
AUDIT REPORT



POUGHKEEPSIE HOUSING AUTHORITY
LOW-RENT HOUSING PROGRAM

POUGHKEEPSIE, NEW YORK

00-NY-202-1005

SEPTEMBER 25, 2000

OFFICE OF AUDIT
NEW YORK/NEW JERSEY



Issue Date	September 25, 2000
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TO: Mirza Del Rosario, Director, Office of Public Housing, 2APH

Alexander C. Malloy

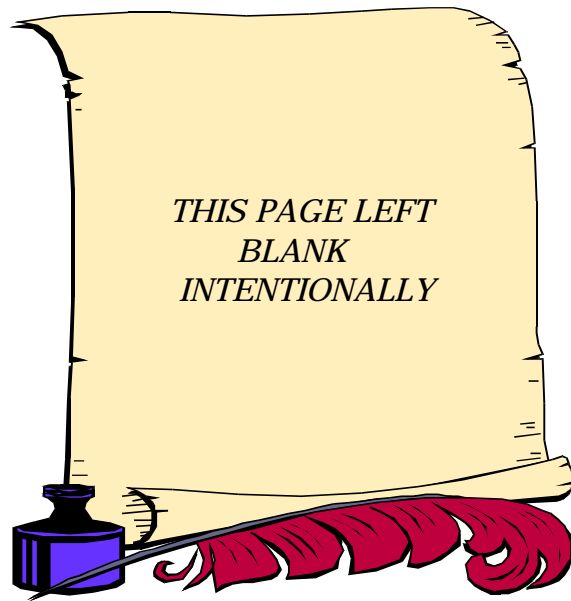
FROM: Alexander C. Malloy, District Inspector General for Audit, 2AGA

SUBJECT: Poughkeepsie Housing Authority
Low-Rent Housing Program
Poughkeepsie, New York

We completed an audit of the Poughkeepsie Housing Authority, herein referred to 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 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 this audit.

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



Executive Summary

We performed an audit of the Poughkeepsie Housing Authority, herein referred to as the Public Housing Authority (PHA), pertaining to its Federal Low-Rent Housing (LRH) Programs. The primary objectives of the audit were to evaluate the PHA's internal controls for safeguarding cash and other assets, and to determine whether the PHA complied with the terms and conditions of the Annual Contributions 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. Ineligible Payment Was Made From the PHA's Operating Account

The PHA paid a finance charge to its utility provider as a penalty for not having paid prior year billings on time. Federal requirements prohibit the payment of fines and penalties. The finance charge was paid as a condition for the utility company to continue to provide electricity and gas to the housing developments. As a result, the PHA charged ineligible costs in the amount of \$15,000 to its Low-Rent Housing program (See Appendix A).

2. Comprehensive Grant Program Activity not Allocated to Participating Programs

The PHA's 1999 Comprehensive Grant Program (CGP) included costs for an administration building that were not allocated to the participating programs. CGP regulations require that costs benefiting other programs be allocated to those programs. The entire costs are intended to be included in the CGP because the PHA believes they represent eligible costs under the program. We advised PHA officials that when an activity will benefit programs other than public housing, the costs

must be allocated between those programs. Therefore, the cost attributed to the other programs, which was \$268,069, is being claimed as a cost efficiency (See Appendix A).

3. Questionable Incentive Bonuses Were Paid to Administrative Employees.

During the years 1998 and 1999, the PHA paid incentive bonuses to its administrative employees. The bonuses were paid because they were provided for in the Union Agreement applicable to administrative employees. In our opinion, the bonuses may not represent a necessary and reasonable use of funds for program administration. Accordingly, the amounts charged to the Federal programs for the bonuses totaling \$6,314.99 are considered unsupported (See Appendix A).

4. Unsupported Costs for Services Provided

The PHA made various payments for services provided under three contracts that (1) were contrary to program requirements, and (2) may not meet the necessary and reasonable requirements. The questionable payments occurred because procedures were not in place to ensure that costs were necessary, reasonable and adequately supported prior to payment. As a result, program funds were expended for services that were not determined to be reasonable; therefore, the amount paid totaling \$45,874.48 is considered unsupported (See Appendix A).

5. Controls Over Legal 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 services contract, and (2) paid for legal services without adequate documentation being provided as evidence that the contracted services were rendered. The deficiencies are attributed to the PHA's general unfamiliarity with applicable regulations and requirements. As a result, assurance that related contract costs were proper and

reasonable has diminished and the PHA has incurred cost of \$39,300 that are unsupported (See Appendix A).

6. 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 \$449.83 and \$14,774.46 respectively have been incurred (See Appendix A). The travel deficiencies are attributed to the PHA's general unfamiliarity with procedural and documentation requirements.

7. Discrepancies Exist Between the PHA's Personnel and the Employees' Union Agreements and Leave Records

Contrary to its own policies, the PHA: (1) accrued vacations leave for employees that was not in accordance with the Personnel Policy; (2) paid employees bonuses; (3) granted additional leave to employees for charitable contributions; (4) did not evaluate job performance; and (5) maintained leave records that were not in accordance with the Personnel Policy and/or the Union Agreements. These weaknesses can be attributed to the PHA's general unfamiliarity with applicable requirements. As a result, the PHA could incur personnel costs that may not be considered necessary or reasonable.

8. Need to Improve Administrative and Accounting Controls

Our review disclosed 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 executed to meet program requirements. As a result, the PHA does not have 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.

Exit Conference

The results of the audit were discussed with PHA officials during the course of the audit and at an exit conference held on August 2, 2000. The exit conference was attended by:

PHA Officials

Roland Traudt, Executive Director

Office of Inspector General

Thomas Cosgrove, Senior Auditor

Mary Rose Michaud, Senior Auditor

The PHA generally agreed with the findings and recommendations. The PHA's comments are included at the end of each finding.

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Abbreviations

ACC	Annual Contributions Contract
CFR	Code of Federal Regulations
HUD	Department of Housing and Urban Development
LRH	Low-Rent Housing
OIG	Office of Inspector General
OMB	Office of Management and Budget
PHA	Poughkeepsie 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 Roland Traudt. The books and records are maintained at the administration office located at 21 Charles Street, Poughkeepsie, New York 12601.

The PHA's fiscal year is from April 1, through March 31. The PHA operates five developments containing 360 units. Also, the PHA administers 87 units of Section 8 housing along with a Comprehensive Grant Program and Drug Elimination Program. In addition, the PHA administers 240 units of State housing at two Section 8 housing along with a Comprehensive Grant Program and Drug Elimination Program. In addition, the PHA administers 240 units of State housing at two developments.

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 payments of bonuses, personnel matters, travel, procurement, and costs charged to the Comprehensive Grant and Drug Elimination programs. 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 and visits to the housing developments. 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 April 1, 1998 to September 30, 1999. However, activity prior and subsequent to this period was reviewed, as we deemed necessary. The audit field work was conducted between November 1999 and July 2000.

A copy of this report has been provided to the Executive Director of the PHA. The audit was conducted in accordance with generally accepted government auditing standards.

Ineligible Payment Was Made From the PHA's Operating Account

The PHA paid a finance charge to its utility provider as a penalty for not having paid prior year billings on time. Federal requirements prohibit the payment of fines and penalties. The finance charge was paid as a condition for the utility company to continue to provide electricity and gas to the housing developments. As a result, the PHA charged ineligible costs in the amount of \$15,000 to its Low-Rent Housing program.

History of delinquency

Our review of disbursements disclosed that on June 9, 1998, the PHA paid a \$15,000 finance charge to its utility company, Central Hudson Gas and Electric. PHA officials revealed that the PHA had been delinquent in paying its utility bills for as far back as the year 1990. During the period of delinquency, the utility company had threatened to discontinue electric and gas service to the units. Early in 1997, negotiations were held with Central Hudson for the PHA to pay all charges in arrears and also keep current on all future billings. The PHA honored its commitment and in March 1998 requested that the utility company forgive the remaining finance charges owed of \$50,000. In May 1998, Central Hudson advised the PHA that it would waive other finance charges of \$7,678.92 that had already accrued and would suspend \$20,000 of the \$50,000 remaining. Accordingly, the PHA was requested to pay the balance of \$30,000. On June 9, 1998, the PHA wrote two checks for \$15,000 each, one from the Federal Program Operating Account and one from the State Program. The payment from the Federal Program is not an allowable cost and is therefore ineligible.

Criteria

Attachment B of Office of Management and Budget (OMB) Circular A-87 provides that fines, penalties, damages, and other settlements resulting from violations of, or failure of the governmental unit to comply with Federal, State, local, or Indian tribal laws and regulations are unallowable. In addition, Section 11D, Part A of the Consolidated Annual Contributions Contract (ACC) provides that the Housing

Finding 1

Authority shall not incur any operating expenditures except pursuant to an approved operation budget.

We believe that the finance charges, which resulted from the PHA's failure to pay its utility bills in a timely manner, constitute a penalty and are, therefore, ineligible.

Auditee Comments

The new PHA administration achieved a monumental milestone in paying off in excess of \$800,000.00 dollars due to the local utility company. Finance charges due to the utility company were legitimate because we were severely late on many payments. The Poughkeepsie Housing Authority has implemented procedures that will ensure that all legitimate billings are properly processed and paid in a timely manner.

Recommendations

We recommend that you require the PHA to:

- 1A. Reimburse the ineligible costs of \$15,000 from non-Federal funds.
- 1B. Implement procedures that will ensure that all legitimate billings are properly processed and paid.

Comprehensive Grant Program Activity Not Allocated to Participating Programs

The PHA's 1999 Comprehensive Grant Program (CGP) included costs for an administration building that were not allocated to the participating programs. CGP regulations require that costs benefiting other programs be allocated to those programs. The entire costs are intended to be included in the CGP because the PHA believes they represent eligible costs under the program. We advised PHA officials that when an activity will benefit programs other than public housing, the costs must be allocated among those programs. Therefore, the cost attributed to the other programs, which was \$268,069, is being claimed as a cost efficiency (See Appendix A).

New administration building costs improperly allocated

Our review of the PHAs 1999 Comprehensive Grant Annual Statement and Performance and Evaluation Report showed that \$520,977 has been budgeted to construct a new administration and maintenance building in the Spring of 2000. An additional \$37,500 was budgeted for architectural services. According to available information and documentation, the building is to be designed and constructed within the amount allocated of \$558,477.

HUD advised the PHA that if the new building is to serve clients other than the public housing residents, a budget would be necessary providing a proration of costs between the funding agencies. In a letter to HUD on December 13, 1999, the PHA advised HUD that the building would be used by public housing residents only. However, at the time of our review the PHA was administering a State housing and a Section 8 program. In addition to its Federal Low-Rent Housing program, those programs would also benefit from the construction of the administration building.

Criteria

Under the CGP, Section 968.112(n)(3) of the CFRs provides that where the physical or management improvements will benefit programs other than Public Housing, such as Section 8 and the State program, eligible costs are limited to the amount directly attributable to the Federal Low-Rent Housing program.

Based on the PHA's current method of allocating costs among programs, CGP funds could be used to pay 52 percent of the \$558,477 budgeted for the new administration

building. Therefore, the remaining 48 percent, or \$268,069, is being shown as a cost efficiency (See Appendix A).

Auditee Comments

The Poughkeepsie Housing Authority is constructing the new administration building because we are in the process of selling our New York State assisted units to a private developer. Currently, our administrative office is located at one of our New York State complexes. This action forces us to relocate to continue to service our Federal program. The PHA understands that all costs will have to be allocated proportionately among the remaining Federal Programs.

Recommendations

We recommend that you require the PHA to:

- 2A Adopt controls that will ensure that when an activity identified for CGP funding benefits programs other than public housing, the costs are properly allocated among all of the benefiting programs.

Questionable Incentive Bonuses Were Paid to Administrative Employees

During the years 1998 and 1999, the PHA paid incentive bonuses to its administrative employees. The bonuses were paid because they were provided for in the Union Agreement applicable to administrative employees. In our opinion, the bonuses may not represent a necessary and reasonable use of funds for program administration. Accordingly, the amounts charged to the Federal programs for the bonuses totaling \$6,314.99 are considered to be unsupported.

PHA Bonus Incentive Program

The PHA's bonus incentive program was established pursuant to the Union Agreement for administrative employees, which was executed on August 15, 1997. The program is a team effort based on all members within the bargaining units. The ratings are based on the average of the individual ratings as follows:

PHMAP Rating Score	Number of IPA Audit Findings	Incentive Bonus Based on Average of Individual Ratings
60	8 - 10	\$150 per employee
75	6 or less	\$300 per employee
85	Less than 3	\$500 per employee

Criteria

Attachment B of the Office of Management and Budget (OMB) Circular A-87 provides the standards for the determination of allowable and unallowable costs. Among other documents, Attachment B, Paragraph C of OMB Circular A-87 states that costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards. In addition, Section 2, Part A of the ACC provides that operating expenditures shall be necessary for the operation of the project.

Deficiencies found

Our review of the bonus incentive program showed the following:

- The bonus incentive program is inconsistent with the PHA's personnel policy since the personnel policy does not provide for the payment of incentive bonuses.
- Employee performance evaluations are not prepared (See Finding 7). Hence, there is no documentation to justify that each employee performed at a level worthy of an incentive bonus.
- The bonus incentive program is only applicable to administrative employees because the PHA's administrative and maintenance employees have separate Union representation and agreements, and the provision for a bonus incentive program is only included in the administrative employees Union agreement. Since the Public Housing Management Assessment Program (PHMAP) rating includes the maintenance operation and since the Independent Public Accountant (IPA) audit would cover maintenance activities, it does not seem appropriate that incentive payments only be made to administrative employees.
- Under the incentive program, administrative employees become eligible for additional compensation with a PHMAP score of 60 and as many as 8 to 10 audit findings. A score of 60 is the minimum to be designated as a standard performer under PHMAP. In our opinion, employees should not receive additional compensation for mediocre performance.

The above deficiencies illustrate that the PHA has not required that employee performance evaluations be prepared; but has not ensured that the procedures and requirements affecting administrative and maintenance employees are consistent and equally applied. Unless corrective action is implemented, deficiencies similar to those shown above will continue. Thus, the \$6,314.99 paid to the administrative employees during 1998 and 1999 is unsupported.

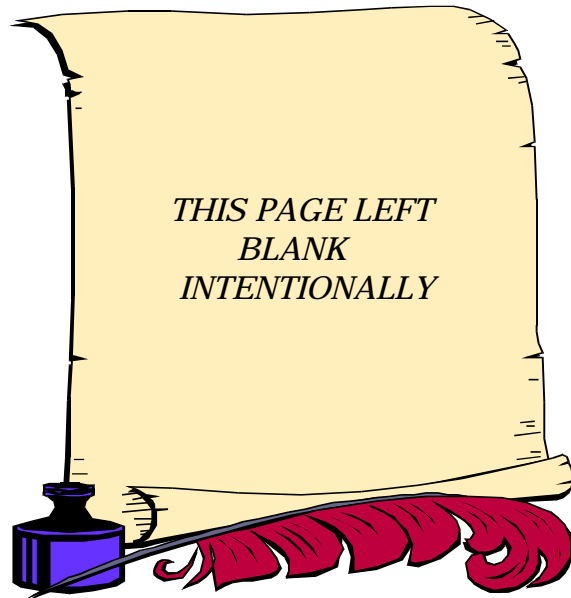
Auditee Comments

As per the CWA 1120 collective bargaining agreement, employees were given a performance bonus based on an incentive clause in their union contract. The level of bonus was based on PHAMP scores received from HUD and the number of audit findings documented in the Poughkeepsie Housing Authority's annual independent audit. The Poughkeepsie Housing Authority is currently looking into removing this incentive from the union agreement as we negotiate a new contract with the employees.

Recommendations

We recommend that you require the PHA to:

- 3A. Adopt controls that will ensure that the personnel policy is consistent with the provisions contained in the employee union agreements.
- 3B. Implement procedures that will only reward exceptional performance demonstrated by individual employees based on their performance evaluation.
- 3C. Provide you with documentation on the payments of the 1998 and 1999 incentive bonuses so that an eligibility determination can be made.



Unsupported Costs for Services Provided

The PHA made various payments for services provided under three contracts that (1) were contrary to program requirements, and (2) may not meet the necessary and reasonable requirements. The questionable payments occurred because procedures were not in place to ensure that costs were necessary, reasonable and adequately supported prior to payment. As a result, program funds were expended for services that were not determined to be reasonable; therefore, the amount paid totaling \$45,874.48 is considered unsupported.

We reviewed two instances where the PHA procured cleaning services with resident owned companies under it's Comprehensive Grant Program (CGP). In addition, we reviewed a contract for landscaping services. The deficiencies pertaining to the three contracts are discussed below.

Office Cleaning

Discrepancies associated with cleaning costs

The contract provides for cleaning the PHA's administrative office in accordance with the terms of the proposal provided by the contractor. However, we found that the amounts billed were not in accordance with either the proposal or the contract. More specifically, the proposal provides for a payment of \$200 a week based on two office cleanings per week. However, the contract wording provides for biweekly cleaning and a biweekly payment of \$200. Our review of the contractor's billings showed that they did not agree with either the proposal or the contract. For example, the contractor's billing for the period January 23, 1999 through February 15, 1999 shows that the office was cleaned four times at a cost of \$400. However, the dates of the cleanings as shown on the billings cover a period of four weeks and two days which is neither in accordance with the provisions of the proposal nor the contract. Since none of the amounts billed were in accordance with either the proposal or the contract, the entire amount billed of \$4,600 is considered unsupported.

Apartment Cleaning

The contract provides for the cleaning of vacant apartments based on the quotation received from the contractor. The rate charged for cleaning each apartment is based on bedroom size. However, we found that the contractor routinely charged for items that were not provided for in the contract. We found instances where the contractor billed extra for cleaning apartments found to have “extra dirt and grease”. Since there were no provisions in the contract for these charges, the amount paid during the audit period of \$2,425 is considered unsupported.

Landscaping Contract

Landscaping costs may not be eligible

During the audit period, the PHA made payments of \$11,149.62 from its CGP for services provided under a landscaping contract. Our review of the contract showed that the services represent items of routine maintenance of the PHA, such as lawn mowing, debris removal, and tree and shrubbery pruning. Title 24, Part 968.112 (d)(2) of the Federal regulations provides that routine maintenance is not an eligible cost for inclusion in the CGP. Furthermore, HUD stipulates in the Comprehensive Grant Program Guidebook that routine maintenance is not an eligible use of funds. Since the PHA was unable to demonstrate that the services provided represented other than routine maintenance, the costs incurred are shown as unsupported.

In addition, other payments of \$27,699.86 were made from operating funds for groundskeeping services. However, during the period, the PHA employed three individuals as Groundskeepers. An examination of the job description for Groundskeeper showed that the duties include performing routine lawn maintenance for the PHA. Since the scope of services provided for in the landscaping contract closely resemble or duplicate the duties of the three PHA employees, the cost incurred may not represent necessary or reasonable operating expenditures.

Criteria

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.

Since payments were made for cleaning and landscaping costs that were contrary to program requirements and may not represent necessary or reasonable expenditures, the amounts paid, totaling \$45,874.48, are considered to be unsupported.

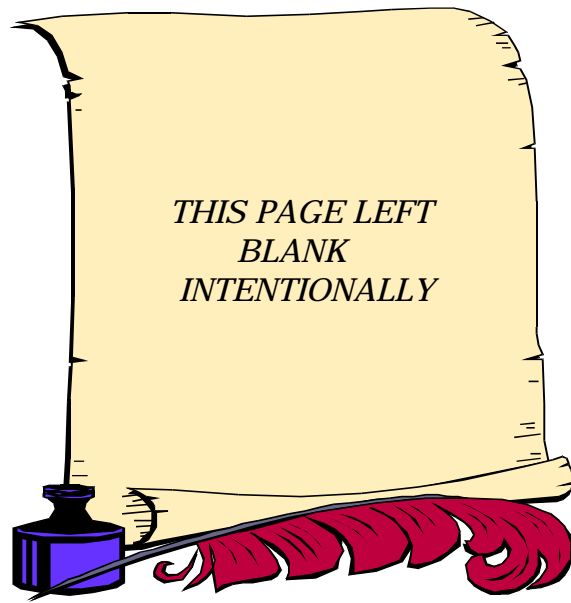
Auditee Comments

Additional work above and beyond the scope of the contracts sometimes arises. It is more cost effective to have the existing contractor take care of extraordinary work. The PHA employs three groundskeepers. However these three employees cannot be stretched to perform landscaping services at all seven sites on top of their normal workload. Traditionally we would hire summer temporary help, but wanted to try a different approach considering the overall cost savings and job quality. The PHA will establish controls to ensure that all activities funded are necessary and eligible prior to their inclusion in any program.

Recommendations

We recommend that you require the PHA to:

- 4A. Provide documentation on the unsupported costs so that an eligibility determination can be made.
- 4B. Reimburse from non-Federal funds, the amount of any unsupported costs determined to be ineligible.
- 4C. Adopt controls to ensure that costs are necessary and reasonable and in compliance with the ACC.
- 4D. Establish controls to ensure that all activities funded by the Comprehensive Grant Program are eligible prior to their inclusion in the program.



Controls Over Legal 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 services contract, and (2) paid for legal services without adequate documentation being provided as evidence that the contracted services were rendered. The deficiencies are attributed to the PHA's general unfamiliarity with applicable regulations and requirements. As a result, assurance that the related contract costs were proper and reasonable has diminished and the PHA has incurred costs of \$39,300 that are unsupported.

Improper method for awarding legal services contract

A review of the PHA's process for awarding the contract for legal 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 entered into a contract with the City's Corporation Counsel. The PHA did not follow the procurement regulations in awarding the contract because they believed that by utilizing the City Corporation Counsel it would be exempt from following applicable procurement requirements. Accordingly, the PHA failed to promote full and open competition when conducting the transaction 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 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 service 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 invoice submitted for legal services. The invoice did not identify what services were provided. The contract for legal services identifies seven types of services to be provided; yet the invoice submitted for payment merely states: "Legal Services". Moreover, the contract provides for payments to be made monthly, however, only one invoice was submitted, representing legal services rendered for the entire year.

Chapter II of the Public and Indian Housing Low-Rent 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. 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 payment was made for legal services costs without the PHA following the Federal procurement regulations and since the payment contained documentation deficiencies, the cost incurred may not represent necessary or reasonable operating expenditures. Therefore, the amount paid for calendar year 1999, in the amount of \$39,300 is considered unsupported.

Auditee Comments

The Poughkeepsie Housing Authority Board of Commissioners unanimously voted to enter into a contract

with the City of Poughkeepsie Corporation Council for legal services to be provided to the Authority. Based on Section 32, paragraph 1, of New York State Public Housing Law, “an authority may call upon the corporation counsel or chief law officer of the municipality for such legal services as it may require and it shall reimburse the municipality for the cost of such services”. The PHA has received increased coverage in legal representation at a rate significantly lower than previously paid in the past.

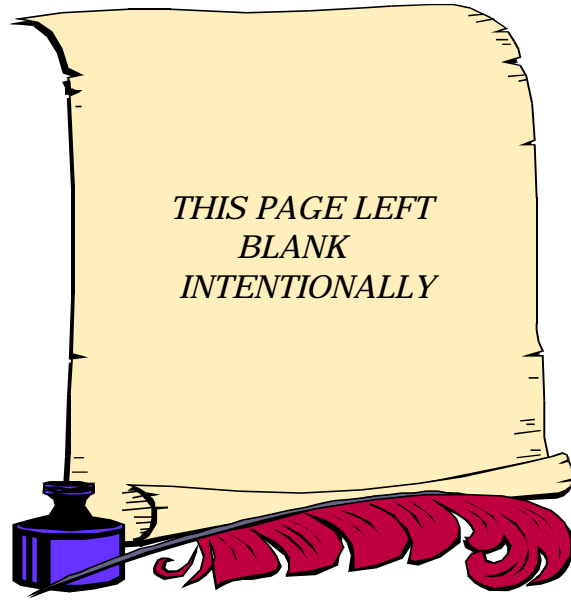
OIG Evaluation of
Auditee Comments

The auditee comments are not responsive to the basis of the finding that shows noncompliance with Section 85.36 (d)(3) of the CFRs.

Recommendations

We recommend that you require the PHA to:

- 5A. Adopt necessary controls to ensure compliance with Federal procurement regulations.
- 5B. Establish procedures that will ensure that adequate documentation for services rendered is obtained prior to payment.
- 5C. Provide justification for the unsupported costs so that an eligibility determination can be made.
- 5D. Reimburse, from non-Federal funds, the amount of any unsupported costs determined to be ineligible.



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 \$449.83 and \$14,774.46 respectively have been incurred. The travel deficiencies are attributed to the PHA's general unfamiliarity with procedural and documentation requirements.

Ineligible and unsupported Travel costs

We reviewed travel costs associated with the PHA's attendance at two national housing conferences and various other costs that were selected at random during the audit period. Deficiencies were found pertaining to all costs reviewed. The deficiencies involve both ineligible and unsupported costs.

The types of ineligible and unsupported travel costs include:

Ineligible travel costs represent meal costs that were paid in connection with training held in the City of Poughkeepsie, and the costs for car rentals the day preceding the actual travel.

Unsupported costs include payments for costs incurred without adequate documentation; costs for various personnel attending the same conference; payments for costs where departure and arrival times were not documented; costs incurred for the Saturday preceding a course that started on Monday, and reimbursement for mileage that was not adequately supported.

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

Criteria

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.

Travel policy deficient

A review of the PHA’s travel policy showed that several aspects of the policy are deficient. For example, the policy provides for actual subsistence expense not to exceed \$55 per day or fraction thereof while in travel status. The policy further provides that reimbursement is to be proportional to travel time spent. Each meal time spent traveling may be reimbursed as follows:

Breakfast 8:00 a.m. to 11:30 a.m. - \$15
Lunch 11:30 a.m. to 3:00 p.m. - \$15
Dinner 3:00 p.m. to midnight - \$25

We found that even though the policy stipulates actual subsistence expense not to exceed \$55 per day, the \$55 is being paid to travelers in the form of per diem. Hence, the travel policy needs to be amended to clarify whether meal costs are to be reimbursed on an actual subsistence or per diem basis.

Moreover, as currently written, it is possible that a traveler could claim the entire \$55 of meal costs while only being in a travel status for as little as four hours (11:15 a.m. to 3:15 p.m.). If its is the PHA’s intention to allow travelers per diem, the per diem amount should be proportionate to an entire day based on six hour intervals as follows:

12:01 a.m. to 6:00 a.m. - \$13.75
6:01 a.m. to 12 noon - 13.75
12:01 p.m. to 6:00 p.m. - 13.75
6:01 p.m. to midnight - 13.75

Finally, regardless of whether an actual subsistence or per diem form of reimbursement is adopted, the PHA travel policy should be amended to require travelers to show departure and arrival times for all travel.

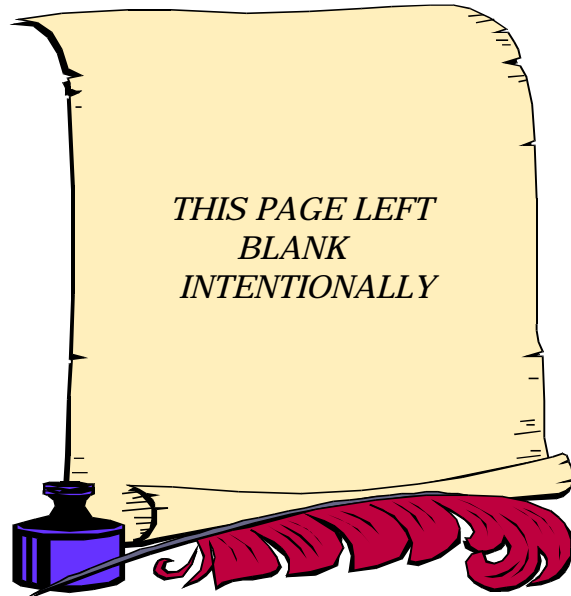
Auditee Comments

The Poughkeepsie Housing Authority will research and amend its travel policy to stipulate that travel costs will be reimbursed on a per diem basis. The amended policy will require travelers to document departure and arrival times.

Recommendations

We recommend that you require the PHA to:

- 6A. Reimburse, from non-Federal funds, the amount of the ineligible costs.
- 6B. Provide additional documentation and justification for the unsupported costs so that an eligibility determination can be made.
- 6C. Reimburse from non-Federal funds, the amount of any unsupported costs determined to be ineligible.
- 6D. Amend its travel policy to stipulate whether travel costs will be reimbursed on a per diem or actual cost basis. The amendment should also require travelers to show departure and arrival times.



Discrepancies Exist Between the PHA’s Personnel Policy and the Employees’ Union Agreements and Leave Records

Contrary to its own policies, the PHA: (1) accrued vacation leave for employees that was not in accordance with the Personnel Policy; (2) paid employees bonuses; (3) granted additional leave to employees for charitable contributions; (4) did not evaluate job performance; and (5) maintained leave records that were not in accordance with the Personnel Policy and/or the Union Agreements. These weaknesses can be attributed to the PHA’s general unfamiliarity with applicable requirements. As a result, the PHA could incur personnel costs that may not be considered necessary or reasonable. These matters are further discussed in the paragraphs below.



The Personnel Policy applies to all PHA employees whereas separate Union Agreements have been negotiated for the administrative and maintenance employees. However, in some instances the Union Agreements contain provisions that are different from those contained in the Personnel Policy as follows:

Accumulation of Vacation Time per Personnel Policy

Types of personnel
discrepancies

<u>Length of Service</u>	<u>Vacation Time Earned</u>
1 st day through 2 years	10 days
3 years through 5 years	15 days
6 years through 10 years	18 days
11 years through 15 years	21 days
16 plus years	24 days

Union Agreement for Administration Employees

1 st day through 1 year	.4165 days per month
1 year through 5 years	10 days
6 years through 10 years	15 days
11 years through 15 years	20 days
after 15 years	25 days

Union Agreement for Maintenance Employees

after 1 year	10 days
after 5 years	15 days
after 14 years	20 days
after 18 years	25 days

Payment of Bonuses

The Personnel Policy contains no provision for the payment of bonuses whereas only the Union Agreement for administrative employees contains an incentive payment provision (see Finding 3) . Similarly, the Personnel Policy provides that only full-time employees are eligible for health insurance coverage whereas both Union Agreements provide for health insurance for all employees.

Additional Leave Granted for Charitable Contributions

The PHA provides additional leave to both administrative and maintenance employees for charitable contributions. An employee who continues to contribute the same amount to the United Way Campaign as they had in the previous year receives an additional one and one-half days of leave. However, an employee who increases their contribution receives an additional two days of leave. On the contrary, an employee who does not contribute to the campaign receives no additional leave. Neither the Personnel Policy nor the Union Agreements contain provisions for additional leave based on employee charitable contributions. The only support the PHA could provide was a letter, on the PHA letterhead, from the Campaign Manager for United Way which granted the additional leave. In this regard, we reminded the PHA that the Campaign Manager for the United Way does not have the authority to grant additional leave to PHA employees. We also believe that the amount that employees contribute to charitable organizations is a personal matter and the PHA should neither reward nor penalize employees based on their level of contributions. Thus, the practice should be discontinued.

Job Performance not Evaluated

Contrary to the provisions of the Personnel Policy, the PHA did not conduct employee performance evaluations. Section 113.4 of the Personnel Policy provides that the PHA shall conduct reviews and evaluations of the performance of each employee on an annual basis. Officials advised that the PHA has not been conducting any of the required performances evaluations. We reminded the PHA that the failure to conduct performance evaluations precludes a written determination from being made as to whether an employee is performing satisfactorily and in accordance with his/her job position description

Leave Records not Maintained in Accordance With Personnel Policy and/or Union Agreements

The leave records examined for eight employee showed that they were not maintained in accordance with the provisions of the Personnel Policy and/or the Union Agreements. The records examined and instances of noncompliance are as follows:

<u>TITLE</u>	<u>NON-COMPLIANCES</u>
Groundskeeper	<ul style="list-style-type: none"> Employee credited with extra personal time for charitable contributions. Vacation time carried over from previous year without approval of Executive Director as per Article VIII of the Union contract. Employee took 8 days vacation in August 1999; but was only charged 6 days.
Tenant Relations Assistant	<ul style="list-style-type: none"> Employee credited with extra personal time for charitable contributions. Employee credited with 5 weeks vacation before completing 15 years as required by Union Contract.
Maintenance Mechanic	<ul style="list-style-type: none"> Employee was advanced 12 hours personal leave. Neither the Personnel Policy nor the Union Contract provides for advancing leave to employees. Employee credited with 3 weeks vacation before completing 5 years as required by the Union Contract.
Building and Grounds Administrator	<ul style="list-style-type: none"> Employee credited with 20 hours vacation leave the week following employment without explanation.
Receptionist/Typist	<ul style="list-style-type: none"> Employee was credited twice in the same year with extra personal time for charitable contributions. Employee charged with 3.95 hours of sick leave

Finding 7

	during March 1999 without the leave record indicating the date of the leave.
Modernization Coordinator	<ul style="list-style-type: none">• Employee credited with extra personal time for charitable contributions.• Personal leave was carried over from 1998 to 1999 contrary to the Personal Policy and the Union Agreement.
Senior Maintenance Mechanic	<ul style="list-style-type: none">• Vacation time carried over from previous year without approval of Executive Director as per Article VIII of the Union Contract.
Groundskeeper	<ul style="list-style-type: none">• Vacation time carried over from previous year without approval of Executive Director as per Article VIII of the Union Contract.

We believe that greater emphasis is needed by the PHA over its personnel matters. The emphasis should assure that vacation leave and bonus/incentive payments are in accordance with adopted policies; that employees not be granted additional leave for charitable contributions; that employee job performance is evaluated as required, and that leave records are maintained in accordance with the adopted policies and agreements. Unless an effort is made to enforce the established requirements, deficiencies similar to those already described will continue and the PHA could incur personnel costs that may not be considered necessary or reasonable.

Auditee Comments

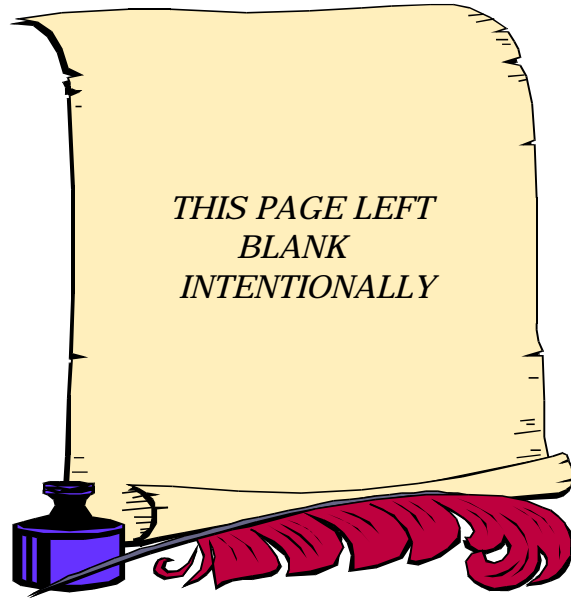
The Poughkeepsie Housing Authority will implement controls and establish procedures that ensure vacation time is in accordance with Personnel Policies, show consistency between union agreements and the Personnel Policy, discontinue charitable contribution leave incentives, perform annual performance evaluations, assure that leave records are maintained properly.

Recommendations

We recommend that you require the PHA to:

- 7A. Implement controls that will ensure that the vacation time accrued for employees is in accordance with the Personnel Policy.

- 7B. Establish procedures that will assure that the provisions contained in the negotiated Union Agreements are consistent with those contained in the Personnel Policy.
- 7C. Discontinue the practice of granting additional leave to employees based on their level of charitable contributions.
- 7D. Institute procedures that will ensure that annual performance evaluations are conducted for all employees.
- 7E. Implement controls that will assure that leave records are maintained in accordance with provisions of the Personnel Policy and the Union Agreements.



Need to Improve 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 executed 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 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 No.	Date	Amount of Sales Tax Paid
6910	11/12/99	\$10.19

- b. Various instances were noted when the PHA failed to make prompt payment for the items or services purchased. Instances were found where payment was made over 30 days after the billing date. For example:

Voucher No.	Billing Date	Payment Date
4860	4/8/98	6/12/98

Other instances were noted where cash discounts could have been realized had the payments been made on a timely basis such as:

Voucher No.	Date	Discount Lost by Untimely Payment
5605	12/11/98	\$26.95

In still other situations, cash discounts were taken but were not earned due to late payment. An example is:

Voucher No.	Date	Discount Taken But Not Earned
5975	3/12/99	\$54.93

Finally, one was noted where a penalty was assessed for late payment. The particulars are:

Voucher No.	Date	Penalty for Late Payment
5617	12/11/98	\$70.80

- c. An instance of a duplicate payment was noted that has not been detected by the PHA. Voucher No. 4679, dated April 24, 1998, included two payments in the amount of \$12.65 for invoice No. 004150.
- d. Various types of deficiencies associated with purchasing and the payment for goods and services were found. They include:
 - 1. In some instances, there was no purchase order.
 - 2. Some purchase orders were prepared after the date on the invoice.
 - 3. Some payment vouchers did not contain an adequate description or explanation of the items purchased.
 - 4. Some payment vouchers did not show who requested or authorized the purchase or who approved the payment.
 - 5. In some cases, the person to whom the payment was made also requested and approved the payment and signed the check.
- e. Various checks were found to be signed by the Executive Director and the Director of Finance without the existence of an emergency. The lack of

a Commissioner's signature on checks is contrary to the PHA's check signing authorization policy.

- f. Several instances were noted where checks were voided but the corresponding payment vouchers were not voided. Examples include:

<u>Voucher No.</u>	<u>Date</u>	<u>Amount</u>
5267	9/11/98	\$275.00
5467	10/30/98	460.72
5535	11/20/98	75.00

- g. The tenant recertification list for 1999 showed that 25 of the 360 units had not been recertified. The overdue recertifications ranged from one to five months.,
- h. Contrary to the PHA's Admission and Continued Occupancy policy, an annual unit inspection was not performed for four or 14 files reviewed.
- i. The Modernization Coordinator signed several documents as the PHA's Contracting Officer whereas the Procurement Policy identifies the Executive Director as the Contracting Officer.
- j. Various bid documents pertaining to responses to Requests for Proposals (RFPs) were not time stamped as required by the PHA's Procurement Policy.
- k. Many instances were noted where Section 8 training costs were charged to the Comprehensive Grant Program contrary to Section 968. 112 (n)(3) of the Federal regulations.
- l. Several deficiencies were found pertaining to Board Meetings minutes. They include:
 - 1. The Commissioner who signed the minutes as true and correct for board Meetings held on April 25, 1998 and April 14, 1999, was absent from the meetings.

2. For a Board Meeting held on December 9, 1998, a Commissioner signed the minutes on behalf of another Commissioner as true and correct but the Commissioner who signed was absent from the meetings.
3. The minutes of meetings held on May 26, 1999, and June 9, 1999, were unanimously accepted by the Board on July 14, 1999, even though the minutes were not signed by either the Executive Director or the Secretary of the Board of Commissioners.

m. The PHA's procurement policy provides that for small purchases in excess of \$1,000 but not exceeding \$10,000 no less than three offerors shall be solicited to submit price quotations which shall be obtained orally, by telephone, or in writing. Our review of five small purchase payment vouchers, selected at random, showed no evidence that the PHA had solicited price quotations from at least three offerors, as required.

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 must be safeguarded. In addition, Part A, Section 15 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 corrected actions are implemented, deficiencies similar to those described above will recur.

Auditee Comments

The Poughkeepsie Housing Authority will continue to implement controls and establish procedures that address all of the concerns of this finding that will result in improved administrative and accounting controls.

Recommendations

We recommend that you require the PHA to:

- 8A. Implement controls to ensure that invoices containing ineligible sales tax are not processed for payment.
- 8B. Adopt procedures that will ensure that:
1. prompt payment is made for goods or services purchased.
 2. Invoices are promptly processed for payment so that all cash discounts offered are realized.
 3. Cash discounts taken have been earned.
 4. Penalties for late payment are avoided.
- 8C. Establish controls to prevent duplicate payments. The controls should ensure that invoices are thoroughly reviewed and amounts determined proper prior to payment.
- 8D. Institute procedures that will ensure that:
1. Purchase orders are prepared.
 2. Purchase orders are prepared at the time of purchase.
 3. Payment vouchers contain an adequate description or explanation of the items purchased.
 4. Payment vouchers show who requested and authorized the purchase and who approved the payment.
 5. The person receiving the payment is not the person who requests and approves the payment and signs the checks.
- 8E. Implement controls to ensure that all checks are signed by a Commissioner, except in an emergency.
- 8F. Adopt procedures that will assure that payment vouchers are voided at the time checks are voided.
- 8G. Establish controls that will ensure that all tenant recertifications are completed timely.
- 8H. Institute procedures that will ensure compliance with the Admission and Continued Occupancy Policy.

- 8I. Implement controls to ensure that the Executive Director fulfills the responsibility of Contracting officer as prescribed in the Procurement Policy.
- 8J. Establish procedures that will assure that all bid documents area time stamped.
- 8K. Adopt controls that will prohibit costs of one program being charged to another program.
- 8L. Implement procedures that will assure that:
 - 1. Officials who sign the minutes are present at the meetings.
 - 2. Board minutes are signed by officials prior to their unanimous acceptance.
- 8M. Establish controls to ensure that price quotations are obtained from an adequate number of qualified sources when procurement by small purchase procedures is used.

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

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- 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 weaknesses exist in the following areas:

- Compliance with Laws and Regulations

The PHA did not allocate the cost of a Comprehensive Grant Program activity to participating programs as required (Finding 2).

Federal regulations were not followed by the PHA in awarding a contract for legal services (Finding 5).

- Safeguarding Resources

Ineligible and unsupported costs were incurred because the PHA did not maintain adequate control over costs charged the Federal Program (Findings 1 and 4).

The PHA paid incentive bonuses to its administrative employees that may not represent a necessary and reasonable use of funds for program administration (Finding 3).

The PHA did not have adequate controls over its travel activities to ensure that travel costs were necessary, reasonable and adequately supported (Finding 6).

The PHA needs to strengthen the controls over personnel procedures (Finding 7).

The PHA needs to strengthen the controls over its administrative and accounting procedures (Finding 8).

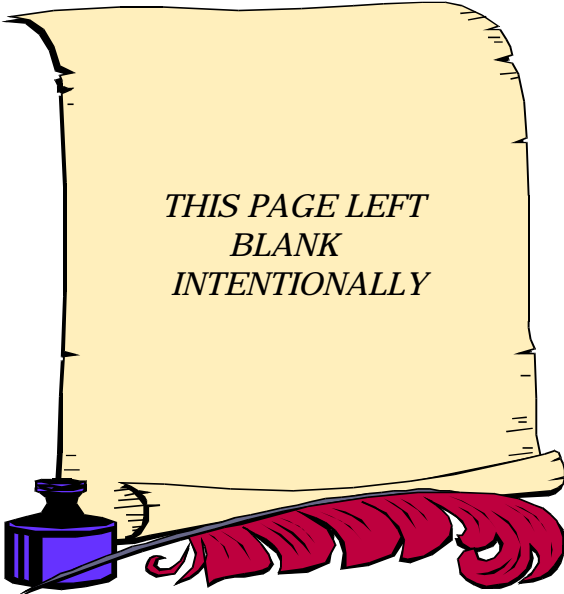
Schedule Of Ineligible and Unsupported Costs and Cost Efficiencies

<u>Finding</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>	<u>Cost Efficiency 3/</u>
1	\$15,000.00		
2			\$268,069.00
3		\$ 6,314.99	
4		45,874.48	
5		39,300.00	
6	<u>449.83</u>	<u>14,774.46</u>	
	<u>\$15,449.83</u>	<u>\$ 106,263.93</u>	<u>\$268,069.00</u>

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

2/ Unsupported costs are costs charged to a HUD-financed or HUD-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 costs. 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.

3/ A cost efficiency is an action by management in response to the Inspector General's recommendations to prevent improper obligation or expenditures of funds or to avoid further unnecessary expenditures.



Schedule of Ineligible and Unsupported Travel Expenses

Date Paid	Voucher Number	Description	Amount Ineligible	Amount Unsupported	Notes
05/01/98	4697	Meal expenses - OSHA compliance update training in Poughkeepsie, NY	\$55.00		1
05/01/98	4718	Registration for Commissioner at NYSPHADA Convention in Syracuse, NY		\$192.00	2
06/17/98	4870	Expense money for trip to HUD in New York		75.00	2
06/05/98	4836	Airfare NAHRO National Conferences in San Antonio, TX		257.92	3
06/05/98	4837	Airfare NAHRO National Conference in San Antonio, TX		429.87	3
08/28/98	5220	4 Airfares NAHRO National Conferences in San Antonio, TX		1,621.60	3
05/01/98	4708	Registration for NAHRO National Conference in San Antonio, TX		365.00	3
09/04/98	5238	4 Registrations for NAHRO National Conference in San Antonio, TX		1,290.00	3
06/12/98	4858	Registration for NAHRO National Conference in San Antonio, TX		395.00	3
06/12/98	4855	Hotel accommodations for NAHRO National Conference in San Antonio, TX		726.80	3
10/02/98	5359	5 Hotel accommodations for NAHRO National Conference in San Antonio, TX		3,599.50	3
10/06/98	5407	Meal expense for NAHRO National Conference in San Antonio, TX		330.00	3,4
10/16/98	5415	Meal expenses for NAHRO National Conference in San Antonio, TX		330.00	3,4
10/16/98	5420	Meal expense for NAHRO National Conference in San Antonio, TX		330.00	3,4
10/16/98	5421	Meal expense for NAHRO National Conference in San Antonio, TX		330.00	3,4
10/16/98	5422	Meal expense and advance parking costs for NAHRO National Conference		378.00	3,4,5
10/16/98	5429	Meal expense for NAHRO National Conference in San Antonio, TX		330.00	3,4
06/12/98	4858	3 Registrations for Summer NAHRO conference in Boston, MA		1,215.00	3
07/31/98	5056	Registration for Summer NAHRO conference in Boston, MA		430.00	3
07/24/98	5025	Meal expense for Summer NAHRO conference in Boston, MA		220.00	3,4
07/24/98	5029	Meal expense for Summer NAHRO conference in Boston, MA		220.00	3,4
07/24/98	5039	Meal expense for Summer NAHRO conference in Boston, MA		220.00	3,4
07/31/98	5067	Meal expense for Summer NAHRO conference in Boston, MA		220.00	3,4
07/31/98	5062	Hotel accommodations for Summer NAHRO conference in Boston, MA		32.91	3
08/14/98	5132	Sundry expense for Summer NAHRO conference in Boston, MA		26.35	3
08/14/98	5153	Sundry expense for Summer NAHRO conference in Boston, MA		81.13	3
08/20/98	5158	Sundry expense for Summer NAHRO conference in Boston, MA		116.35	3

Appendix B

Date Paid	Voucher Number	Description	Amount Ineligible	Amount Unsupported	Notes
09/11/98	5255	Car rentals for Summer NAHRO conference in Boston, MA	89.83	359.32	3,6
08/28/98	5216	Hotel cost for 9/26/98 while attending Section 8 training in Fort Worth, TX		159.85	7
09/18/98	5309	Meal expense for 9/26/98 while attending Section 8 training in Fort Worth, TX		55.00	7
09/18/98	5306	Local mileage reimbursement for August 1998		81.84	8
12/04/98	5590	Local mileage reimbursement for November 1998		168.02	8
04/09/99	6092	Meal expense for Communication Skills for Women seminar in Poughkeepsie, NY	30.00		1
06/11/99	6296	Meal expense for Red Cross seminar in Poughkeepsie, NY	55.00		1
06/11/99	6309	Meal expense for Red Cross seminar in Poughkeepsie, NY	55.00		1
06/18/99	6333	Meal expense for Red Cross seminar in Poughkeepsie, NY	165.00		1
08/06/99	6516	Hotel costs for 9/11/99 while attending Section 8 training in Universal City, CA		133.00	7
08/27/99	6600	Meal expenses for 9/11/99 while attending Section 8 training in Universal City, CA		55.00	7
TOTALS			<u>\$449.83</u>	<u>\$14,774.46</u>	

Notes

- 1 Costs were incurred within the local area of the PHA and are therefore ineligible.
- 2 The only documentation available is a PHA check request.
- 3 Travel policy limits attendance to number necessary to cover the meeting.
- 4 Departure and arrival times not documented.
- 5 Amount includes \$48 for advance parking costs at airport.
- 6 Amount includes \$89.83 for two car rentals the day before the trip began.
- 7 Represents cost for Saturday preceding the course start on Monday.
- 8 The mileage chart does not show any destinations for the mileage claimed.

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