 31, 2004.

- Discontinue requesting subsidies for housing units that are not eligible, thereby putting $743,135 to better use.

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

Auditee's Response

We discussed the report with the Authority during the audit and at an exit conference on August 17, 2006. The Authority provided written comments to our draft report, including five exhibits, on August 23, 2006. The Authority generally disagreed with the findings, but indicated it will comply with the terms of its annual contributions contract. Also, the Authority agreed that its maintenance department would benefit from detailed policies and procedures and that the audit will result in improvements throughout the Authority.

The full narrative portion of the Authority's response, without the exhibits, along with our evaluation of that response, can be found in appendix B of this report. The Authority's complete response, including exhibits, is available upon request.

TABLE OF CONTENTS

Background and Objectives	5
Results of Audit	
Finding 1: The Authority Did Not Prevent Conflict-of-Interest Situations with Its Vendors	6
Finding 2: The Authority's Maintenance Operations Needed Improvement	9
Finding 3: The Authority Improperly Obtained Operating Subsidies for Its Vacant Units	19
Scope and Methodology	21
Internal Controls	22
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	24
B. Auditee Comments and OIG's Evaluation	25

BACKGROUND AND OBJECTIVES

The Housing Authority of the City of McKeesport (Authority) was incorporated as a public corporation of the Commonwealth of Pennsylvania to provide housing for qualified individuals in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD). HUD authorized the following financial assistance to the Authority for its fiscal years 2004 and 2005:

- $5.7 million in operating subsidies to operate and maintain its housing developments, and

- $5.6 million in Public Housing Capital Fund program funding to modernize its public housing units.

A five-member board of commissioners governs the Authority. The commissioners are appointed by the mayor of the City of McKeesport with advice and consent of the city council. The appointments are for staggered five-year terms. The chairman of the Authority’s board of commissioners, James R. Brewster, is also the mayor of the City of McKeesport and has been on the board of commissioners since 1990 (secretary-treasurer from 1990 to 1994 and chairman from 1994 to the present). The Authority’s executive director is John H. Kooser, Jr.

The Authority owns and manages eight properties with 1,064 low-rent units. Results from the Authority’s fiscal year 2004 Real Estate Assessment Center physical inspection reports indicated that five of the eight properties received a failing physical condition score (less than 60 points). The failing scores ranged from 45 to 59. Overall, the Authority is barely considered a standard performer with a physical condition score of 18.39 out of 30 on its Public Housing Assessment System Review.

The overall objective of the audit was to determine whether the Authority’s maintenance program of its low-rent housing portfolio was being properly managed in accordance with HUD rules and regulations.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Prevent Conflict-of-Interest Situations with Its Vendors

Contrary to its annual contributions contract and HUD regulations, the Authority did not prevent conflict-of-interest situations with its vendors. In this regard, the Authority obtained services from vendors that were owned either by immediate family members of the Authority's management staff or its board of commissioners. According to Authority officials, these conflict-of-interest situations occurred because they were unaware of applicable requirements in the Authority's annual contributions contract and HUD regulations. As a result, from April 2003 to December 2004, the Authority made ineligible payments totaling $90,119 to vendors. By creating and implementing procedures and controls to resolve and prevent these conflicts of interest, the Authority will put $51,497[1] to better use over a one year period.

The Authority Improperly Hired Vendors

The Authority improperly hired three vendors and paid them from April 1, 2003, to December 31, 2004, a total of $90,119[2] to perform services for the Authority in violation of its annual contributions contract and federal regulations thus making the expenditure of $90,119 an ineligible use of HUD funds. Section 19(A) of the Authority's annual contributions contract prohibited the Authority from entering into any contract, subcontract, or arrangement in connection with any project under the contract in which several classes of people have an interest, direct or indirect, during their tenure or for one year thereafter. These classes include any present or former member or officer of the governing body of the Authority, any Authority employee who formulates policy or who influences decisions with respect to the project(s), and any public official who exercises functions or responsibilities with respect to the project(s) or the Authority, or any member of such individual's immediate family. Similar requirements prohibiting conflicts of interest related to the hiring of vendors are contained in 24 CFR [*Code of Federal Regulations*] 85.36 and 24 CFR 982.161.

[1] $51,497 was calculated as follows: $90,119 divided by 21 months (the audit period) multiplied by 12 months (to annualize).
[2] $84,609 of this amount was also identified in the audit results for finding 2; specifically, the payments totaling $60,404 and $24,205 as discussed in this finding. To avoid reporting monetary benefits twice, we reported a monetary benefit for these costs in this finding and excluded them from the monetary benefits reported in finding 2.

However, contrary to established requirements, the Authority did not prevent conflict-of-interest situations and obtained services from businesses that were owned either by relatives of the Authority's management staff or members of its board of commissioners. To illustrate,

- The Authority paid a vendor owned by the sister of the Authority's deputy executive director[3] $5,510 from April 2003 to December 2004, to provide publishing services for the Authority.

- The Authority paid a vendor owned jointly by the stepbrother and the stepfather of the chairman of the Authority's board of commissioners[3] $60,404 from April 2003 to December 2004, to provide hauling and excavation services for the Authority.

- The Authority paid a vendor owned by the brother of the Authority's Section 8 program manager[3] $24,205 from April 2003 to December 2004, to provide maintenance services to the Authority.

The Authority's annual contributions contract allowed HUD to waive the requirements of section 19(A) of the Authority's annual contributions contract for good cause if such a waiver was permitted by state and local law. However, Authority officials did not request a waiver or demonstrate good cause for waiving the requirements of the annual contributions contract for these vendors. On the contrary, officials stated they were unaware of the need to obtain a waiver. Therefore, by creating measures to resolve and prevent these conflicts of interest, the Authority will cease improperly obtaining services from vendors owned by relatives of employees and its board members and instead properly obtain services from vendors thereby putting $51,497 to better use. Although there will be a recurring benefit, our estimate of funds to be put to better use reflects only the initial year of these recurring benefits.

The Authority Did Not Follow Its Own Personnel Policy

In addition to its violations of its annual contributions contract, the Authority also violated provisions its own personnel policy by employing more than one member of the same family and by not always hiring applicants that met minimum qualification standards. The Authority's personnel policy discouraged it from employing more than one member of the same immediate family "insofar as possible." However, in 2006, the Authority planned to pay annual salaries and benefits of $426,219 to 10 employees who are immediate family members of other employees of the Authority. In one instance, the Authority employed five

[3] The board member or manager was in place at the time the event(s) occurred.

employees from the same immediate family. In addition, the Authority did not always consider minimum standards required for positions when hiring staff. For example, our review of the personnel files of five maintenance employees showed that one employee lacked the skills and qualifications necessary for her position.

Authority Is Being Proactive

During the audit we found the Authority employed three immediate family members of its board of commissioners. Although the pre-existing relationships violated the Authority's most recent annual contributions contract, dated November 2003, the relationships did not violate the annual contributions contract in effect at the time these employees were hired. Therefore, the best practice in this situation would be for the Authority to obtain the appropriate waivers for the pre-existing relationships that violated the November 2003 contract. To its credit, the Authority was prudent and agreed to obtain the appropriate waivers cited in its most recent annual contributions contract in regard to its hiring of employees and vendors.

Recommendations

We recommend that the director, Pittsburgh Office of Public Housing require the Authority to

1A. Repay the program $90,119 from nonfederal funds for the ineligible expenditures resulting from the prohibited conflict-of-interest situations identified in this report.

1B. Create and implement controls and procedures to prevent future conflict-of-interest situations and resolve existing conflict-of-interest situations relating to entering into contracts with immediate family members as stated in section 19(A) of its annual contributions contract and HUD regulations, thereby putting $51,497 in funds to better use.

1C. Implement provisions of its personnel policy requiring it to refrain from employing more than one member of the same immediate family, and to hire only applicants meeting minimum qualification standards.

Finding 2: The Authority's Maintenance Operations Needed Improvement

The Authority's maintenance department did not prepare its vacant units for occupancy in a timely manner even though the department was overstaffed and hired vendors to assist in preparing vacant units for occupancy. This occurred because the Authority did not provide adequate management oversight and control and did not implement adequate policies and procedures to ensure that its maintenance employees completed vacant unit work orders as required. As a result, from April 1, 2003, to December 31, 2004, the Authority lost an opportunity to provide 514 housing units to families in need, and it forfeited $768,822[4] in rental income it could have otherwise earned. By providing adequate management oversight, control, and implementing adequate policies and procedures, the Authority will provide additional housing units to families in need, and thereby earn an additional $439,327[5] in rental income over a one year period. Further, by bringing its staffing levels in line with HUD guidelines or properly justifying the employment of additional maintenance staff, and improving controls and properly justifying hiring outside contractors, the Authority will put $437,346[6] and $215,067[7] to better use over a one year period.

The Authority Failed to Prepare Units for Occupancy in a Timely Manner

Contrary to HUD guidelines[8] and its own policy, the Authority's maintenance staff did not prepare vacant units for occupancy in a timely manner. As a result, from April 1, 2003, to December 31, 2004, the Authority lost an opportunity to provide 514 housing units to families in need, and it forfeited $768,822 in rental income it could have otherwise earned. The Authority certified that it had a failing score for its vacant unit turnaround time sub-indicator on its 2004 Management Assessment Sub-system certification. The Authority certified that it had a vacant unit turnaround time of 51.63 days. According to the HUD scoring criteria, a score greater than 50 is considered failing. The HUD guidelines and the Authority's own internal policy provide that the Authority's vacant unit work

[4] $768,822 = $431,868 received during 2004 plus $336,954 during 2005. $431,868 = $179.02 (monthly dwelling rental charge per unit for fiscal year 2004) multiplied by 2,412.4 (the total number of months the units were vacant). $336,954 = $184.40 (monthly dwelling rental charge per unit for fiscal year 2005) multiplied by 1,827.3 (the total number of months the units were vacant).
[5] $439,327 was calculated as follows: $768,822 divided by 21 months (the audit period) multiplied by 12 months (to annualize).
[6] $437,346 was calculated as follows: $62,478 average annual salary and benefits multiplied by seven employees.
[7] $215,067 was calculated as follows: $376,367 (see footnote 2) divided by 21 months (the audit period) multiplied by 12 months (to annualize).
[8] HUD's Management Assessment Sub-System Guidebook

orders should be completed within 20 days of when the low-rent unit is vacated. The Authority was significantly deficient in this regard. To illustrate,

- From April 1, 2003, to March 31, 2004, the Authority had 436 units vacant for more than 20 days but had not taken the steps necessary to prepare the units for occupancy. These 436 units (41 percent of the Authority's inventory) had been vacant an average of 300 days.

- From April 1, 2004, to December 31, 2004, the Authority had 300 units vacant for more than 20 days but had not taken the steps necessary to prepare the units for occupancy. These 300 units (28 percent of the Authority's inventory) had been vacant an average of 456 days.

- Since none of the 514 units were prepared for occupancy, the Authority could not lease them to families in need. In addition, it took an excessive amount of time to prepare some of its vacant units for occupancy. The Authority's records showed that it took the Authority an average of 167 days to prepare rented units for occupancy, although HUD and the Authority's own policy expect this to be done in 20 days.

The Authority Did Not Provide Adequate Management Oversight and Control

Although the Authority had a maintenance staff of 32 employees during 2003 and 2004, it did not provide adequate management oversight and control to ensure that it properly used these employees. For example, the Authority did not properly document the work of its employees on work orders and did not prepare performance evaluations for its maintenance employees. Since employees were not properly held accountable for the work they were required to perform, there was no assurance that the work was performed or that it was performed in a timely manner.

The Authority's lack of management oversight and control is illustrated by the time and attendance records and the work orders completed by two maintenance mechanics/working foremen and one laborer. The maintenance mechanics/working foremen, based on their position descriptions, are expected to possess the skills necessary for preparing vacant units for occupancy such as building and installing cabinets and partitions and installing electrical wiring. The laborers are expected to possess the skills needed to complete general work such as cutting grass, cleaning the dumpsters and streets, and janitorial work. The Authority did not have established procedures requiring that every hour of maintenance work be documented by a work order. However, the Authority's managers agreed that every hour of maintenance work should be documented on a work order and entered in the Authority's work order computerized database to track the work that is done by the maintenance staff.

Our review of the Authority's records for the 21-month period from April 2003 to December 2004 showed that the three employees often did not prepare work orders to document what they accomplished while on the job. Additionally, considerable time the employees documented on work orders was spent on tasks other than preparing units for occupancy. To illustrate,

- One maintenance mechanic/working foreman documented only 4 percent of the 1,136 hours she worked on work orders. This employee did not complete any work orders to prepare units for occupancy.[9]

- Another maintenance mechanic/working foreman documented only 27 percent of the 2,174 hours he worked on work orders. This employee completed only seven work orders to prepare units for occupancy.

- The laborer documented only 49 percent of the 3,192 hours he worked on work orders. However, this employee completed 90 work orders to prepare units for occupancy.

Since managers often did not ensure that the maintenance staff prepared work orders to account for their time on the job, the Authority could not provide assurance that it used its employees properly to prepare its vacant units for occupancy. In addition to failing to prepare work orders, the Authority acknowledged it did not conduct performance evaluations of its maintenance employees. The Authority's maintenance superintendent informed us that he did not complete evaluations due to an oversight on his part. Since employees were not properly held accountable for the work they were required to perform, vacant units were not prepared for occupancy and remained vacant for as long as 1,556 days.

The Authority Did Not Have Adequate Maintenance Policies and Procedures

The Authority also did not have adequate policies and procedures in place to assist its maintenance employees in completing their work as required. The Authority's internal policy stated that its vacant unit work orders must be completed within 20 days of when a low-rent unit was vacated. However, the Authority's policies and procedures regarding how it was to accomplish this task were not clear, up-to-date, or approved by the Authority's board of commissioners. In addition, the maintenance department's policy did not provide

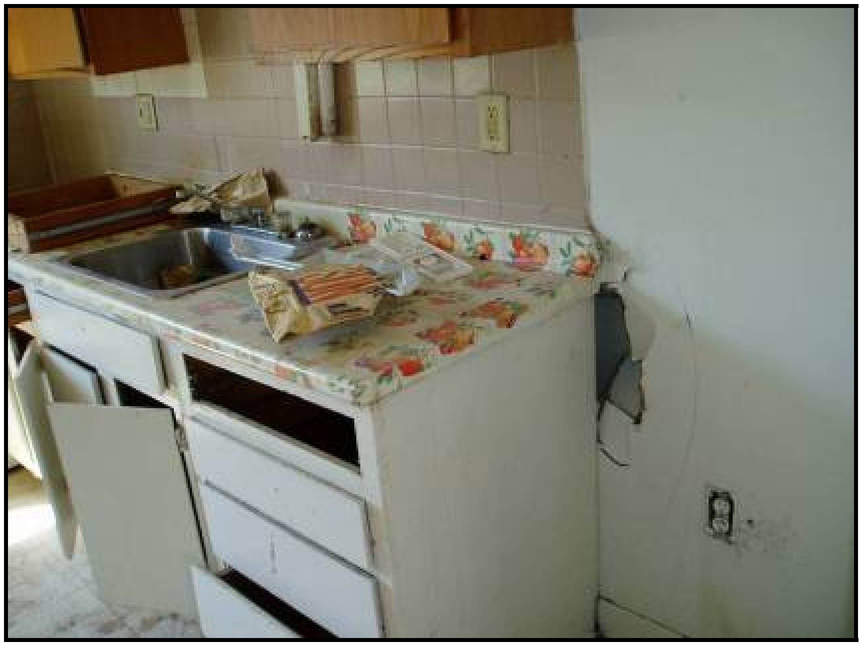
[9] This maintenance employee is one of five employees hired from the same immediate family noted in finding 1.

the staff with the explicit standard operating procedures it needed to prepare a unit to lease. The following photographs illustrate the condition of some of the 514 units that the Authority failed to prepare for occupancy.

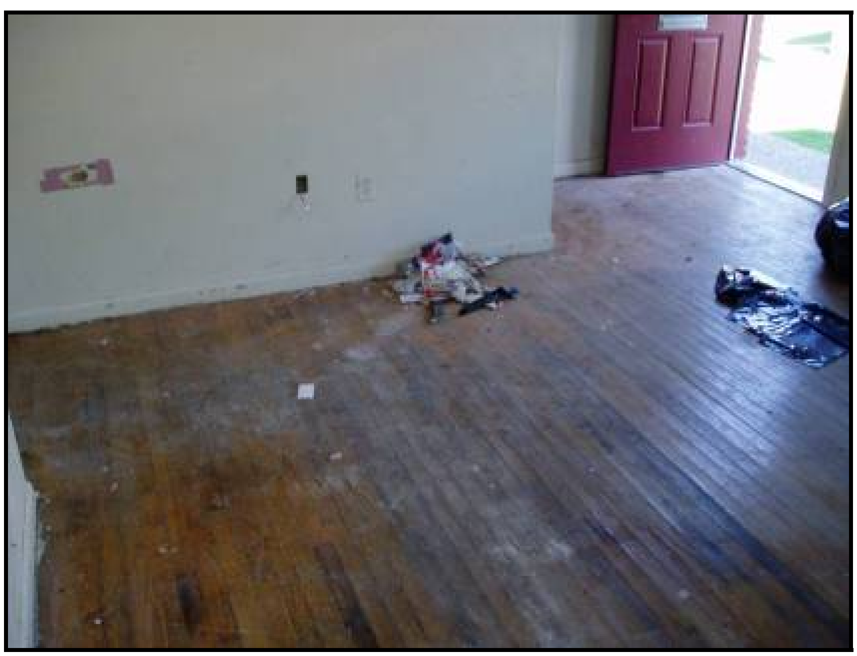
Crawford Village, Apartment 4G - Vacant 586 Days

We visited this unit on September 20, 2005. According to the Authority's vacancy database, this unit had been vacant since February 13, 2004. The unit had been vacant for 586 days on the day of our visit.

Kitchen



Living Room Floor



Crawford Village, Apartment 5B - Vacant 555 Days

We visited this unit on September 20, 2005. According to the Authority's vacancy database, this unit had been vacant since March 15, 2004. The unit had been vacant for 555 days on the day of our visit.

Bedroom Ceiling

Living Room Wall

Crawford Village, Apartment 5C - Vacant 935 Days

We visited this unit on September 20, 2005. According to the Authority's vacancy database, this unit had been vacant since March 1, 2003. The unit had been vacant for 935 days on the day of our visit.

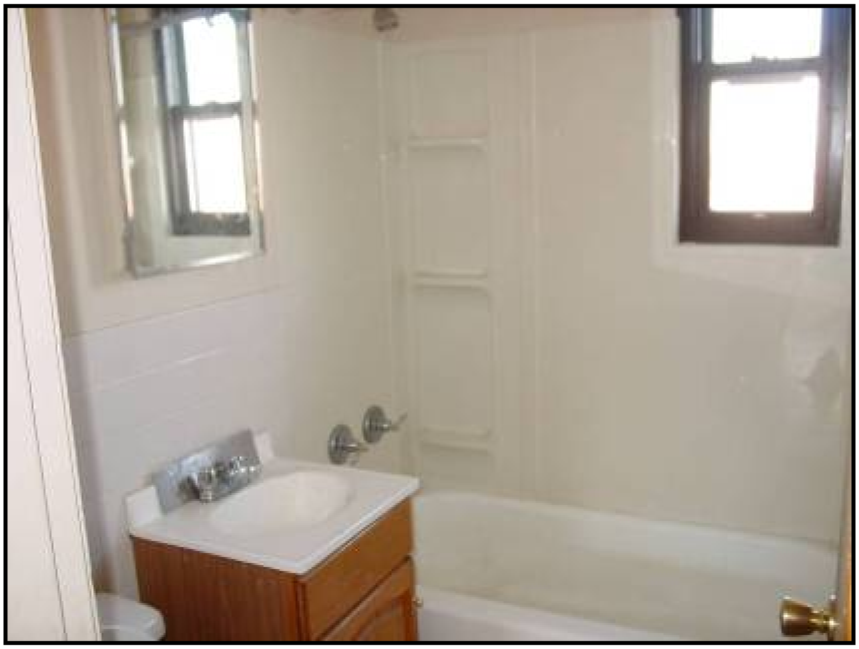
Bedroom Ceiling

Bedroom Floor

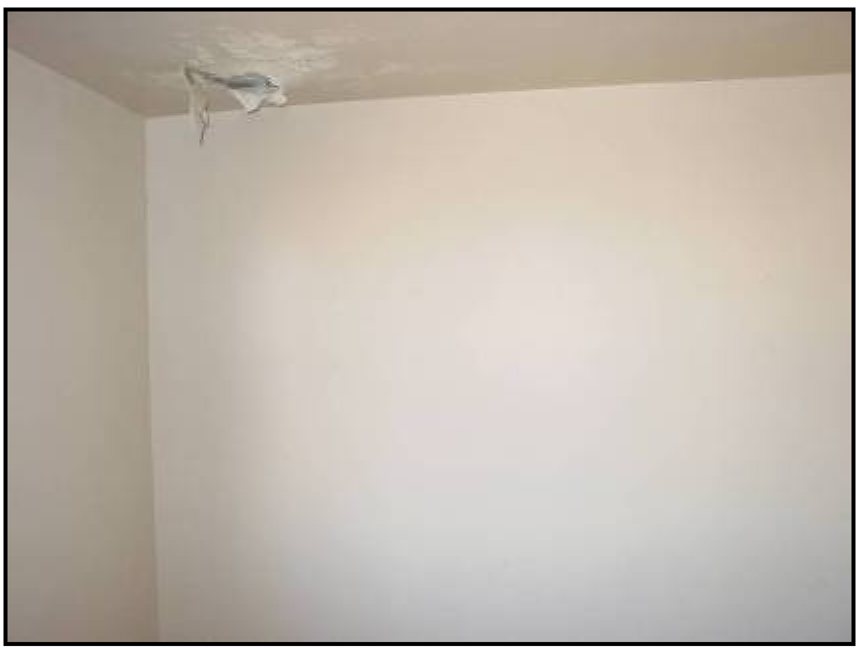
Crawford Village, Apartment 5G - Vacant 542 Days

We visited this unit on January 12, 2006. According to the Authority's vacancy database, this unit had been vacant since July 20, 2004. The unit had been vacant for 542 days on the day of our visit.

Bathroom



Bedroom #1 Ceiling



By providing adequate management oversight and control and implementing adequate policies and procedures to ensure that its maintenance employees complete work orders in a timely manner as required, the Authority will cease allowing housing units to remain vacant for unreasonable amounts of time and, instead will prepare these vacant units for occupancy. In addition to providing additional housing units to families in need, the Authority will earn an additional $439,327 in rental income. This will be a recurring benefit. However, our estimate reflects only the initial year of these recurring benefits.

The Authority's Maintenance Department Was Overstaffed

The Authority's maintenance department was overstaffed, causing it to unnecessarily pay salaries and benefits for 11 employees. HUD guidance provides that for a housing authority owning 1,064 low-rent units, as the Authority does, the recommended staffing levels should reflect 50 units per maintenance staff member, including management. This guidance would provide for the staffing level at the Authority to be 21 employees. During 2003 and 2004, the Authority paid salaries and benefits on average to 32 maintenance employees. The Authority's staffing levels unnecessarily exceeded HUD guidelines by 52 percent.

The Authority could not adequately explain why its maintenance staffing level exceeded HUD guidelines. Authority officials told us the overstaffing may have been needed due to the Authority's very old housing stock and because it had units in bad condition. While some of its housing stock was old, we disagree that the Authority needed an additional maintenance staff of 11 employees. On the contrary, as discussed above, the Authority's existing maintenance staff did not prepare its vacant units for occupancy in a timely manner because the Authority did not provide adequate management oversight and control over its staff of 32 employees. In addition, it did not implement adequate policies and procedures to ensure that its maintenance employees completed vacant unit work orders as required.

During the audit, the Authority reduced its maintenance staff by four employees to 28 employees. During 2006, the Authority's average budgeted salaries and benefits per maintenance employee were projected to be $62,478. Therefore, by further bringing its staffing levels in line with HUD guidelines or properly justifying the employment of additional maintenance staff, the Authority will put $437,346 to better use. This will be a recurring benefit. However, our estimate reflects only the initial year of these recurring benefits.

The Authority Unnecessarily Hired Contractors

The Authority unnecessarily paid 12 vendors $460,976 from April 2003 to December 2004 to assist its maintenance department in getting its vacant units ready for occupancy and perform other maintenance work. The maintenance services provided by the vendors varied, but the Authority could not adequately justify hiring contractors to perform the services since its existing maintenance department should have been able to perform the work. The services provided by the vendors consisted of activities such as cleaning units, plastering walls, installing gutters, replacing floors, painting units, and other miscellaneous tasks. For example, the Authority paid one contractor $1,900 to install window blinds and $2,300 to install elevator door guards and another contractor $9,400 to paint a stock room and four boiler rooms.

The Authority could not adequately explain why it hired contractors to perform work its maintenance department should have been able to perform in-house. Authority officials explained that the contracts may have been justified due to the Authority's very old housing stock and because it had units in bad condition. While some of its housing stock was old, we disagree that the Authority needed to hire 12 vendors and pay them $460,976 from April 2003 to December 2004 to assist the Authority's maintenance department in getting its vacant units ready for occupancy and perform other maintenance work.

On the contrary, as discussed above, the Authority's existing maintenance staff did not prepare its vacant units for occupancy in a timely manner because the Authority did not provide adequate management oversight and control over its staff of 32 employees. Moreover, it did not implement adequate policies and procedures to ensure that its maintenance employees completed vacant unit work orders as required. Further, as previously discussed, the Authority's maintenance department was overstaffed, causing it to unnecessarily pay salaries for 11 employees. Therefore, while the Authority's staffing levels unnecessarily exceeded HUD guidelines by 52 percent, this overstaffing should have easily allowed it to perform its existing maintenance workload without hiring contractors for additional help. If the Authority improves its controls and ceases unnecessarily hiring contractors to perform maintenance work and, instead properly justifies hiring outside contractors, it will put $215,067[10] to better use. Although this will be a recurring benefit, our estimate reflects only the initial year of these recurring benefits.

Recommendations

We recommend that the director, Pittsburgh Office of Public Housing require the Authority to

[10] See Footnote 7.

2A. Provide adequate management oversight and control to ensure that its maintenance employees document and complete vacant unit work orders in a timely manner as required, thereby putting $439,327 to better use.

2B. Provide adequate management oversight and control to ensure that it prepares and conducts performance evaluations of its maintenance employees at least annually.

2C. Create and implement adequate policies and procedures to ensure that its maintenance employees properly complete maintenance work as required.

2D. Bring its maintenance staffing levels in line with HUD guidelines for maintenance staffing or properly justify to HUD why the additional maintenance personnel are needed, thereby putting $437,346 to better use.

2E. Create and implement policies and procedures to ensure that it adequately justifies hiring contractors to provide maintenance services, thereby putting $215,067 to better use.

Finding 3: The Authority Improperly Obtained Operating Subsidies for Its Vacant Units

The Authority improperly obtained operating subsidies for its vacant units during the audit period of April 2003 to December 2004. This occurred because it mistakenly believed and reported to HUD that its units were vacant due to circumstances beyond its control. If the Authority discontinues requesting and receiving operating subsidies for ineligible units, HUD funds estimated at $743,135[11] will be put to better use over a one year period.

The Authority Improperly Justified Its Operating Subsidies Request

The Authority improperly justified its request for operating subsidies for its vacant units from April 2003 to December 2004. According to 24 CFR [*Code of Federal Regulations*] 990.102, a housing authority may be granted subsidies for vacant units but only when the vacancy is due to circumstances and actions beyond its control, such as changing market conditions. However, units vacant because they do not meet minimum standards pertaining to construction or habitability under federal, state, or local laws or regulations are not considered vacant due to circumstances and actions beyond the authority's control. In this regard, up to 514 units in the Authority's inventory remained vacant because the Authority did not adequately prepare them for occupancy. In addition, the units did not meet established physical condition standards. Therefore, the Authority was not entitled to receive an operating subsidy for these units.

The Authority Improperly Cited Changing Market Conditions to Obtain Subsidies

The Authority's rationale for requesting operating subsidies due to changing market conditions was not proper. Regulations at 24 CFR [*Code of Federal Regulations*] 990.102 provide the basis for the Authority to request subsidies for units vacant due to circumstances and actions beyond its control. It states that units vacant due to circumstances and actions beyond an authority's control are dwelling units that are vacant due to circumstances and actions that prohibit the

[11] $743,135 was calculated as follows: $3,652,234 (Authority's 2006 operating subsidy request) minus $2,909,099 (revised subsidy request based on the exclusion of 216 vacant housing units). We calculated 216 units as follows: 378 (vacant housing units in our audit results that were not designated for modernization) divided by 21 months (the audit period) multiplied by 12 months (to annualize).

authority from occupying, selling, demolishing, rehabilitating, reconstructing, consolidating, or modernizing them. The deputy director explained that units were vacant because a large portion of the Authority's housing inventory had not been modernized for many years and as an example, he stated that many of the units do not contain showers; there is only a bathtub. However, our audit did not find circumstances and actions prohibiting the Authority from modernizing these units.

As discussed in finding 2, the Authority's inventory included 514 vacant units because the Authority did not adequately prepare the units for occupancy. Thus, HUD should recalculate the Authority's operating subsidy calculation to exclude ineligible units and require the Authority to repay HUD with nonfederal funds for the ineligible subsidies received from April 1, 2003, to December 31, 2004. In addition, the Authority should discontinue future requests for operating subsidies for units that do not meet minimum standards pertaining to construction or habitability under federal, state, or local laws or regulations, thereby putting funds to better use totaling $743,135.

Recommendations

We recommend that the director, Pittsburgh Office of Public Housing

3A. Recalculate the Authority's operating subsidy calculation to exclude ineligible units from April 1, 2003, to December 31, 2004, and require the Authority to repay HUD ineligible amounts from nonfederal funds.

3B. Require the Authority to discontinue improperly requesting subsidies for units that do not meet minimum standards pertaining to construction or habitability under federal, state, or local laws or regulations, thereby putting funds to better use totaling $743,135.

SCOPE AND METHODOLOGY

To accomplish our objectives, we

- Interviewed Authority and local HUD employees;
- Reviewed applicable HUD regulations, monitoring files, and systems;
- Reviewed Authority policies and procedures relating to its maintenance department;
- Reviewed Authority board of commissioners minutes and resolutions;
- Examined Authority salary and benefit compensation for its maintenance department and employees affected by conflicts of interest; and
- Examined Authority vacancy databases for fiscal years 2004 and 2005.

We performed the majority of our fieldwork between June 2005 and July 2006 at the office of the Authority located at 2901 Brownlee Street, McKeesport, Pennsylvania. The audit generally covered the period April 1, 2003, to December 31, 2004, but was expanded when necessary.

We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed all of the relevant controls identified above during our audit of the Authority's maintenance activities. A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

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

- The Authority failed to implement procedures and controls to ensure compliance with state laws and HUD regulations regarding its operating subsidy and conflicts of interest.

- The Authority did not provide adequate oversight and control or implement adequate policies and procedures to ensure that its maintenance program's objectives were being met.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A	$90,119	
1B		$51,497
2A		$439,327
2D		$437,346
2E		$215,067
3B		$743,135
Total	$90,119	$1,886,372

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 polices or regulations.

2/ "Funds to be put to better use" are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In these instances, if the Authority implements our recommendations, it will cease 1) improperly obtaining services from vendors owned by relatives of employees and its board members, 2) allowing housing units to remain vacant for unreasonable amounts of time, 3) overstaffing its maintenance department, 4) unnecessarily hiring contractors to perform maintenance work, and 5) receiving ineligible subsidies and, instead will properly hire vendors, minimize the amount of time that housing units are vacant, correctly justify the staffing of its maintenance department, properly justify hiring outside contractors, and request subsidies for housing units that are eligible to receive HUD subsidies. Once the Authority successfully improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of these recurring benefits.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

McKEESPORT
HOUSING AUTHORITY

John H. Kooser, Jr., EXECUTIVE DIRECTOR
Stephen L. Bucklew, DEPUTY EXECUTIVE DIRECTOR
Walter F. Baczkowski, SOLICITOR

August 23, 2006

MR. JOHN P. BUCK
REGIONAL INSPECTOR GENERAL FOR AUDIT
WANAMAKER BUILDING, SUITE 1005
100 PENN SQUARE EAST
PHILADELPHIA, PA 19107-3380

SUBJECT: Audit Response - McKeesport Housing Authority Maintenance Department

Dear Mr. Buck:

Enclosed please find the Authority's response comments to your office's audit of our Maintenance Department. We received the draft audit August 4, 2006. We have reviewed this information. An exit conference was held in McKeesport August 17, 2006, allowing the Authority to make additional comments on the subject draft audit of our maintenance operations.

Comment 1 This audit opens with HIGHLIGHTS and contains a comment that is quite concerning and erroneous -- "During the previous audit (Audit Report 2005-PH-1014), Authority officials informed us that the Authority's maintenance staff lacked the skills necessary to complete their jobs and that the Authority's board of commissioners improperly hired unqualified maintenance staff."

Comment 1 This statement quickly identifies the atmosphere of the entire draft audit which goes on and on with apparent uninformed responses, reviews, and incomplete statements.

Comment 1 The opening statement indicates that Authority officials informed the audit team that the Authority maintenance staff lack skills necessary to complete their job. This is not correct. As Executive Director it is my responsibility to hire all staff. I have always reviewed qualifications and equated employment requirements. All maintenance employees enter the Maintenance Department as laborers. Laborers' qualifications are elementary and basic. They will clean up garbage, cut grass, and do other manual functions. The required skills and qualifications are limited. It must be pointed out that the Board of Commissioners do not hire staff. Therefore, they cannot be held responsible for hiring unqualified staff.

Comment 2 The IG audit team was stationed in our facilities for over a year. The IG audit team informed Authority officials that they had never done a maintenance audit, indicating they lacked experience and total understanding of conditions in public housing maintenance operations, such as difficult marketing conditions, qualifications and other items that were apparently not understood.

2901 Brownlee Avenue - 2nd FL.
McKeesport, PA 15132-1759
HACM@MCKHA.org
Phone: 412-673-6942
Fax: 412-673-1706
TDD#: 412-673-4711

Equal Housing Opportunity

Comment 2
Comment 3

I would like to briefly outline some of the Authority's concerns in relation to this audit. The audit team apparently does not understand many of the responsibilities and constraints in the operation of the McKeesport Maintenance Department. The significant findings and tone of the audit points to inefficient and ineffective operations in our ability to turn around vacant units. It points to erroneous calculations of our operating subsidy for declaring vacancies due to conditions beyond our control. These will be addressed and will identify OIG's flawed assumptions and misinterpretations. The history of the McKeesport Housing Authority began in 1940. We had 1,200 units; the city's population was nearly 60,000; at that time we experienced a high demand market and our operation provided nearly 100% occupancy. It appeared that the IG audit team had difficulty in understanding the Authority's evolution, the declining market, the declining population, and the existence of low income housing competition.

Comment 3

The Authority will explain and request that the OIG understand that we have excessive vacancies because of conditions beyond our control. We have a serious building density situation which supports heavy and serious crime activities. These conditions deter eligible families from wanting to move into our communities.

We feel the Pittsburgh HUD Field Office is fully aware the Housing Authority has vacancies and conditions under which we have no control. We have submitted Demolition Applications based on conditions beyond our control severely limiting our ability to rent units. HUD has approved these Demolition Applications.

It is important that the IG audit team understand the many complicated regulations under which the Authority operates. The Authority will comply with Annual Contribution Contract. The Authority complies with State Civil Service regulations. There are many confusing and sometimes contradictory ACC regulations. The Authority must comply with Union contract stipulations and arrangements. The point here is we have a series of compliances, numerous and various.

Our detailed response to the subject audit will follow this letter.

Thank you for your audit. The Authority does believe that this audit will result in improvements throughout the Authority.

Sincerely,

HOUSING AUTHORITY OF THE
CITY OF MCKEESPORT

John H. Kooser, Jr.
EXECUTIVE DIRECTOR

JHK/cap

/Enclosure

McKEESPORT
MHA
HOUSING AUTHORITY

OVERVIEW

In our response to the Audit Report issued by the U.S. Department of Housing and Urban Development's – Office of Inspector General (OIG), the McKeesport Housing Authority (MHA) would like to recognize the two audit staff and their supervisors who were at all times professional and courteous with our staff throughout their 14-month stay in our offices. However, the Housing Authority strongly disagrees with the OIG report regarding our maintenance department as follows:

Finding 1: The Authority Allowed Conflict-of Interest Situations to Exist

Comment 4

MHA contends the Housing Authority and the Pittsburgh HUD Field Office did not execute the Annual Contribution Contract (ACC) cited by OIG until November 2003. (See Exhibit 1). All three employees cited were hired under the previous ACC, which did not contain a conflict of interest provision. The Executive Director has made all of the hiring decisions for the past 34 years, and has never knowingly hired any employee that was unqualified, or hired anyone in an improper manner.

Comment 5

The Authority has received value equal to the cost expended for the employee's time and vendor's services. The OIG's claim that 100% of the expenditures are ineligible implies that neither the employees nor the contractors showed up for work. The Authority obviously has payroll, personnel, and purchasing records, which prove the employees and the vendors provided services for the amount of compensation paid.

Comment 4

The Housing Authority agrees that in the future a waiver will be requested from the Pittsburgh HUD Field Office to avoid any doubt of real or apparent impropriety.

Finding 2: The Maintenance Department Was Inefficient and Ineffectively Managed

Comment 2

The Housing Authority recognizes that the OIG staff auditors performing the audit are proficient accountants, but lack the necessary expertise in the fields of maintenance, rental market assessment/valuation, and staffing to substantiate their claims. In addition, due to their lack of expertise, did not perform due diligence in their projections, computations, and conclusions, which to a large degree were subjective.

Comment 6
Comment 2

The Housing Authority agrees that our maintenance department would benefit from detailed policies and procedures; however, we feel the overall theme of the OIG's finding is without merit and lacks supporting documentation.

Finding 3: Ineligible Operating Subsidy Request

Comment 7

The McKeesport Housing Authority hired an expert consultant to review the Operating Subsidy Calculations in question and OIG's finding rationale. The report of Casterline Associates, P.C. is attached as Exhibit 5. The consultant's report agrees with the Authority's Subsidy Calculation for both periods in question and furthermore, details the OIG's misinterpretations of HUD regulations.

Comment 7

The Authority believes there is no merit in this finding.

The Authority's detailed comments on some of the positions, assumptions and interpretations cited in the OIG report are as follows:

Finding 1: The Authority Allowed Conflict-of Interest Situations to Exist

McKeesport Housing Authority Response: The Authority disagrees with OIG on this Finding for the following reasons:

Comment 4

1. The first employee referenced was initially hired on September 11, 1972, ***eighteen years (18) before*** the Chairman of the Board was ever appointed to the Board of Directors. The employee's position was protected under the Pennsylvania Civil Service System and the "Conflict of Interest" covenant would not be applicable. Furthermore the Annual Contribution Contract (ACC) in effect at both the time of the employee's hire and the board member's appointment (eighteen years later) did not contain a "Conflict of Interest" provision on employee hiring. The individual was independently tested by the Pennsylvania Civil Service System and found to be qualified.
2. The second employee cited in this finding was hired on March 25, 1996, seven (7) years and seven (7) months prior to the ACC containing the "Conflict of Interest" provision being executed by the Housing Authority and the local Pittsburgh Field Office. The individual was independently tested by the Pennsylvania Civil Service System and found to be qualified.
3. The third employee in question was initially hired June 19, 1996 as a summer intern and later hired full-time a "Government Services Intern" under the Pennsylvania Civil Service System on November 27, 2002, almost one full year before the ACC containing the "Conflict of Interest" provision being signed by the Housing Authority and the local Pittsburgh Field Office (see Exhibit 1).

Comment 5

Furthermore, OIG's claim that 100% salaries and benefits of the three (3) employees noted above are *ineligible* and *could be put to better use* is both unreasonable and unsubstantiated. In taking the position that 100% of the employee's salaries and benefits are ineligible and must be repaid implies to a reasonable person that the individuals never showed up for work or 100% of their time was wasted. The Authority has time and attendance records, completed work orders, and various internal records that verify the wages paid were deserved. OIG does not substantiate their claims to repay the wages and benefits, other than the Authority was unaware of the need to obtain a waiver, therefore those employees didn't deserve their paycheck. There is no evidence in the report that someone more qualified could have done a better job, or the work wasn't needed.

Comment 4

The Authority consequently disagrees with all of the $114, 915 of Ineligible Expenditures.

Comment 4

The Authority also disagrees with the second component of this finding, as follows:

1. The first vendor in question began providing Graphic Design services to the Authority several years prior to her brother being promoted to Deputy Executive Director. The Authority's position is:

    - At the time of the initial business service procurement the vendor's brother was not in a position of influence.
    - The Authority publicly advertised for the services in question on two separate occasions, and received only one response, that being the vendor in question. Consequently the Authority contacted another graphic artist to affirm the fee was reasonable and found the vendor in question's fee to be $2,010 less per newsletter issue than the telephone-solicited bid.
    - The Authority's solicitor concurred with the vendor selection considering the annual expenditure was less than $4,000/ year, the services were publicly advertised, and was an obvious cost savings to the Authority.

The Housing Authority acknowledges that a waiver from the Pittsburgh HUD Field Office would have removed any doubt of a "real or apparent" impropriety and in the future will do so.

Comment 4

2. The Authority disagrees with the second vendor noted in this finding for the following reasons:

    - The contractor had been providing excavation/hauling services for more than ten (10) years prior to the Chairman's 1990 appointment to the Board of Directors. The Authority verified this contractor as reliable and a low cost supplier of excavation/hauling services.
    - The Authority would like to note the fact that C.A. Bailey retired from this business many years ago and died 4/29/2005.
    - The Maintenance and Assistant Maintenance Superintendents initiated the procurement decisions for these services; there was no Board Member involvement in the selection of the vendor.
    - The Authority has routinely obtained telephone quotes for small jobs requiring excavation/hauling services as a routine procurement practice, and the vendor referenced is on average 18% less than the competition.

Comment 4

The Authority chose to award the work to the lowest bidder because the business relationship had been established long before a conflict of interest condition could have existed and the contractor was reliable and a cost savings. The Housing Authority believes that the prior business relationship being established long before the relative being appointed to the Board was "Good Cause" to continue to use the vendor, and not financially punish a reliable contractor because of his stepbrother's appointment as a board member. The Housing

Comment 4

Authority acknowledges that a waiver from the Pittsburgh HUD Field Office would have removed any doubt of a "real or apparent" impropriety and in the future will do so.

3. The Housing Authority also disagrees on the third vendor mentioned in this finding for the following reasons:

   - The contractor provided services solely to the Public Housing Program; the related employee is the Section 8 Program Coordinator.
   - The Section 8 Coordinator does not influence or supervise Public Housing Program employees, the decision to hire this vendor was initiated by the Maintenance or Assistant Maintenance Superintendent.
   - The Authority has routinely obtained telephone quotes for small jobs requiring roofing/carpentry services as a routine procurement practice, and this vendor's bids ranged from 11% - 33% less than the competition, which is the reason for selection.
   - One of the Authority's Assistant Maintenance Superintendents' was a General Contractor prior to employment at the Housing Authority. He had knowledge of this contractor's skills, cost rates, and reliability and was the person who recommended this vendor for small contracting jobs, not the Section 8 Coordinator.

Comment 5

The OIG's opinion that the payments to these vendors are *ineligible* and *could be put to better use* is unreasonable and unsubstantiated. OIG's claim that 100% of the payment to these vendors must be repaid paints a picture to a reader of the report that there wasn't any work done or the work wasn't required. The work was necessary, the Authority did solicit bids, and the work was awarded to the lowest responsible bidder. OIG does not substantiate how the funds could be put to better use, or if someone could have performed the work better or at a lower price. OIG takes the unrealistic view that because MHA was unaware of the need to ask for a waiver, $90,119 could have been saved. The Housing Authority acknowledges that a waiver from the Pittsburgh HUD Field Office would have removed any doubt of a "real or apparent" impropriety and in the future will do so.

Based upon the facts and assertions above, the Authority disagrees with the $90,119 of Ineligible Expenditures attributed to this Finding.

Finding 2:The Authority's maintenance operations are ineffectively managed.

Comment 8

McKeesport Housing Authority Response: The Authority agrees that the HUD standard for vacant unit turnaround is 20 days. The O.I.G. makes several presumptive assertions in this finding without performing due diligence in their computations of rental income lost, overstaffing claim, and necessary use of contractors.

The McKeesport Housing Authority recognizes the OIG lack of due diligence as follows:

Comment 2

1. Although the auditors assigned to this fieldwork may in fact be highly competent auditors/accountants, they admitted to the Authority staff the fact that this audit was **"the first time they ever performed a maintenance audit"**. The Housing Authority questions the auditors technical proficiency in: rental market analysis/valuation (particularly the McKeesport area), maintenance (carpentry, plumbing, electrical, HVAC, janitorial, elevator repair), and staffing expertise needed for a large rental complex consisting of multiple building structure types, varied mechanical systems, elevators, and a difficult topography to maintain.

Comment 2

2. OIG does not reference any expert consultants, which were used to support and validate the computations made by the accountants/auditors performing the fieldwork.

Comment 9

3. An assertion that if the Authority simply had effective manuals and policies in place that it would have earned an additional $768,822 in rental income is disingenuous to anyone reading this report.

Comment 3

4. There is an unsubstantiated assumption that the Authority had an unlimited supply of qualified tenants, and if our maintenance staff had simply cleaned, painted, and repaired the units, the Authority would collect $768,822 of extra rental revenue. The OIG did not consider the marketability of the units, which would be a fundamental starting point for any real estate expert that was attempting to do a rental income projection or analysis. The McKeesport Housing Authority staff on several occasions mentioned to the OIG auditors that master plans of its two family communities had been completed and were available for their review. The two developments comprise 80% of the Authority's housing stock. The Crawford Village Master Plan (see Exhibit 2) is a comprehensive analysis of the community and a logical plan to convert an obsolete inventory of buildings into a viable, marketable community. The Authority is currently nearing fulfillment of the major segments of the Harrison Village Master Plan. Budget constraints will inhibit the start of the Crawford Village revitalization until FY2007. The majority of vacant and unmarketable units of the Authority are located in Crawford Village. The Pittsburgh HUD Field Office has reviewed the McKeesport Housing Authority's master plans in conjunction with the Authority's compliance with UFAS (handicapped accessibility).

Comment 10

5. The report makes misleading references of high vacancies and vacancy percentages. For example, the statement that 514 families in need could have been housed, and another that 436 units…41% of the housing stock are vacant. These statements imply that nearly one-half (½) of the Authority's subsidized housing stock is idly sitting vacant. This approach is misleading to a reader of the OIG's report for the following reasons.
   - The Housing Authority's rent records reflect that during the audit period 4/1/2003-12/31/2004, **the absolute highest amount of vacant units during any given month was 267 or 22%.** A more detailed review of the month with the highest vacancies; July 2004 with 267 vacancies, reveals that 82 of the units were undergoing renovation.

Comment 9

Contractual modernization is a reasonable explanation for being vacant and fully acceptable under HUD regulations.

Comment 9
Comment 2

6. The OIG report focuses strictly on the number of vacancies, which is a symptom and arbitrarily places the blame (the cause) on the Authority's management of its Maintenance Department. Due to the fact that the OIG auditors do not possess the expertise needed to fully comprehend the cause, and did not consider any other factors, consequently resulted in a misdiagnosis of the problem. For instance, a further review of the difference between the OIG's vacancy numbers 534 and the actual McKeesport Housing Authority vacancy records of 267 (highest amount in any month) is the fact that the OIG is counting a unit that is vacated and reoccupied over the 21-month audit period. In effect, OIG double counts units that were leased, vacated, repaired and then leased again. This subtle point reinforces the Housing Authority's position that market conditions exist that severely hinder the ability to rent densely populated, outdated rental apartments. The following factors were completely ignored by the OIG Auditors:

Comment 10

Comment 3

A) The Authority experiences an extremely high annual turnover rate, which averages 23%[i] of its housing stock. In comparison, the New York City Housing Authority published its vacancy turnover rate for 2005 was 3.79% [ii] and the Los Angeles County Housing Authority's turnover rate for 2000 was 2% [iii]. The McKeesport Housing Authority's rate is on average 8 times higher for the simple reason of our inability to find an adequate amount of credit worthy tenants due to the severe decrease in population caused by the US Steel plant closing in the late 1980's. The reduced pool of credit worthy tenants in turn forces the Authority to accept a more credit risky tenant, who is evicted and ultimately places the burden of our maintenance department to redo the unit for another applicant. One would suggest that perhaps the McKeesport Housing Authority should adhere to more stringent application screening; however, the Authority currently rejects 3 out of 5 applicants.

B) The Housing Authority has applied to the U.S. Department of Housing and Urban Development to demolish/convert 233 housing units or 19.2% of its inventory over the past eight years for reasons of marketability and obsolescence; all of the applications were approved. The Authority has acted judiciously in its decisions to demolish units, factoring in parameters of limited funding, Uniform Federal Accessibility Standard (UFAS) compliance, and a Memorandum of Agreement (MOA) signed with the Pittsburgh HUD Field Office. Fair Housing Department of HUD, City of McKeesport, and the affected tenant council. These constraints on one hand mandated the Housing Authority to build twenty (20) new units (currently under construction) of replacement housing in a market, which suffered a severe population decrease, while at the same time criticized the Authority for wanting to demolish its vacant units.

Comment 3

C) Prior to October 1, 1998 all Public Housing Authorities were mandated to replace any public housing units demolished with an equal amount of new ones (a.k.a. "the one-for-one replacement rule"), Congress realizing this to be an impractical burden on many Authorities repealed this regulation in the Quality Housing and Work Responsibility Act (QWHRA) of 1998. Consequently, the McKeesport Housing Authority prioritized its outdated housing stock consisting of four (4) 75 unit family hi-rises, five three story walk-up buildings, and a densely populated (552 unit) family community.

- The Authority converted two of the family hi-rises to elderly.
- Demolished the two family hi-rise buildings.
- Contracted for the preparation of Master Plans of its two (2) family communities.
- Converted the five (5) walk-up buildings to townhouses (completion 10/2006).
- Demolished one and a half (1 ½) buildings in Harrison Village.
- Began preparation of a demolition application for four (4) buildings (40 units) in Crawford Village in July 2005 (see Exhibit 3), and subsequently received HUD approval August 2006.
- Initiated an additional demolition application for 40 apartments in Crawford Village on March 30, 2006 (See Exhibit 3).

D) The accountants/auditors did not consider other common local market factors such as: average home prices, average private market rental rates, income demographics, and the effect of local competition (i.e. Section 8 Voucher Program, Multi-Family Housing Program, and non-subsidized housing).

Comment 11

7. OIG's statement that the Authority's maintenance department is overstaffed is unfounded due to their inadequate research of existing HUD manuals and guidelines. The auditor's foundation for this assertion is a single page excerpt of the HUD Handbook 7460.7 REV-1 (see Exhibit 4), which is labeled "average ratio of employees to units". The auditor presented this single page to the Housing Authority as a basis for their recommendation. In the OIG's report, five (5) administrative employees are mistakenly included in their comparison of overstaffing guidelines. A more recent publication titled "HUD Maintenance Guidebook" dated September 1995 (see Exhibit 4), clearly excludes administrative staff from the 50:1 ratio, and further states the ratio is "a general rule of thumb". The HUD Guidebook also states, "Age and condition of each development and its resident composition" would affect the

ratio. The Housing Authority contends due diligence would have required the OIG to consider the fact that 84% of the Authority's buildings are over 40 years old, and the remaining 16% are over 30 years old. In addition, 70% of the Authority's units are family units, which means they have multiple bedrooms, larger yards to maintain, and experience significantly more repairs than elderly units. OIG failed to consider any of these factors in its calculation of "$437,346 being put to better use".

Comment 2

8. The accountants/auditors lack of maintenance technical proficiency resulted in an unfounded claim that the Authority unnecessarily paid 12 vendors $460,976 from April 2003 to December 2004.

Comment 11

A) The auditors misapplied the 50:1 staffing ratio noted above and assumed MHA maintenance staff could perform the work and none of the contract work was needed.

Comment 11

B) OIG ignored relevant factors such as the number of MHA maintenance staff unavailable to perform the work due to: short-term disability and workers compensation claims, generous paid vacation/sick time allowances gained through the collective bargaining contract.

Comment 3
Comment 2

C) The report makes inferences that the Authority overpaid for contract repairs and/or that the work was unnecessary. The Housing Authority again raises the question of the auditor's expertise in the field of maintenance. In addition, the Housing Authority questions whether the auditors performed due diligence as part of their field work, such as measuring the square footage of the stock room and four boiler rooms cited, and then comparing the amount paid for painting ($9,400) to a building/construction cost guide such as R.S. Means to determine if the cost was reasonable.

Comment 12

9. The Authority recognizes the fact that it lost rental revenue by not turning over vacant units in a timely manner, however the OIG's report may mislead a reader into thinking the Authority should have $768,822 more in the bank. The following additional factors need to be considered in evaluating a more accurate lost revenue calculation:

Comment 12

a) HUD regulations and the real estate industry in general recognize the need for a minimum vacancy loss in turning around any unit. HUD's Performance Funding System uses a conservative 3% vacancy loss factor, which would result in a $23,065 reduction in OIG's Rental Revenue lost computation.

Comment 12

b) Occupied units would result in additional utilities. Using the OIG's unit month figures and the Authority's actual utility per unit month costs for a low vacancy Project PA 5-3 would be determined as follows:

- FY 2004 Electric 2,412.4 units X $34.73 = $83,782.65 incremental electricity cost.

- FY 2004 Water 2,412.4 units X $27.49 = $66,316.88 additional water cost.

- FY 2004 Sewerage 2,412.4 units X $23.74 = $57,270.38 extra sewerage charges.

- FY 2004 Gas 2,412.4 units X $73.73 X 30% (vacant units require a minimum 60-65 degrees Fahrenheit temperature to prevent freeze damage) $53,359.88 additional heating cost.

- FY 2005 Electric 1,827.30 units X $34.49 = $63,023.58 incremental electricity cost.

- FY 2005 Water 1,827.30 units X $25.79 = $47,126.07 additional water cost.
- FY 2005 Sewerage 1,827.30 units X $22.05 = $40,291.97 extra sewerage charges.

- FY 2005 Gas 1,827.30 units X $82.47 X 30% (vacant units require a minimum 60-65 degrees Fahrenheit temperature to prevent freeze damage) $45,209.23 additional heating cost.

Comment 12

c) Additional occupied units would also result in an increase in: work orders, maintenance supply usage, inspections, emergency call-outs, and security department requests. A conservative approach would at the minimum consider the additional maintenance supplies and treat the labor as a fixed cost, except for emergency call-outs. OIG's FY 2004 Lost Rent computation translates to an additional 23.5% of projected rent roll ($431,868 / ($153,240 x 12)). Factoring in a normal vacancy rate of 3%, we can estimate to a round 20% increase in rental income. We should expect that if rents increase 20% we should also anticipate that our variable expenses would react in the same proportion. McKeesport Housing Authority's FY04 maintenance material costs were $216,306.57, multiplying this amount by 20% would give us an estimated additional materials cost associated with the additional revenue of $43,261.31. OIG's report only covered 9/12 of FY05 so we can estimate an additional 9/12 of $43,261.31 materials cost for FY05, which is $32,445.98. The Authority incurs approximately $25,000 per year in overtime call-outs, of which 50% can be non-tenant specific, i.e. snow removal. If we use the tenant specific portion of the overtime $12,500 and factor in the additional 20% increase in tenants for the same FY04 and FY05 (9/12) we need to recognize another $4,375 in overtime costs (FY04 $12,500 x 20% + FY05 $12,500 x 20% x 9/12).

Comment 12

d) Uncollectible accounts must also be considered, The Authority wrote-off $92,839.90 in tenant bad debts during FY04, 20% of this amount would be $18,567.98, for FY05 we can add another $13,925.98 ($92,839.90 x 20% x 9/12) for a combined related bad debts expense of $32,493.96.

Comment 12

e) Payment in Lieu of Taxes (PILOT) would be owed for the additional rental income; this would amount to $26,907.88. This is calculated as follows: incremental rental revenue $768,822 – 456,380.64 = 312,441.36(shelter rent) X 10% = $31,244.14 PILOT expense due the local taxing bodies.

Summary of items A-E:

A. Minimum 3% Vacancy loss	$ 23,064.66
B. Additional Utilities	456,380.64
C. Incremental Maintenance Supplies & O.T.	80,082.29
D. Bad Debts on Additional Rental Income	32,493.96
E. Payment in Lieu of Taxes (PILOT)	31,244.14
Total	$623,265.69

The Authority feels a more realistic **net** rent revenue figure of $145,556.31 should be used ($768,822 - $623,265.69) as opposed to the misleading **gross** amount of $768,822.

Based upon the facts and assertions above, the Authority disagrees with the claim that $1,091,740 (Items 2A, 2D, & 2E) of funds could be put to better use.

Finding 3:The Authority Improperly Obtained Operating Subsidies for its Vacant Units.

McKeesport Housing Authority Response: The Housing Authority disagrees with the OIG assertion that it improperly received subsidy for vacant units based on the following reasons:

Comment 7

- The Authority fully disclosed to the Pittsburgh HUD Field Office all relevant data needed and requested regarding our vacant units. The Field Office then reviewed and subsequently approved the subsidy request.
- The Authority's Independent Public Accountant (IPA) audited our financial records, including the operating subsidy calculation. The IPA gave the Authority an "Unqualified Opinion" and did not have any "Findings" or "Questioned Costs" regarding the Authority's financial records, financial statements, or operating subsidy computations.
- The Authority hired Casterline Associates P.C., a Certified Public Accounting and Management Consulting firm, which specializes in providing accounting and consulting services for the Public Housing industry to review the Authority's Operating Subsidy Calculation. A copy of Casterline Associates P.C. report is attached (Exhibit 5) and details how HUD OIG's assumptions and calculations are flawed.

Comment 13

- The OIG quoted the Authority's Deputy Executive Director out of context regarding market conditions dictating showers. The Deputy Executive Director was trying to communicate the fact that a large portion (almost 40%) of the Authority's housing inventory has not been modernized for many years, **and as an example**, he stated many of the units do not contain showers, there is only a bathtub.

Comment 3

  - The Authority competes with four (4) Section 8 202 buildings all constructed within the past ten (10) years with standard features such as air conditioning, handicapped accessible roll-in showers, and adequate tenant parking. In addition,

Comment 3

due to the large population decrease suffered by the City of McKeesport since the late 1980's, an abundance of low cost rental housing has impacted the Housing Authority's ability to compete. The Authority's housing stock was designed in the mid 1940's for a post World War II era population: the room sizes are sub-standard, kitchen dimensions and number of bathrooms are equal regardless of the family size (four bedroom unit vs. 1 bedroom unit). A private landlord can buy a large Victorian home for $20,000 – $35,000, which has: more than one bathroom, private yard, and driveway.

Comment 3

- Welfare Reform & Policy changes have forced many TANF dependent families to work and made many more ineligible for assistance. Working families are facing maximum income based rents that compete with the private rental market. Private rental affords a tenant the opportunity to select more spacious units, with individual yards, and their own parking space. The private market often frees the tenant from regulations such as reporting income, illegal tenants, and One Strike & You're Out Violations. There is also the lack of requirement for housekeeping inspections and other standard Housing Authority lease covenants such as pet regulations.

Comment 3

- The Authority contends the OIG's lack of market consideration factors we outlined in our response to Finding 2, apply to this finding as well (see 6 A thru D).

Comment 14

Based upon the facts and assertions above, the Authority disagrees with the claim that $743,135 of funds could be put to better use.

---

[i] MHA vacancy records for Fiscal Year Ending 3/31/04 - 224 units for Fiscal Year Ending 3/31/05 – 256 units (224 +256)/2 = 240 average move-out 240 / 1,064 units = 22.6, 23% rounded.
[ii] http://www.nyc.gov/html/nycha/html/about/factsheet.shtml
[iii] http://www.weingart.org/institute/research/facts/pdf/JusttheFactsHousingPovertyLA.pdf

OIG Evaluation of Auditee Comments

Comment 1 Authority officials did in fact make these statements to the auditors during a previous audit. The primary reason we did the audit however was due to overall concerns the auditors identified during the previous audit, which were not based solely on the statements made by Authority officials. Therefore, we have removed the statements from the final audit report.

Comment 2 The audit was performed in accordance with generally accepted government auditing standards. As such, the audit team collectively possessed adequate professional proficiency for the tasks required and was properly supervised. Our conclusions are supported by relevant and substantial evidence documented in our audit workpapers.

Comment 3 The Authority's mission, established in its consolidated annual contributions contract with HUD, is to provide decent, safe, and sanitary housing to eligible families in a manner that promotes serviceability, economy, efficiency, and stability of the projects. Although economic circumstances have evolved over the years in which the Authority has been in existence, the Authority's mission has remained constant. It is management's responsibility to ensure that it does not violate its contractual obligations established in its consolidated annual contributions contract with HUD. As described in the audit report, the Authority's maintenance operations needed improvement. The Authority violated the terms of its consolidated annual contributions contract with HUD, forfeited substantial rental income, failed to provide housing to families in need, and received operating subsidies for units that did not meet the standards established in this contract and HUD regulations. We did not assume the Authority had an unlimited supply of qualified tenants. The Authority's fiscal year 2004 agency plan showed there were 72 families on the waiting list for public housing. It is the Authority's mission to follow its consolidated annual contributions contract and provide housing to eligible families.

The Authority stated that its annual turnover rate averages 23 percent and is a cause of its vacancy problem. However, our finding addresses issues within the Authority's maintenance department. As discussed in the audit report, the Authority did not prepare units for occupancy in a timely manner, did not properly monitor and control maintenance department employees, overstaffed its maintenance department, and paid contractors to perform services that its maintenance department staff should have been able to perform. Change in the turnover rate would not abate these deficiencies. The Authority also stated it applied to demolish/convert housing units over the past eight years and HUD approved all of the applications. However, the documentation the Authority provided showed HUD approved only one application for demolition prior to our audit. We identified the housing development by comparing the dates in the application and the fiscal year 2004 agency plan. The Authority's vacancy data base showed the majority of these housing units were undergoing modernization and we adjusted our calculations accordingly.

Comment 4 We are pleased that the Authority has agreed that in the future it will request required waivers to avoid any future real or apparent conflicts of interest. We agree that the Authority did in fact execute its current consolidated annual contributions contract with HUD in November 2003. Although pre-existing relationships regarding employees violated the Authority's most recent annual contributions contract and not the previous contract, the best practice in this situation would be for the Authority to obtain the appropriate waivers for the pre-existing relationships which it has now agreed to do. We have revised the report accordingly.

As for the conflicts involving vendors, section 515 of the previous annual contributions contract prohibited the Authority and any of its contractors or their subcontractors from entering into contracts, subcontracts or arrangements in connection with any project or property covered under the contract in which members, officers, or employees had an interest, either direct or indirect. We consider the ownership situations discussed in the audit report indirect interests for the Authority's employees and board members. Further, conflict of interest provisions of 24 CFR [*Code of Federal Regulations*] 85.36 and 24 CFR 982.161 were in effect during our audit period and applied. Moreover, the Authority used its small purchase procedures for the purchases discussed in the audit report. As such, each purchase transaction represented a separate contract with the vendor. Therefore, subsequent purchases were bound by the contractual and regulatory requirements in effect at the time the small purchase was made. Thus, the purchases made in November 2003 and beyond were bound by the terms of the Authority's November 2003 annual contributions contract. If the Authority implements our recommendations, it will cease making these ineligible expenditures and therefore put funds to better use.

Comment 5 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. Since the contracts were paid using HUD funding in violation of the Authority's consolidated annual contributions contract with HUD, these payments are ineligible costs. In these instances, if the Authority implements our recommendations, it will cease improperly obtaining services from vendors owned by relatives of employees and its board members. Once the Authority successfully improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of these recurring benefits.

Comment 6 As discussed in the audit report, the Authority did not prepare vacant units for occupancy in a timely manner even though the Authority's maintenance department was overstaffed and hired vendors to assist in preparing vacant units for occupancy. We are encouraged that the Authority has agreed that its maintenance department would benefit from detailed policies and procedures.

The audit evidence showed that the Authority's maintenance policies and procedures were not clear, up-to-date, or approved by the Authority's board of commissioners.

Comment 7 As described in the audit report the Authority's rationale for requesting operating subsidies due to changing market conditions was not proper. Regulations at 24 CFR [*Code of Federal Regulations*] 990.102 provide the basis for the Authority to request subsidies for units vacant due to circumstances and actions beyond its control. The regulations state that units vacant due to circumstances and actions beyond an authority's control are dwelling units that are vacant due to circumstances and actions that prohibit the authority from occupying, selling, demolishing, rehabilitating, reconstructing, consolidating, or modernizing them. However, units vacant because they do not meet minimum standards pertaining to construction or habitability under federal, state, or local laws or regulations are not considered vacant due to circumstances and actions beyond the authority's control. In this regard, many units in the Authority's inventory remained vacant because the Authority did not adequately prepare them for occupancy. We believe our interpretation of HUD regulations is correct. Additionally, the consultant the Authority hired to evaluate our audit finding did not conclude that our finding lacked merit. Rather, the consultant stated that the amount and nature of the repayment requirement should be revised. It should be noted that the consultant's report addressed an initial finding outline that was presented to the Authority during the audit for comment and feedback. Since that time, the finding and the draft report were reviewed and revised through our internal review process. As a result of those reviews, we revised the finding and recommendation. We did not recommend that the Authority repay a specific amount to HUD. Rather, our recommendation is to the director, Pittsburgh Office of Public Housing to recalculate the Authority's operating subsidy calculation to exclude ineligible units and require the Authority to repay HUD amounts subsequently determined to be ineligible. Therefore, we addressed the Authority's concern by revising the draft report that we provided to the Authority prior to our August 17, 2006, exit conference.

Comment 8 We are pleased the Authority recognizes the standard for its vacant unit turnaround. This standard is one that the Authority must strive for to ensure it provides decent, safe, and sanitary housing to assist eligible families.

Comment 9 As described in this report, the Authority's maintenance department did not prepare its vacant units for occupancy in a timely manner even though the department was overstaffed and hired vendors to assist in preparing vacant units for occupancy. Overall, these problems occurred because the Authority did not provide adequate management oversight and control and failed to implement adequate policies and procedures to ensure that its maintenance employees completed vacant unit work orders as required. As a result, from April 1, 2003, to December 31, 2004, the Authority lost an opportunity to provide 514 housing units to families in need, and it forfeited $768,822 in rental income it could have otherwise earned. By providing adequate management oversight, control, and implementing adequate policies and procedures, the Authority will provide additional housing units to families in need and thereby earn an additional $439,327 in rental income over a one year period. In calculating our annual estimate of funds to be put to better use we counted the lost revenue for these units only for the period in which they units were vacant. We also properly accounted for units scheduled to be modernized or demolished and adjusted our estimate accordingly. Although this will be a recurring benefit, our estimate reflects only the initial year of these recurring benefits.

Comment 10 We completed our analysis of the Authority's vacancies using the data that the Authority was required to maintain in support of its Management Assessment Subsystem certificate submission. The analysis showed that the Authority had 514 units vacant during the review period. We do not take exception to the Authority's comment that the highest number of vacant units at one point in time may have occurred in July 2004. We understand that the number of vacant units will fluctuate from month to month. However, as discussed in the audit report, our analysis showed that the Authority had 514 units vacant for more than 20 days after being vacated or more than 24 months if undergoing modernization during the review period April 1, 2003, to December 31, 2004. Some of the units may have been vacated on more than one occasion throughout the 21-month audit period. However, in calculating our annual estimate of lost rental revenue we counted the lost revenue only for the period in which each unit was vacant. The fact remains that if the Authority had made these units available for occupancy, the Authority would have been able to provide additional decent, safe, and sanitary housing to assist eligible families.

Comment 11 The audit report references the same guidance identified by the Authority and uses it just as that – a guide. As such, we recommended that the Authority be required to bring its maintenance staffing levels in line with HUD guidelines for maintenance staffing or properly justify to HUD why the additional maintenance personnel are needed. The HUD guidance specifically states the following: "Upon determination of the goals and schedules for the fiscal year, develop staffing requirements (see Chapter Three) to accomplish the stated tasks. A general rule of thumb is that one maintenance employee is required for every 50 dwelling units, although this will depend upon the age and condition of each development and its resident composition. For example, an authority with 250 units may have five maintenance employees: one Working Foreman, two Maintenance Mechanics, one Maintenance Mechanic Assistant, and one Laborer." For our analysis, we contacted responsible HUD staff to clarify our interpretation of the guidance. An engineer from the Pittsburgh Office of Public Housing advised us that the ratio would include maintenance management staff.

Comment 12 We are pleased that the Authority recognizes that it lost the potential to earn additional rental income by not preparing vacant units for occupancy in a timely manner. However, the report does not state, nor do we believe that the Authority should have an additional $768,822 in the bank. Rather, the report states that by providing adequate management oversight, control, and implementing adequate policies and procedures, the Authority will prepare units for occupancy in a timely manner and therefore it will provide additional housing to families in need and earn an additional $439,327 in rental income over a one year period. We agree with the Authority that when a unit is occupied there will be additional expenses such as increased utilities. However, the Authority is also being paid a HUD subsidy for those units and is required to use HUD funds to provide decent, safe, and sanitary housing to assist eligible families. By failing to prepare units for occupancy in a timely manner, the Authority is not achieving this mission.

Comment 13 We adjusted the wording in the final audit report to agree with the wording in the Authority's response.

Comment 14 If the Authority implements our recommendation, it will discontinue improperly requesting subsidies for ineligible units. Once the Authority takes the corrective action, there will be a recurring benefit. Our estimate reflects only the initial year of these recurring benefits attributable to the corrective action taken.