



Issue Date	October 20, 1999
Audit Case Number	00-PH-201-1001

TO: Paul W. LaMarca, Director, Office of Public Housing, Pittsburgh Area Office, 3EPH

FROM: David J. Niemiec, Acting District Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: Public Housing Drug Elimination Program
Housing Authority of the City of Pittsburgh
Pittsburgh, Pennsylvania

This is our audit report on the Housing Authority of the City of Pittsburgh's Public Housing Drug Elimination Program.

Within 60 days, please provide us with a status report on each recommendation in this report which covers either: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us with copies of any correspondence or directives issued because of the audit.

Should your staff have any questions, please have them contact Allen Leftwich, Assistant District Inspector General for Audit, at (215) 656-3401.

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Executive Summary

We completed an audit of the Housing Authority of the City of Pittsburgh (Authority). The purpose of the audit was to determine if the Authority spent its Public Housing Drug Elimination Program (PHDEP) funds in accordance with the terms of its grant agreements and applicable HUD regulations and requirements. Our review showed the Authority's administration of its PHDEP needs to be improved. It can do this by: disbursing funds requisitioned through the Line of Credit Control System (LOCCS) within seven calendar days after receipt; properly accounting for PHDEP funds; and receiving written consent from HUD before changing the services to be provided under its grant application. Further, it needs to appoint someone who has responsibility for the overall administration of its PHDEP.

The Authority's PHDEP Lacked an Administrator and Program Integrity Suffered

We determined that the Authority spent PHDEP funds for a variety of purposes, some of which were included in the PHDEP applications, were properly supported, and were otherwise eligible expenditures. Other expenditures totaling \$500,912 were ineligible project charges because they were used for other Authority activities which were not PHDEP related. Still other expenditures of \$387,002 were inadequately supported and an assessment of their eligibility could not be made. These problems occurred because no one had the overall responsibility for administering the Authority's PHDEP.

We recommend that you: (1) require the Authority to obtain your office's approval before drawing down additional funds for its existing PHDEP; (2) have the Authority repay PHDEP the \$500,912 that was spent on ineligible expenditures and, if proper support cannot be provided, the \$387,002 in unsupported costs; and (3) consider the Authority for future PHDEP grants only after it has demonstrated the ability to properly administer a PHDEP.

We discussed the results of our review with the Authority during the course of the audit and at an exit conference on September 23, 1999. The Authority was also given a draft copy of the report for comment. Its written comments are contained in Appendix B and summarized, in pertinent part, elsewhere in the report. The Authority's representatives acknowledged many of the reported deficiencies and stated our review has prompted the Authority to proactively review its Finance, Legal, Resident Relations, Police and Personnel Departments.

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Introduction

The Housing Authority of the City of Pittsburgh was established on August 26, 1937. It is governed by a seven member Board of Directors appointed by the Mayor and headed by a Chairman. The Board's Chairman is Herbert Elish. The Authority's Executive Director is Stanley A. Lowe. Most of the Authority's records are located at its main offices at 200 Ross Street. Other records are located at its Resident Relations Offices at 100 Grant Street, Pittsburgh, Pennsylvania.

PHDEP activities are authorized under Chapter 2, Subtitle C, Title V of the Anti-Drug Abuse Act of 1988, as amended by Section 581 of the National Affordable Housing Act of 1990, and Section 161 of the Housing and Community Development Act of 1992. PHDEP supports a wide variety of efforts by public housing authorities to reduce or eliminate drug-related crime in public housing developments. PHDEP benefits the residents of public and Indian housing, HUD-assisted housing, and low-income neighborhoods. It funds a broad spectrum of activities, including employment of security personnel, reimbursement of local police for additional security services, physical improvements to increase security, training and equipping voluntary tenant patrols as one component within a comprehensive set of anticrime activities, innovative anti-drug programs, and funding nonprofit resident management corporations and tenant councils to develop security and drug abuse prevention programs. HUD emphasizes comprehensive anti-crime measures, community policing, youth initiatives, and the "One Strike and You're Out" approach to resident screening.

HUD awarded \$6,438,200 in Drug Elimination Grants to the Authority for the 1994, 1995 and 1996 grant years. All funds have been requisitioned by the Authority.

<u>Grant Year</u>	<u>Grant Authorized</u>	<u>Grant Requisitions</u>	<u>Balance Remaining</u>
1994	\$1,974,280	\$1,974,280	none
1995	2,240,500	2,240,500	none
1996	<u>2,223,420</u>	<u>2,223,420</u>	none
Totals	<u>\$6,438,200</u>	<u>\$6,438,200</u>	

A grant year corresponds to the Federal fiscal year; i.e., October 1 through September 30. A recipient could obligate and spend funding for a specific grant over two years and, for some grant years, HUD was allowed to extend that period by six months. The Authority requisitioned funds periodically through the HUD Line of Credit Control System (LOCCS).

Audit Objective

The objective of the audit was to determine whether the Authority disbursed PHDEP funds in accordance with the terms of the grant agreement and applicable HUD regulations and requirements.

Audit Scope and
Methodology

To accomplish our objective we reviewed relevant regulations, policies, procedures, applications, agreements, reports, Notices of Funding Availability, and \$2.5 Million in funding requisitions maintained by the Authority or the Public Housing Division in HUD's Pittsburgh Office. We also interviewed members of the staffs of both organizations.

We conducted the audit from October 1998 through July 1999 in accordance with generally accepted government auditing standards. We reviewed transactions which occurred between January 1996 and September 1998, and which covered the 1994, 1995 and 1996 PHDEP grant years. The review period was extended when necessary.

The Authority Needs To Improve Administration Of Its Drug Elimination Program

The Authority needs to improve the administration of its PHDEP to ensure compliance with related agreements and other applicable requirements. It can do this by:

- disbursing funds requisitioned through Line of Credit Control System (LOCCS) within seven calendar days after receipt;
- accounting properly for PHDEP funds; and
- receiving expressed written consent from HUD before making changes to the services included in the grant application.

We determined that the Authority used funds provided under the PHDEP for a variety of purposes, some purposes were included in applications and were eligible expenses. Other purposes were not directly related to the PHDEP and therefore were not eligible charges. This occurred because no one at the Authority was given overall responsibility for ensuring the PHDEP operated as intended. As a result, the Authority's PHDEP lacked direction and was charged with \$500,912 and \$387,002 in ineligible and unsupported costs, respectively. These costs represented 35 percent of the \$2.5 million in total costs that we reviewed for PHDEP grant years 1994, 1995 and 1996. Because of the nature of the deficiencies, we are not convinced that the Authority can properly support the remaining \$3.9 million in expenditures that were not examined during our review.

Criteria

Criteria

The grant agreements executed with HUD provide that the Authority is to follow the administrative requirements for grants in 24 CFR Part 85. These requirements provide that the Authority is to:

- maintain records to adequately identify the application of funds provided for the activity;
- safeguard property adequately and assure it is used for authorized purposes;
- compare budgeted and actual expenditures;
- support accounting records with source documentation such as canceled checks and paid bills; and
- manage the daily operations of grant supported activities.

The Authority Did Not Follow LOCCS Draw Down Requirements

In addition, PHDEP grant agreements require the Authority to establish a system to provide adequate fund accountability for each PHDEP award. Funds specifically budgeted or received for one program may not be used to support another program.

Funds prematurely requisitioned

The Authority obtains grant funds through LOCCS, an electronic funds transfer system. LOCCS requires the Authority to minimize the time between the transfer of funds from HUD and their disbursement by the Authority. The HUD funds are to be made available based on actual need at the time the Authority plans to make payment for costs incurred. Funds requisitioned through LOCCS must be disbursed within seven calendar days after receipt. (underline added).

The Authority did not follow LOCCS requirements or the supplemental instructions that were provided by HUD program staff which reinforced the LOCCS requirements. On February 2, 1998, just prior to the February 6, 1998 grant termination date, the Authority drew down \$572,698 in PHDEP funds without adequate evidence that the funds were needed to pay PHDEP expenditures. The \$572,698 represented the unexpended balance in its 1995 grant.

While Authority staff stated that the funds were requisitioned to pay for planned expenditures, documentation indicates that the Authority requisitioned the funds to avoid their recapture. The Authority was unable to provide details regarding the actual use of the funds at the time of the draw, or provide adequate support documenting how much of the funds were eventually spent. Prior to the drawdown, HUD repeatedly advised the Authority that any funds that were not spent by February 6, 1998 would be recaptured.

Creditor	Account	Date Due	Amount Due
Final Draw Down	9120	2-6-98	\$ 282,999
	9150	2-6-98	74,442
	9160	2-6-98	194,902

	9170	2-6-98	20,355
Total			\$ 572,698

LOCCS Requisitions Were Not Related To Program Expenditures

Deficiencies Noted

The amounts listed on the Authority’s LOCCS requisition were not related to the funds needed for expenditures in the next seven days. The amounts represented the available balance in each budgeted line item. Conversely, the Authority did not receive invoices from at least one contractor for grant services which had been provided prior to the February 6, 1998 deadline and could have been charged to the PHDEP.

The Authority had an agreement with a service provider (supported by the 1995 PHDEP grant) which covered the period from September 29, 1997 through January 31, 1998. The service provider submitted five invoices under the agreement totaling \$40,908. However, the invoices were not received at the Authority until June 23, 1998, nearly five months after the grant deadline. These costs are not eligible because the Authority used 1996 PHDEP funds to pay for the services and the agreement with the service provider was executed in conjunction with the 1995 PHDEP.

As illustrated in the examples which follow, the Authority expended over \$331,000 of the final 1995 PHDEP draw to purchase computer equipment for Authority residents and police vehicles. Payments for these purchases were made as long as five months after the February 6, 1998 grant termination date. By that time, all funds which were not spent should have been recaptured. The Authority was aware of the recapture requirements. It received repeated instructions from HUD regarding the grant’s termination requirements but drew down all the remaining grant funds just prior to the termination date anyway, inaccurately reported in close out reports that all funds were expended, and provided instructions to vendors to bill the Authority as soon as possible.

Program Funds Were Used For Items That Did Not Benefit Authority Residents

Personal Computer Purchases

In addition to using funds that should have been recaptured, other funds were used for items which did not fully benefit the

Finding 1

Authority's PHDEP or residents. The Authority spent \$115,482 of the final requisition for computer equipment to be used in conjunction with two organizations: the Manchester Technology Center and Information Renaissance, a local non-profit organization that had received various contracts to create neighborhood networks and community computer programs throughout Pittsburgh.

PO	Ordered / Paid	Purchase	Amount	Instructions to Vendor
11585	2-11-98 3-26-98	3 Printers 3 Scanners	\$ 7,041	Invoice as soon as possible. Hold equipment until requested
11587	1-28-98 4-2-98	4 Servers 19 Computers	59,697	Invoice as soon as possible. Hold equipment until requested
12667	2-6-98 4-2-98	34 Computers	48,744	Invoice as soon as possible
Total			\$115,482	

The Authority has canceled contracts with Information Renaissance but had not yet secured release of all computer equipment. Additionally, according to the Center's Director, the Authority's Executive Director stated the Center is limited to Manchester residents, and this precludes all but 45 Authority HOPE VI families from participating in the Center's programs. It should also be noted that the Authority's 1995 PHDEP grant close out report that was submitted to HUD incorrectly reported that the Center's resources were available to all Northside communities of the Authority.

Police Vehicle Computer Purchases

The Authority spent \$215,831 for police vehicle computers. The invoice was eventually paid on July 23, 1998, over five months after the February 6, 1998 PHDEP termination date.

PO	Ordered/ Paid	Purchase	Amount	Instructions to Vendor
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12523	1-28-98/ 7-23-98	20 Computers & Service Agreements	\$215,831	EDD 4-1-98 Please Invoice by 2-2-98
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On February 6, 1998, the final day 1995 PHDEP funds could be drawn down, an Authority Grant Manager wrote an internal memorandum regarding the vendor invoice. The memorandum stated that the purchase was to be paid from 1995 PHDEP funds after the computers were delivered by the expected date of April 1, 1998. According to the vendor, the Authority stated they needed to show the funds were obligated by the February date or the funds could not be spent.

The Authority Did Not Properly Account For PHDEP Costs

PHDEP funds not accounted for separately

The Authority did not properly account for or control PHDEP costs. PHDEP funds were deposited into and related disbursements were made from the Authority’s General Fund Account. Periodically, the Authority’s Finance Department would requisition funds from LOCCS to reimburse the General Fund Account for expenses that had previously been recorded in the PHDEP general ledger accounts. Because of the large number of employees who charged expenses to the PHDEP, the difficulty in relating requisitions to expenditures, and the unexplained or poorly explained adjusting entries, the Authority was unable to provide documentation to support the amounts and eligibility of many PHDEP costs.

LOCCS transactions were reviewed based on documentation prepared and provided by the Authority. Because HUD funds are to be made available based on actual need, the Authority should have been able to provide documentation that supported each LOCCS requisition. Nevertheless, there were instances in which the sum of the documentation provided did not agree with the amount of the requisition. Since much of the supporting documentation provided by the Authority for the sampled transactions did not mathematically agree with the total LOCCS draws, we could not be assured that the documentation provided represented support for that specific requisition.

To cite one example, the Authority could not provide adequate documentation to support the \$22,006 that was obtained in connection with LOCCS Draw No. 41 for PHDEP Year 1996

(budget line item 9160). Instead the Authority provided a spreadsheet that contained a total of \$60,208 in expenses that was used for three separate LOCCS draws. Also, we noted the same documentation on the spreadsheet was used to support another \$17,755 draw included in our review. After discussions with the Authority, we concluded that it did not know what costs were charged to PHDEP expense accounts. Also, the Authority was unable to explain its own adjusting entries. The Assistant Director of Funding and Budget found the supporting documentation for the adjusting entries confusing. Supporting invoices did not reconcile with the amounts paid, as adjustments were made that were not noted on the original invoices. Also, there were interoffice memorandums submitted for payment with no receipts attached. Consequently, in some instances, a paper trail was not available to document adjustments and PHDEP expenses. These problems could have been mitigated if the Authority accounted for PHDEP funds separately.

The Authority Made
Program Changes Without
HUD Approval

PHDEP changes not approved

The PHDEP grant agreement provides in pertinent part that the Authority shall “not make or cause to be made any changes to the services (as described in its application) without express written consent by HUD, the granting of which consent shall be in the sole discretion of HUD.” However, the Authority made changes in the services listed in the applications submitted for each grant year without HUD’s expressed written consent. As a result, costs for services that were not eligible were paid for with PHDEP funds. For example, the Authority improperly paid bonuses to staff. Sampled transactions also included bonuses which were paid to Police Department employees for achieving accreditation status as well as the payment of bonuses for other achievements, such as being named employee of the year. Regulations prohibit the use of PHDEP funds for cash awards.

The Authority did not follow the terms of the grant agreement and said it interpreted a letter received from HUD in such a manner that allowed it to make numerous adjustments to PHDEP services. The Authority erroneously believed funds from one PHDEP year could be used to pay for expenses if the activity was included in the application of another PHDEP year.

The Authority also mistakenly believed a substitute activity could replace an activity included in the application as long as it was otherwise eligible. In cases such as these, the Authority needed to receive written consent from HUD before implementing the PHDEP changes.

The PHDEP grant agreement states: “The grantee shall designate in writing a person to act as the grantee’s representative (Project Manager) with respect to the services and ...agreement.” Contrary to the grant agreement, the Authority did not designate a grant manager in writing. Consequently, there was no one person with overall responsibility for implementing the PHDEP and this significantly weakened PHDEP controls.

According to the Associate Director of Finance, over 300 persons in 16 Authority departments have computer access to request and charge expenses of up to \$150 to the PHDEP. Sometimes there are several employees in a department charging expenses exceeding \$150. The Associate Director of Finance also indicated Authority staff are not always aware of PHDEP rules and regulations.

According to the Associate Director of Finance, prior to her arriving at the Authority in November 1997, accounts payable, accounts receivable and bank accounts were not reconciled. Also, rules, regulations and educational material regarding the proper charges to the PHDEP were not distributed. Purchasing, accounting and funding communications did not have guidelines on the eligibility of grant expenditures. Finally, the Police Chief and the Director of Communications did not review and monitor charges posted to their budgets. Finance was called to prepare budget reports when needed. As a result of the poor internal control practices, the Authority is unable to effectively control PHDEP expenditures. In addition to the previously cited examples, we noted numerous other deficiencies. Detailed correspondence and summary spreadsheets addressing all cited deficiencies and related expenditures were provided to the Authority.

The Authority generally agreed with the recommendations and stated the audit helped identify significant problems with its policies and procedures. The Authority also stated the finding spurred it to conduct a comprehensive review of their Finance and Resident Relations Departments. The Director of Resident Relations has been appointed as the Grant Manager.

Regarding the ineligible and unsupported expenditures: the Authority concurred that \$68,228 of costs that were reported as unsupported were ineligible and will be returned to the program. The Authority believed that it was in substantial compliance with its grant agreements and, therefore, the remaining \$820,405 of ineligible and unsupported expenditures warranted additional discussion. Finally, the Authority stated that it embraces change when needed to reach the goals and standards set by the Board of Directors and the Executive Director.

OIG Evaluation of
Auditee Comments

The Authority is to be commended for its willingness to recognize that there have been problems implementing the PHDEP. By acknowledging the need for change the Authority has taken the first step towards correcting deficiencies noted during our review. We disagree, however, that the Authority was in substantial compliance with its grant agreements. There are areas in which the Authority has not acknowledged its responsibility. For example, funds must be spent within the period allowed by the grant agreement and not merely obligated. Also, the Authority must implement its PHDEP as provided for in its application or receive approval from HUD to revise its application. We reviewed the ineligible and unsupported costs that were in the draft finding as a result of additional documentation that was provided by the Authority. While the Authority said that the Director of Resident Relations has been appointed as Grant Manager, recent personnel actions has made the state of this appointment unclear.

Recommendations

We recommend you:

- 1A. Not consider the Authority for any future PHDEP funding until it has demonstrated the ability to properly manage and account for funds.
- 1B. Require the Authority to obtain your office's approval before drawing down additional funds in connection with its existing PHDEP.

These conditions should remain in effect until the Authority: designates a grant manager with overall PHDEP responsibility; establishes a separate bank account for PHDEP funds; provides a complete accounting for 1994 through 1996 PHDEP funds for your review; and has demonstrated the capacity to properly manage a PHDEP as provided for in the recommendations which follow.

We further recommend that you have the Authority:

- 1C. Provide documentation that it has designated a grant manager with overall PHDEP responsibility as stated in the grant agreement and establish and maintain a separate bank account to control PHDEP funds.
- 1D. Repay the PHDEP \$500,912 and \$387,002 of ineligible and unsupported costs, respectively, unless the authority can properly support the questioned items.
- 1E. Provide schedules to account for all 1994, 1995 and 1996 PHDEP funds. A separate schedule should be prepared for each PHDEP year and include, at a minimum, the vendor name and amount. Documentation should be available to enable a review of any entry on the schedule sufficient to determine the eligibility of the expenditure.
- 1F. Establish controls that limit the number of employees who have the ability to requisition PHDEP funds and require expenses to be compared with the application and any budget revisions for eligibility prior to disbursement of PHDEP funds.

- 1G. Identify all cash awards paid with PHDEP funds and reimburse the PHDEP from the appropriate funding source.

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring PHDEP performance.

Relevant Management Controls

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

- Activity and cost eligibility
- Fiscal management
- Timeliness of expenditures

We assessed all of these relevant control categories to the extent they impacted on our audit objectives.

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

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- The Authority did not have a system to ensure proper cash management and use of budgetary control over expenditures.
- The Authority did not have a system to ensure costs were incurred for eligible activities, properly supported by appropriate source documentation, and were allocable as Grant expenditures.

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Follow Up On Prior Audits

The most recent prior audit report of the Authority's PHDEP was issued on June 30, 1992 (Report Number 92-PH-209-1007). All of the recommendations in this report have been closed.

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Schedule Of Ineligible and Unsupported Costs

LOCCS Draw			Explanations					
Year/ Draw No./ BLI	Ineligible 1/	Unsupported 2/	1	2	3	4	5	6
1996 / 023 / 9160	\$17,755			X				
1995 / 079 / 9120	\$226,572					X	X	
1994 / 080 / 9120		\$2,707	X					
1995 / 079 / 9160	\$115,589				X	X	X	
1995 / 079 / 9160	\$208		X		X	X	X	
1995 / 079 / 9160	\$25,334					X	X	
1995 / 079 / 9160	\$10,050		X			X	X	
1995 / 079 / 9160		\$14,595	X					
1995 / 079 / 9160		\$14,718			X			
1995 / 079 / 9160		\$30,500	X		X			
1995 / 061 / 9120	\$1,370	\$289	X					
1996 / 041 / 9120	\$1,567	\$767	X					
1994 / 106 / 9170	\$3,645				X			X
1994 / 106 / 9170		\$614			X			
1994 / 106 / 9170	\$300	\$1,107	X					
1996 / 041 / 9170	\$2,667	\$17,755	X					
1996 / 041 / 9170		\$875			X			
1996 / 025 / 9160		\$32,033			X			
1995 / 062 / 9160		\$24,465			X			
1995 / 047 / 9160		\$686	X					
1995 / 079 / 9150	\$18,375					X	X	
1995 / 079 / 9150	\$1,288	\$1,043	X					
1995 / 079 / 9170	\$2,069				X	X	X	
1995 / 079 / 9170	\$9,366		X			X	X	
1995 / 079 / 9170	\$941		X		X	X	X	
1995 / 079 / 9170		\$337	X		X			
1995 / 079 / 9170		\$2,136	X					
1994 / 105 / 9170		\$59,223	X					
1994 / 080 / 9170	\$92	\$400	X					
1995 / 061 / 9180	\$157	\$10,332	X					
1995 / 019 / 9120		\$763	X					
1995 / 029 / 9120	\$10,296			X				
1995 / 029 / 9120		\$1,447	X					
1996 / 029 / 9160		\$23,231	X					
1996 / 037 / 9160		\$59,429			X			
1996 / 037 / 9160		\$10,850			X			
1996 / 041 / 9160	\$8				X			X
1996 / 041 / 9160	\$20,242	\$12,500	X					
1996 / 052 / 9160		\$25,626	X		X			
1996 / 057 / All BLI	\$6,093	\$4,985	X					
1996 / 057 / All BLI	\$26,928	\$33,589	X		X			
	<u>\$500,912</u>	<u>\$387,002</u>						

Schedule Of Ineligible and Unsupported Costs

Explanations:

1. Insufficient documentation to determine eligibility.
2. Duplicate draw.
3. Not included in PHDEP Application.
4. Funds expended after Grant expiration.
5. Funds expended more than 7 days after draw.
6. Expenditures for other Authority operations. Not chargeable to PHDEP.

Footnotes:

- 1/ Ineligible amounts are not allowed by law, contract, HUD or local agency policies or regulations.
- 2/ Unsupported amounts are not clearly eligible or ineligible but warrant being contested (i.e. lack of satisfactory documentation to support the eligibility of the costs).

Auditee Comments



Housing Authority of the City of Pittsburgh

ADMINISTRATIVE OFFICES
200 ROSS STREET
PITTSBURGH, PA 15219
412) 456-5000

August 27, 1999

David J. Niemiec
Acting District Inspector General for Audit
U. S. Department of Housing and Urban Development
Wanamaker Building Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

Dear Mr. Niemiec:

The Housing Authority of the City of Pittsburgh ("HACP") has carefully reviewed your draft letter dated July 14, 1999 regarding the draft findings on your review of our Drug Elimination Grant Program ("DEG"). In fact, we were very concerned about the issues raised in your draft findings. Accordingly, we established a team consisting of our outside auditors, Maher Duessel, a management consulting firm, Casterline Associates and selected HACP staff to review all documents associated with your letter and report. This team has documented its review and helped compile additional data in response to your findings.

Attached is the report submitted by our team. This report includes a line by line response to each questioned cost. When HACP believed additional support was available to substantiate a questioned cost this item was noted. We believe that much of the information which you questioned was available, but not provided to you. Accordingly, we believe that HACP was in substantial compliance with its grants. Your findings did, however, highlight flaws in our systems and procedures.

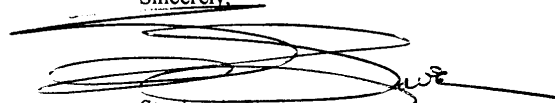
Please be advised that your findings spurred us to make a full review of our finance department and resident relations department. After putting out an RFP, we have engaged Donnelly-Boland Associates and Casterline Associates to review our finance department and assist us in setting better policies and procedures. We are now in the process of procuring an outside consultant to review our resident relations department as well.

We respectfully request a meeting between the DEG team and the OIG office to discuss the additional documentation and our response before your formal reporting.

David J. Niemiec
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August 27, 1999

If you have any questions, please contact my office at (412) 456-5012.

Sincerely,



Stanley A. Lowe
Executive Director

HOUSING AUTHORITY OF THE CITY OF
PITTSBURGH

DRUG ELIMINATION GRANT REVIEW

AUGUST 27, 1999

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH – OIG RESPONSE

I. HUD Precedent

The U.S. Department of Housing and Urban Development (HUD) has approved Drug Elimination Grants (DEG) for the Housing Authority of the City of Pittsburgh (HACP) since 1991. The purpose of these programs is to eliminate drug-related crime and problems associated with it in and around the premises of public housing developments. Also, these programs help encourage public housing authorities to develop a plan that includes initiatives that can be sustained over a period of several years for addressing drug-related crime and problems associated with it in and around the developments. Finally, these programs help make available Federal grants to help public housing authorities carry out their plans.

With the advent of the DEG Programs, each grantee is responsible for ensuring that grant funds are administered in accordance with all guidelines promulgated by HUD, Congress or the Office of Management and Budget (OMB).

DEG regulations permit HUD to grant an extension of the grant term in response to a written request, which sets forth the need for the extension, and indicating the additional time required. HUD, prior to the termination of the grant, must receive all extension requests. HUD must approve such extensions.

A. November 25, 1997 Letter

HACP received a letter dated November 25, 1997 (attached as Exhibit A) from HUD that outlined time extensions for the 1994, 1995 and 1996 DEG Programs. The 1994 grant was due to expire on November 10, 1996, but was extended until January 10, 1998. The 1995 grant was due to expire on July 17, 1997, but was extended until February 6, 1998. These extensions exceed the six (6) month maximum generally permitted by HUD. All of the foregoing extensions were submitted to and approved by HUD.

HUD granted the extensions due to the significant amount of funding still unspent as of November 25, 1997. The HUD letter specified both formal and informal budget revisions in order to permit improved utilization of the funds for the benefit of HACP residents. The letter specifically stated that work items in the later grants that could be accomplished immediately could be transferred to the earlier grants and work items in the earlier grants that require additional time could be transferred to the later grants.

Based on the letter dated November 25, 1997, HACP believed that line items from later years could be moved forward and expended in years that differed from the original grant application. The OIG review questioned numerous expenditures that were originally obligated in one grant year, but were subsequently moved to another grant year based on this letter (see appendices for detail).

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH – OIG RESPONSE

B. December 8, 1993 Letter

Another example of conflicting information received from HUD pertains to a letter HACP received dated December 8, 1993 (attached as Exhibit B). HACP was granted a grace period for paying invoices that were outstanding as of December 1, 1993. This applied only to approved grant activities that were completed by the deadline. This grace period ended on December 15, 1993 and was for the 1991 DEG Program. HUD went on to state that all funds that were not expended as of December 15, 1993 were to be recaptured.

Due to the previous latitude that the field office afforded HACP regarding the obligation and subsequent expenditure of DEG invoices, additional latitude was anticipated for the 1994, 1995 and 1996 DEG programs.

HACP believes it should be entitled to rely on the statements made by HUD. In fact, HACP did rely on the foregoing letters. The overall total questioned expenditures in the IG Audit were \$888,633. Of the total expenditures questioned by the IG, the two letters received from HUD accounted for 80% or \$709,721 of this amount.

HOUSING AUTHORITY OF THE CITY OF PITTSBURGH – OIG RESPONSE

II. Expenditures Identified in the IG Audit

During the Inspector General (IG) Review a sample of expenditures was tested to determine if the expenditures were acceptable under the DEG Program requirements. If a tested expenditure was identified for further follow up it was classified in the following manner by the Inspector General:

- Insufficient documentation to determine eligibility,
- Duplicate drawdown,
- Not included in Drug Elimination Grant Application,
- Funds expended after Grant expiration,
- Funds expended more than seven (7) days after drawdown,
- Expenditures for other Authority operations. Not chargeable to Drug Elimination Program.

HACP has now had the opportunity to review the expenditures identified by the IG. HACP has thoroughly researched this list to determine if any additional support exists for the questioned expenditures. The results of our research are included in the attached Appendix I and II. Appendix I contains all expenditures that were identified for further follow up as either unsupported or ineligible. A copy of the OIG's spreadsheet has been modified to include additional background information that may not have been available at the time of the IG review. This document has been revised further to include HACP's position as it relates to the expenditure. Appendix II contains a summary by budget category of the questioned expenses with an adjusted dollar amount based on new information.

HACP understands the explanations identified by the IG. We believe that we have uncovered information concerning a majority of the questioned costs which supports the actions originally taken by HACP. Appendix II summarizes all questioned expenditures. The summary is broken into three categories for the questioned expenditures: (1) HACP disagrees with the finding, (2) HACP believes further discussion is warranted to present its position, (3) HACP agrees with the finding. The IG classified some expenditures in multiple categories. The appendix identifies the multiple areas that any expense may be located. These items must be discussed in further detail with the IG. During HACP's follow up review additional data was obtained in response to the expenditure categories outlined by the IG review. These are as follows:

- **Insufficient documentation to determine eligibility:** periodically the IG identified expenditures that did not have enough support to determine if they were eligible under any of the DEG programs. Our review has identified additional information that could not be located at the time of the IG review. This information helps identify why an expense was charged to the DEG program.

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- **Duplicate drawdown:** there were two drawdowns that appeared to be duplicate in nature. HACP received invoices for expenditures that were included in funds drawn for one DEG Program/line-item. After further review by HACP, the expenditure was determined to be better suited for another DEG Program/line-item. The invoice was then presented as support for this second requisition. This process does appear to be a duplicate draw however, it was effectively corrected by later actions. Please note the General Ledgers (G/L) for all DEG Programs in question include expenditures to support all funds requisitioned for each program. The GL's do not have duplicate expenditures charged to them nor do they have expenditures in total that exceed the approved grant amounts.
- **Not included in the Drug Elimination Grant Application:** the expenditures that were identified by the IG under this heading may not have appeared in the original application, though at times the original application was general in nature. Many of these expenditures met the general nature of the grant application and subsequent revisions. Also, many of the expenditures met the DEG Program objectives as outlined in the application and subsequent budget revisions. When possible documents have been obtained to support HACP's position. Additionally, HACP relied on the letter dated November 25, 1997 from the Pittsburgh Area HUD Office in order to move expenditures from one grant year to another grant year.
- **Funds expended after Grant expiration:** the IG review has identified invoices that were paid after the Grants had expired. HACP believes the expenditures were for valid DEG Programs. Further, we do not believe the issue of validity is in question here, the issue in question is the timing of the payment. HACP agrees that invoices were paid after the Grants had expired, though the purchasing process was initiated, if not completed, prior to the end of the Grant term. The timing of the payment was due to slow invoicing by our vendors and service contractors. HACP did not allow a payment to vendors unless all supporting documentation was attached to the invoice and/or until the delivery of goods was confirmed.
- **Funds expended more than 7 days after drawdown:** the IG review has identified invoices that were paid more than 7 days after the drawdown. Again, this was necessary due to the timing of the receipt of all invoices. HACP has Accounts payable procedures that preclude the payment of an invoice until all documentation regarding the invoice has been received and/or proof of delivery. Though funds were requisitioned at the end of each Grant year in an attempt to avoid the recapture of funds, HACP had already, at a minimum, initiated its purchasing process.
- **Expenditures for other Authority operations. Not chargeable to Drug Elimination Program:** after further review of these expenditures, HACP

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is in agreement that these expenditures are not chargeable to the DEG Programs.

Please refer to Appendix I, which contains a detailed listing of the ineligible or unsupported costs as outlined by the IG along with the reasons for these determinations. HACP has supplemented this listing with various classifications that detail the reason behind the program charged, HACP's adjusted ineligible or unsupported costs and a brief description as to why HACP believes the cost should or should not be included in the listing. These expenditures were classified in the following manner by HACP:

- **Validation subsequently demonstrated:** additional documentation has identified in our subsequent review that can support HACP's classification of expenditures. HACP recognizes that the level of assistance needed during the IG's review was not always sufficient. Due to this fact, data that should have been presented to the IG was not. HACP has attempted to rectify this with the spreadsheets provided in the Appendix. Further discussion regarding these and all the expenditures is requested.
- **Budget/program amended/revised:** the expenditure listed under this heading was included in a previous budget and or program amendment/revision. Due to the amendment or revision, this expense can be supported under the program charged. HACP believes that documentation is available to confirm that these expenditures met the general nature of the grant objectives.
- **November 25, 1997 letter allowing cost transfers:** based on a letter received from the Pittsburgh HUD Area Office, HACP believed that costs could be transferred between the various grant years. These transfers allowed HACP to expend prior grant year money more efficiently.
- **Procurement/obligation incurred; service performed before February 6, 1998:** goods/services were procured and/or obligated before the extension date for the 1995 DEG Program. For some services, HACP had difficulty receiving invoices before the end date of this grant, though work had been completed before the end date of this grant.
- **Program meets scope as understood:** it is understood that these expenses meet the program scope. Further discussion on these expenses is requested with the IG.
- **No service agreement but HACP can support charge:** though no service agreement can be located, HACP believes it can support this expense. Further discussion on these expenses is requested with the IG.
- **Other:** additional explanations have been identified that are miscellaneous in nature. Further discussion on these expenses is requested with the IG.

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HACP requests an opportunity to review this listing with the IG to discuss resolution of the items requiring further follow up.

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III. HACP Accounting and Program Procedures - Executive Summary

The IG analysis and review has helped identify significant problems with HACP's policies and procedures. Most of these problems were the result of breakdowns of procedures during major organizational and personnel changes and have since been corrected. The accounting firm of Donnelly-Boland and Associates and the management consulting firm of Casterline Associates have been procured to review and revise, as needed, all policies and procedures of the Finance Department to ensure that appropriate safeguards are in place. They will also assist in the interpretation of HUD regulations and completion of the Year 2000 budgets. The following describes the revised policies and procedures to be implemented by the HACP.

HACP has appointed the Director of Resident Relations as the Program Manager who will have the ultimate responsibility for the DEG Programs. The Program manager reports to the Deputy Executive Director of HACP. The Program Manager will work with the "Grant manager" and the "Grant Administrator." The Program Manager will be responsible for all applications, program/budget changes, and any expenditure charged to the DEG Programs. Additionally, the Program Manager will review and approve the monthly reconciliation of these programs. The Grant Administrator will provide the necessary "budget to actual" reports to facilitate this process and will prepare all Line of Credit Control System (LOCCS) requisitions.

On a daily basis, the Grant Manager will assist the Program Manager in the approval and payment of contracts and invoices. The Grant Manager will review contracts and invoices while assisting with the month end reconciliation process. Each month the Program Manager, the Grant Manager and the Grant Administrator will meet to review all expenditures and requisitions to the DEG Program. The Grant Administrator will input any adjustments approved at this meeting into the General Ledger. revised monthly reports will be created and approved by the Program Manager. The Program Manager will be responsible for compliance with all laws and HUD regulations, including all quarterly, semi-annual and annual reports to HUD.

The appointment of the Program manager consolidates all responsibilities of the DEG Programs to one individual. It was apparent that HACP did not have one individual responsible for the DEG Programs. The Program Manager will bring clarity to the DEG Programs.

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IV. Response to IG Draft Findings/Recommendations

Within the body of the text on page one, OIG stated **"no one at the Authority was given overall responsibility to ensure the Program operated as intended."** HACP concurs with the IG regarding overall responsibility of the program and has instituted a Program Manager to oversee all the DEG Programs. This individual will ultimately be responsible for the DEG Programs. As discussed in the previous section, the Program Manager will coordinate the program from the preparation of the grant application to the submission of the final closeout documents. The Program Manager will report to the Deputy Executive Director of HACP. The Grant Manager will oversee the day to day operations of these programs. The Grant Administrator will serve as the finance liaison.

Also page one discusses the IG expenditures and the fact that **"these costs represent 35 percent of the \$2.5 million in total costs that we reviewed for program years 1994, 1995 and 1996."** It must be noted that the sample used by the IG was not a random sample. A disproportionate number of expenditures incurred towards the end of each grant year were reviewed. Due to the fact that the sample was not random, it would be incorrect to assume that the remaining expenditures within these years cannot be supported. The detailed review of the questionable expenditures by HACP identified a majority of the questioned costs met the general conditions of the DEG Program requirements. Additionally, supporting documentation for a majority of these costs has been identified. HACP believes that further discussions with the IG will help reduce the amount of questioned expenditures documented in IG draft report.

Page two discusses **"drawn down funds not spent timely."** At times HACP requisitioned funds in advance of the receipt of all documents or goods. In these cases the work performed by a service provider was completed before the end date of the grant. Also, the procurement of goods was either begun and/or complete, or the invoice was received before the end date but the goods were still in transit. These timing issues forced HACP to requisition funds in advance of the receipt of the necessary documents or goods. HACP may have requisitioned funds in advance for some line items within the DEG Programs, though HACP also did not requisition Payroll/Benefits as timely as needed. While some requisitions may not have been spent timely, other expenditures (Payroll/Benefits) were not requisitioned as often as needed. This caused HACP to "float" these expenditures. The lack of timely requisitions had forced HACP to use their Operating Reserve to meet daily cash requirements. Throughout the grants the amount of funds that were not drawn timely equaled or exceeded the amount of funds requisitioned in advance.

Page three discusses **"personal computer purchases."** HACP purchased computers to create neighborhood networks throughout Pittsburgh. The program was in its infancy at Manchester, with plans to expand the program throughout the city. The contract with Information Renaissance has been cancelled and a majority of the computer equipment has now been returned to HACP. HACP's Legal Department is

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currently reviewing the contract with Information Renaissance. The movements of these costs to a future grant year must be discussed and reviewed with the IG.

Page four and five discuss **"program funds not accounted for separately."** HACP's General Ledger infrastructure separates each program year by fund. These funds have been maintained according to program requirements. These funds have had various journal entries transferred between them, though at no time did these entries affect the integrity of the funds. At this time a review of the General Ledger for each fund will demonstrate that the total expenditures charged to the fund ties to the total approved grant-funding amount. A separate bank account was requested in the IG report. HACP would like to discuss the nature of this with the IG.

Page five discusses the fact that HACP **"relied on a letter received from HUD to make numerous adjustments to program services."** This letter discussed "Work items in the later grants which can be accomplished immediately could be transferred to the earlier grants, and work items in the earlier grants which require additional time could be transferred to the later grants." HUD wrote the letter. HACP believed that, given the letter was from HUD, such a transfer was acceptable. Accordingly, HACP relied on HUD's letter in order to expend funds before the grant close out date.

Page six discusses a **"Program Manager."** HACP has identified the Director of Resident Relations as the Program Manager. This individual is responsible for compliance with all laws and HUD regulations, final approval of all applications/budgets and revisions, approval of accounts payable and service provider invoices. Also, the Program Manager is involved in the monthly G/L reconciliation process with ultimate approval authority. The Program Manager reports directly to the Deputy Executive Director.

Page six further discusses **"over 300 persons in 16 Authority departments have computer access to request and charge expenses of up to \$150 to the Drug Elimination Program."** HACP recognizes this statement and is in the process of reviewing internal control procedures as they relate to this issue. We note, however, that very few, if any, of the questioned costs relate to this issue.

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Page six and seven discuss "Recommendations."

Recommendation 1 A

"Not consider HACP for future Drug Elimination Programs." HACP should not be penalized for relying on HUD's field office, nor should its residents be penalized for HACP's poor bookkeeping. Instead, HACP has embraced the IG report. As discussed earlier, a Program Manager has been appointed with overall responsibility for the DEG Programs, current and future. Additionally, the ineffective procedures that existed during the 1994 - 1996 years have already been revised. With the review completed in response to this report and the subsequent procedure changes, HACP is capable of handling any and all future programs including Drug Elimination. Moreover, HACP has engaged Donnelly-Boland and Associates and Casterline Associates to completely review the structure of the Finance Department. HACP is also in the process of engaging a consultant to review Resident Relations. We believe that within six months, HACP will have sufficiently changed its procedures to be truly "Best in Class."

Through the years the DEG Programs have enabled HACP to increase its police force. In July of 1998, the HACP police force was certified by the Commission on Accreditation for Law Enforcement Agencies (CALEA). The HACP police force is one of only two such certified forces in Western Pennsylvania (along with the State Police). In 1995, HACP had 43 patrol officers and responded to 2,821 calls. In 1998, HACP had 68 patrol officers and responded to 10,277 calls. Increasing the police force is not the only area that the DEG Programs help assist, but it is an exceptional example of how the DEG Programs have helped HACP and its residents. Do not let procedural problems blind you to all the good work that has come from the DEG Program. Do not let HACP's procedures penalize its residents.

"Obtain field office approval before drawing down further funds for its existing Drug Elimination Programs." HACP will comply with this request. All copies of LOCCS requisitions can be supplied to the field office before the requisition is approved.

Recommendation 1 B

"Designate a grant manager with overall program responsibility and establish and maintain a separate bank account to control Program funds." The overall Program Manager has been identified by HACP and discussed in detail previously. Also, all expenses as they relate to the DEG Programs are identified by each specific grant year in separate funds on the HACP General Ledger. The separate bank account must be discussed with the IG.

"Repay the Program \$440,208 and \$448,425 of ineligible and unsupported costs . . ." HACP requests a meeting that would include the DEG review team, the OIG and anyone else OIG deems necessary to discuss and resolve the items identified for further follow up as ineligible and unsupported costs. As described in this response,

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HACP believes the additional documentation located during its subsequent research may help support some of the expenses. However, we acknowledge that there are some costs that cannot be supported. HACP respectfully requests that any disallowed costs be recaptured through a reduction of a current grant or future program awards.

"Provide schedules to account for all 1994 - 1996 Program funds." Schedules for all Program funds for 1994 - 1996 have been completed by the HACP DEG review team. These are available for review.

"Establish controls that: limit the number of employees who have the ability to draw Programs funds . . ." HACP is in the process of establishing the detailed controls recommended by the OIG. These have been discussed previously throughout this document.

"Identify all cash awards paid with Program funds and reimburse the Program . . ." All cash awards (bonus payments) have been identified with the appropriate action to be taken regarding the reimbursement of these funds. These can be found in the detailed expenditure listing in Appendix I and II. HACP's review identified cash awards taking place three times throughout the 1994 - 1996 programs.

At this point before a formal review with the IG, HACP has reviewed and reclassified the IG expenditures based on the additional data obtained. The basis for HACP's reclassifications is outlined in the previous pages. Additionally, as noted earlier, it appears that the IG may not have received the level of assistance from HACP as would be needed in this type of Audit. The DEG review team has had an opportunity to review these expenditures in more detail. This review has allowed the reclassification of expenses into the following categories: (1) HACP disagrees with the finding - \$59,061.38, (2) HACP believes further discussion is warranted to present their position - \$761,344.35 and (3) HACP agrees with the finding - \$68,227.56. This information can be reviewed in detail in the attached Appendix.

HACP would like to thank the Office of the Inspector General and the Pittsburgh Area HUD Office for their time spent on this project. We believe that the report will help HACP in the present and future. As noted throughout this report, the DEG review team has completed a detailed evaluation of the Drug Elimination Program. This evaluation has enabled HACP to confirm those activities that are working and provided HACP the opportunity to identify those areas that need assistance.

HACP is becoming a model housing agency. It is a high performer, with a 92.5 score on PHEMAP. It's HOPE VI Programs are on the cutting edge and HACP has been selected to serve as a model Moving to Work site. These programs and the multitude of new innovations that these programs can bring will only help catapult HACP to truly become "Best in Class." HACP will embrace change when change is needed to reach the goals and standards set by our Board of Directors and our Executive Director.

Distribution

Executive Director, Housing Authority of the City of Pittsburgh, 200 Ross Street, Pittsburgh, PA
15219

Secretary's Representative, Mid-Atlantic, 3AS

Pittsburgh Area Coordinator, 3ES

Director, Office of Public Housing, Pittsburgh Area Office, 3EPH

Principal Staff

Assistant Deputy Secretary for Field Policy and Management, SDF (Room 7108)

Deputy Chief Financial Officer for Finance, FF (Room 2202)

Director, Office of Budget, FO (Room 3270)

Audit Liaison Officer, 3AFI

Audit Liaison Officer, Office of Public and Indian Housing, PF (Room 5156)

Departmental Audit Liaison Officer, FM (Room 2206)

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Sharon Pinkerton, Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug Policy
and Human Resources, B373 Rayburn House Office Building, Washington, DC 20515

Director, Housing and Community Development Issue Area, U.S. GAO, 441 G Street N.W.,
Room 2474, Washington DC 20548 Attn: Judy England-Joseph

The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340 Dirksen Senate
Office Building, United States Senate, Washington, DC 20510

The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn
Building, House of Representatives, Washington, DC 20515

The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706
Hart Senate Office Building, United States Senate, Washington, DC 20515

Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212,
O'Neil House Office Building, Washington DC 20515

Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn
Building, House of Representatives, Washington, DC 20515

Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17th Street, NW,
Room 9226, New Executive Office Building, Washington, DC 20503

Ms. Carolyn G. Bowden, General Accounting Office, Deputy Director for Planning and
Reporting/Operations, GAO FraudNET, P.O. Box 1736, Washington, DC 20013