



Issue Date	December 30, 1999
Audit Case Number	00-NY-209-1003

TO: Carmen Valenti, Director, Office of Public Housing, 2FPH

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

SUBJECT: Housing Authority of Plainfield
Low-Rent Housing Program
Plainfield, New Jersey

We completed an audit of the Housing Authority of Plainfield (PHA) pertaining to its Federal Low-Rent Housing (LRH) Program. The audit was conducted on the PHA's operations based on your request. The survey and audit work show that the PHA needs to strengthen its cash management practices, procurement activities, and management of personnel. Moreover, the PHA needs to increase assurance that its programs are operated in a way that achieves full compliance with the terms and conditions of the Annual Contributions Contract (ACC) and other applicable U.S. Department of Housing and Urban Development (HUD) regulations and requirements.

Within 60 days, please provide 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 the audit.

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

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Executive Summary

At the request of the New Jersey State Office, we performed an audit of the Housing Authority of Plainfield, New Jersey (herein referred to as the PHA) pertaining to its Federal Low-Rent Housing (LRH) Program. The primary objectives of the audit were to determine the validity and necessity of a loan made by a non-profit entity to the PHA; to determine if the PHA selected the most qualified contractors at the best available price; to determine if the PHA followed its established policies for personnel issues and travel expenditures; and to determine if LRH funds were used only for reasonable and necessary expenditures.

Our review showed that the PHA is generally providing decent, safe, and sanitary housing to its tenants. However, the PHA should enhance the effectiveness of its operations by improving its cash management practices and strengthening controls over cash disbursements, travel and related costs, and the procurement of contract services.

Summary of findings

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

1) The PHA needs to improve its cash management practices

The HUD New Jersey State Office asked that we determine the validity and necessity of a \$315,000 loan made in 1995 by a non-profit entity to the PHA. Our review disclosed that the PHA routinely transferred Low Rent Housing (LRH) funds to its other PHA programs essentially to pay salary costs. Consequently, the PHA borrowed \$315,000 from a non-profit entity to pay the LRH program obligations. As the other PHA programs reimbursed the LRH program, the PHA used the funds to pay subsequent salary costs. In short, over the years the PHA used the proceeds of the \$315,000 loan as working capital. As of December 31, 1998, the loan was still recorded on the PHA's books as an outstanding loan.

2) The PHA did not always follow HUD requirements when purchasing goods and services

The PHA could not assure that it always selected the most qualified contractors and paid the best available price when procuring goods and services. This occurred because the PHA did not always follow the Federal requirements found in Title 24 Code of Federal Regulations (CFR) Part 85.36. As a result,

the PHA incurred costs of \$50,167 that we consider as unsupported costs.

3) The PHA did not always follow its personnel policy regarding hiring and salary costs

Contrary to its personnel policy, the PHA did not always follow its requirements regarding hiring personnel and salary costs for certain personnel. We attribute the cause of this deficiency to the PHA's disregard of its personnel policy. As a result, the PHA can not assure that its operation is being run in the most economic and efficient manner.

4) The PHA incurred unsupported travel costs

The PHA incurred unsupported travel costs. This occurred because the PHA did not comply with its own travel policy and Federal requirements. As a result, we consider \$66,927.91 as unsupported costs.

5) The PHA incurred ineligible costs

Contrary to Federal requirements the PHA incurred ineligible costs for such items as flowers, fruit baskets, and catering services. This occurred because PHA management did not comply with Federal requirements. As a result, we consider \$8,683.14 as ineligible costs.

Recommendations

As part of each finding, we recommend certain actions which we believe will correct the problems discussed in the findings and strengthen the PHA's overall administration of its LRH program.

Exit Conference

The results of the audit were discussed with PHA Officials during the audit and at an exit conference held on November 22, 1999 attended by:

PHA Officials

Carolyn Reese, Executive Director
Flor Gonzalez, Chair, Board of Commissioners
Charles F. Booker, Commissioner

Joanne Hollis, Commissioner
Barbara Johnson, Commissioner
Harold Mitchell, Commissioner
Charles Talley, Jr., Commissioner

HUD-New Jersey State Office

Florence Claggion, Supervisor, Office of Public Housing
Cephas Ward, Financial Analyst, Office of Public Housing

HUD-Office of Inspector General

William H. Rooney, Assistant District Inspector General
Nancy McLees, Senior Auditor
Diego Ramos, Auditor
Sheila Murray, Financial and Program Evaluator

The Auditee's comments are included as Appendix D to this report. In addition, the comments have been summarized and provided after each finding in the report. Where appropriate, we have prepared an evaluation of the Auditee's comments.

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Abbreviations

A&E	Architecture and Engineering
ACC	Annual Contributions Contract
CFR	Code of Federal Regulations
CGP	Comprehensive Grant Program
HUD	U.S. Department of Housing and Urban Development
LRH	Low-Rent Housing
NJAC	New Jersey Administrative Code
OIG	Office of Inspector General
OMB	Office of Management and Budget
PH&DA	Plainfield Housing and Development Association
PHA	Public Housing Authority
PHMAP	Public Housing Management Assessment Program

Introduction

The Housing Authority of Plainfield, New Jersey (PHA) is a public entity organized under the laws of the State of New Jersey to provide housing for eligible low and moderate income families in accordance with the rules and regulations prescribed by HUD. The PHA was created by ordinance of the City of Plainfield, New Jersey.

The PHA operates three projects containing 469 federally assisted units. The PHA is authorized to administer over 540 Section 8 Certificates, Section 8 vouchers, and Section 8 Rehabilitation units. Also, the PHA receives a fee for managing two privately owned projects. The PHA is governed by a Board of Commissioners consisting of seven members; five are appointed by the City Council of Plainfield, one member is appointed by the Mayor and one member is appointed by the Governor. The Executive Director, Carolyn Reese, is responsible for the day-to-day operations of the PHA. The PHA offices are located at 510 East Front Street, Plainfield, New Jersey.

Audit Objectives

The primary objectives of the audit were to determine the validity and necessity of a loan made by a non-profit entity to the PHA; to determine if the PHA selected the most qualified contractors at the best available price; to determine if the PHA followed its established policies for personnel issues and travel expenditures; and to determine if LRH funds were used only for reasonable and necessary expenditures. We conducted this review at the request of the New Jersey State Office.

Scope and Methodology

Audit procedures included interviews of members of the PHA's staff and an examination of the PHA's records and files. In addition, we reviewed the PHA's policies, procedures and practices for managing its operations. Detailed audit testing was performed on judgmentally selected samples representative of the transactions in the areas reviewed, and on specific areas of concern selected by the State Office.

To determine the validity and necessity of a loan made by a non-profit entity to the PHA, we examined PH&DA books and records, current correspondence, and reconciled the Section 8 receipts and expenditures for the period January 1, 1995 to December 31, 1998.

To determine if the PHA selected the most qualified contractors at the best available price, we examined contract files for five

procurements that we selected based on our review of the Board of Director minutes and in some instances specific contracts that the HUD New Jersey State Office requested that we review. Our selection of contracts only included those with suspected deficiencies. Our review included an examination to determine whether the appropriate method of procurement was used, if the lowest price from the most qualified contractor was obtained, and if contract payments were made in accordance with the requirements.

To determine if the PHA followed its established policies for personnel issues, we examined payroll records, New Jersey Civil Service Law, PHA and city wage rate tables, minutes from the Board of Commissioners' meetings, and specific personnel files. Our review covered the period from January 1996 through August 1999.

To determine if the PHA followed its established policies for travel expenditures we selected a judgmental sample of travel costs incurred from January 1997 to December 1998. We examined checks, vouchers, vendor invoices, and Board resolutions related to the selected travel costs.

Finally, to determine if LRH funds were used only for reasonable and necessary expenditures, we selected a judgmental sample of miscellaneous costs for the period January 1, 1997 through December 31, 1998. We examined checks, vouchers, vendor invoices, contracts, and Board resolutions supporting the transactions selected.

Audit Period

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

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

A copy of this report was provided to the PHA.

The PHA Needs to Improve Its Cash Management Practices

The HUD New Jersey State Office asked that we determine the validity and necessity of a \$315,000 loan made in 1995 by a non-profit entity to the PHA. Our review disclosed that the PHA routinely transferred Low Rent Housing (LRH) funds to its other PHA programs essentially to pay salary costs. Consequently, the PHA borrowed \$315,000 from a non-profit entity to pay the LRH program obligations. As the other PHA programs reimbursed the LRH program, the PHA used the funds to pay subsequent salary costs. In short, over the years the PHA used the proceeds of the \$315,000 loan as working capital. As of December 31, 1998, the loan was still recorded on the PHA's books as an outstanding loan.

Accountability should be maintained for assets

Title 24 Code of Federal Regulations (CFR) Part 85.20 (b)(3) states that effective control and accountability must be maintained for all cash, real and personal property and other assets. PHAs must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

The Plainfield Housing and Development Association (PH&DA), a non-profit entity controlled by the PHA, in 1995 loaned the PHA \$315,000. The PH&DA generated its revenue from consulting fees pertaining to financial related services that it provided during the refinancing of a Section 8 assisted project. The HUD New Jersey State Office asked that the Office of Inspector General (OIG) determine the validity and necessity of the PH&DA's loan to the PHA. In addition, the Board of Directors filed a law suit effectively stating that PH&DA made the loan to the PHA without the Board's approval. Subsequently, it was agreed that the PHA would provide \$315,000 to another independent non-profit entity to be used for the development of low income housing. Our audit objective was to determine the facts surrounding the necessity of the loan.

LRH program was not reimbursed timely

The PHA administers the following HUD programs: LRH, Section 8 Existing, Section 8 Voucher and Section 8 Moderate Rehabilitation. In addition, the PHA manages two Section 8 assisted projects that were financed through the PHA (Section

11b projects). Rather than have separate payrolls, the PHA used one payroll and created a revolving fund to pay salary costs. Biweekly, the PHA allocated salary costs among the programs. Each month funds were to be transferred from the various programs and Section 8 projects into the revolving fund bank account to pay salary costs. Our review disclosed that the PHA did not always collect the funds that were due the revolving fund in a reasonable time period. For example, salary costs were paid at the end of each biweekly pay period; however, salary costs were not requested from the two Section 8 projects managed by the PHA until the beginning of the following month. In the interim, the PHA transferred LRH funds to the revolving fund so that salaries could be paid.

Section 8 was under funded in 1995

In addition, in 1995, the PHA did not request from HUD a sufficient amount of Section 8 Existing subsidy; therefore, the program was under funded and HUD did not forward the additional subsidy to the PHA until 1997. Also, in 1996, HUD did not always send the PHA its Section 8 Moderate Rehabilitation funds in a timely manner. Because the Section 8 Existing and Section 8 Moderate Rehabilitation funds were not available, the PHA had to transfer LRH funds to the revolving fund so that salary costs could be paid. As these other programs reimbursed the revolving fund, such funds were used to pay subsequent salary costs. In short, the PHA used the \$315,000 loan from the non-profit entity as working capital.

LRH should be reimbursed immediately

As of December 31, 1998, our review disclosed that PHA had sufficient funds available to repay the outstanding \$315,000 loan. Furthermore, we suggest that the PHA require the revolving fund to be immediately reimbursed by the other PHA programs, so that it is not necessary to transfer LRH funds to the revolving fund to pay salary costs. Also, we suggest the PHA use the operating reserves of some of the other PHA programs as working capital to fund any unavoidable temporary shortfalls in the revolving fund.

Auditee Comments

The PHA objected to including this issue as a finding and stated that our objective should have been to determine the legality of the loan. The PHA agrees to reimburse the revolving fund and

to use reserves from other programs to avoid shortfalls in the future. (See Appendix D)

OIG Evaluation of
Auditee Comments

Regarding the legality of the loan, at the beginning of our review we were told that the Board had not approved the loan. Therefore, our objective was to determine the validity and necessity of the loan. The finding identifies the reason for the loan and the recommendation that it be repaid.

Recommendations

- 1A. Follow up with the PHA to ensure that as soon as possible the \$315,000 is given to the independent non-profit entity for development of low income housing.
- 1B. Direct the PHA to ensure that the revolving fund is immediately reimbursed.
- 1C. Suggest to the PHA that it use the operating reserve from some of the other PHA programs as working capital to fund any temporary unavoidable shortfalls in the revolving fund.

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The PHA Did Not Always Follow HUD Requirements When Purchasing Goods and Services

The PHA could not assure that it always selected the most qualified contractors and paid the best available price when procuring goods and services. This occurred because the PHA did not always follow the Federal requirements found in Title 24 CFR Part 85.36. As a result, the PHA incurred costs of \$50,167 that we consider as unsupported costs.

We examined contract files for five procurements that we selected based on our review of the Board of Director minutes and in some instances specific contracts that the HUD New Jersey State Office requested that we review. We found problems with four of the five contracts that we selected. We should mention that our selection of contracts only included those with suspected deficiencies. Our review included an examination to determine whether the appropriate method of procurement was used, if the lowest price from the most qualified contractor was obtained, and if contract payments were made in accordance with the requirements.

Procurement of technical management services was improper

The first procurement contract that we reviewed pertained to technical management of Comprehensive Grant Program (CGP) activities at various PHA projects. The HUD New Jersey State Office asked that we review this contract. Our review disclosed a number of deficiencies.

- The contractor selected received the lowest rating of five proposals selected for evaluation.
- The PHA did not include price as one of the criteria for selection as required by Title 24 CFR Part 85.36 (d)(3)(1v). Three proposals had lower prices than the one selected.
- The PHA initially awarded the contract without a maximum contract amount contrary to Title 24 CFR Part 85.36 (b)(10)(ii). One year into the contract, the HUD New Jersey State Office directed the PHA to establish a maximum contract amount. Therefore, the PHA set \$82,242.83 as the contract ceiling.

- Our review disclosed that, the PHA paid the contractor \$29,339 more than the maximum contract amount. As a result, we are questioning this amount as unsupported costs.
- In addition, we observed that the PHA requested and received from HUD CGP funds \$6,222 more than the amount it paid the contractor. Accordingly, this amount should be returned to the CGP.

Engineering services were not awarded to most qualified firm

The second contract that we reviewed pertained to engineering services regarding replacement of emergency generators. The HUD New Jersey State Office also asked us to review this contract. Our review disclosed the following deficiencies.

- The PHA selection committee's evaluation of the various proposals submitted to the PHA varied significantly, and the actual proposals were not in the files; therefore, we could not determine if the evaluations were logical or not. Nonetheless, the PHA did not select the contractor that had the highest rating.
- The PHA negotiated the contract amount with the contractor and awarded a contract at \$29,360. The contractor was paid \$33,828 and submitted invoices for a higher amount; however, the PHA refused to pay any additional amounts.
- Prior to the award of the contract, the PHA obtained several cost estimates including one from the contractor selected regarding the cost of the engineering services needed to install emergency generators. These cost estimates ranged from \$11,000 up to \$13,000. Since several proposals were also in this price range, we are questioning \$20,828. This is the difference between the amount that the PHA paid the contractor over and above the contractor's original cost estimate, (\$33,828 minus \$13,000).

Roofing firm may have been unfairly disqualified

The third contract that we reviewed pertained to roof replacements. Our review disclosed the following deficiencies.

- The PHA selected the proposal from the third lowest bidder. The proposals from the two lower bidders were

rejected by the PHA's Architect because the bidders did not have five years of experience. We believe the rejection of the proposal from the lowest bidder was justified because the bidder did not have experience with the roofing product that was to be used. However, we question the Architect's rejection of the proposal from the second lowest bidder. Since the product manufacturer certified this contractor as capable of installing the roof, we believe that requiring five years experience was unnecessary; therefore, prohibited by Title 24 CFR Part 85.36 (c)(1).

- Nonetheless, the contract was awarded to the third lowest bidder. However, the contractor subsequently provided a letter declining to sign the contract. Therefore, the PHA would have been entitled to retain the bid bond proceeds intended to cover additional costs incurred when re-bidding the contract. However, the PHA returned the bond, worth \$30,800, to the contractor because the PHA was not aware that it was entitled to the proceeds.

Fire alarm servicing contracts did not include maximum contract amount

The fourth procurement contract that we reviewed pertained to fire alarm servicing. The following deficiency was noted.

- The PHA awarded this contract without a maximum contract amount as required by Title 24 CFR Part 85.36 (b)(10)(ii). Furthermore, the HUD New Jersey State Office previously instructed the PHA to include a maximum amount when it awarded contracts. Our review disclosed that the PHA simply did not comply with HUD's instructions.

We believe that the PHA's non-compliance with the procurement requirements resulted in losses to the CGP amounting to \$50,167. This includes overpayments of \$29,339 pertaining to a technical management contract and \$20,828 pertaining to excessive engineering costs. In addition, the PHA lost \$30,800 in revenue when it failed to collect the bid bond proceeds when a contractor did not enter into a contract.

Auditee Comments

The PHA objected to including these issues in our finding. (See Appendix D) According to the Executive Director the original

proposal for Construction Management did not include Architecture and Engineering (A & E) services and that HUD required the A& E; therefore, HUD caused the PHA additional costs. The Executive Director stated that the PHA had no basis to determine a reasonable maximum contract limit for fire alarm services. Finally, according to the Executive Director the emergency generator contract required a change order and that the PHA reserves the right to return bonds without collecting the proceeds.

OIG Evaluation of
Auditee Comments

All of the responses to the request for proposals for Construction Management were from A & E firms except the one which was awarded the contract. Also, several of those proposals from these A&E's were at a lower costs. Therefore, in our opinion, the additional costs were not justified. Regarding the fire alarm service contract, the CFRs require the PHA to insure that contractors include a maximum amount with their bids. Regarding the emergency generator contract, a change order should not have been necessary because the work was required by local code and should have been included in the original contract. Finally, the PHA must operate in an economical and efficient manner. To return a bid bond to a contractor when the PHA is entitled to retain the bond does not make sense.

Recommendations

We recommend that you require the PHA to:

- 2A. Comply with all of the procurement requirements mentioned in Title 24 CFR Part 85.36.
- 2B. Provide justification for the unsupported costs so that an eligibility determination can be made.
- 2C. Reimburse from non-Federal funds the amount of any unnecessary costs determined to be ineligible.
- 2D. Reimburse the CGP \$6,222. This is the amount that the PHA drew down from HUD in excess of the

payments it made to the technical management contractor.

- 2E. Keep any bid bond proceeds when a contractor does not enter into a contract within 60 days of an award.

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The PHA Did Not Always Follow Its Personnel Policy Regarding Hiring and Salary Costs

Contrary to its personnel policy, the PHA did not always follow its requirements regarding hiring personnel and salary costs for certain personnel. We attribute the cause of this deficiency to the PHA's disregard of its personnel policy. As a result, the PHA can not assure that its operation is being run in the most economic and efficient manner.

Personnel policy requires adherence to State Civil Service rules

The PHA's personnel policy states that the PHA shall appoint, transfer, demote and separate personnel in accordance with the New Jersey Civil Service rules and regulations. Regarding hiring, the New Jersey Civil Service Law paragraphs 11A:4-1 through 11A:4-16 describe the hiring process and provide, in part that, potential employees take an examination for each position available, and only the top three persons are certified as eligible.

Employees hired prior to Civil Service Certification

Our review disclosed that several maintenance workers and administrative employees did not take the Civil Service examination until after they were hired. In all of the cases, except for one administrative worker, the employees scored well enough on the examination to be hired. Regarding the one administrative employee, this employee did not score as high as other individuals that were not on the PHA payroll. Yet, the PHA continued to employ this administrative employee.

Executive Director has not been certified by State

New Jersey Law "Redevelopment and Housing Law N.J.A.C. 40A:12A-18 provides that Executive Directors must attain a degree in public administration, social science or other appropriate program as the educational requirement for such position. This law was passed in part as a result of a Strike Force Report by the U.S. Department of Housing and Urban Development which found significant problems of fraud and mismanagement at eleven New Jersey Housing Authorities.

Our review disclosed that the Executive Director, who was previously the Assistant Executive Director and a certified

housing manager was appointed as the Executive Director. However, the Executive Director's college degree was in English. The New Jersey Civil Service Department determined that the Executive Director's degree in English is not appropriate educational experience. The Executive Director appealed the decision and there has not been a final ruling at the completion of our audit field work.

Not all salaries were within prescribed limits

The PHA's personnel policy provides that salaries of all personnel are to be determined based upon local public practice, State and Federal Regulations. The PHA uses the City of Plainfield, New Jersey (City) salary structure as its basis for the PHA salary rates.

Our review disclosed that not all of the PHA's salaries paid to employees were comparable to the salaries of similarly situated City employees or within the PHA salary structure. For example:

- The Office of Services Manager as a grade 23 was the second highest PHA paid employee at \$65,014 during 1998. The maximum salary limit for this grade was \$57,483. In addition, we were unable to find a similar position at the City. The highest level administrative position at the City was the Confidential Assistant Corporate Counsel with a maximum salary of \$49,909.
- In another situation, we observed that an accounting clerk's salary exceeded both the City's rate and the PHA's rate for the position. The accounting clerk earned \$46,348 in 1998. The maximum salary limit per the City for a similar position was \$31,436. Furthermore, this clerk earned almost \$3,000 more than the accounting supervisor.

One employee received most available overtime

During our review, we also observed another personnel situation that warrants attention. We observed that one maintenance employee received almost all of the available overtime during the first eight months of 1999. Specifically, this individual averaged an additional 16 hours a week amounting to over \$1,100 a month in overtime payments. While there is not a specific HUD regulation that prohibits assigning overtime unequally to employees, in our opinion, it is not a good

management practice in terms of employee morale, unless of course it is simply unavoidable.

Auditee Comments

The Executive Director stated that all employees scored high enough on Civil Service examinations to be hired; that the New Jersey Department of Personnel did not rule on the appropriateness of the Executive Director's degree; that the overtime questioned in the finding was incurred for volunteer weekend work for which there were no other volunteers; and that the employees that OIG consider to have excessive salaries earned the salary through multiple duties. (See Appendix D)

OIG Evaluation of Auditee Comments

Our review disclosed that at least one employee in the accounting department has not been certified by the State of New Jersey. If the employee was certified since the completion of our field work, the PHA should provide the New Jersey State Office with the appropriate documentation. We changed the finding to reflect that the New Jersey Civil Service Department determined that a degree in English was not appropriate. During our review, we received a complaint from one of the employees regarding the overtime issue; therefore, we believe that it is an issue. Finally, New Jersey State Civil Service regulations provide that employees must be paid within the scale of the assigned grades.

Recommendations

We recommend that you:

- 3A: Require the PHA to comply with its Personnel Policy regarding its hiring practices.
- 3B: Direct the PHA to review its employee salary structure to ensure that salaries are comparable to the local public entity as stated in the PHA's personnel policy.
- 3C: Require the PHA to review its overtime practice to ensure that it is either equitable or unavoidable that one employee receives most of the overtime.

PHA Incurred Unsupported Travel Costs

The PHA incurred unsupported travel costs. This occurred because the PHA did not comply with its own travel policy and Federal requirements. As a result, we consider \$66,927.91 as unsupported costs.

Criteria

Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribal Governments establishes principles and standards to provide a uniform approach for determining costs and to promote effective program delivery, efficiency, and better relationships between governmental units and the Federal Government. In accordance with Attachment B of OMB Circular A-87, paragraph 41, Travel Costs; Travel costs are allowable for expenses for transportation, lodging subsistence and related items incurred by employees traveling on official business. Such costs may be charged on an actual costs basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two.

Our review disclosed that the PHA's travel policy provides an allowance for subsistence such as food, taxi fares, telephone calls, and so forth to be paid at a rate not to exceed \$60 per day. It further states that no allowance shall be paid for travel of less than 24 hours unless such travel requires departure prior to 8:00am or return after 6:00pm and exceeds six hours. The allowance of \$60 is to be paid at a rate of one fourth (\$15) for each six hour period or fraction thereof.

Travel policies were not followed

Contrary to the above, the PHA paid travel costs that were not properly supported. This resulted from weaknesses in the controls over travel costs, which include the following:

- PHA officials received full allowances of \$60 per day although pertinent times and dates of travel departures and arrivals were not recorded and documented. Furthermore, the daily allowance was pre-determined and paid in advance based on the number of nights of the expected lodging which is contrary to the PHA's travel policy. The policy provides for the allowance to be computed based on six hour fractions.

- The PHA provided full subsistence allowances and lodging accommodations to PHA officials traveling to the City of Newark, New Jersey which is only 20 miles from the City of Plainfield, New Jersey. We consider this as travel performed within the normal commuting area of the PHA which would be up to 50 miles and completed within the normal work day, as “local travel”. Local travel does not constitute a basis for an allowance.
- The PHA provided prepaid subsistence allowances to PHA officials attending training conferences and seminars although the registration fees for the functions sometimes included meals for the attendees.
- The PHA processed and reimbursed PHA officials travel reimbursements without the proper supporting documentation, such as hotel bills and transportation receipts.
- Although the PHA’s travel policy did not set a limit as to the number of officials that can attend a conference, we observed that the PHA sent as many as seven officials to a conference in San Diego, California. We suggest that the PHA’s travel policy include a limit as to how many officials can attend a conference.
- The travel policy states that official travel inside or outside the local jurisdiction of the PHA must be authorized by the Board of Commissioners or the Chairman. However, we noted that ten out of the thirty-five trips made in 1997 and 1998 were not authorized by the Board of Commissioners or the Chairman.

The unsupported travel costs are further identified in Appendix B of this report. The specific details regarding the unsupported costs are available in our working papers.

Auditee Comments

The PHA agreed to comply with the recommendations. (See Appendix D)

Recommendations

We recommend that you instruct the PHA to:

- 4A. Adopt controls that will ensure that all travel costs are reasonable and properly supported.
- 4B. Provide additional documentation for the unsupported costs so that an eligibility determination can be made.
- 4C. Reimburse from non-Federal funds, the amount of unsupported costs determined to be ineligible.
- 4D. Amend its travel policy and place a limit as to the the number of officials who can attend a conference.

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The PHA Incurred Ineligible Costs

Contrary to Federal requirements the PHA incurred ineligible costs for such items as flowers, fruit baskets, and catering services. This occurred because PHA management did not comply with Federal requirements. As a result, we consider \$8,683.14 as ineligible costs.

Criteria

Office of Management Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribal Governments” establishes principles and standards to provide a uniform approach for determining costs and to promote effective program delivery, efficiency, and better relationships between governmental units and the Federal Government. In accordance with Attachment A of OMB Circular A-87, Standards for Selected Items of Costs, Costs of amusements, social activities, and incidental costs relating thereto, such as meals, beverages, lodgings, rentals, transportation, and gratuities, are unallowable.

LRH program paid for gifts and catering

Contrary to OMB Circular A-87 requirements, the PHA improperly disbursed Federal funds for ineligible items, such as, flowers, fruit baskets and catering services. Specifically, the PHA sent flowers and fruit baskets to commissioners, employees, family and friends. For example, the PHA sent a florist arrangement to a wake in Orlando, Florida. The deceased was the grandson of an individual who was a friend of PHA management. Also the PHA sent flowers to the Executive Director of the Highlands Housing Authority, New Jersey for allowing PHA management to tour the Highland Housing Authority’s facilities.

In addition, the PHA obtained catering services for business meetings, funeral services, ceremonies and job fairs. For example, we observed that the PHA sent food to an employee who was mourning a death.

Payments for such items as flowers, fruit baskets and catering services are ineligible costs when charged to the LRH Program. If the PHA chooses to continue to pay for these items, the PHA

Finding 5

should use its other sources of income, such as the revenue that the PHA generates from managing private projects to pay for these items.

For the details of the costs that we consider ineligible. (See Appendix C)

Auditee Comments

The PHA agreed to develop procedures regarding these types of expenditures and will not charge them to the LRA program. (See appendix D)

Recommendations

We recommend that you require the PHA to:

- 5A. Adopt procedures that ensure that the PHA follows the Federal requirements.

- 5B. Reimburse from non-Federal Funds the amount of ineligible costs.

Management Controls

In planning and performing our audit, we considered the management controls of the PHA to determine our audit procedures and not to provide assurance on management controls. Management controls consists of 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. Management controls also include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

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

- Controls over administration of HUD programs.
- Controls over disbursements and receipts.
- Controls over supporting documentation for costs.
- Controls over procurement and contracting.
- Controls over travel.

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

Management controls are classified into four general groups: (a) controls over program operations, (b) controls over the validity and reliability of data, (c) controls over compliance with laws and regulations, and (d) controls over the safeguarding of resources. When management controls do not provide reasonable assurance applicable to these four groups, a significant weakness exists.

Significant Weaknesses

Our review identified the following significant management control weaknesses:

- Controls over administration of HUD Programs (Finding 3 Program Operations).

- Controls over disbursements (Findings 1 and 5 Safeguarding Assets).
- Controls over travel (Finding 4 Safeguarding Assets)
- Controls over procurement and contracting (Finding 2 Safeguarding Assets) .

Follow-Up On Prior Audits

There are no prior Office of Inspector General audits. The latest audit of the PHA was performed by the Independent Auditors Hymanson, Parnes and Giampaolo for the twelve months ended December 31, 1997. The 1997 audit was completed almost one full year late. The report contained 12 findings. Most of the findings pertained to accounting and documentation deficiencies. Six of the findings were from a prior audit. Generally, the auditors observed that management's books and records were not maintained in accordance with HUD standards. However, the auditors did not note any program compliance deficiencies. The internal and accounting control deficiencies were as follows:

1. Payroll cost allocations were not properly documented.
2. Payment vouchers were not posted to the same accounts as noted.
3. Journal entries were not properly documented.
4. The PHA does not have a formal general ledger system.
5. The PHA does not maintain a fixed asset ledger.
6. There are no written accounting policies and procedures.
7. Accounting records are not maintained in a manner to promote a speedy and effective audit.
8. Financial reports were not prepared and submitted timely.
9. Financial statements had numerous errors and mistakes.
10. Calculations for performance funding system were inaccurate.
11. The PHA could not support the accuracy of data used in PHMAP certifications.
12. Cash in bank was not reflected on financial statements.

Although our review was limited to assessing management controls as they pertain to the objectives of our review, we verified that findings 4, 5, 6, 7, and 8 have not been corrected.

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Schedule Of Ineligible and Unsupported Costs

Finding Number	Ineligible (1)	Unsupported (2)
2		\$50,167
4		\$66,928
5	\$8,683	
Total	\$8,683	\$117,095

- (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 Unsupported Travel Costs

Dates of Travel	Location	Unsupported Travel Costs	Foot Notes
11/18/97 to 11/21/97	Absecon, NJ	\$1,965.28	1,2
3/2/97 to 3/5/97	Alexandria, VA	\$850.60	1,2,3
6/12/97 to 6/13/97	Atlantic City, NJ	\$219.60	1,2
5/15/97 to 5/16/97	Natick, MA	\$906.60	1,2,3
10/21/97 to 10/24/97	Chesapeake, VA	\$1,056.33	1,2,3
6/17/97 to 6/22/97	New Orleans, LA	\$1,481.05	1,2,3
11/13/97 to 11/15/97	Newark, NJ	\$1,086.00	1,2
7/24/97 to 7/27/97	New York, NY	\$875.00	1
1/10/97 to 7/12/97	Phoenix, AZ	\$2,546.10	1,2
7/7/97 to 7/12/97	Pittsburgh, PA	2,244.00	1,2,3
6/19/97 to 6/22/97	Pleasantville, NJ	\$2,185.80	1,2
10/25/97 to 10/30/97	San Diego, CA	\$12,104.62	1,2,3
10/21/97 to 10/24/97	Washington, DC	\$651.12	1,2,3
10/12/97 to 10/19/97	Washington, DC	\$1,392.50	1,2,3
3/19/97 to 3/21/97	Washington, DC	\$3,692.77	1,2,3
4/6/97 to 4/9/97	Wilmington, DE	\$1,626.79	1,2,3
3/22/98 to 3/24/98	Absecon, NJ	\$998.36	1,2
11/17/98 to 11/20/98	Absecon, NJ	\$985.20	1,2
6/4/98 to 6/6/98	Albany, NY	\$467.78	1,2,3
5/19/98 to 5/22/98	Atlanta, GA	\$1,215.00	1,2,3
9/27/98 to 9/29/98	Atlantic City, NJ	\$188.44	1,2,3,
11/18/98 to 11/21/98	Atlantic City, NJ	\$724.10	1,2,3
9/17/98 to 9/20/98	Baltimore, MD	\$947.00	1,2,3
3/8/98 to 3/13/98	Bethesda, MD	\$3,185.30	1,2,3
3/18/98 to 3/22/98	Boston, MA	\$1,678.12	1,2,3
7/30/98 to 8/4/98	Boston, MA	\$2,771.91	1,2,3
12/6/98 to 12/7/98	Lester, PA	\$377.04	1,2
12/7/98 to 12/11/98	Linthicum Hts., MD	\$128.00	1,3
12/10/98 to 12/13/98	Newark, NJ	\$958.40	1,2
5/19/98 to 5/22/98	Ocean City, MD	\$2,397.79	1,2
11/12/98 to 11/13/98	Philadelphia, PA	\$721.34	1,2,3
10/24/98 to 10/28/98	San Antonio, TX	\$10,177.25	1,2,3
5/28/98 to 5/31/98	Tinton Falls, NJ	\$2,508.48	1,2
3/18/98 to 3/22/98	Washington, DC	\$1,374.24	1,2,3
9/17/98 to 9/20/98	Washington, DC	\$240.00	1
	Total	\$66,927.91	

Footnotes

1. Travel costs include per diem that should have been prorated, but were not.
2. Travel costs include lodging costs that did not have adequate supporting documentation.
3. Travel costs include transportation costs that did not have adequate supporting documentation.

Schedule of Ineligible Costs

Flowers/fruit			
Check Date	Check	Amount	Description of Cost
02/19/1997	19973	\$755.07	Flowers and fruit baskets for friends, commissioners, and employees.
03/18/1997	20038	\$127.48	Flowers and fruit baskets for friends of management..
04/24/1997	20151	\$127.48	Flowers and fruit basket for friends and commissioners.
05/20/1997	16019	\$76.98	Flowers and fruit basket for employees.
06/26/1997	20334	\$120.97	Flowers and fruit baskets for employees and legal counsel.
08/20/1997	20512	\$81.98	Fruit basket for a friend of management.
10/15/1997	20697	\$67.48	Fruit basket for a friend of management.
11/25/1997	20814	\$126.98	Flowers and fruit basket for friends of management..
01/21/1998	21000	\$137.97	Flowers and fruit baskets for legal counsel and commissioner.
02/19/1998	21116	\$43.49	Floral arrangement for a commissioner.
03/26/1998	21213	\$38.49	Fruit basket for a employee.
04/16/1998	21288	\$92.48	Floral arrangement for a employee and a friend of management.
05/29/1998	21396	\$76.98	Fruit baskets for friends of management.
06/25/1998	21511	\$66.98	Fruit baskets for friends of management.
08/17/1998	21727	\$30.00	Floral arrangement for a friend of management.
11/22/1998	22038	\$114.99	Floral arrangement and fruit baskets for PHA employees and friends.
11/25/1998	22177	\$43.49	Fruit baskets for friends of management.
12/18/1998	22275	\$293.96	Flowers and fruit baskets for friends, commissioners, and employees.
	Subtotal	\$2,423.25	
Catering			
03/18/1997	20025	\$471.50	Catered luncheon for people at Liberty Village.
04/24/1997	20131	\$154.50	Catered buffet for 14 individuals.
06/26/1997	20310	\$96.50	Catered luncheon for 15 people.
07/16/1997	20389	\$212.50	Catered luncheon for 15 people.
08/20/1997	20482	\$112.50	Catered luncheon for an undisclosed amount of people.
09/17/1997	20589	\$398.00	Catered luncheon for employees, commissioners, and residents.
12/17/1997	16518	\$101.00	Catered luncheon for an employees family.
01/21/1998	20974	\$469.00	Catered buffet for 50 people.
02/19/1998	21083	\$602.50	Catering services for employees, commissioners, and residents.
03/26/1998	21186	\$1,203.50	Catered luncheon for a 130 people at Elmwood Gardens.
05/29/1998	21372	\$195.00	Catered luncheon for a 20 people at Liberty Village.
06/25/1998	21476	\$94.00	Catered luncheon for a 10 people at PHA.
07/22/1998	21596	\$178.00	Catered buffet for 75 people at Liberty Village.
09/21/1998	21832	\$106.50	Catered luncheon for 10 people.
11/25/1998	22152	\$96.50	Catered buffet for 20 people.

Appendix C

	Subtotal	\$4,491.50	
Other			
6/26/1997	16106	\$100.00	Contribution to local charity.
08/25/1997	16234	\$675.00	Award dinner for Summer Youth Employment program.
09/17/1997	20593	\$72.00	Cake for employees, commissioners, and residents.
03/25/1998	21137	\$100.00	Deposit for a restaurant reservation.
10/21/1998	21936	\$100.00	Deposit for a restaurant reservation.
10/22/1998	21990	\$721.39	Cost of Christmas Greeting Cards.
	Subtotal	\$1,768.39	
	Total	\$8,683.14	

Auditee Comments

WRITTEN RESPONSES TO INSPECTOR GENERAL'S AUDIT FINDINGS

Carolyn Reese, Executive Director

November 22, 1999

FINDING #1 CASH MANAGEMENT

The problems related to cash management were already in existence before the time frame of this audit and were resolved during it. Therefore, this should not be an audit finding.

The Inspector General's staff states that the objective of the audit was to determine the facts surrounding the *necessity* of the loan referred to in the report. The present administration of the Housing Authority of Plainfield asked the I.G. to determine the *legality* of the loan and subsequently the HAP's obligation to repay the loan since it was never approved by either the non-profits board or the housing authorities board and it will have a negative impact on the authorities programs.

Additionally, no mention was made of the fact that shortfalls should also have been attributed to the fact that portables had been allowed to go uncollected for several years until 1996. As of Dec. 31, 1998, the Housing Authority of Plainfield had collected close to \$900,000. in long outstanding portable fees.

Revolving Fund:

The Authority agrees that the revolving fund should be immediately reimbursed and has already taken steps to ensure that it is reimbursed on a monthly basis. The Authority also agrees to use reserves from other programs to avoid shortfalls in the revolving fund.

FINDING #2 - PROCUREMENT

The audit states that the contractor was paid much more than the contracted amount. In HUD's original review of this same contract, HUD advised the PHA that a licensed A&E must sign off on the work; consequently, the contractor secured the services of an A & E firm to sign the documents. This was not part of the contractor's original proposal. The record will reflect that the Authority terminated its original A&E firm because said firm failed to provide, after several requests, the necessary professional insurance as provided by the Request for Proposal. The services provided by a Construction Manager were not those traditionally provided by an A&E.; therefore, the Construction Manager incurred additional costs by securing the services of an A&E firm.

The document asserts that the New Jersey office asked that the Inspector General's staff review particular contracts. The Housing Authority of Plainfield questions this reexamination in view of the fact that these contracts and all related documents had already been extensively investigated by the New Jersey office and its legal department. As a result of this investigation, the HAP was censured by being assigned a "0" tolerance level and after lengthy additional reviews by the New Jersey office, and intense oversight of all procurement, the situation was resolved to the satisfaction of the New

Jersey office and all restrictions were lifted. The Housing Authority of Plainfield states that this item should not be included as a finding.

Note: Someone from this staff *erroneously* reported to your staff that the contractor was chosen only because he was a Plainfield resident. The Executive Director should have been included in that conversation.

Fire Alarm Services:

The HAP had not previously solicited by RFB fire alarm services and had no basis with which to set a maximum contract amount. The HAP has since set maximum amounts on all contract awards.

The Contractor selected for the new emergency generator had the second highest overall rating and extensive experience with housing authorities. The reason for the additional cost of \$6,500 to the firm's contract was the addition of a change order to the original scope of services – adding the fire pumps to the emergency generator. This item should not be considered an audit finding.

Bonds:

The HAP has reserved the right to return or withhold bonds on a case by case basis. The contractor in question had begun to experience serious financial difficulties and realized that if started, his firm would not be able to complete the roof job; their candid disclosure saved the HAP a great deal of time and money and as a result the HAP compassionately returned the bond knowing full well it could have kept the proceeds if it had chosen to. The HAP does not accept this as a finding.

#3 PERSONNEL

Civil Service Exams:

As soon as this administration discovered that several members of the maintenance staff had not taken the Civil Service examination, steps were immediately taken to correct the situation by calling for a test. Additionally, this administration found that many employees were hired and illegally maintained on Purchase Orders for several years. In all of the cases examinations were given by the Department of Personnel and the employees scored high enough to be properly hired.

The Qualifications of the Executive Director:

The New Jersey Department of Personnel did not rule on the appropriateness of the Executive Director's degree as stated in the audit report. A final ruling on the matter will be decided by the Office of Admin. Law and therefore this should not be considered part of the finding. The criteria for "...other appropriate program" as stated in NJ AC 40A:12A-18 has not been clarified.

Overtime:

Overtime is equally distributed to all maintenance employees interested in being included on the on-call list. (Please note attached sheets). Additionally, paid volunteers from the maintenance staff are assigned to clean the compactors on weekends and holidays, few volunteer.

Comparability in pay scales:

The Office Services Manager does not have a comparable title or position at the City of Plainfield. The Housing Authority of Plainfield does not have a Personnel Officer and the Office Services Manager for the Housing Authority of Plainfield and has acted as the personnel director, handling applications, all matters pertaining to Civil Service, the NJ Department of Personnel and assisting with interviews. The Principal Account Clerk, because of her years of experience has always

performed the duties of Asst. payroll supervisor and asst. personnel technician. Both employees have over 25 years of experience.

#4 TRAVEL COSTS

The Housing Authority of Plainfield agrees with the recommendations regarding travel costs and has proceeded to enforce the Inspector General's recommendations.

#5 INELIGIBLE COSTS

The Housing authority of Plainfield agrees to adopt procedures regarding ineligible costs such as flowers, fruit baskets and catering for the bereaved, hospital stays, job fairs and business meetings. None of these ineligible costs will be charged to the LIH budget.

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Appendix E

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(Attention: Cindy Fogleman)