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TO: Patricia W. Anderson, Program Center Coordinator, Office of Public Housing, Virginia State Office, 3FPH

FROM: Edward F. Momorella, District Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: Drug Elimination Grant Program
Virginia State Office
Richmond, Virginia

We audited the Virginia State Office's monitoring of grant recipients under the Drug Elimination Program (DEP).

The purpose of the audit was to determine if the Virginia State Office effectively monitored grant recipients administering their DEP in compliance with the Notice of Funding Availability (NOFA) and other Federal requirements.

Within 60 days, please give us, for each recommendation made in the report, 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. Also, please furnish us copies of any correspondence or directives issued because of the audit.

If you have any questions, please contact Amy Edison, Auditor, at (804) 278-4539, Extension 3202.

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Executive Summary

We completed an audit to determine if the Virginia State Office effectively monitored grant recipients administrating their DEP in compliance with the NOFAs and applicable Federal requirements. We selected four Housing Authorities that had received Drug Elimination Grants during Fiscal Years 1994 to 1996. The Authorities selected were the Richmond, Portsmouth, Petersburg, and Norfolk Redevelopment and Housing Authorities. We reviewed the Authorities administration of their DEP to determine whether grant funds were expended for eligible activities and whether they effectively monitored subgrantees.

Virginia State Office of Public Housing did not adequately monitor grant recipients

Our review of Drug Elimination Grants for fiscal years 1994 to 1996 for Richmond, Petersburg, Portsmouth and Norfolk disclosed the following deficiencies:

- Grant recipients did not support baseline of law enforcement services prior to the awarding of the grants (Richmond, Petersburg and Portsmouth).
- Grant recipients incurred ineligible, unsupported, and questionable costs (Norfolk and Portsmouth).

The Office of Public Housing did not have adequate staffing resources to effectively monitor the program, providing assurance that program funds were properly spent and intended objectives were achieved. Consequently, recipients were unsure of and/or disregarded program requirements and regulations. As a result, ineligible and unsupported costs of \$21,481 and \$2,091,717, respectively, were paid or budgeted from program funds.

We recommend the Office of Public Housing effectively monitor grant recipients under the DEP to determine if grant funds were spent properly and to ensure recipients follow requirements under the NOFAs and Federal regulations. Also, we recommend that grant recipients repay ineligible costs and/or justify the unsupported costs.

We discussed the applicable deficiencies with Authority representatives during the audit and where appropriate their comments are summarized in the finding. We discussed the draft finding issues with the Virginia State Office representatives during the audit. They concurred with our finding and declined an exit conference.

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Introduction

HUD's Virginia State Office of Public Housing is responsible for conducting local oversight of federal financial assistance provided to Housing Authorities administering development and management activities for low-income housing programs within the Commonwealth of Virginia, excluding Northern Virginia.

One of the low-income housing programs includes the DEP. The Anti-Drug Abuse Act of 1988, as amended, authorizes the DEP. Under the program, HUD makes grants to Housing Authorities, Resident Management Corporations, and owners of assisted housing for activities such as (1) employment of security personnel; (2) reimbursement of police for additional security and protective services; (3) physical improvements to enhance security; (4) training and equipping voluntary tenant patrols acting in cooperation with police; (5) innovative anti-drug programs; and (6) funding nonprofit resident management corporations and tenant councils for the development of security and drug abuse prevention programs. For fiscal years 1994 through 1996 the Virginia State Office awarded 34 grants totaling \$13,410,621.

Audit Objectives

Our audit objectives were to determine if the Virginia State Office effectively monitored grant recipients administering their DEP in compliance with the Notice of Funding Availability (NOFA) and other Federal requirements. The audit focused on reviewing DEPs for the four selected Housing Authorities.

Audit Scope and Methodology

The Housing Authorities selected for review had the following Drug Elimination Grant funding for the fiscal years under review:

AUTHORITY	1994	1995	1996	TOTALS
Richmond	\$1,109,015	\$1,102,999	\$1,045,783	\$3,257,797
Portsmouth	476,500	476,250	475,250	1,428,000
Petersburg	143,881	239,847		383,728
Norfolk	<u>1,034,750</u>	<u>1,031,750</u>	<u>1,006,000</u>	<u>3,072,500</u>
TOTALS	<u>\$2,764,146</u>	<u>\$2,850,846</u>	<u>\$2,527,033</u>	<u>\$8,142,025</u>

We reviewed pertinent HUD, Housing Authority and subgrantee records. We interviewed HUD, Housing Authority and subgrantee staff, and visited eight subgrantees under two Housing Authorities during our review.

Audit work was performed from June 1997 to April 1998. The audit covered the period July 1994 to June 1996.

Finding 1

When appropriate, the review was extended to include other periods.

We conducted the audit in accordance with generally accepted government auditing standards.

The Virginia State Office Of Public Housing Needs To Improve Monitoring Of The Drug Elimination Program

The Virginia State Office of Public Housing did not adequately monitor recipients of drug elimination grants as required. Our review of drug elimination grants awarded to Richmond, Portsmouth, Petersburg, and Norfolk Redevelopment and Housing Authorities for fiscal years 1994 to 1996 disclosed the following deficiencies:

- \$1,847,962 was awarded to local law enforcement agencies without properly establishing the baseline of law enforcement services already provided, (Richmond, Portsmouth, and Petersburg); and
- \$21,481 and \$243,755 was expended for ineligible and unsupported costs (Norfolk and Portsmouth).

The Virginia State Office did not have sufficient staff monitoring the program to provide assurance that program funds were properly spent and intended objectives were achieved. Consequently, recipients were unsure of and/or disregarded program requirements resulting in ineligible and unsupported costs of \$21,481 and \$2,091,717, respectively.

24 CFR 761.15(c) Continuation of current program activities states:

“For the purpose of ... drug elimination programs, the Department will evaluate an applicant’s performance under any previous Drug Elimination Program grants within the past five years. Subject to evaluation and review are the applicant’s financial and program performance; reporting and special condition compliance; accomplishment of stated goals and objectives under the previous grant; and program adjustments made in response to previous ineffective performance.”

Baseline Law Enforcement Services

Richmond, Portsmouth, and Petersburg did not properly establish the baseline of law enforcement services already provided, or maintain documentation supporting existing baseline services.

24 CFR Part 761.15 (b)(2)(i) Reimbursement of local law enforcement agencies for additional security and protective services states:

“Additional security and protective services to be funded must be over and above those that the tribal, State, or local government is contractually obligated to provide under its Cooperation Agreement with the applying Housing Authority HA (as required by the HA’s Annual Contribution Contract). An application seeking funding for this activity must first establish a baseline by describing the current level of services (in terms of the kinds of services provided, the number of officers and equipment, and the actual percent of their time assigned to the developments proposed for funding) and then demonstrate to what extent the funded activity will represent an increase over this baseline.”

As detailed below, Richmond and Portsmouth failed to maintain documentation supporting the baselines and Petersburg failed to submit a baseline of services in their grant applications.

Richmond Redevelopment Housing Authority

Richmond awarded the City Police Department \$687,992 for additional law enforcement services. The law enforcement services were designed to identify and remove the major supplies of drugs in the communities utilizing the police department’s uniformed drug enforcement unit and other tactical units until major suppliers are removed and community policing efforts can be sustained. The baseline of existing law enforcement services included in Richmond’s application stated that a four person street enforcement unit equipped with two vehicles spend approximately 5% of their time in the east end communities (Creighton, Fairfield, Mosby, and Whitcomb). According to the Authority, supporting baseline documentation was maintained by the Police Department. The Police Department could not locate the information used to support the baseline. Additionally, a police official stated that the Housing Authority communities listed in the baseline would have (and still do) occupy much more than

5% of the street enforcement unit's time, and fifty percent would be a conservative estimate.

Supporting
documentation not
maintained

Portsmouth Redevelopment Housing Authority

Portsmouth's application budgeted a total of \$1,004,570 for the purpose of funding six community officers and additional patrols from the FY 1994, 1995 and 1996 program grants. Portsmouth failed to maintain documentation supporting the establishment of the baseline of services. The Assistant Director of Resident Initiatives said that the information concerning the baseline had been obtained during telephone calls to the Police Department and no written information had been maintained. In addition, records obtained from the police department do not support the costs awarded to Portsmouth for their Drug Elimination Grants. For example, Portsmouth received \$301,000 for their 1994 grant for 6 police officers, yet their contract with the police department for the same service was for \$228,000. Portsmouth's 1995 and 1996 grants included over \$230,000 of additional night and weekend patrols, however, their contract with the police department remained at \$228,000 and did not contemplate additional night and weekend patrols.

Baseline of services not
submitted

Petersburg Redevelopment Housing Authority

Petersburg's applications budgeted \$78,200 and \$77,200 for FY 1994 and FY 1995, respectively for reimbursement of law enforcement community policing which included housing officers at two of the projects. However, Petersburg did not submit a baseline of services in either year's application. The Executive Director stated although they had not submitted the baseline for either year, HUD had approved the application and had awarded the grants.

Because Richmond and Portsmouth did not maintain documentation supporting the establishment of the baseline of services and Petersburg did not include the required baseline information in their application, there is no assurance that \$1,847,962 of funds provided, represented an increase of police service over normal activity in the designated communities.

Grant funds expended for ineligible activities

Ineligible and Unsupported Expenditures

Norfolk and Portsmouth expended grant funds for ineligible activities, and did not administer their grants according to HUD requirements. As a result, ineligible and unsupported costs of \$21,481 and \$243,755 respectively, were charged to the program (Ineligible and Unsupported Costs are Detailed in APPENDIX B).

The Drug Elimination Program's Notice of Funding Availability (NOFA) for Fiscal Years 1994, 1995 and 1996 list ineligible activities and state that each recipient is responsible for ensuring that grant funds are administered in accordance with 24 CFR part 85 and OMB Circular A-87.

Due to limited personnel resources, program monitoring responsibility was assigned to a Virginia State Office of Public Housing Program Assistant. This responsibility was an additional duty not included in the employee's job description. Although monitoring visits were made, they were limited because monitoring was generally conducted in conjunction with reviews in other public housing areas. Staff shortages and limited availability of travel funds precluded the Virginia State Office from conducting effective oversight of the program.

Because recipients were not adequately monitored, deviations from Federal requirements went undetected and the Virginia State Office had no assurances that program funds were obligated and used for eligible activities and that intended program results were realized. As a result, grant recipients incurred ineligible and unsupported costs (APPENDIX B) of \$21,481 and \$2,091,717, respectively.

Auditee Comments

The auditee agreed with the finding.

Recommendations

We recommend you:

1A. Provide the necessary oversight of recipients performance that includes annual on-site testing and evaluation of program activities.

1B. Require the Richmond, Petersburg and Portsmouth to document the baseline of law enforcement services for your staff's review and approval. In the absence of supporting documentation by any recipient, they will repay HUD from non-Federal sources for spent funds, and reprogram unspent funds for any portion of the \$1,847,962.

1C. Direct Norfolk to reimburse HUD the ineligible costs of \$21,481 from non-Federal funds.

1D. Require Norfolk and Portsmouth to document support of costs totaling \$228,555 and \$15,200 respectively for your staff's review and approval, or reimburse HUD from non-Federal funds any costs not supported.

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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 broad 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 that the following management controls were relevant to our audit objectives:

- HUD monitoring of grant recipients
- Grant recipients monitoring of subgrantees
- Costs incurred under Drug Elimination Grants

We evaluated all of the relevant control categories identified above by determining the risk exposure and assessing control design and implementation.

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

Significant Weaknesses

Based on our review, we believe HUD monitoring of grant recipients, grant recipients monitoring of subgrantees, and costs incurred under Drug Elimination Grants are significant weaknesses.

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Follow Up On Prior Audits

This was the first OIG audit of DEP under the Virginia State Office jurisdiction.

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Schedule Of Ineligible And Unsupported Costs

<u>Finding Number</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1	<u>\$21,481</u>	<u>\$2,091,717</u>
	<u>\$21,481</u>	<u>\$2,091,717</u>

1/ Ineligible amounts are clearly not allowed by law, contract, or HUD policies or regulations.

2/ Unsupported amounts were not clearly eligible or ineligible but warrant being contested for various reasons, such as the lack of satisfactory documentation to support eligibility.

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Ineligible and Unsupported Costs

Recipient	Ineligible	Unsupported	Explanation
Norfolk	\$21,481		Ineligible Activity 1/
Norfolk		\$206,174	Inadequate Supporting Documentation 2/
Norfolk		22,381	Questionable Program Benefit 3/
Richmond		687,992	Baseline Law Enforcement Services Not Supported 4/
Petersburg		155,400	Baseline Law Enforcement Services Not Supported 4/
Portsmouth		1,004,570	Baseline Law Enforcement Services Not Supported 4/
Portsmouth		15,200	Questionable Program Benefit 3/
Total	<u>\$21,481</u>	<u>\$2,091,717</u>	

1/ Ineligible Activity

Ineligible activities are listed in the applicable NOFAs. These activities include the following:

- Costs of leasing any facility space in a building or unit.
- Funds for organized fund raising, advertising, financial campaigns, endowment drives, solicitation of gifts and bequests, rallies, marches, community celebrations and similar expenses.
- Indirect costs as defined in OMB Circular A-87.

2/ Inadequate Supporting Documentation

24 CFR Part 85.20(b)(6) states that:

“grantees and subgrantees’ accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.”

3/ Questionable Program Benefit

Recipients failed to provide documentation justifying that the costs incurred were program related and dealt with drug education and drug abuse prevention.

4/ Baseline Law Enforcement Services Not Supported

Recipients did not establish baseline services to demonstrate to what extent the funded activity represented additional services.

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Distribution

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