



Audit Report

District Inspector General for Audit New York/New Jersey District

Report: 99-NY-209-1001

Issued: October 27, 1998

TO: Joan Spilman, Director, Office of Public Housing, 2CPH

FROM: Alexander C. Malloy, District Inspector General for Audit, 2AGA

SUBJECT: Buffalo Municipal Housing Authority
Public Housing Drug Elimination Program
Buffalo, New York

We conducted an audit of the Buffalo Municipal Housing Authority's (BMHA) Public Housing Drug Elimination Program (PHDEP). The overall objective of the audit was to determine whether the BMHA provided adequate accountability over PHDEP funds expended, and whether reported expenditures were reasonable and eligible.

Our audit disclosed that the BMHA has not established adequate controls to properly account for funds expended under its PHDEP. It also disclosed that all reported expenditures were not reasonable or eligible. Specifically, we found that the BMHA charged its Fiscal Year (FY) 1995 and 1996 PHDEP grants with ineligible and questionable salary costs and with drug prevention costs that were not reasonable, necessary or justified. We further found that the BMHA did not have adequate controls over executed contracts. Additionally, the BMHA has not developed a process to properly monitor and evaluate activities carried out under its PHDEP. In view of the deficiencies discussed in this report, the BMHA must take corrective actions to assure that future funds of its PHDEP are properly controlled, accounted for, and used only for eligible activities in an economical and effective manner.

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

If you have any questions, please contact Alexander C. Malloy, District Inspector General for Audit at (212) 264-8000 extension 3976.

Executive Summary

We conducted an audit of the Buffalo Municipal Housing Authority (herein referred to as the BMHA) management of its Public Housing Drug Elimination Program (PHDEP). The BMHA was awarded \$4,898,050 in PHDEP funds for Fiscal Years (FY) 1994 through 1996. The purpose of our audit was to determine whether the BMHA provided adequate accountability over PHDEP funds expended, and whether reported expenditures were reasonable and eligible.

Our audit disclosed that the BMHA did not always comply with program requirements and regulations pertaining to the accountability of PHDEP funds expended. The noncompliances were generally caused by inadequate controls, which led to ineligible and unsupported use of PHDEP funds as discussed in the findings.

1. **Controls over the Accountability of PHDEP Funds Expended Were Not Adequate**

The BMHA has not establish adequate accountability controls over its PHDEP expenditures. We found that the BMHA charged its FY 1995 and 1996 PHDEP grants with questionable salary costs and with drug prevention costs that were not reasonable, necessary or justified. We also found that the BMHA did not have adequate controls over executed contracts. As a result, the BMHA is unable to assure HUD that all charges to its PHDEP are reasonable, eligible, and represent an effective use of limited Federal funds. We believe that these weaknesses occurred in the BMHA's controls over its PHDEP grants because the BMHA has not establish effective budgetary and accounting controls for the program. In view of the deficiencies discussed in this report, the BMHA must take corrective actions to assure that future funds of the PHDEP are properly controlled, accounted for, and used only for eligible activities in an economical and effective manner.

2. **The BMHA Did Not Established Adequate Procedures to Monitor and Evaluate Activities of its PHDEP**

The BMHA has not developed an adequate process to properly monitor and evaluate activities carried out under its PHDEP. Specifically, the BMHA did not: (1) submit completed outcome monitoring and semi-annual performance reports; and (2) establish a system to obtain drug related crime statistics. We believe these deficiencies occurred because the BMHA did not establish procedures and clear lines of responsibility to

ensure that grant requirements were met. Consequently, the BMHA cannot provide adequate assurance that its PHDEP has made satisfactory progress towards meeting its drug elimination goals.

As part of each finding, we have recommended certain actions which we believe will correct the problems discussed in the findings and strengthen the BMHA's administration of its PHDEP.

The results of the audit were discussed with BMHA officials during the course of the audit and at an exit conference held on July 21, 1998. The exit conference was attended by:

BMHA Officials

Sharon West, Executive Director
Cheryl MacMillan, Director of Finance
Vincent Barrile, Principal Accountant
Ron Christopher, Chief, Public Safety
Mary Margaret O'Donnell, Director, Family Supportive Services
Carol Wilhelm, Grant Coordinator
Richard P. O'Donnell, Senior Auditor

HUD- Office of Inspector General (OIG)

Alexander C. Malloy, District Inspector General for Audit
Garry D. Clugston, Senior Auditor
Patrick C. Anthony, Auditor
Nancy Condren, Auditor

The BMHA agreed with some of the deficiencies reported in the findings and disagreed with others. The BMHA's written comments are included as Appendix B to this report. As appropriate, we summarized and provided portions of the BMHA's comments and our evaluation of those comments after each finding.

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Abbreviations:

HUD	Department of Housing and Urban Development
BMHA	Buffalo Municipal Housing Authority
PHDEP	Public Housing Drug Elimination Program
FY	Fiscal Year

Introduction

The Buffalo Municipal Housing Authority (BMHA) was established in 1934 to provide decent, safe and sanitary housing for eligible low and moderate income families in the City of Buffalo. Currently, the BMHA administers 25 federally funded projects, with 4,660 public housing units, and 2 active state funded projects, containing 697 units.

Governing body

The BMHA is governed by a Board of Commissioners (the Board) composed of seven members; five are appointed by the Mayor and two are elected by the tenant population. The Chairperson of the Board is Modesto Candelario. Sharon West, who was appointed by the Board, is the Executive Director. The BMHA Offices are located at 300 Perry Street, Buffalo, New York.

PHDEP grant funds

The BMHA was awarded \$4,898,050 in Public Housing Drug Elimination Program (PHDEP) funds for FYs 1994 through 1997. At March 5, 1998, the BMHA had drawn down for expenditures \$2,930,268 from the U.S. Department of Housing and Urban Development (HUD).

FY PHDEP Grant	Funds Awarded	Funds Drawn down	Balance Available
1994	\$1,247,000	\$1,247,000	\$ -0-
1995	1,244,000	1,168,112	75,888
1996	1,190,250	493,922	696,328
1997	1,216,800	21,234	1,195,566
Total	\$4,898,050	\$2,930,268	\$1,967,782

Audit objectives

The general audit objectives were to determine whether the BMHA provided adequate accountability over PHDEP funds expended, and whether the PHDEP expenditures were reasonable and eligible. The specific audit objectives were to determine whether the BMHA:

- Established an auditable system that provides adequate accountability for awarded PHDEP funds.
- Maintained records which adequately identify the source and application of PHDEP funds.
- Carried out its drug elimination activities as described in its HUD approved PHDEP application.
- Established an effective system of internal controls.
- Established controls to assure that activities funded under the PHDEP were not also funded under other programs.

Audit Scope and Methodology

We reviewed PHDEP grant applications, grant agreements, and financial records at both the HUD Buffalo Area Office and the BMHA. Audit tests included comparisons of BMHA financial records with HUD approved PHDEP budgets to determine if costs were in accordance with agreements. Also, we tested costs for eligibility and support. We interviewed staff members of HUD's Buffalo Area Office, Office of Public Housing, and of the BMHA.

Our audit focused on costs charged against the FY 1995 and 1996 PHDEP grants.

We performed our audit field work from March 1997 through May 1997. The audit covered the period October 1, 1994, through December 31, 1997. The audit period was expanded to cover other periods as necessary.

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

A copy of this report was provided to the BMHA.

Findings

Finding 1

The BMHA Did Not Provide Adequate Accountability Over PHDEP Expenditures

The Buffalo Municipal Housing Authority (BMHA) failed to provide adequate accountability over its Public Housing Drug Elimination Program (PHDEP) expenditures. We found that the BMHA charged its Fiscal Year (FY) 1995 and 1996 PHDEP grants with ineligible and questionable salary costs and with drug prevention costs that were not reasonable, necessary or justified. We also found that the BMHA did not have adequate controls over executed contracts. As a result, the BMHA is unable to assure HUD that all charges to its PHDEP program are reasonable, eligible, and represent an effective use of limited Federal funds. We believe weaknesses occurred in the BMHA's controls over the PHDEP funds and expenditures because the BMHA has not establish effective budgetary and accounting controls for the program. In view of the deficiencies discussed in this report, the BMHA must take corrective actions to assure that any future funds of its PHDEP are properly controlled, accounted for, and used only for eligible activities in an economical and effective manner.

CFR 85.20(b)(2) provides that grantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to the grant or subgrant awards and authorizations, obligations, unobligated balances, assets, outlays or expenditures and income. The BMHA's system for recording the PHDEP financial transactions in its General Ledger does not provide for a break down of costs by line item for reporting purposes. It also does not record obligated and unobligated amounts and balances. Although the BMHA maintains subsidiary records for the PHDEP that provide a breakdown of expenditures by line item, the records do not provide budgetary amounts by activity or obligated and unobligated amounts. In conducting our review of reported PHDEP expenditures, we used the BMHA's subsidiary records as of December 31, 1997. The review disclosed that the BMHA:

- Charged ineligible and questionable salary and fringe benefits costs to its PHDEP.

- Charged costs to the PHDEP's Drug Prevention line item that: (a) were for activities that were not approved, (b) were not in compliance with NOFA requirements, (c) were incurred after grant termination dates, and (d) lacked adequate supporting documentation.
- Failed to establish adequate controls over executed contracts.

The above issues are further explained in the following two subsections:

1. INELIGIBLE AND QUESTIONABLE SALARY COSTS

Our review disclosed that the BMHA charged its PHDEP salary and fringe benefit costs of \$437,981.62, representing \$200,538.35 in FY 1995 and \$237,443.27 in FY 1996, that were either ineligible or questionable. During the review, we classified those costs into four categories: (a) salary costs for unapproved positions, (b) salary costs for individuals not performing PHDEP related work, (c) salary costs to supplant existing BMHA positions, and (d) salary costs for positions with questionable approval. The ineligible and questionable salary and fringe benefit costs are shown on Appendix A of this report and discussed in detail below:

a. Salary costs for unapproved positions

A total of \$17,261.77 was charged to the FY 1995 PHDEP as salary and fringe benefit costs for three positions that were not included in the PHDEP application. These positions were: 1) Senior Accountant, 2) Statistical Clerk, and 3) Case Manager.

According to the FY 1995 NOFA dated January 5, 1995, "All grant personnel must be necessary, reasonable and justified. Job descriptions must be provided for all grant personnel. *Excessive staffing is not permitted.*" We considered the positions listed above, excessive staffing since they were not approved in the grant application. Accordingly, their costs, which totalled \$17,261.77, are considered ineligible.

b. Salary costs for individuals not performing PHDEP related work

The BMHA charged salary and fringe benefit costs totaling \$26,308.41 to its PHDEP for three typists who were not responsible for performing PHDEP related work. Cost of \$22,320.03 was charged to the FY 1995 PHDEP, while the balance of \$3,988.38 was charged to the FY 1996 program. Actually, one typist was the Receptionist for the BMHA's Executive Department. The other two typist also worked in the BMHA's Executive Department but did not have any PHDEP related responsibilities.

The FY 1995 and 1996 NOFAs' state: "Grant funds must be used only for Drug Elimination Program purposes. Direct costs are those that can be identified specifically with a particular activity or function in the NOFA and cost objectives in OMB Circular A-87. Indirect cost are not permitted in this program." " PHA staff shall be compensated with grant funds only for work performed directly for PHDEP related activities and shall document the time and activity involved in accordance with CFR 85.20." Since the duties and responsibilities of the typists previously discussed were not directly related to PHDEP activities, their associated salary and fringe benefit costs would not be an eligible PHDEP cost. Thus, the salary and benefit costs, which totalled \$26,308.41, that the BMHA charged to PHDEP for typists who did not have any PHDEP-related responsibilities are ineligible for inclusion in the costs of its PHDEP.

c. Salary costs to supplant existing BMHA positions

We identified \$232,257.51 in salary and fringe benefit costs that the BMHA charged to the PHDEP for BMHA employees whose positions were in existence before the FY 1995 PHDEP grant was awarded. These positions were: Tenant Relations Aide, Case Manager, Tenant Relations Specialist, and the Deputy Director of Family Support Services. In connection with this issue we noted that the BMHA formed a Family Support Services Department and transferred those positions to that Department. However, the position descriptions and job functions of those employees did not change. For instance, we obtained the job specification for the Tenant Relations Specialist and noted that the last time it was updated was approximately two years before our audit period and before the Family Support Services Department was formed. In other words, the job responsibilities did not change, which resulted in PHDEP funds being used to supplant the existing position. The FY 1995, and 1996, NOFAs' state: "Grant funds shall not be used to supplant existing position or programs". Therefore, salary and fringe benefit costs of \$6,902.17 for FY 1995 and \$225,355.34 for FY 1996 are considered ineligible PHDEP costs; and as such, should be removed from that program's costs.

d. Salary costs charged for positions with questionable approval

We identified \$154,054.38 in costs that were charged to the FY 1995 PHDEP, and \$8,099.55 charged to the FY 1996 program for salary and fringe benefit costs of questionable positions, pursuant to the FY 95 and 96 NOFAs. In its FY 1996 application, the BMHA proposed, under the Employment of Housing Authority Police Officers, to maintain seven civilian clerical positions (clerk Aides) to staff three substations. This activity was approved by HUD; however, there was no mention of clerk aides in the FY 1995 application. The FY 1996 NOFA, under the eligibility of employment of security personnel, provides that the employment of additional *housing authority police officers* (emphasis added) is permitted only by housing authorities that already have their own housing authority police

departments. The NOFA did not allow for the hiring of civilian clerk aides. We were advised by a member of the BMHA staff that the clerk aides were BMHA residents and that they were hired to work at the Housing Authority Police Department. During the review we were informed that the Grant Coordinator believed that the BMHA requested and obtained HUD approval to charge the salary and fringe benefit costs of the clerk aides to its FY 1995 PHDEP. However, the BMHA was unable to provide any documentation showing that HUD provided the approval. Because it is questionable whether salary and fringe benefit costs of \$162,153.93 should have been charged to BMHA's FY 95 and 96 PHDEP for clerk aides, we are considering those cost questionable and/or unsupported pending an eligibility determination by HUD.

2. QUESTIONABLE DRUG PREVENTION COSTS

a. Costs charged for unapproved activities.

The FY 1995 NOFA, dated January 5, 1995, provides that grantees are required to use grant funds under this program in accordance with this NOFA, 24 CFR part 961, 24 CFR part 85, 24 CFR part 84, applicable statutes, HUD regulations, Notices, Handbooks, OMB circular, grant agreements/amendments, approved plan, budgets (SF -424A), budget narratives and timetables. The NOFA also require applicant's plans to clearly describe the activities that are being proposed.

The FY 1995 PHDEP grant provided for \$686,270 under the Drug Prevention line item and specifically identified the activities to be funded. However, we noted that BMHA incurred contract costs of \$57,652 for three activities that were not included in the grant application, which are shown below:

Activity	Amount per Application	Contract Amount	Amount Paid per Vouchers
Resident training for Painting	\$0	\$21,835	\$21,835
Mural Painting	0	16,554	13,049
Employment Center	0	25,000	22,768
TOTAL	\$0	\$63,389	\$57,652

Since the activities in the above table were not included in the approved application, we considered their associated costs of \$57,652 questionable and unsupported pending an eligibility determination by HUD.

In addition to the above, we noted that for eight approved activities the BMHA executed contracts and charged the grant costs in excess of the amounts budgeted for those activities. As shown below, costs totaling \$220,858 were

charged to the FY 1995 grant under those activities, which was \$104,858 in excess of the \$116,000 budgeted for the activities per the application.

Activities	Amounts per Application	Costs Per Vouchers	Excess Costs
Job Training 1996 & 1997	\$ 40,000	\$ 81,627	\$ 41,627
Be-A-Friend Program	20,000	30,000	10,000
Learn to sew - youth	10,000	27,000	17,000
Learn to sew - adults	10,000	24,017	14,017
Gardening course	1,000	1,175	175
Girl Scout Programs	20,000	23,265	3,265
Summer Track and Field	8,000	24,785	16,785
Summer Day Camp	7,000	8,989	1,989
TOTALS	\$116,000	\$220,858	\$104,858

Regarding the excess costs, the Grant agreement provides that the grantee shall not make or cause to be made any changes to the services without the express written consent of HUD. In our opinion, the noted excess costs represent changes in the services provided. Based on costs incurred, we believe that the BMHA made substantial changes to activities approved under line items of its FY 1995 PHDEP. In this regard, the BMHA should have obtained HUD's approval as required by the Grant agreement. Therefore, we considered the excess costs, which total \$104,858, questionable and/or unsupported pending an eligibility determination by HUD.

Because the BMHA incurred costs for unapproved activities and exceeded the amounts budgeted for other activities, many activities listed in its FY 1995 PHDEP grant application were not funded and accordingly not accomplished. We believe these deficiencies are attributable to the BMHA's failure to record expenditures on its accounting records by approved activities and to a lack of communication among the various departments responsible for budgetary controls over PHDEP funds.

b. Activities lack documentation to support compliance with NOFA requirements

Our review disclosed that several of the activities funded under the Drug Prevention Program lacked adequate documentation; thus, prohibiting a determination as to whether they met the requirements of the NOFA. The FY 95 NOFA, dated January 5, 1995, provides, under the Drug Prevention Program, that Youth Services Activities must provide for: (1) the dissemination of drug education information, (2) the development of peer leadership skills, and (3) other drug prevention activities. The NOFA further provides that for Economic and Educational Opportunities for Residents and Youth, the program must

demonstrate the ability to provide residents with the opportunity to interact with private sector businesses to develop or build skills necessary for pursuing educational, vocational, and economical goals.

Our review disclosed that contracts pertaining to activities related to economic and educational opportunities did not contain a provision requiring the contractors to meet NOFA requirements. In this regard, we noted that the BMHA files for the two summer employment activities, the learn to sew program, and the gardening course for residents and friends, did not contain documentation showing that the activities had met the requirements of the NOFA. Also, the mural painting instructions for the children youth services activity did not have any documentation supporting that the required dissemination of drug education information was done. As a result, we could not determine whether these activities met NOFA requirements.

c. Expenditures Incurred Subsequent to the Grant Termination Date

Section II(e) of the FY 1994 NOFA, dated April 1, 1994, provides that any funds not expended at the end of the grant term shall be remitted to HUD.

We determined that the BMHA had drawn down and expended \$141,468.15 in FY 1994 PHDEP grant funds subsequent to the extended termination date of the grant. In this regard, we noted that the FY 1994 PHDEP grant's termination date of January 11, 1997 was extended to June 10, 1997. We also noted that subsequent to the extended termination date, the BMHA submitted eight draw down requests for PHDEP funds. The requests for payments were submitted between June 12, 1997 and October 21, 1997 making the last one 141 days after the grant termination date. Many of the purchase orders and invoices supporting the requests for payments were dated after June 10 1997, indicating that the costs were also incurred after the grant termination date. A BMHA staff member told us that members of the BMHA believed that the draw downs were allowable since the HUD Buffalo Area Office reviewed and approved them. We were advised by the approving officials in the HUD Buffalo Area Office that the requests for payments were approved because it was his understanding that a PHA could submit requests for payments up to 90 days after the termination date. When asked about the four requests that were submitted more than 90 days after the termination date, the official replied that those payments were verbally approved by a supervisor. A total of \$141,468.15 in FY 1994 PHDEP funds were drawn down and expended subsequent to the termination date in violation of the FY 1994 NOFA. Consequently, the costs, which totaled \$141,468.15, are considered questionable and/or unsupported until a determination has been made by HUD as to whether the BMHA will be allowed to keep the funds drawn down subsequent to the termination date of its FY 1994 PHDEP.

d. Costs lacked adequate supporting documentation

CFR 24 Section 85.20(b)(6) provides that accounting records must be supported by such source documentation as canceled checks, payrolls, time and attendance records, contracts and subgrant award documents, etc.

Our limited review of PHDEP expenditure disclosed six payments to various contractors/subgrantees that lacked adequate documentation to support the entire payment. In some cases, salary costs were only supported by time sheets, and in other cases, salary costs claimed exceeded the amount supported by payrolls. Also, we found that the amounts on invoices did not agree with the total amount claimed, that certain charges were only supported by a ledger page while others were not supported with documentation. Due to the lack of adequate supporting documentation, a determination as to the necessity, reasonableness, or justification of the certain costs could not be made, as discussed in various sections of this finding.

3. LACK OF EFFECTIVE CONTROLS OVER EXECUTED CONTRACTS

Our review of contract costs charged to the PHDEP grants disclosed several weaknesses in the BMHA's controls over executed contracts. Specifically, we found that the BMHA did not adequately maintain a contract control log, that statements of work lacked adequate details, and that contracts were executed after the service period had started. We believe these deficiencies are attributed to the BMHA's lack of adequate procedures to ensure that contracts are properly written, executed, and monitored for contract performance. As a result, controls necessary for the BMHA to obtain adequate assurance that performance by contractors were acceptable and that services agreed upon were effectively delivered were not adequate.

a. Contract control logs were not adequately maintained

Contract control logs for the PHDEP grants are kept by the Grant Coordinator instead of the BMHA's accounting Department. Our review disclosed that contract control logs were not adequately maintained. In two cases, the contracts were not included on a contract log; the entire amount, for contracts with multiyear funding, was only listed on the FY 1995 PHDEP contract log; and two separate contracts with the same entity were combined as one on the contract log. Furthermore, the grant year to be charged was not identified in the contract. As a result, the PHDEP contract log did not provide adequate administrative controls over executed contracts with contractors, nor for an adequate audit trail for tracking procurement activities.

b. Statement of work lack adequate details

HUD Handbook HM 7460.8 Rev 1, Procurement Handbook for Public Housing Agencies and Indian Housing Authorities, Paragraph 7-3C provides that at a minimum every Statement of Work should give a precise statement of objectives; identify the work to be performed; and set parameters by which desired scope of work can be defined and by which progress and results can be measured. We found that the scope of services in several contracts was vague and lacked adequate details. For example, the contract for the summer youth employment program called for the non-profit to provide screening and placement of youth, as well as for the administration of the payroll. However, the statement of work did not provide sufficient details as to the exact duties and responsibilities the non-profit was to provide. As a result, the performance of the contractor could not be adequately monitored or evaluated.

c. Contracts executed after the service period had started

Our review disclosed that the BMHA executed nine contracts after the contractor's period of services had begun. For example, the contract with the City of Buffalo's Division of Substance Abuse Service (DSAS) was dated January 8, 1998, covering the period from July, 12, 1997 to December 31, 1997. As can be determined, the contract period was over when the contract was executed. A BMHA staff member indicated that the contract was not executed promptly due to problems over the contract terms. However, we attribute the deficiencies to the BMHA's failure to negotiate and execute the contracts in a timely manner. As a result, the BMHA weakened its control over and monitoring of the contract services that were provided.

d. Terms of a Contract allowed unreasonable administrative fees to be charged

The BMHA executed two contracts with non-profit organization to administer the summer employment activities approved under the Drug Prevention activities of its PHDEP. According to the contract, a non-profit organization was to administer the employment of 80 BMHA youths during the summer of 1996, and 60 during 1997. The administrative costs were \$6,136 in 1996 and 15 percent of the contract (\$11,190) in 1997. The BMHA paid the total amount of the administrative fees even though the non-profit did not meet the goals set in the contract, since only 42 youths were employed each summer. In our opinion, it was not reasonable for the BMHA to pay the total administrative fees to the non-profit, inasmuch as the required objectives were not met. In our opinion, the BMHA should have included a provision in the contracts requiring administrative fees to be prorated based on performance, such as the number of BMHA youths actually employed. Because this was not done, the BMHA may have paid an excessive amount for administrative services.

The PHDEP grant agreement and regulations require proper accounting and internal controls over all grant activities. The deficiencies discussed in this finding occurred as a result of BMHA's failure to establish and maintain adequate controls and procedures for assuring that PHDEP funds are properly budgeted and controlled, and used only for eligible and approved activities in an economical and effective manner.

1. Ineligible and Questionable Salary Costs

Auditee Comments

a. Salary Costs for Unapproved Positions

The BMHA officials contend that the BMHA is required to follow the job specs of the Buffalo Civil Service Commission, and that it would be unreasonable to expect the Civil Service Commission to administer separate test for each agency for basically the same title. BMHA officials further contend that it would be unreasonable to expect the BMHA to allocate a portion of all the staff time to various grants and funds. Considering all of the programs funded through the PHDEP grants, the BMHA officials find it difficult to understand why the Case Manager and the other two positions are not justifiable. BMHA officials advised that if the authority were to wait for written approvals on each item presented to HUD, it may as well turn over half the grant.

OIG Evaluation of Auditee Comments

Our concern is that the positions questioned in part 1a of the finding were not listed in the grant application and were not approved. The applicable NOFA clearly require that all grant personnel must be necessary, reasonable, and justified. Since the positions discussed in the referenced part of the finding were not approved, we considered them to be unnecessary. We also considered their associated salary and fringe benefit costs of \$17,261.77 to be ineligible charges to the PHDEP.

Auditee Comments

- b. Salary costs for individuals not performing PHDEP grant-related work.

BMHA officials contend that they find it difficult to believe that none of the typists in the Executive Department ever typed or filed or tracked down PHDEP information at all. They also contend that for the timeframes involved, the Grant coordinator reported to the Executive, and that time allocation is a problem. “A BMHA official stated it not reasonable to charge the grants a portion of their salaries.”

OIG Evaluation of Auditee Comments

The applicable NOFA does not allow for indirect cost to be charge to the Drug Elimination Program. PHA staff shall be compensated with grant funds for work performed directly on PHDEP related activities and shall document the time and activities involved. Since the duties and responsibilities of the typists are not directly related to the PHDEP activities and are not documented, their salaries and fringe benefits are not allowable PHDEP costs.

Auditee Comments

- c. Salary costs to supplant existing BMHA positions

The BMHA contends that it was the Civil Service Commission’s domain, and that they are the ones who update and change jobs, not the BMHA. The BMHA response indicated that the Grant Coordinator received verbal approval from HUD to fund the positions we questioned as being in existence prior to the award of the PHDEP grant. Also, that the Deputy Director of Family Support Services and the Tenant Relations Aides were newly created positions and their job functions were change because the staff had not previously been involved in program development, monitoring or evaluation.

OIG Evaluation of Auditee Comments

Our review disclosed that prior to the PHDEP certain positions, which are provided in the finding, existed. It also disclosed that the functions of those positions have not changed. The applicable NOFA provides that grant funds shall not be used to supplant existing positions. Thus, salary costs of \$232,257.51, which we believe were incurred to supplant existing BMHA positions, are not allowable PHDEP costs.

Auditee Comments

- d. Salary costs charged for positions with questionable approval.

The BMHA contends that clerk aide positions were approved by the local HUD office. The Grant coordinator did receive approval to fund these positions through the PHDEP grant. The Grantee provided a copy of a letter to the CPD Director asking for an extension and explaining why there was a delay in filling the positions. The BMHA contends that the positions were never disapproved.

OIG Evaluation of Auditee Comments

We agree with the BMHA that the clerk aides positions were approved in the 1996 PHDEP grant. However, of the total charges of \$162,153.93, \$154,054.38 were charged to the FY 1995 grant that did not mention clerk aide positions. Although the FY 1996 NOFA allowed for the employment of additional housing authority police officers, it did not allow for the hiring of civilian clerk aides. The letter provided by the Grantee does not support that approval for clerk aides positions for the FY 1995 PHDEP was obtained. Therefore, the costs pertain to the Clerk aides position are considered questionable pending an eligibility determination by officials of the HUD Buffalo Area Office.

2. QUESTIONABLE DRUG PREVENTION COSTS

Auditee Comments

- a. Costs Charged for unapproved activities

The BMHA staff contends that they were informed at a HUD seminar that a 10 percent revision rule was appropriate. Further, they contend that contract costs exceeding budgeted amounts should be expected since amounts in proposal and applications are estimates. Since the BMHA cannot obligate funds that have not been approved, it does not procure services until after HUD approval is received.

OIG Evaluation of Auditee Comments

The program changes discussed in this finding exceeded 10 percent in total and are considered substantial plan changes that should have been approved by HUD. The BMHA did not provide us with any documentation showing that plan changes had been submitted and/or approved by HUD.

Auditee Comments

- b. Activities lack documentation to support compliance with NOFA requirements

The BMHA contends that these programs were approved programs.

OIG Evaluation of Auditee Comments

The BMHA was unable to provide us with adequate documentation supporting that activities met the applicable NOFA requirements.

Auditee Comments

- c. Expenditures Incurred Subsequent to Grant Termination Date.

Officials of BMHA believe it is unreasonable to require the BMHA to draw down funds for all expenditures incurred by the expiration date of a grant. Further, the BMHA contends that page 10 of the Grant Agreement under Article VI, Grant Closeout, implies that 90 days is the cutoff to closeout all grant related tasks.

OIG Evaluation of Auditee Comments

It should be noted that the applicable NOFA states that any funds not expended at the end of the grant term shall be remitted to HUD. We do not agree with the BMHA interpretation of Article VI of the Grant Agreement. We believe that article requires the BMHA to comply in full with all closeout requirements and submit reports within 90 days after the end of the grant. This section does not discuss drawing down grant funds after the termination date. In addition, our review disclosed that many of the purchase orders and invoices were for costs that were incurred after the Grant termination date.

Auditee Comments

- d. Cost lack adequate supporting documentation

The BMHA contends that it requires all recipients to maintain cost records and make them readily available to the BMHA at any point. The BMHA further contends that a simply request or visit to a subrecipient would have given us as much information as we may have needed. The BMHA now requires that full documentation be filed with the voucher payment rather than certified financial reports submitted.

OIG Evaluation of Auditee Comments

We reviewed the documents that the BMHA had to support payments to various subgrantee/contractors, and found that they did not adequately support the payments. As a result, a determination as to whether the payments were reasonable, necessary or justification could not be performed.

3. LACK OF EFFECTIVE CONTROLS OVER CONTRACT COSTS

Auditee Comments

- a. Contract Log not adequately maintained.

The BMHA agrees with this portion of the finding and is in the process of setting up a contract log.

- b. Statement of work lacks adequate details.

The BMHA contends that this issue is currently being addressed.

- c. Contract executed after service period had started.

The BMHA agrees with this statement.

- d. Terms of a contract allowed unreasonable administrative fees to be charged.

BMHA officials contends that after a review, they agree with the need to reevaluate such costs before contracting with vendors and a need to tie the payment method into results and progress instead of simply billing.

RECOMMENDATIONS

We recommend that you instruct the BMHA to:

- 1A. Establish acceptable budgetary and accounting controls that will provide adequate assurance that PHDEP expenditures are documented, reasonable, and eligible in accordance with PHDEP grant agreements and program requirements.
- 1B. Remove ineligible costs of \$275,827.69 from the appropriate PHDEP grants.

- 1C. Review questionable and/or unsupported expenditures, which totaled \$466,132.08 and assure that only costs which are eligible, reasonable and in accordance with the PHDEP grant requirements are included in PHDEP costs.
- 1D. Establish effective controls over contracts executed, which would include: maintaining proper contract logs, assuring that all contracts contain an adequate statement of work, and executed prior to the performance of services.
- 1E. Submit all changes to its programs to your office so that an eligibility determination can be made. The submission should include all unapproved activities as well as approved activities with budget overruns or costs in excess of budgeted amounts.

In addition, we recommend that your office:

- 1F. Determine whether the BMHA should be allowed to keep the \$141,468.15 drawn down and expended subsequent to the termination date of its FY 1994 PHDEP.

Finding 2

The BMHA Has Not Established Adequate Procedures to Monitor and Evaluate Activities of its PHDEP

The BMHA did not develop adequate procedures to monitor and evaluate activities of its PHDEP. Specifically, the BMHA did not: (1) submit completed outcome monitoring and semi-annual performance reports, and ,(2) establish a system to obtain drug related crime statistics. We attribute these deficiencies to the BMHA's failure to establish adequate procedures and clear lines of responsibility to ensure that grant requirements are met. Consequently, the BMHA can not provide adequate assurances that it has made satisfactory progress towards meeting its drug elimination goals.

24 CFR 761.35 provides that Grantees are responsible for managing the day to day operations of the grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function and activity of the grant.

Outcome Monitoring Reports Were Incomplete

Our review disclosed that the outcome monitoring reports that the BMHA submitted were incomplete. We reviewed five reports that the BMHA submitted to HUD between January 1995 and July 1997. The BMHA reported that the information was unknown in all the reports regarding the community wide crime statistics. In fact, they did not report any crime statistics relating to the housing authority in their last three reports. The first report only had the total arrests for drug offenses authority wide. Moreover, other portions of the report were either not submitted or submitted but partially completed. For example, the BMHA did not submit Table 3, Housing Authority Management Indicators in its first report. Likewise, the same table was only partially completed in subsequent reports.

The purpose of the report is to provide HUD with a means to determine the PHDEP effectiveness. Further, it allows HUD the opportunity to modify programs to improve the rate of drug and crime reduction. Because the BMHA failed to provide the necessary information, HUD was hindered from measuring the impact of the PHDEP funds on crime rates, and from measuring the resident's satisfaction with the initiatives that have been implemented.

Semi-Annual Performance Reports Were Incomplete

Also, the semi-annual performance reports that the BMHA submitted were incomplete. They did not include changes in crime statistics for three reporting periods in FYs 1996 and 1997. Further, our comparison of activities approved under the 1995 PHDEP and the programs that were funded indicated several discrepancies. For example, there were 28 programs listed in the budget for drug prevention that were not funded. Also, there were 3 programs not in the budget, but were funded by the BMHA. Lastly, there were a number of programs that the BMHA funded for considerably more than the amount HUD approved in the budget. However, the BMHA did not report these changes in the semi-annual performance reports. One of the provisions in the semi-annual performance report is to provide a description of other programs that may have been initiated, expanded, or deleted with an identification of the resources and the number of people involved with the programs and their relation to the approved plan (24 CFR 761.35 (a)(1)(vi)). Since the BMHA did not report these changes, HUD would be under the assumption that the BMHA conducted the program as approved under the budgeted plan. Also, for the three programs not in the budget, the BMHA did not develop quantifiable objectives. Thus, there was no standards to measure the performance or success of these programs.

Lack of Crime Statistics

Additionally, our review disclosed that there was a lack of crime statistics in both the outcome monitoring and the semi-annual performance reports as discussed above. We spoke to the Grant Coordinator who explained that there were factors that caused the outcome reports to be completed in such a manner. First, the official explained that the BMHA did not have a systematic means to get the statistical drug related crime data from their public safety department; and initially, the department would send her annual crime data. Eventually due to staff turnover in the public safety office, the persons gathering this data changed and the information started arriving in a piecemeal manner. In this regard, the Grant Coordinator explained that the notification to prepare the outcome monitoring report was issued on a one page facsimile from HUD Central Office without an explanation as to what the report represented or how the BMHA was suppose to use the report. Second, the official claimed that there was no guidance from the HUD Buffalo Area Office on how to fill out the forms. The official advised that because of these factors, the BMHA submitted the reports with incomplete drug related crime data and believed this was acceptable since HUD never questioned the reports.

Furthermore, the Grant Coordinator informed us that the outcome monitoring report did not have much information regarding the crime statistics because the BMHA submitted the information in detail as part of the semi-annual performance

report. However, we noted three of the semi-annual performance reports covering the period between January 1, 1996 and June 30, 1997 did not have any data on the change in crime statistics. Further, we noted that two of the reports had the following statement *“Not available due to lack of public safety personnel and an agreement between the Buffalo Municipal Housing Authority and the City of Buffalo Police Department for services such as covering 911 and all emergency calls. Statistical data is therefore unavailable at the time of this report.”* The Grant Coordinator told us that the lack of information was due to the turnover at the public safety office. Also, since all 911 calls for the City of Buffalo are tracked by the public safety computer system, the information was hard to separate between the City of Buffalo and BMHA related calls.

We were told that the Grant Coordinator established a system in 1997 whereas a copy of the arrest reports is sent to that official. Thus, all arrests and a breakdown of the types of arrests can be tracked. Also, the BMHA have hired a Criminal Statistician under the FY 1997 grant to help track crime statistics.

Auditee Comments

The Grantee agreed to do the following:

The Grantee will establish quantitative goals that can be effectively measures and will monitor the progress in meeting those goals.

Statistical reports will be prepared by the crime analyst, which will be reviewed and approved by the Director of Public Safety.

The procedural manual will include all deadline dates and copies of forms to be submitted and evaluated.

All applications will clearly state the goals of the programs

All funded programs will have to file quarterly reports which the Grantee will monitor on a regular basis.

Recommendations

We recommend that your office ensure that the BMHA:

- 2A. Establish and implement procedures that effectively measure the outcomes and impact of all PHDEP related funded programs.
- 2B. Develop work plans that define the responsibilities of staff responsible for monitoring the various programs and data collection of PHDEP statistics.

These plans should also include procedures that will ensure that proper monitoring and data collection when there are changes in personnel.

Internal Controls

In planning and performing our audit, we considered the internal controls of the Buffalo Municipal Housing Authority, specifically as related to its Public Housing Drug Elimination Program (PHDEP), in order to determine our audit procedures and not to provide assurance on internal controls. Internal controls are the process by which an entity obtains reasonable assurance as to achievement of specific objectives. They consist of interrelated components, including integrity, ethical values, competence, and the control environment which includes establishing objectives, risk assessment, information systems, control procedures, communication, managing change, and monitoring.

Internal controls assessed

We determined that administrative and accounting controls in the following areas were relevant to our audit objective:

- Financial Controls over Program Funds
- Expenditure Reviews
- Budget Oversight
- Allocation of Costs
- Program Monitoring
- Procurement and Contracting

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

Assessment results

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

Significant internal control weaknesses exists in all areas

Based on our review, there are significant weaknesses over the BMHA's ability to administer the PHDEP. Specific weaknesses were identified in the internal control areas over all the controls listed above. These weaknesses are described in the two findings contained in this report.

Appendices

Appendix A

Schedule of Ineligible and Questionable Salary Costs

Position	1995 PHDEP Salary Costs	1996 PHDEP Salary Costs	Ineligible Costs	Total Questionable Salary Costs
<u>Unapproved Position</u>				
Senior Accountant	\$ 5,161.49	\$0.00		
Statistical Clerk	12,100.28	0.00		
Case Manager	0.00	0.00		
Sub-Total	\$ 17,261.77	\$0.00	\$17,261.77	
<u>Non PHDEP Position</u>				
Typist	\$ 22,320.03	\$ 3,988.38	\$26,308.41	
<u>Supplanted Existing Positions</u>				
Tenant Relations Aide	\$ 6,902.17	\$ 61,756.40		
Tenant Relations Specialists	0.00	142,856.09		
Case Manager	0.00	20,742.85		
Sub-Total	\$ 6,902.17	\$225,355.34	\$232,257.51	
<u>Unallowable Positions</u>				
Clerk Aides	\$154,054.38	\$ 8,099.55		\$162,153.93
Grand Totals	\$200,538.35	\$237,443.27	\$275,827.69	\$162,153.93

Appendix B

Schedule of Ineligible and Unsupported Costs

Finding Number	Ineligible (1)	Unsupported (2)
1	\$275,827.69	\$466,132.08
Total	\$275,827.69	\$466,132.08

- (1) Cost clearly not allowed by law, contract, HUD or local agency policies and regulations.
- (2) Costs not clearly eligible or ineligible but warrant being contest (e.g. lack of satisfactory documentation to support the eligibility of the costs, etc.)

Appendix C

Auditee Comments

Appendix D

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