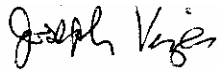




Issue Date May 24, 2007

Audit Report Number 2007-NY-1006

TO: Edward T. De Paula, Director, Office of Public Housing, 2FPH

 for

FROM: Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: The Housing Authority of the City of Asbury Park, Asbury Park, New Jersey,
Requires Improved Controls over Capital Funds, Salaries, and Maintenance

HIGHLIGHTS

What We Audited and Why

In response to a request by the U.S. Department of Housing and Urban Development (HUD) Newark field office director, who was concerned about the physical condition of the units and mismanagement at the Housing Authority of the City of Asbury Park (Authority), we audited the Authority's Public Housing Capital Fund and public housing programs. The objectives of the audit were to determine whether (1) capital funds were properly expended and obligated in accordance with HUD requirements, (2) salaries and related benefits allocated to different programs were reasonable and supported, and (3) controls over maintenance and repairs were adequate.

What We Found

The Authority did not adequately administer its capital grant program. It did not (1) disburse funds for administrative costs within budget limitations, (2) obligate capital grant funds in a timely manner, and (3) use prudent procurement practices. These deficiencies occurred because the Authority did not have adequate procedures in place to ensure that limits on administrative costs were not exceeded, capital grant funds were obligated within 24 months, and procurements were made in a cost-effective manner. As a result, \$692,990 in capital funds was used for ineligible expenses, \$721,701 was not obligated in a timely manner, and

the funds were not available to address the Authority's needed capital improvements.

The Authority's employee compensation cost was not always reasonable and supported. Specifically, contrary to its annual contributions contract and union contract, the Authority (1) failed to reduce the salaries of employees who were demoted and (2) paid maintenance workers ineligible and overtime expenses, which exceeded budget limits. This noncompliance occurred because Authority officials believed that the employees, who were demoted performed additional tasks, may have misinterpreted the union rules on providing overtime, and failed to establish procedures to ensure that budgeted overtime was not exceeded. As a result, the Authority paid \$48,246 in unreasonable salaries and exceeded its overtime budget by \$142,093, of which \$65,312 was ineligible.

The Authority does not have adequate controls in place to ensure that its preventive maintenance program is effective. As a result, it did not operate in a manner that promoted the serviceability of the projects. This inadequacy occurred because the Authority's staff was not skilled enough to complete some repairs and the repairs were not inspected to ensure that they were adequately completed.

What We Recommend

We recommend that the director, New Jersey Office of Public Housing, instruct the Authority to (1) reimburse HUD for the \$692,990 in excess administrative fees charge to the capital fund grant, (2) reimburse HUD \$721,701 related to the untimely obligation of capital funds, (3) comply with federal procurement requirements to ensure that the Authority procures its goods and services in the most economical manner, (4) request the Authority to repay \$190,339 for excessive employee compensation from nonfederal funds, and (5) develop and implement procedures to ensure units meet uniform physical condition standards and repairs are completed and inspected before closing the work order.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the results of our review during the audit and at an exit conference held on April 12, 2007. On April 18, 2007, Authority officials provided their written comments and an audio cassette of a May 27, 2004, board of commissioners meeting. The complete text of the Authority's response, along with our evaluation of that response can be found in Appendix B of this report. The cassette can be made available upon request.

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BACKGROUND AND OBJECTIVES

The Housing Authority of the City of Asbury Park (Authority) was established in 1938 after the passage of the Federal Housing Act of 1937 to build and manage public housing developments for residents of the City of Asbury Park. The Authority's board of commissioners is comprised of seven members who serve five-year terms; one member is appointed by the mayor, five members are appointed by the city council, and one member is appointed by the New Jersey Department of Community Affairs as delegated by the governor. The executive director of the Authority is Mr. Stanley Smith.

The Authority owns approximately 586 low-income housing units and assists an additional 278 families through the Section 8 Housing Choice Voucher program. It reported total operating revenue of more than \$5 million for the period ending December 31, 2005.

We received a request for audit from the U.S. Department of Housing and Urban Development (HUD) Newark field office director concerning the physical condition of the low-rent units and the management of the Authority.

The objectives of the audit were to determine whether (1) capital funds were properly expended and obligated in accordance with HUD requirements, (2) salaries and related benefits allocated to different programs were reasonable and supported, and (3) controls over maintenance and repairs were adequate.

RESULTS OF AUDIT

Finding 1: Controls over the Authority's Capital Grant Program Were Inadequate

Contrary to federal regulations, the Authority did not adequately administer its capital grant program. Specifically, it did not (1) disburse funds for administrative costs within budget limitations, (2) obligate capital grant funds in a timely manner, and (3) use prudent procurement practices. These deficiencies occurred because the Authority did not have adequate procedures in place to ensure that limits on administrative costs were not exceeded, capital grant funds were obligated within 24 months, and procurements were made in a cost-effective manner. As a result, \$692,990 in capital funds was used for ineligible expenses, \$721,701 was not obligated in a timely manner, \$126,438 in excessive costs was incurred, and the funds were not available to address the Authority's needed capital improvements.

Administrative Costs and Disbursements Exceeded Budget Limits

The Authority charged administrative costs in excess of budget limits for its capital grant program. Its capital grant detail reports and general ledgers showed that salary and benefit contributions for different employees were allocated its management improvements account instead of its administration costs account. Thus, the administration salaries and benefits of the Authority's after school program employees, director of social and public relations, assistant director of public housing, maintenance workers, and security guards were charged to management improvements. As a result, the Authority charged the capital fund for more administrative costs than it would have been able to under HUD's current regulations.

According to 24 CFR [*Code of Federal Regulations*] 968.112(n), Administrative Costs, "...notwithstanding the full fungibility of work items, a PHA [public housing authority] shall not use more than a total of 10 percent of its annual grant on administrative costs in account 1410 [administrative costs]...unless specifically approved by HUD."

The Authority charged the capital fund program \$692,990 in excessive administrative costs (see table below). We calculated the amount by identifying the administrative cost balances charged to the fiscal years 2001 through 2003 capital grants, adjusting those balances to reflect the administrative costs that were misclassified as management improvement costs (account 1408), and then applying the 10 percent administrative costs limit established by 24 CFR 968.112(n).

Fiscal year	2003	2002	2001	Cumulative total
Annual grant amount	\$1,128,270	\$1,453,249	\$1,521,976	\$4,103,500
Mar. 31, 2006, administrative costs balance line 1410	\$121,102	\$ 82,630	\$231,560	\$435,292
Misclassified administrative costs charged to management. improvements line 1408	166,847	211,877	289,324	668,048
Adjusted administrative costs balance	287,949	294,507	520,884	1,103,340
Less: administrative costs limit 10% of annual grant amount	<112,827>	<145,325>	<152,198>	<410,350>
Excessive administrative costs	\$175,122	\$149,182	\$368,686	\$692,990

The Authority did not seek permission or guidance from HUD before exceeding the 10 percent limit on administrative costs that could be charged to capital grant funds. Therefore, the \$692,990, which was charged in excess of the 10 percent limitation, is considered ineligible costs that should either be reimbursed from the low-rent public housing program or reduced from future capital grant funds. If the Authority established and implemented appropriate controls to ensure that administrative costs were properly recorded and the limits on administrative cost were complied with, an annual cost avoidance of \$230,997 could be realized; this represents one-third of the excess charges.

A Total of \$721,701 Was Not Obligated within 24 Months

The Authority's management did not obligate \$721,701 from its fiscal year 2002 grant before the May 30, 2004, deadline imposed by HUD. According to 24 CFR 968.125, "all approved funding must be obligated within two years of approval and expended within three years of approval unless HUD approves a longer time period in the PHA's implementation schedule... HUD may approve a longer time period for such reasons as the large size of the grant or the complexity of the work."

The Authority requested HUD to extend the obligation deadline for its fiscal year 2002 capital grant from May 30 to October 30, 2004. The Authority's extension request stated that the previous executive director mismanaged the Authority's Public Housing Capital Fund program and that the program's records were difficult to locate and understand. However, HUD denied the extension request after evaluating the request.

After the extension request was denied, the Authority speedily obligated the remaining capital funds. A review of HUD's Line of Credit Control System showed that the Authority's percentage of obligated capital grants rose from 47 percent to 100 percent during the period March 30 to May 30, 2004.

The Authority cited two major contracts for capital improvements that it awarded before the May 30, 2004, deadline to obligate the capital funds. However, a review of its procurement records disclosed that the Authority entered into the contracts well after the May 30, 2004, deadline. Specifically, on June 21, 2004, the Authority entered into one contract for roofing services in the amount of \$379,390; this contract was executed 22 days late. Further, a second contract was entered into on September 1, 2004, in the amount of \$852,258 for the installation of fire and emergency systems; this contract was approximately four months after the deadline. The Authority then charged \$338,862 for the first contract and \$382,839 for the second contract to its fiscal year 2002 capital grant for total charges of \$721,701. Consequently, since these costs were obligated more than 24 months after funding approval, they were ineligible. These deficiencies occurred because the Authority lacked adequate controls to ensure that all capital funds were obligated within 24 months from when the funds were approved. As a result, needed capital improvements were not made in a timely manner.

Prudent Procurement Practices Were Not Followed

In fiscal year 2004, the Authority paid \$126,438 for interconnected smoke detectors in excess of the reasonable price determined by the Authority's external architects and planners. This excess expenditure occurred because the Authority did not follow the recommendations of its architects and planners. It hired an architectural firm to receive and evaluate different contractor bids for installing interconnected smoke detectors at seven low-rent public housing developments. The architects concluded that the Authority could save \$126,438 on the installation of interconnected smoke detectors if it divided the project into two contracts and awarded them to two different contractors.

Regulations at 24 CFR 85.36(b4), Procurement Standards, provides that the grantee and subgrantee will provide for a review of proposed procurements to avoid purchase of unnecessary or duplicative items. Consideration should be given to consolidating or breaking out procurements to obtain a more economical

purchase. Also, Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when government units or components are predominately federally funded.

Despite the above requirements and the advice of its architects, the Authority entered into a contract for the installation of smoke detectors without obtaining the most economical purchase price. The Authority's modernization consultant indicated that there was a need to obligate funds in a timely manner and that an attorney had said it was not legal to divide the contracts. However, regulations require public housing authorities to obtain services in the most economical manner. Consequently, the Authority overpaid \$126,438 from capital grant funds. By not being prudent and following the advice of its architects, the Authority incurred an unnecessary expense, thus preventing these funds from being allocated to other projects to improve the physical condition of the low-rent sites. Nevertheless, if the Authority implements controls to ensure that future goods and services are procured in the most economical manner, cost efficiencies could be realized.

Recommendations

We recommend that the director of HUD's Office of Public Housing instruct the Authority to:

- 1A. Reimburse HUD for the excessive administrative fee charge of \$692,990 in capital funds in accordance with the procedures described in 24 CFR 905.120.
- 1B. Establish and implement internal control policies and procedures to prevent the Authority from using \$230,997 from its annual capital grant to pay for administrative expenses in excess of the 10 percent limit imposed by HUD.
- 1C. Reimburse HUD \$721,701 related to the untimely obligation of capital grant funds in accordance with the procedures described in 24 CFR 905.120.
- 1D. Establish and implement procedures to ensure that goods and services are procured in the most economical manner.

Finding 2: Employee Compensation Costs Were Not Always Reasonable

The Authority's employee compensation costs were not always reasonable. Specifically, contrary to its annual contributions contract and union contract, the Authority (1) failed to reduce the salaries of employees who were demoted and (2) paid maintenance workers ineligible and overtime expenses, which exceeded budget limits. This noncompliance occurred because Authority officials believed that the employees who were demoted performed additional tasks, may have misinterpreted the union rules on providing overtime, and failed to establish procedures to ensure that budgeted overtime was not exceeded. As a result, the Authority paid \$48,246 in unreasonable salaries and exceeded its overtime budget by \$142,093, of which \$65,312 was ineligible.

The Authority Did Not Reduce the Salary of Employees Who Were Demoted

Although various employees were demoted, Authority officials did not reduce their salaries. In October 2004, the security director's position was contracted out to a former police officer of the City of Orange, and the former security director was given the title of security guard. However, the Authority's budget still listed this employee as the security director. Authority officials and personnel files confirmed that the former security director was working as a security officer; however, the payroll register for fiscal years 2005 and 2006 indicated that this employee's salary was not reduced when he was demoted. Therefore, he was receiving security director's salary. During the period October 20, 2004, to October 27, 2006, the former security director was paid \$40,046 in excess of the comparable salary for a security guard position.

In addition, the former director of social programs was demoted in November 2004 to a lesser position. However, the Authority did not reduce her salary to match her new position. During the period November 10, 2004, through November 2006, the former social program director received \$8,200 in excess of the comparable salary for her new position of administrative assistant. Therefore, the Authority used HUD funds to pay excess or unnecessary/ineligible administrative salaries in the amount of \$48,246 for the two employees who had been demoted.

The executive director stated that the former security director was demoted to security guard because he lacked management skills. The executive director also stated that the former security director continued to receive the same salary because he performed duties in addition to the ones listed in his job description. However, the current security director documented that the former security director had no managerial responsibilities and should have been paid as a security guard. The

executive director also stated that the former director of social programs was really the director of child care services and that her duties had not changed. However, discussion with the current director of social programs revealed that the former director was a social worker with no supervisory responsibilities. Further, the executive director's January 28, 2005, letter responding to a grievance from the former director of social programs regarding her demotion indicated that there was no reduction in her salary and benefits although her prior position required supervising all social programs as well as public relations.

Office of Management and Budget Circular A-87, attachment B, part 8(b), Compensation for Personnel Services, states that compensation for employees engaged in work on federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit. In cases in which the kinds of employees required for federal awards are not found in other activities of the governmental unit, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved.

The Authority's personnel policy did not address reduction of pay for demotion. However, New Jersey state regulations, the New Jersey Administrative Code at N.J.A.C. 4A: 3-4-10, provides for reductions in pay for state employees who have been demoted.

As a result, the Authority did not compensate personnel in a reasonable manner. Employees who were demoted to lesser positions retained the salaries of the previous positions occupied. Therefore, the Authority used HUD funds to pay ineligible and unreasonable administrative salaries in the amount of \$48,246.

The Authority Did Not Monitor Overtime Hours to Prevent Budget Overruns

During fiscal years ending March 31, 2004, 2005, and 2006, the Authority's management paid maintenance workers \$142,093 in overtime in excess of its budget limits for overtime as follows:

Fiscal year ending	Budgeted overtime	Actual overtime	Excessive overtime
March 31, 2004	\$110,000	\$161,210	\$51,210
March 31, 2005	\$100,000	\$144,580	\$44,580
March 31, 2006	\$100,000	\$146,303	\$46,303
Total			\$142,093

According to the annual contributions contract, the Authority shall not incur any operating expenditures except pursuant to an approved operating budget. If unbudgeted expenditures are incurred in emergencies to eliminate serious hazards to life, health, and safety, the operating budget shall be amended accordingly. In addition, 24 CFR 990.111(C2) states that operating expenditures may not be incurred except pursuant to an approved operating budget.

Inadequate budgetary controls caused the Authority to exceed the overtime limits. Had the Authority monitored the working hours logged by the maintenance staff properly, it would have noted that maintenance overtime costs were excessive. Authority officials stated that they plan to adjust their controls to correct the line-by-line budget issues. Nevertheless, the Authority's management paid maintenance workers \$142,093 in overtime in excess of the budgeted overtime.

Ineligible Overtime Was Paid

Included in the above figure are overtime costs that are considered ineligible. During the period April 1, 2003, through March 31, 2006, the Authority made \$65,312 in overtime payments billed by its maintenance personnel for overtime hours that may not have been in accordance with the contract between the Authority and the maintenance employees' local union. Specifically, the contract between the authority and maintenance employees' local union lists the following conditions for overtime:

- Paragraph B of article XXIX states that any employees on standby shall receive \$50 for being on standby and will also receive a four-hour minimum call-in. Should the employee on standby need additional assistance, those employees called in on one or more calls shall be paid pursuant to paragraph D of article XXVIII as modified.
- Paragraph D of article XXVIII states that any employee not on standby (article XXIX) may be required to work overtime, at the authority's discretion, on a call-in basis. Any such employee shall receive a minimum of one hour's pay at the appropriate rate.

We noted instances in which maintenance personnel inappropriately claimed additional overtime hours while on standby duty. According to union rules, maintenance personnel that are on standby duty are guaranteed \$50 for being on call, and they are paid for and must work a minimum of four hours of overtime once they receive the initial service call. After the initial call, if any service calls are received, the employee cannot claim any additional overtime hours until the four-hour time limit has expired. However, maintenance personnel would claim an additional overtime hour for every call received after the initial service call that placed them on duty. For example, for each maintenance call that was received after the initial service call, the Authority's employees claimed an additional hour

of overtime when they should not have claimed any additional hours until after their four-hour overtime shift.

The chart below illustrates the scenario when a senior maintenance employee was on 24-hour standby duty beginning at 4:30 p.m. on Saturday, December 13, 2003. The employee received his initial call for service at 5:45 p.m.; therefore, he was officially on duty for four hours or until 9:45 p.m. Thus, any additional calls received during this period should have been responded to, and the employee would receive \$50 plus the initial four hours of overtime according to the union policy. However, although this employee received and completed four calls for maintenance within a four-hour period, he claimed an additional three hours of overtime and was paid for seven hours of work. Thus, this employee received an ineligible overtime payment of \$90 (three hours times the \$30 overtime rate) because he was paid for seven hours although he worked only four hours. Also, employee time cards showed that the employee punched the time clock in and out at the same time whenever he received a call for service. As a result, the Authority has no record of how long it took to make the repair or how many overtime hours the employee actually worked.

Call	Time clocked in & out on time card	Time paid for	Ineligible hours	Ineligible cost
First	In 5:45 p.m.- out 5:45 p.m.	5:45 p.m. to 9:45 p.m.	-	-
Second	In 6:13 p.m.- out 6:13 p.m.	6:13 p.m. to 7:13 p.m.	1	\$30 (1X30)
Third	In 7:51 p.m.- out 7:51 p.m.	7:51 p.m. to 8:51 p.m.	1	\$30 (1X30)
Fourth	In 9:36 p.m.- out 9:36 p.m.	9:36 p.m. to 10:36 p.m.	1	\$30 (1X30)
Total	4 hours	7 hours	3 hours	\$90

Moreover, on a number of occasions, the senior maintenance repairer claimed four hours of overtime for standby duty when he was only providing assistance to other maintenance repairers who were on standby duty. Specifically, on December 7 and 9, 2003, this employee was paid four hours' overtime each day when he only worked one hour each day while assisting the employee who was called in on standby duty. Thus, this employee was overpaid eight hours of overtime for these two days, resulting in an ineligible payment of \$180 (overtime rate \$30 times six hours).

The union contract specifically states that any maintenance employee not on standby may be required to work overtime, at the Authority's discretion, on a call-

in basis. Any such employee shall receive a minimum of one hour's pay at the appropriate rate.

Authority officials stated that employees calculated overtime in the above manner for several years, and this procedure was not questioned by the Authority's independent accountant. Therefore, it appears that the Authority's management may have misinterpreted the articles in the contract regulating overtime, resulting in a miscalculation of the overtime amounts paid. These inappropriate methods of claiming overtime resulted in the Authority's paying \$65,312 in overtime costs that did not comply with the union contract.

Conclusion

The Authority did not pay employee compensation in a reasonable manner as it failed to reduce the salaries of various employees who were demoted to a lower position. In addition, because officials failed to properly monitor overtime paid, the Authority incurred overtime costs that were \$142,093 in excess of its budget limitations for overtime. Included in this amount is \$65,312 in ineligible overtime costs, which resulted from a misinterpretation of union policies for overtime. As a result, stronger controls over employee compensation are needed to safeguard scarce Authority resources. When new procedures are established and implemented, the cost savings to the authority is estimated to be \$47,364 annually (represents one-third of the overtime cost that exceeded the budget limit).

Recommendations

We recommend that the director of HUD's Office of Public Housing instruct the Authority to

- 2A. Submit documentation to justify the salaries paid to the former director of social programs and former security director after their demotions and repay any amount of the \$48,246 of excessive salary costs determined to be ineligible from nonfederal funds.
- 2B. Establish and implement internal control procedures to ensure compliance with the overtime provisions in the contract between the Authority and the local union and New Jersey state regulations regarding pay for demoted employees.
- 2C. Repay HUD \$142,093 in excessive and ineligible overtime costs from nonfederal funds related to the overtime costs that exceeded budget limits.

2D. Establish and implement internal control procedures to avoid payment of overtime in excess of budgetary limits, thereby ensuring that overtime payments comply with the terms of the union contract, which should result in an annual cost savings of \$47,364.

Finding 3: The Authority Did Not Have Adequate Controls to Ensure the Serviceability of Its Low-Rent Housing Units

The Authority did not have adequate controls in place to ensure that its preventive maintenance program was effective. Specifically, the Authority did not have a system of checks and balances to ensure that maintenance work order items were completed before the work order was closed. As a result, items listed on maintenance work orders were not adequately repaired, and the Authority did not operate in a manner that promoted the serviceability of the projects. This deficiency occurred because maintenance workers did not have the skills necessary to complete all repairs and there were inadequate supervisory inspections of repairs made.

The Inspection Identified Violations in 18 of 20 Low-Rent Units

We selected a nonrepresentative sample of 20 low-rent units for inspection on October 6, 2006, and observed uniform physical condition standards violations that failed 18 of 20 units. Many of the deficiencies noted involved unsecured and damaged fixtures, unhealthy plumbing problems, unsafe windows and doors, inoperable cooking equipment, and damaged structural items. Based on the inspection, we concluded that the maintenance department's efforts to improve the condition of the low-rent units were weak. Many items listed in completed work order reports for the 20 units had not been completed. After our inspections, HUD's Real Estate Assessment Center (REAC) performed physical inspections of the Authority's low-rent units and passed the Authority with a physical assessment score of 18 of a possible 30 points. A physical score of 18 or higher is considered passing. Therefore, we accepted REAC's score and did not expand our inspections to project the results of our testing.

Nevertheless, maintenance issues continued to be a problem. Maintenance procedures not being followed include 1) incomplete repairs listed on work orders as complete, 2) unprofessional or shoddy workmanship applied during repairs, and 3) deficiencies noted yearly during inspections not corrected.

Section 4 of the annual contributions contract provides that at all times, the Authority shall develop and operate each project solely for the purpose of providing decent, safe, and sanitary housing for eligible families in a manner that promotes the serviceability, economy, efficiency, and stability of the projects and the economic and social well-being of the tenants.

The following are examples of maintenance deficiencies identified:

- We inspected unit 3-06 in project 003 on October 3, 2006. Authority officials last inspected this unit on September 20, 2005, and it received a passing grade. However, work orders for this unit were shown as having been completed on August 11, 2006. The work order request indicated that there was an inoperable burner on the stove and peeling paint in the bathroom and that the bedroom window would not stay up. Our inspection revealed that there were inoperable burners and peeling paint in the bathroom and that the bedroom window was inoperable and out of alignment. Other deficiencies noted included missing bathroom floor tiles and that the bathroom toilet and sink were not secure.
- We inspected unit 286 in project 001 on October 3, 2006. This unit was last inspected by the Authority on November 7, 2005, and received a passing grade. The work order for this unit indicated that all repairs had been completed on August 17, 2006. However, the plumbing repairs on the work order had not been satisfactorily corrected at our inspection as the kitchen sink faucet and trap were still leaking. Other deficiencies noted included an insecure front entry door with no dead bolt or strike pad, inoperable burners on the stove, exposed wiring in the living room, and a damaged kitchen door threshold, which was a tripping hazard.

Thus, the Authority did not operate in a manner that promoted the serviceability of the projects.

Although the work orders listed these repairs as completed, inspections showed that they were not adequately completed. Therefore, the Authority did not have adequate controls in place to ensure that its preventive maintenance program was working. Specifically, the Authority did not have a system of checks and balances to ensure that work order items were completed before the work order was closed.

Conclusion

A physical inspection identified several uniform physical condition standards violations that failed 18 of 20 low-rent housing units. The maintenance department's efforts to improve the condition of the low-rent units were also weak. Some of the items marked as complete on the maintenance work orders had not been completed. Consequently, the Authority did not operate in a manner that promoted the serviceability of the apartment units.

Recommendations

We recommend that the director, New Jersey Office of Public Housing, instruct the Authority to

- 3A. Inspect the 18 units that did not meet minimum uniform physical condition standards to verify that management took appropriate action to make the units decent, safe, and sanitary. The Authority should also terminate tenants that cause deficiencies in the units.
- 3B. Develop and implement an internal control plan, which ensures that units meet the uniform physical condition standards and inspections meet HUD requirements, to ensure the serviceability of the projects.
- 3C. Develop control procedures to ensure that repairs on work orders are inspected for quality workmanship before closing the work order.

SCOPE AND METHODOLOGY

Our audit was conducted at the Authority, located at 1000½ Third Avenue, Asbury Park, New Jersey. To accomplish our objectives, we performed the following:

- Reviewed applicable laws, regulations, and other HUD program requirements.
- Reviewed the Authority's low-income housing policies, procedures, and administrative plan.
- Reviewed the Authority's annual contributions contracts, records, and financial reports on the public housing and Public Housing Capital Fund programs.
- Examined HUD's and the Authority's program files for low-rent housing.
- Interviewed HUD officials and officials of the Authority.
- Obtained a download of the Authority's low-rent units stock as of October 30, 2006.
- Selected a nonrepresentative sample of units for inspection from the Authority's low-rent stock.
- Reviewed previous Authority inspection reports.
- Inspected 20 units and determine their compliance with uniform physical condition standards.
- Reviewed the Authority's work orders and procedures for processing work orders.

We reviewed financial statements, ledgers, bank statements, invoices, purchase orders, contracts, check vouchers, and prior Office of Inspector General (OIG) and HUD reports on the Authority.

Our inspection results determined that 18 of the 20 units (90 percent) materially failed to meet HUD's uniform physical condition standards. Units are considered to be in material noncompliance with uniform physical condition standards because of the overall poor condition of the unit and if one of the fail conditions was a 24-hour emergency deficiency, the fail condition was a preexisting condition that was either not identified or not reported at the time of the Authority's last inspection, and/or the unit had inadequate repairs. After our inspections, during fiscal year 2006, HUD's Real Estate Assessment Center conducted unit inspections and gave the Authority's low-rent units a physical assessment score of 18 of a possible 30 points. A physical score of 18 or higher is considered passing. As a result, we did not conduct an additional statistical sample of the units to project our test results.

We conducted our fieldwork from August through November 2006 at the Authority's offices in Asbury Park, New Jersey. Our audit covered the period January 1, 2003, through December 31, 2005. However, we extended the period as necessary to achieve our objectives.

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

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and segregation of duties.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal 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.
- 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.
- 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.

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

- The Authority's controls were not adequate to ensure that program objectives were achieved (see findings 1, 2, and 3).
- The Authority's controls did not ensure compliance with laws and regulations or safeguard resources when the Authority incurred excessive and ineligible administrative and maintenance overtime costs and did not ensure the serviceability of its low-rent housing units (see findings 1, 2, and 3).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$692,990		
1B			\$230,997
1C	\$ 721,701		
2A		\$48,246	
2C	\$142,093		
2D			\$47,364
Total	\$ 1,556,785	\$48,246	\$278,361


- 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 polices or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a 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/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, if the Authority implements our recommendations by establishing controls to prevent budget overruns, it will cease to exceed its administrative and overtime budget and realize substantial cost savings. Once the Authority successfully implements its controls, this will be a recurring benefit.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

	<p>1000 1/2 Third Avenue Asbury Park, NJ 07712</p>	<p>Stanley G. Smith Executive Director</p>
<p>Asbury Park Housing Authority</p>		<p>Telephone (732) 774-2660 Executive Office Fax (732) 774-0643 Staff Fax (732) 774-8623</p>
<p>April 17, 2007</p>		
<p>Mr. Joseph Vizer Office of Inspector General One Newark Plaza Newark, NJ 07102</p>		
<p>Re: Response to Draft Audit Report and Exit conference Meeting April 12, 2007</p>		
<p>Dear Mr. Vizer:</p>		
<p>As per your request and our agreement, enclosed, please find the audio cassette tape from the special Board of Commissioners' meeting held on May 28, 2004. I shall be discussing the effect of this tape hereinafter below. However, I shall address your proposed audit finding in numerical order.</p>		
<p><u>I. Controls over the Authority's Capital Grant Program Were Inadequate</u></p>		
<p>Comment 1</p>	<p>a) Administrative Costs and Disbursements Exceeded Budget Limits by \$692,990. There is mutual agreement that the bulk of the above mentioned amount is attributable to the classification of in-house non licensed Housing Authority employees working as security guards. The Office of Inspector General (OIG) states, that the Asbury Park Housing Authority (APHA) charged their salaries to the Capital Budget Line 1408-Management Improvements. The OIG further notes that if the security cost had occurred as a result of an outside security contract, these costs charged to the management improvement Capital Budget line would be acceptable. APHA states that the assertion is erroneous as to the law, and also is illogical for the following reasons:</p>	
<p>Comment 1</p>	<ol style="list-style-type: none">1. The New Jersey State statute requires that security guards be licensed but such license requirements only pertain to security guard <u>companies</u>. There is no NJ State requirement for licensing if the Authority hires its own staff for security. The OIG erroneously applies the state licensing statute to our security personnel.2. The OIG acknowledges that outside contracting security officers is a management improvement, and our Authority states that its security employees do exactly the same work as any outside contractor. Since the end product is the same, there is no logical distinction.	
<p>COMMISSIONERS</p>		
<p>Rudolph Pierre, <i>Chairperson</i> Jessie Ricks, <i>Vice Chairperson</i></p>	<p>Angeline Brown Dale Caldwell Myra Campbell</p>	<p>Kenneth Foster Hazel F. Samuels</p>

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AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 2

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Finally, the Accounting Handbook for Housing Authorities states that costs associated with the operation of a particular site can be classified as a management improvement as opposed to administration. We note, that security is peculiarly site based. The amount of security varies based on the quantity and individual quality needed for each site. Clearly, this is different from an administrative cost which typically is allocated over all sites.

- b) **A Total of \$721,701 Was Not Obligated within 24 months.** The OIG refers to two separate contracts of \$379,390 and \$382,839 respectively. The OIG then contends that the obligation date of May 30, 2004 was missed by 22 days on the first contract which was based on a signature dated June 22, 2004. Moreover, the OIG further states that such signature date is the controlling factor determining APHA's obligation of the funds. A careful review of the May 28, 2004 special meeting by the Board of Commissioners of the Asbury Park Housing Authority, sets forth all the work (including but not limited to public RFP, bidders conferences, vendor's bid bond, performance and payment bond and an oral agreement to do the work subject to Board's approval) had been done prior to said meeting. The execution of the contract was merely the ministerial act confirming a pre-existing agreement subject to Board's approval. This agreement occurred prior to May 30, 2004. As to the second contract, which was not executed until September 1, 2004, this contract was approved at the August 9, 2004 meeting.

Further, HUD's Regulation 24CFR Section 905.120, clearly establishes the penalty for slow obligations of funds to be a loss of Capital Funds amounting to 1/12 per month of the outstanding uncommitted balance. It is APHA's position that the first contract was timely obligated and the second contract, at worst, should receive a penalty of 25% of \$383,839 or no more than \$96,000.

II. Employee Compensation Costs Were Not Always Reasonable

- a) **The Authority Did Not Reduce the Salary of Employees Who Were Demoted.** The OIG notes that two individuals (a former security supervisor and a former social program director) were demoted but did not have their salary reduced "so as to match their new position." As to the former Director of Social Programs, please note that the salary for this individual was not increased at the time of the promotion to director. Therefore, there was no need to reduce the salary. In addition, APHA acknowledges that the present position of this former director is similar to that of another employee in the same department, and agrees that the salary is different. However, the employee in question has been with the Housing Authority since September, 1997 as distinguished from the other individual who became a full time employee with the Housing Authority as of October, 2006. Clearly, the OIG failed to consider the issue of longevity and experience before creating an equal pay condition. This also holds true in the case of the former security supervisor, who not only has been with the Housing Authority since February, 1996, but also exhibits special qualities peculiar to and needed by our Authority. These qualifications, include but are not limited to, dealing with and the recognition of certain local drug

Comment 3

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AUDITEE COMMENTS AND OIG'S EVALUATION

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Auditee Comments

Comment 4

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dealers; the assistance in the apprehension of wanted criminals who are located beyond the boundaries of the City of Asbury Park and face-to-face confrontation with suspected felons. The mere establishment of salary based on a job description without due deference to particular skills is not the approach of this Authority and funds should not be recaptured. The auditor for the OIG used language contained in New Jersey personnel policies (utilized by NJ State Civil Services). This language is not applicable, especially since the Authority opted out of Civil Service at least 10 years ago.

b) **The Authority Did Not Monitor Overtime Hours to Prevent Budget Overrun.** Although the budget overtime line item was exceeded by \$142,000 for a three year period, the over all maintenance labor cost was below the three year projection and such recommendations to HUD to recapture the money does not consider unforeseen emergency night shift conditions that existed such as the following:

- > snow removal
- > emergency sewer backups
- > no electricity/electrical problems
- > toilet stop-up
- > tub stop-up
- > gas leak
- > lock-outs (tenants)
- > police/fire/ambulance calls
- > emergency alarms
- > no heat
- > fire in units/projects

These are management decisions that must be made and sometimes on a daily basis. As long as the Authority stayed within its operating budget, this should be left as management decisions.

With respect to the overtime calculations, the Union Contract governs in Article VIII, Section E which states:

"All past privileges and practices covered by this Agreement shall be continued."

Comment 5

Further, the OIG stressed that only one individual was being paid four hours for assisting the stand-by maintenance worker at night or during the weekend, implying that there was some favoritism shown. Attached hereto are copies of timecards (originals are available for inspections) for four other maintenance repairmen who are also paid in a similar fashion.

III. The Authority Did Not Have Adequate Controls to Ensure the Serviceability of Its Low-Rent Housing Units.

Comment 6

a) **The Inspection Identified Violations in 18 of 20 Low-Rent Units.** The Authority also considers the need for maintenance and Capital Improvements to be critical in its operation. To that end, APHA has hired a Maintenance Director who comes highly

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AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 7

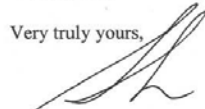
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qualified and with over ten years experience in housing authority maintenance operations, as well as respected by the staff. He has made significant contributions to our operation in less than 30 days from his date of hire and is intimately involved in the Memorandum Of Agreement (MOA) targets for maintenance established in conjunction with the HUD consultants and monitors.

Finally, I note that your suggestions specifically seek to recapture funds from non-federal funds. Please be advised that, but for certain laundry money which average approximately \$1,500 dollars per months. APHA has no other non-federal funds. I trust that you will take this into consideration at the time that you draw any conclusions and make recommendations to HUD.

If you would like further proof and/or clarification set forth in this letter, please call at your earliest convenience.

Very truly yours,



Stanley G. Smith
Executive Director

SGS: ph

Cc: Rudolph Pierre, Chairman (Confidential)
Kevin Wigenton, Esq. (Confidential)

OIG Evaluation of Auditee Comments

Comment 1 The auditee disagreed with our computation that administrative costs exceeded budget limits by \$692,990. The auditee maintains that most of the excess we calculated is attributable to our reclassification of its in-house security costs from management improvement costs to administrative costs. The auditee further maintains that since the security services provided by its in-house employees are the same as that which would be provided by a contractor, there is no logical reason why the costs can not be charged to management improvements.

We agree that the most of the excess cost is attributable to our reclassification of security costs from general management improvement costs (line item 1408) to administrative costs (line item 1410). While security costs can be eligible as general management improvement costs as per 24 CFR 968.112 (g) (2), HUD Public Housing staff indicated that to be charged as such, the services would have to be provided by a security company. Since these services were provided by Authority employees these costs should be charged as administrative costs.

Comment 2 The auditee disagreed that the Authority did not obligate capital funds of \$721,701 within the 24 month deadline. The auditee indicated that the first contract for \$379,390 was timely obligated and the second contract, at worse, should receive a penalty of 25% of \$383,839 or no more than \$96,000. The auditee referred to 24 CFR 905.120 as limiting the amount of funds subject to recapture.

We maintain that the funds were not obligated within the required timeframe because the obligation date is when the contract is fully executed by both parties (the Authority and the bidder). The first contract was not fully executed because the Authority did not have a properly completed and approved resolution or minutes related to the first contract. After the exit conference the auditee provided an audio cassette of a board meeting meant to document the board resolution to commit funds for the first contract; however, while the tape indicated that there was discussion on the need to obligate the funds to avoid the recapture of funds by HUD, it was not clear whether the board actually passed a resolution on May 28, 2004 to commit the funds. Nevertheless, both contracts were not completely executed until after May 30, 2004, and so the funds were not obligated within 24 months as required by 24 CFR 968.125. Moreover, 24 CFR 905.120 provides that any obligation entered into by a public housing authority is subject to recapture for violation of the requirements of this section.

Comment 3 The auditee stated that the former director of social programs salary was not increased at the time of the promotion to director. Therefore, there was no need to reduce the salary. The auditee maintains that the OIG failed to consider the

longevity and experience before comparing salaries. The auditee also stated the former security supervisor gets paid more because he exhibits special qualities peculiar to and needed by the Authority.

However, the current social programs supervisor received a 25 percent increase in salary on November 3, 2004 when she became the new director of the social programs. Also, she received two additional raises which resulted in her salary increasing approximately 65 percent within one year of promotion. Therefore, the salary of the former director of social programs should have been reduced due to her having less responsibility as a result of being demoted. The former security supervisor is currently working as a security guard and his salary should have been reduced as documented by memos from the current security supervisor to the Executive Director. The Authority does not have a unique job description for the former security supervisor and his job description is that for a regular security guard. The salary of the former security supervisor was calculated based on a salary of another security guard with the same years of seniority. Therefore, the salary of the former director of security should have been reduced when he was demoted. Recommendation 2A. has been revised to now have the Authority submit documentation to justify the excessive salaries paid the former directors of security and social programs and that any amounts determined to be ineligible be repaid from nonfederal funds.

Comment 4 The auditee disagreed that the Authority did not monitor overtime hours to prevent budget overruns. The auditee maintains that although the budget overtime line item was exceeded by \$142,000 for a three year period, the overall maintenance labor cost was below the three year projection and such recommendations to HUD to recapture the money does not consider unforeseen emergency night shift conditions.

However, 24 CFR -Part 990.111(C2), ACC requires that operating expenditures not be incurred except pursuant to an approved operating budget. Therefore, the Authority should implement controls to ensure that operating expenditures are only incurred in accordance with an approved operating budget.

Comment 5 With respect to the overtime calculations, the auditee maintains that the union contract provision in Article VIII, Section E which states that all past privileges and practices covered by this agreement shall be continued.

However, the union contract stated that any employee not on standby (article XXIX) may be required to work overtime, at the Authority's discretion, on a call-in basis. Any such employee shall receive a minimum of one (1) hour pay at the appropriate rate. Therefore, the Authority was not in compliance with the union contract when it paid maintenance employees four hours overtime for the first call when they were assisting the standby maintenance employee.

Comment 6 The auditee's actions are responsive to our recommendations.

Comment 7 The amount of any nonfederal funds with which to make repayments will need to be determined between the auditee and HUD at the time of resolution of the audit findings.