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Audit Case Number	00-NY-202-1001

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

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

SUBJECT: City of Glens Falls Housing Authority
Low-Rent Housing Program
Glens Falls, New York

We completed an audit of the City of Glens Falls Housing Authority, referred to herein as the Public Housing Authority (PHA) pertaining to its Federal Low-Rent Housing (LRH) Program. The audit followed a survey conducted on the PHA's operations. The survey and audit work show that the PHA needs to improve operating controls to ensure that assets are safeguarded against waste and loss, and to increase assurance that its programs are operated in a way that achieves full compliance with the terms and conditions of the Annual Contribution Contract (ACC) and other applicable U.S. Department of Housing and Urban Development (HUD) regulations and requirements.

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

Should you or your staff have any questions, please contact William H. Rooney, Assistant District Inspector General for Audit, at 212-264-8000, extension 3976.

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Executive Summary

We performed an audit of the City of Glens Falls Housing Authority, herein referred to as the Public Housing Authority (PHA), pertaining to its Federal Low-Rent Housing (LRH) Program. The primary objectives of the audit were to evaluate the PHA's internal controls for safeguarding cash and other assets, and to determine whether it complied with the terms and conditions of the Annual Contribution Contract (ACC), as well as other applicable HUD regulations and requirements.

Results

The audit disclosed that the PHA is generally providing decent, safe and sanitary housing to its tenants. However, the PHA did not always comply with program requirements and regulations pertaining to various activities of its LRH program. The noncompliances were generally caused by inadequate controls, which led to the ineligible and unsupported use of funds, as discussed in the findings.

The results of our audit are discussed in the findings of this report and are summarized below.

1. Section 8 Administrative Fee Used to Pay Questionable Employee Bonuses

The PHA paid bonuses to its administrative personnel that, in our opinion did not comply with HUD and local requirements. While HUD allows bonuses to be paid to employees for exceptional performance, we questioned whether the work performed by employees who received bonuses was exceptional, especially since we have questioned the manner in which the work was performed. Specifically, we found and questioned the PHA's practice of preparing and completing inspection reports on units in its Section 8 program prior to the actual physical inspections of the units. Consequently, we questioned whether the PHA is properly conducting physical inspections of Section 8 units, and whether prior inspections were done in a manner that justified the payment of bonuses. Therefore, the amount of Section 8 administrative fees used to pay \$62,000 in bonuses during Fiscal Year 1999, is considered unsupported.

2. Improvement is Needed in the System of Procurement

Our review of the system for procurement showed that the PHA did not comply with the required procurement procedures for competitive proposals and for small purchases. The noncompliance is attributed to the PHA's general unfamiliarity with applicable regulations and requirements. As a result, assurance that the related costs were proper and reasonable has been diminished and the PHA has incurred costs of \$30,907.18 that are unsupported.

3. Ineligible and Unsupported Costs Charged to the Federal Program

The PHA did not maintain adequate controls over costs charged to the Federal program. The controls were inadequate because procedures were not implemented to ensure that costs were eligible and properly supported prior to payment. As a result, the PHA charged the Federal program with ineligible and unsupported costs totaling \$443.85 and \$15,518.10 respectively.

4. Controls Over Legal and Accounting Services and Costs Need to be Strengthened

Contrary to HUD regulations and requirements, the PHA: (1) made no effort to follow Federal procurement regulations in awarding the legal and accounting services contracts, and (2) routinely paid for legal and accounting services without adequate documentation being provided as evidence that the contracted services were rendered. The deficiencies can be attributed to the PHA arbitrarily electing not to follow the applicable procurement requirements in awarding the contracts. As a result, program funds were expended for services that were not determined to be reasonable; thus, the amount paid totaling \$15,993.60 is considered unsupported.

5. Ineligible and Unsupported Travel Costs

The PHA does not have adequate controls over its travel activities to ensure that travel costs are necessary, reasonable and adequately supported, as required. As a result, ineligible and unsupported travel costs of \$658.00 and \$1,090.31 respectively have been incurred. The travel deficiencies are attributed to the PHA's general unfamiliarity with the procedural and documentation requirements.

6. Need to Strengthen Administrative and Accounting Controls

Our review showed various deficiencies involving administrative and accounting controls and procedures that have weakened the PHA's system of internal control. The deficiencies occurred because procedures were not implemented to ensure that adequate administrative and accounting controls were in place to meet program requirements. As a result, the PHA does not have adequate assurance that funds are properly safeguarded against waste and loss and that its housing programs are administered in accordance with Federal regulations and requirements.

Recommendations

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

The results of the audit were presented to the PHA officials who disagreed with our findings in a response on September 22, 1999. The PHA's comments are included as Appendix D to this report.

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Abbreviations

ACC	Annual Contributions Contract
CFR	Code of Federal Regulations
HQS	Housing Quality Standards
HUD	Department of Housing and Urban Development
IPA	Independent Public Accountant
LRH	Low-Rent Housing
OIG	Office of Inspector General
OMB	Office of Management and Budget
PHA	City of Glens Falls Housing Authority
RFP	Request for Proposal

Introduction

The PHA is governed by a seven member Board of Commissioners. Five members are appointed by the Mayor and serve five year terms. The other two members are elected by the tenants and serve two year terms. The Board establishes policy and takes official action as required by Federal and State law. The Executive Director, who is responsible for managing the overall day-to-day operations of the PHA, is Augustus M. Del Signore. The books and records are maintained at the administration office located at Stitchman Towers, Jay Street, Glens Falls, New York 12801.

The PHA's fiscal year is from April 1, through March 31. The PHA operates two senior developments. One contains 100 units and the other 75 units. Also, the PHA administers 482 units of Section 8 housing along with a Comprehensive Grant Program. In addition, the PHA administers 131 units of State housing at two developments. One development contains 81 units of senior housing and the other 50 family units:

Audit Objectives

The objectives of the audit were to evaluate internal controls for safeguarding cash and other assets and to determine whether the PHA complied with the terms and conditions of the ACC and other applicable regulations and requirements.

Audit Scope and Methodology

We evaluated controls and procedures over the payment of bonuses, over procurement, legal and accounting services and travel. We also determined whether costs charged to the PHA's housing programs were reasonable and eligible; and evaluated procedures and practices relating to general accounting and administrative controls.

Audit procedures included an examination of records and files, interviews with PHA staff, visits to the housing developments and inspections of Section 8 units. In addition, the PHA's policies, procedures and practices for managing its operation were reviewed. Specific audit testing was based primarily on judgmentally or selected samples representative of the transactions in the areas reviewed.

The audit covered the period from January 1, 1997 to December 31, 1998. However, activity prior and subsequent to this period was reviewed, as we deemed necessary. The audit field work was conducted between January 1999 and April 1999.

A copy of this audit report has been provided to the Executive Director of the PHA.

The audit was conducted in accordance with generally accepted government auditing standards.

Section 8 Administrative Fee Used to Pay Questionable Employee Bonuses

Although HUD allows bonuses to be paid to PHA employees, the PHA paid bonuses to its administrative personnel that in our opinion did not comply with HUD's instructions for such payments. As a result, the amount of Section 8 administrative fee used to pay the bonuses during 1999 amounting to \$62,000, is not a reasonable expenditure of Section 8 Program. The bonuses were paid because the PHA Executive Director believed that it had met the requirements.

PHA's Performance award stipend program

The PHA performance award stipend program was established in December 1990 to reward employees who administered the Section 8 housing program. The stipend program provides for incentive bonuses to be paid amounting to 25 percent of the administrative fee earned in a given year for the Section 8 Certificate and Voucher programs. The amount of the bonuses are determined by the Executive Director, and are paid provided the Section 8 programs have: (1) a vacancy rate less than 5 percent; (2) generated residual receipts; (3) no significant HUD management review findings; and (4) no significant Independent Public Accountant (IPA) audit findings.

Criteria

HUD allows excess administrative fees to be used to pay bonuses to PHA employees. However, it is HUD's position that the use of excess administrative fees for bonuses is only justified when the employee receiving the bonus has demonstrated exceptional performance related to the PHA's housing programs and that employees not be given across the board unearned bonuses.

Deficiencies found by OIG

Our review of the Section 8 program and performance award stipend program showed the following:

- We observed that the Section 8 Inspection Checklists were arbitrarily being completed by the PHA and all the rooms of the units were marked "Pass" before the actual physical inspections were performed. Hence, the PHA was

routinely documenting all units as having met the Housing Quality Standards (HQS) before performing inspections.

- When the units are inspected, we found that the PHA is not recording on the Form HUD 52580 (HQS checklist) any comments or deficiencies requiring correction by the landlord. As part of our review, we inspected 13 units. Even though the units passed the HQS, the inspections showed that comments were warranted for 10 of the 13 units inspected. For example, the inspection of the unit located at 5 Division St. showed that various repair work was needed. Items in need of repair were:

Living room	- replace missing ceiling tile
Kitchen	- repair/replace counter tops
Bathroom	- repair/replace tub area walls - replace sink with hole - repair/replace vinyl floor
Bedroom	- repair water damage in ceiling

- Paragraph (a) of the PHA's Personnel Policy provides: that it is the declared policy of the PHA to maintain the highest standards of wages, hours, and working conditions within reach of its jurisdiction and not inconsistent with Federal, State or local laws applicable thereto, or the prevailing practices within the Municipal Government. In this regard, a discussion with City officials disclosed that the City of Glens Falls does not pay bonuses to any of its employees.
- The PHA's performance award stipend program provides that the amount of bonus paid employees shall be established by the Executive Director, who may include himself in such incentive award. We found that the Executive Director was included in the bonuses for each of the three years reviewed. There was no supporting documentation attached to the payment vouchers to show how the bonus amounts were determined. Moreover, we believe that sound management practice would dictate that the PHA Board, rather than the Executive Director, establish the amount of any additional compensation to be paid to the Executive Director. The bonuses paid to all administrative employees for Fiscal Year 1999 of \$62,000.

- HUD allows bonuses under the Section 8 program to individuals demonstrating exceptional performance and does not allow across the board bonuses. Yet, for the three years reviewed, all of the PHA's administrative employees received a bonuses payment.

The above deficiencies illustrate that the PHA has not only not complied with HUD program requirements pertaining to the payment of Section 8 bonuses to employees; but has not satisfied one of the basic requirements of the program by completing the Section 8 inspection checklists before the actual inspections are conducted. Unless corrective actions are implemented, deficiencies similar to those described above will recur.

Recommendations

We recommend that you require the PHA to:

- 1A. Stop the practice of preparing the inspection checklists before the actual inspections are conducted.
- 1B. Prepare the inspection checklists when the units are actually inspected. The checklists should indicate not only whether the unit passed or failed; but what items were noted that need repairing.
- 1C. Adopt controls that will require the PHA Board to determine the amount of Section 8 funds to be used for bonuses.
- 1D. Establish procedures that will only reward exceptional performance demonstrated by individual employees.
- 1E. Provide documentation to justify the payment of the 1999 bonuses so that an eligibility determination can be made.

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Improvement is Needed in the System of Procurement

Our review of the PHA's system for procurement showed that the PHA did not comply with the required procurement procedures for competitive proposals and for small purchases. The noncompliance is attributed to the PHA's general unfamiliarity with applicable regulations and requirements. As a result, assurance that the related costs were proper and reasonable has been diminished and the PHA has incurred costs of \$30,907.18 that are unsupported.

As part of our review, we randomly selected six instances of procurements by the PHA. The selection involved four instances that required competitive proposals and two instances that required procurement by small purchase procedures. The specifics pertaining to each of the deficient methods of procurement by the PHA are described in the subsections below.

Competitive Proposals Were Not Solicited

We reviewed four instances where the PHA procured consulting services. Three instances pertained to costs incurred to administer and/or prepare a program application for the Comprehensive Improvement Assistance Program (CIAP)/Comprehensive Grant Program (CGP) programs and the other instance involved computer services rendered. Accordingly, Title 24 Part 85.36(d)(3) of the CFRs pertaining to procurement by competitive proposals would apply. The regulations require the PHA to prepare and publicize requests for proposals (RFPs) identifying all evaluation factors and their relative importance. The PHA is required to solicit proposals from an adequate number of qualified sources. Finally, awards are to be made to the responsible firm whose proposal is most advantageous, with price and other factors considered.

Contrary to the above regulations, the PHA procured the consulting services without preparing RFPs or soliciting proposals from other qualified sources. Thus, the PHA was denied the benefit of competitive proposals to ensure that the best possible price and quality services were obtained. Thus, the costs incurred in amounts of \$13,250 for the CIAP/CGP

Small Purchase Procedures
Were Not Followed

services and \$4,372.63 for the computer services provided are considered unsupported.

The PHA's procurement policy provides that all purchases in excess of \$1,500.00, but less than \$10,000.00 shall be made on the basis of at least three informal price quotations.

The policy further provides that the quotations may be obtained orally, by telephone, or in writing but that the names, addresses, and/or telephone numbers of the offerors, and persons contacted, and the date and amount of each quotation shall be recorded and maintained as a public record. In addition, Title 24 Part 85.36(d)(1) of the CFRs requires price or rate quotations to be obtained from an adequate number of qualified sources when procurement by small purchase procedures is used.

During the audit period, the PHA made payments of \$5,360.80 for routine lawn service and \$7,923.75 for snow removal to the same contractor for services provided at its Federal housing developments. Discussions with PHA officials disclosed that quotations were only received from the contractor for snow removal. Hence, only one quotation was received for snow removal and no quotations were solicited for lawn service. As a result, there is inadequate assurance that the PHA obtained the lowest possible price for the services. Therefore, the total amount paid for the services of \$13,284.55 is considered unsupported.

The deficiencies cited in this finding indicate a general weakness in the PHA's system of procurement. Unless the PHA recognizes its responsibility to implement controls that will ensure compliance with the Federal procurement regulations and its own procurement policy, these or similar deficiencies will continue.

Recommendations

We recommend that you require the PHA to:

- 2A. Provide justification for the unsupported costs so that an eligibility determination can be made.

- 2B. Reimburse from non-Federal funds, the amount of any unsupported costs determined to be ineligible.

- 2C. Establish controls to ensure that RFPs are prepared and proposals are solicited when procurement by competitive proposals is applicable.

- 2D. Establish controls to ensure that price quotations are obtained from at least three qualified sources when procurement by all small purchase procedures is used.

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Ineligible and Unsupported Costs Charged to the Low Rent Housing Program

The PHA did not maintain adequate control over costs charged the Low Rent Housing (LRH) program. The controls were inadequate because procedures were not implemented to ensure that costs were eligible and properly supported prior to payment. As a result, the PHA charged the LRH program with ineligible and unsupported costs totaling \$443.85 and \$15,518.10 respectively.

Examination of disbursements

An initial examination was made of disbursements to test for compliance. The examination disclosed a variety of deficiencies as well as payments for ineligible and unsupported costs. Therefore, the examination was expanded to include disbursements throughout the period from December 1996 through February 1999. The items contained in this finding should not be considered all inclusive; rather they represent only those ineligible and unsupported costs that were found as a result of our tests.

Ineligible and Unsupported Costs

Ineligible costs include payments for alcoholic beverages and sales tax. Unsupported costs include payments for which: (1) no purchase order was prepared; (2) the cost was not prorated to the State program; (3) charges for meetings did not contain documentation as to who attended the meetings, and (4) the documentation available does not provide a breakdown of the cost.

Criteria

These ineligible and unsupported costs are further described in Appendix B of this report.

Attachment B of the Office Management and Budget (OMB) Circular A-87 provides the standards for the determination of allowable and unallowable costs. Section 4, Part A of the ACC provides that the PHA shall operate each project in a manner that promotes serviceability, economy, efficiency and stability of the project. In addition, Section 2, Part A of the ACC provides that operating expenditures shall be necessary for the operation of the project.

The PHA must be reminded that incurring many of these costs reduces assurance that the projects were operated

economically and efficiently and that all costs incurred were necessary. Thus, the ineligible costs should be repaid from non-Federal funds and the PHA should be required to submit additional documentation and justification for the unsupported costs.

Recommendations

We recommend that you require the PHA to:

- 3A. Adopt procedures that will prohibit the incurrence of ineligible costs and ensure that all costs are properly supported prior to payment. The procedures should also ensure that all costs meet the economy, efficiency and necessity requirements.
- 3B. Reimburse the Federal program, from non-Federal funds, the amount of the ineligible costs.
- 3C. Provide further information as justification for the unsupported costs so that an eligibility determination can be made.
- 3D. Reimburse the Federal program, from non-Federal funds, the amount of any unsupported costs determined to be ineligible.

Controls Over Legal and Accounting Services and Costs Need to be Strengthened

Contrary to HUD regulations and requirements, the PHA: (1) did not follow Federal procurement regulations in awarding the legal and accounting services contracts, and (2) routinely paid for legal and accounting services without adequate documentation being provided as evidence that the contracted services were rendered. The deficiencies can be attributed to the PHA arbitrarily electing not to follow the applicable procurement requirements in awarding the contracts. As a result, program funds were expended for legal and accounting services that were not determined to be reasonable; therefore, the amount paid totaling \$15,993.60 is considered unsupported.

The details pertaining to the deficiencies are shown below.

Legal and Accounting Services Contracts

Improper method for awarding legal and accounting service contracts

A review of the PHAs process for awarding contracts for legal and accounting services showed that it bypassed the Federal procurement regulations. Rather than prepare Request For Proposals (RFPs) for the services and solicit responses in order to achieve open and free competition, the PHA simply prepared Board Resolutions during the past two fiscal years that awarded the contracts to firms that were previously under contract. The PHA elected not to follow the procurement regulations in awarding the contracts because the firms previously under contract were already familiar with the PHAs operations and would provide for a smooth continuation of the services. Accordingly, the PHA failed to promote full and open competition when conducting the transactions for the services and has inadequate assurance that either the costs or the services represent those that could be best attained.

Criteria

Since the services involved represent legal and accounting services, the procurement requirements pertaining to competitive proposals would apply. Regarding competitive proposals, Section 85.36 (d)(3) of the CFRs stipulates that:

The technique of competitive proposals is conducted with more than one source submitting an offer, and either a fixed price or cost-reimbursement type contract is awarded.

RFPs will be solicited from an adequate number of qualified sources.

Grantees and subgrantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees.

Awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered.

Section 85.36 (c) (3) of the CFRs provides that procedures for procurement transactions incorporate a clear and accurate description of the technical requirements for the material, product, or serviced to be procured. The intent of the regulation is to promote full and open competition when conducting procurement transactions.

Documentation Deficiencies

Certain deficiencies were noted in connection with the paid vouchers and invoices submitted for both legal and fee accounting services. The deficiencies included invoices that did not identify what services were provided. The contract for legal services identifies nine types of services to be provided; yet the invoices submitted for payment merely state: Professional services rendered pursuant to contract. In fact, in one instance, payment was made without an invoice available. Moreover, in each instance where invoices were submitted, we found that the invoices had been submitted and paid prior to the end of the period billed. For example, the invoice for legal services for March 1999 was dated March 1, 1999 and was paid March 19, 1999. Similarly, the contract for fee accounting identifies eight types of services to be provided; yet the invoices submitted for payment state: Monthly bookkeeping. In two instances, payment was made without a supporting invoice. In each instance where invoices were submitted we found that the payment voucher was dated prior to the date of the invoice.

For example, the invoice for bookkeeping services for June and July 1998 is dated August 26, 1998 even though the payments were made on June 26 and July 31, 1998 respectively. This clearly indicates that payments are made prior to obtaining the necessary invoices. Finally, we found that the PHA inserts incorrect dates in the date of invoice column on the payment voucher. For the payments cited above, the vouchers show the date of invoice as June 1 and July 1, 1998, whereas the actual invoice submitted for both payments is dated August 26, 1998.

Chapter II of the Public and Indian Low-Rent Housing Technical Accounting Guide 7510.1 stipulates that the PHA must maintain source documentation and files that support the financial transactions recorded in the books of account, and that provide an adequate audit trail. This includes such items as documents identifying the source of cash receipts, canceled checks, and paid bills. In addition, Section 2, Part A of the ACC provides that operating expenditures shall mean all costs incurred by the PHA for administration, maintenance, and other costs and charges that are necessary for the operation of the project.

Since payments were made for legal and accounting costs without the PHA following the Federal procurement regulations and since the payments contained various documentation deficiencies, the cost incurred may not represent necessary or reasonable operating expenditures. Therefore, the amount paid during the audit period of \$15,993.60 is considered unsupported.

A breakdown of the unsupported amount is as follows:

Legal costs charged the Federal programs from April 1997 through March 1999	\$ 5,997.60
Fee accounting costs charged the Federal programs from April 1997 through March 1999	<u>9,996.00</u>
Total	\$15,993.60 =====

Recommendations

We recommend that you require the PHA to:

- 4A. Adopt necessary controls to ensure compliance with Federal procurement regulations.
- 4B. Establish procedures that will ensure that adequate documentation for services rendered is obtained prior to payment.
- 4C. Provide justification for the unsupported costs so an eligibility determination can be made.
- 4D. Reimburse, from non-Federal funds, the amount of any unsupported costs determined to be ineligible.

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Ineligible and Unsupported Travel Costs

The PHA does not have adequate control over its travel activities to ensure that travel costs are necessary, reasonable and adequately supported, as required. As a result, ineligible and unsupported travel costs of \$658.00 and \$1,090.31 respectively have been incurred. The travel deficiencies are attributed to the PHA's general unfamiliarity with the procedural and documentation requirements.

16 payments were examined

We reviewed 16 payments for out-of-town travel costs incurred during the audit period. Deficiencies were found in all 16 payments reviewed. The deficiencies involve both ineligible and unsupported costs.

The types of ineligible and unsupported travel costs include:

Ineligible and unsupported travel costs

Ineligible travel costs represent various mileage and per diem charges for an individual who is neither an employee nor Commissioner of the PHA. Thus, the individual is an ineligible traveler. Accordingly, the costs do not represent necessary or reasonable costs and are considered ineligible.

Unsupported costs include payments for travel costs where actual costs were claimed but no receipts were provided; the Executive Director claimed all costs for the trip even though there were other travelers, and instances where the amounts claimed exceeded the travel policy limit of \$50 per day for actual expenses.

The ineligible and unsupported costs are further described in Appendix C of this report.

Part A, Section 2 of the ACC defines operating expenditures as those necessary for the operation of the project. In addition, Chapter II of the Public and Indian Housing Low-Rent Technical Accounting Guide 7510.1 stipulates that the PHA must maintain source documents and files that support the financial transactions recorded in the books of account, and that provide an adequate audit trail. This includes such items as documents identifying the source of cash receipts, canceled checks, and paid bills.

Deficient travel policy

The PHA's travel policy allows travelers to be reimbursed on either a per diem or actual expense basis. HUD allows PHAs to adopt which method it chooses for travel reimbursement, in conformity with local requirements, but does not allow the method selected to be alternated. The lack of any specification could allow for the incurrence of costs that may not be necessary or reasonable.

Part A, Section 15 of the ACC provides that the PHA must maintain complete and accurate books of account for the projects in such a manner as to permit the preparation of statements and reports in accordance with HUD requirements, and to permit a timely and effective audit.

We believe that the PHA needs to amend its travel policy to stipulate whether travel costs will be reimbursed on either a per diem or actual basis. Such stipulation should conform with local public practice requirements. Procedures should also be implemented to ensure that documentation is obtained to support costs prior to reimbursement. Unless the policy and documentation controls are implemented, deficiencies similar to those cited above will continue.

Recommendations

We recommend that you require the PHA to:

- 5A. Reimburse from non-Federal funds, the amount of the ineligible costs.
- 5B. Provide additional documentation for the unsupported costs so that an eligibility determination can be made.
- 5C. Reimburse from non-Federal funds, the amount of any unsupported costs determined to be ineligible.
- 5D. Amend its travel policy to stipulate whether travel costs will be reimbursed on a per diem or actual cost basis.
- 5E. Implement procedures to ensure that documentation is obtained to support all costs prior to reimbursement.

Need to Strengthen Administrative and Accounting Controls

Our review showed various deficiencies involving administrative and accounting controls and procedures that have weakened the PHA's system of internal control. The deficiencies occurred because procedures were not implemented to ensure that adequate administrative and accounting controls were in place to meet program requirements. As a result, the PHA does not have adequate assurance that funds are properly safeguarded against waste and loss and that its housing programs are administered in accordance with Federal regulations and requirements.

Administrative and accounting control deficiencies

The following items should not be considered to be all inclusive; rather, they represent only those deficiencies that were identified as a result of our review.

- a. Sales tax was paid on some of the vouchers reviewed even though the PHA is a tax -exempt organization. An example of a voucher on which sales tax was paid is:

Voucher	Date	Amount of Sales
<u>No.</u>	<u>Date</u>	<u>Tax Paid</u>
20556	12/25/98	\$37.25

- b. Deficiencies related to the purchasing of goods or services include the lack of:
1. Purchase Orders.
 2. Adequate documentation to support cost.
 3. A breakdown of the cost on supporting documentation.
- c. In instances where Purchase Orders were prepared, they were authorized and classified by the person signing the check. In one instance, the Purchase Order was even requisitioned by the same person and in another instance, the Purchase Order had not been authorized.
- d. Various instances were noted where charges were not pro-rated to the State program and no explanation was

provided. Examples include Voucher Nos. 17208, 17915, 19019, 19936, 20005 and 20556.

- e. Two instances were noted where travel costs were paid for a consultant who is an ineligible traveler.
- f. In those instances where more than one employee made the same trip, the meal costs of all travelers were claimed by one employee even though receipts were not provided.
- g. Certain instances were noted where travel vouchers were either not signed or were not approved.
- h. The PHA repeatedly paid for legal services prior to the end of the period billed. For example, the invoice for services for March 1999 was dated March 1, 1999 and was paid March 19, 1999.
- i. Payments were consistently made for fee accounting services prior to the dates shown on the invoices. For example, the invoice for services for June and July 1998 is dated August 26, 1998 even though the payments were made on June 26 and July 31, 1998 respectively.
- j. Numerous instances were noted where an incorrect date of invoice was shown on the accounts payable voucher. For example, the accounts payable voucher for the October 1998 payment for fee accounting services shows a date of invoice of October 1, 1998 whereas the actual invoice is dated November 30, 1998.

Criteria

Title 24 CFR, Part 85.20, Standards for Financial Management Systems, requires that effective controls and accountability must be maintained for all assets and that the assets be safeguarded. In addition, Section 15(A) of the ACC provides that, the PHA must maintain complete and accurate books of account to permit a timely and effective audit. The above deficiencies have precluded the PHA from complying with the requirements cited. Unless corrective actions are implemented, deficiencies similar to those described above will recur.

Recommendations

We recommend that you require the PHA to:

- 6A. Implement controls to ensure that invoices containing ineligible sales taxes are not processed for payment.
- 6B. Institute controls over purchasing and the payment for goods or services to ensure that:
 - 1. Purchase Orders are prepared.
 - 2. Adequate supporting documentation is obtained prior to payment.
 - 3. Documentation obtained provides a breakdown of the cost.
- 6C. Provide adequate segregation of duties among employees by ensure that Purchase Orders are not requisitioned, authorized and classified by the person signing the check.
- 6D. Establish procedures that will assure that all common costs are properly pro-rated among programs.
- 6E. Adopt controls that will prohibit travel costs from being incurred for ineligible travelers.
- 6F. Institute controls that will assure that each traveler prepare a travel voucher, supported by receipts where required, for costs associated with their travel.
- 6G. Implement controls to ensure that all travel vouchers are signed and approved.
- 6H. Establish procedures that will ensure that the period covered by the services has elapsed prior to payment.
- 6I. Institute controls to ensure that invoices are obtained prior to payment.
- 6J. Adopt controls that will assure that accounts payable vouchers show the correct date of the invoice.

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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 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 determine the following management controls were relevant to our audit objectives:

- Program Operations - Policies and procedures that management has implemented or reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weaknesses

Based on our review, we believe that significant weakness exist in the following areas:

Compliance with Laws and Regulations

The PHA paid bonuses to its administrative personnel that were not in accordance with HUD requirements (Finding 1).

The PHA did not comply with Federal procurement regulations for competitive proposals and for small purchases (Finding 2).

HUD regulations were not followed by the PHA in awarding contracts for legal services and for accounting services (Finding 4).

Safeguarding Resources

Ineligible and unsupported costs were incurred because the PHA did not maintain adequate control over costs charged the Federal program (Finding 3).

The PHA did not have adequate control over its travel activities to ensure that travel costs were necessary, reasonable and adequately supported (Finding 5).

The PHA needs to strengthen the controls over its administrative and accounting procedures (Finding 6).

Follow Up On Prior Audits

A prior audit of the PHA was performed by an Independent Public Accountant (IPA) for the 12 month period ended March 31, 1998. The report does not contain any findings.

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Schedule Of Ineligible and Questioned Costs

<u>Recommendation Number</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1		\$ 62,000.00
2		30,907.18
3	\$443.85	15,518.10
4		15,993.60
5	<u>658.00</u>	<u>1,090.31</u>
Total	<u>\$1,101.85</u>	<u>\$125,509.19</u>

1/ Ineligible costs are costs charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

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Schedule of Ineligible and Unsupported Costs

Date Paid	Voucher Number	Description	Amount Unsupported	Amount Ineligible	Notes
12/27/96	17208	Workshop meeting	\$468.55	\$82.30	1,2,3,4
04/04/97	17689	Office Rent	666.40		2,5
04/04/97	17704	Section 8 workshop for employees	96.30		2,4,6
05/02/97	17830	NBA08902H597	1,302.08		7
05/16/97	17915	Repair apple computer	75.00		2,3,6
05/30/97	17950	4,000 copies and 1,000 housing brochures	279.75		2
06/13/97	18044	Clean sewer line at Cronin high-rise	125.00		2,6
06/13/97	18051	Hardware materials and supplies	348.82		8
06/20/97	18070	Paint supplies	560.14		8
07/11/97	18186	Annual meeting install officers	4,014.56		9,10
09/05/97	18440	Central NY Housing Authorities meeting	39.98		11
09/05/97	18442	Gasoline	78.86		12
10/24/97	18692	1 day seminar HUD-50058	190.00		11
12/26/97	19019	Workshop meeting	538.00	158.05	2,3,4,13
02/06/98	19209	Clean sewer lines at Earl Towers and Cronin high-rise	300.00		2,6
03/13/98	19387	Install water pressure pump at Cronin high-rise	1,058.39		2
03/27/98	19428	Central NY Housing Authorities meeting	24.99		11
06/12/98	19750	3 picnic tables	300.00		14
07/17/98	19876	Annual meeting install officers and meeting landlords	3,453.28		9
08/07/98	19936	1,000 copies	50.00		2,3
08/07/98	19951	8 resin chairs	51.92		14
08/07/98	19952	Pager charges	51.05		3
08/21/98	20005	Beer ball and sodas	19.17	42.25	2,3,15
08/28/98	20020	Central NY Housing Authorities meeting	49.98		11
10/02/98	20176	2 calculators	263.62		16
11/06/98	20326	BUCS81524	35.61		2,17
12/25/98	20556	Workshop meeting	505.10	161.25	2,3,4,18
01/22/99	20685	5,000 rent statements	509.08		2
02/19/99	20801	Central NY Housing Authorities meeting	<u>62.47</u>		11
TOTAL			<u>\$15,518.10</u>	<u>\$443.85</u>	

Notes

- 1 Alcoholic beverages and sales tax totalling \$82.30 are not eligible costs
- 2 No purchase order was prepared
- 3 Cost was not pro-rated to the State program.
- 4 There is no documentation as to who attended the meeting.
- 5 There is no explanation how the rent amount was determined.
- 6 Documentation available does not provide a breakdown of the cost.
- 7 There is no billing or invoice to support the cost.
- 8 Federal program was charged without documentation to support the classification
- 9 Cost is questioned as to being necessary and reasonable.
- 10 There is no billing to support \$1,809.11 of the cost.
- 11 Documentation does not show what employees, if any, attended the meeting.
- 12 There is no written agreement to purchase gas from the City.
- 13 Alcoholic beverages and sales tax totaling \$158.05 are not eligible costs.
- 14 Federal program was charged but items were delivered to State project.
- 15 Alcoholic beverage amounting to \$42.25 is not an eligible cost.
- 16 Executive Director made the requisition; authorized the purchase order; classified the costs and signed the check
- 17 Documentation available does not describe the goods or services purchased
- 18 Alcoholic beverages and sales tax totaling \$161.25 are not eligible costs.

Schedule of Ineligible and Unsupported Travel Costs

Date Paid	Voucher Number	Description	Amount Unsupported	Amount Ineligible	Notes
12/20/96	17177	3 Dinners @ \$25 at meeting of Central NY Housing Authorities in Albany, NY on 12/17/96	\$62.47		1
12/27/96	17216	Mileage and per diem for 5 round trips from Herkimer to Glens Falls, NY		\$470.00	2
01/31/97	17387	Mileage and per diem for 2 round trips from Herkimer to Glens Falls, NY		188.00	2
05/09/97	17859	Meals costs to attend HUD telecast in Albany, NY on 5/1/97	73.25		3,4
05/23/97	17928	Meals costs and tolls for trip to HUD - Buffalo, NY on PHMAP	111.90		3
		Meal costs for trip to Catskill, NY on 5/21/97	36.86		3
06/13/97	18041	Meal costs for trip to Catskill, NY on 06/11/97	73.25		3,4
08/22/97	18383	Meal costs for trip to Herkimer, NY on 8/20/97	105.29		3,5
12/12/97	18953	Meal costs for trip to Herkimer, NY on 12/9/97	153.55		3,5
12/19/97	18987	Meal costs and tolls for trip to Catskill, NY on 12/15/97	57.40		3,6
02/20/98	19293	Meal costs for trip to Mechanicville, NY on 02/11/98	52.27		3,4
03/20/98	19407	Meal costs for trip to Catskill, NY on 3/9/98	45.19		3,7
04/17/98	19512	Meal costs and tolls for trip to Hudson, NY on 4/14/98	81.09		3,4
08/21/98	19995	Meal costs for trip to Albany, NY on 08/19/98	43.32		3,7
09/18/98	20118	Meal costs for trip to Albany, NY on 09/14/98	44.15		3,7
11/20/98	20393	Meal costs for trip to Albany, NY on 11/16/98	107.71		3,5
11/27/98	20420	Meal costs for trip to Herkimer, NY on 11/23/98	<u>42.61</u>		3
		TOTAL	<u>\$1,090.31</u>	<u>\$658.00</u>	

Notes

- 1 Payment does not identify who, if any, attended the meeting.
- 2 Payee is neither an employee nor Commissioner of the PHA and is therefore an ineligible traveler.
- 3 Actual costs were claimed but no receipts were provided.
- 4 Executive Director claimed all costs even though there was another traveler.
- 5 Executive Director claimed all costs even though there were other travelers.
- 6 Amount claimed exceeds, travel policy limit of \$50 per day for actual expenses.
- 7 Including State costs, the amount claimed exceeds travel policy limit of \$50

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Auditee Comments

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