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# AUDIT REPORT



SARATOGA SPRINGS HOUSING AUTHORITY  
LOW-RENT HOUSING PROGRAM  
SARATOGA SPRINGS, NEW YORK

2001-NY-1003

JULY 24, 2001

OFFICE OF AUDIT  
NEW YORK/NEW JERSEY

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Issue Date	July 24, 2001
Audit Case Number	2001-NY-1003

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

*Alexander C. Malloy*

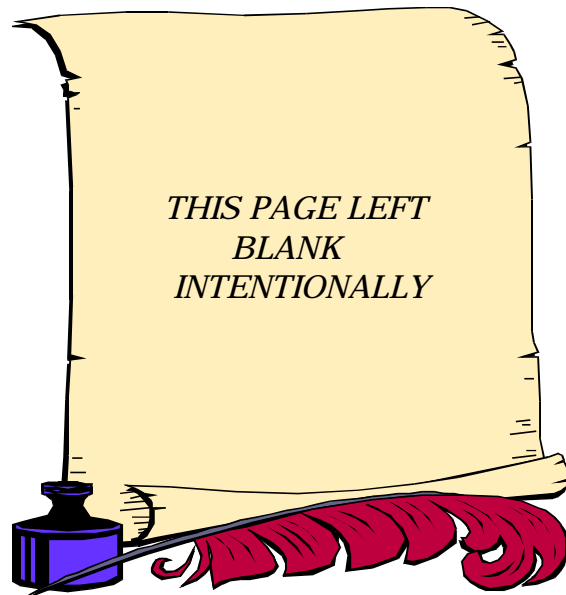
FROM: Alexander C. Malloy, District Inspector General for Audit, 2AGA

SUBJECT: Saratoga Springs Housing Authority  
Low-Rent Housing Program  
Saratoga Springs, New York

We completed an audit of the Saratoga Springs Housing Authority, referred to herein as the Public Housing Authority (PHA) pertaining to its Federal Low-Rent Housing (LRH) Program. The audit showed that the PHA needs to improve operating controls to ensure that assets are safeguarded against waste and loss, and to increase assurance that its programs are operated in a way that achieves full compliance with the terms and conditions of the Annual Contributions Contract (ACC) and other applicable U.S. Department of Housing and Urban Development (HUD) regulations and requirements.

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



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



# Executive Summary

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We performed an audit of the Saratoga Springs Housing Authority, herein referred to as the Public Housing Authority (PHA), pertaining to its Federal Low-Rent Housing (LRH) Program. The primary objectives of the audit were to evaluate the PHA's internal controls for safeguarding cash and other assets, and to determine whether it complied with the terms and conditions of the Annual Contributions Contract (ACC) regarding procurement, compensation to employees, leave records and travel costs.

## Results

The audit disclosed that the PHA is generally providing decent, safe and sanitary housing to its tenants. However, the PHA did not always comply with program requirements and regulations pertaining to various activities of its LRH program.

The noncompliances were generally caused by inadequate controls, which led to the ineligible and unsupported use of funds, as discussed in the findings.

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

### 1. Improvement is Needed in the System of Procurement

Contrary to HUD regulations and requirements, the PHA did not follow Federal procurement regulations in awarding work for consulting and accounting services. The work was awarded without any Request For Proposals (RFPs) being prepared and without written contracts being executed. The PHA elected not to follow applicable procurement requirements. As a result, program funds were expended for consulting and accounting services that were not determined to be reasonable; therefore, the amount paid totaling \$145,150 is considered unsupported.

### 2. Ineligible and Unsupported Payments Were Made From the General Fund

The PHA did not maintain adequate control over disbursements from its General Fund. The controls were inadequate because procedures were not implemented to ensure that costs were eligible and

properly supported prior to payment. As a result, the PHA charged its Low-Rent Housing (LRH) program with ineligible and unsupported costs totaling \$2,690.26 and \$31,557.60 respectively.

3. Need to Execute a Current Contract for Supplement Police Services

The PHA does not have a contract with the City for supplemental police services provided under the 1999, Drug Elimination Program (DEP). Instead, the services are being monitored under a contract that expired several years ago. The lack of a current contract is contrary to PHA and HUD requirements and is attributed to oversight by the PHA. As a result, assurance that the related costs incurred were proper and reasonable has been diminished and the PHA has incurred costs of \$27,439.57 that are unsupported.

4. Questionable Compensation Payments to Administrative Employees

During the years 1999 and 2000, payments were made from the Drug Elimination Program (DEP) to certain administrative employees that were in addition to their salaries. The payments were made because the PHA believed that the additional compensation was earned by the employees. In our opinion, the payments may not represent a necessary and reasonable use of program funds. Accordingly, the amount charged the DEP for the payments totaling \$18,000 is considered to be unsupported.

5. Ineligible and Unsupported Travel Costs

The PHA does not have adequate control over its travel activities to ensure that travel costs are necessary, reasonable and adequately supported, as required. As a result, ineligible and unsupported travel costs of \$47.60 and \$3,333.67 respectively have been incurred. The travel deficiencies are attributed to the PHA's general unfamiliarity with the procedural and documentation requirements.

6. Discrepancies Exist in Employee's Leave Records

Contrary to its policy and procedures, our review of employee leave records showed that: (1) employees were provided with excessive amounts of vacation leave; (2) an employee was allowed to use more vacation leave than was earned; (3) an employee was paid for time while on unpaid leave; (4) two administrative employees received compensatory time while a third employee did not; and (5) some leave requests were signed by employees other than the one requesting the leave, while others were not signed, or not approved or were approved by the employee requesting the leave. These weaknesses are attributed to the PHA's general unfamiliarity with applicable requirements. As a result, the PHA could incur personnel costs that may not be considered necessary or reasonable.

7. Need to Strengthen Administrative Accounting Controls

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

Recommendations

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

The results of the audit were discussed with PHA officials during the course of the audit and at an exit conference held on June 1, 2001. The exit conference was attended by:

PHA Officials

Gerard Zabala, Executive Director  
Edward Spsychalski, Project Manager  
Lillian Miles, Accountant

Office of Inspector General (OIG) Representatives

William H. Rooney, Assistant District Inspector  
General for Audit  
Thomas Cosgrove, Senior Auditor

The PHA generally agreed with the findings and recommendations. The PHA comments are included as Appendix D to this report.

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Abbreviations

ACC	Annual Contributions Contract
CFR	Code of Federal Regulations
DEP	Drug Elimination Program
HUD	Department of Housing and Urban Development
LRH	Low-Rent Housing
OIG	Office of Inspector General
OMB	Office of Management and Budget
PHA	Saratoga Springs Housing Authority
RFP	Request for Proposal

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# Introduction

The PHA is governed by a seven member Board of Commissioners. Five members are appointed by the Mayor and serve five year terms. The other two members are elected by the tenants and serve two year terms. The Board establishes policy and takes official action as required by Federal and State law. The Executive Director, who is responsible for managing the overall day-to-day operations of the PHA, is Gerard Zabala. The books and records are maintained at the PHA's administration office located at Stonequist Apartments, 1 South Federal Street, Saratoga Springs, New York 12866.

The PHA's fiscal year is from July 1, through June 30. The PHA operates four developments containing 339 units. The developments consist of 133 family units and 206 senior units. In addition, the PHA administers 106 units of Section 8 housing along with Drug Elimination and Comprehensive Grant Programs.

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## Audit Objectives

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

## Audit Scope and Methodology

We evaluated controls and procedures over procurement, compensations to employees and employees leave records and travel. We also determined whether costs charged to the PHA's housing programs were reasonable and eligible; and evaluated procedures and practices relating to general accounting and administrative controls.

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

The sampling technique for the five findings that involve ineligible and/or unsupported costs were as follows:

- All transactions pertaining to consulting services and accounting services were reviewed.
- Supporting documentation was scanned for approximately 3,000 payments processed and 50 payments with indicators of deficiencies were reviewed in detail.

- A sampling technique was not needed for the area of supplemental police services since only one contract was involved.
- All payments of additional compensation to employees were examined.
- 13 payments for out-of-town travel costs were reviewed and found deficient. The amount of the costs reviewed represented 31 percent of the costs charged to travel during the audit period.

The audit covered the period from July 1, 1990 to June 30, 2000. However, activity prior and subsequent to this period was reviewed, as we deemed necessary. The audit field work was conducted between August 22, 2000 and June 1, 2001.

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

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

# Improvement is Needed in the System of Procurement

Contrary to HUD regulations and requirements, the PHA did not follow Federal procurement regulations in awarding work for consulting and accounting services. The work was awarded without any Request For Proposals (RFPs) being prepared and without written contracts being executed. The deficiencies can be attributed to the PHA arbitrarily electing not to follow the applicable procurement requirements in awarding the work. As a result, program funds were expended for consulting and accounting services that were not determined to be reasonable; therefore, the amount paid totaling \$145,150 is considered unsupported.

The details pertaining to the deficiencies are described below.

## Consulting and Accounting Services

Improper award of work for consulting and accounting services

A review of the PHAs process for awarding work for consulting and accounting services showed that it bypassed the Federal procurement regulations. Rather than prepare Request For Proposals (RFPs) for the services and solicit responses in order to achieve open and free competition, the PHA simply granted the work to firms it desired. The PHA believed that the firms were familiar with the operations, and that the method would provide a smooth transition of the services. Hence, the PHA failed to promote full and open competition when soliciting the services and has inadequate assurance that either the costs or the services represent those that could be best attained.

Criteria

Since the services involved represent consulting and accounting services, the procurement requirements pertaining to competitive proposals would apply. Regarding competitive proposals, Section 85.36(d)(3) of the Consolidated Federal Regulations (CFRs) stipulates that: The technique of competitive proposals is conducted with more than one source submitting an offer, and either a fixed price or cost-reimbursement type contract is awarded.

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

- Grantees and subgrantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees.
- Awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered.

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

Apart from the absence of competition and no written contracts having been executed for the services, various documentation deficiencies were noted. They include:

Documentation  
deficiencies

#### Consulting Services

A total of 17 invoices were submitted for payment. The supporting documentation for the payments showed:

- In 14 instances, where timesheets were submitted, the timesheets generally did not identify what services were provided. In two other instances, timesheets were not submitted to show the days and hours that services were provided and in the remaining instance, the voucher and invoice could not be located.
- In five instances, the billing was not signed by the consultant.
- In one instance, the timesheet was not signed by the consultant.
- The billing, for the entire month of February 1999, was dated February 1, 1999 and the total hours worked were overstated by 10 hours.

#### Accounting Services

Six invoices were submitted for payment. Our review showed that the invoices do not indicate the dates that specific services were provided.

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

Since payments were made for consulting and accounting costs without the PHA following the Federal procurement regulations and since the payments contained various documentation deficiencies, the cost incurred may not represent necessary or reasonable operating expenditures. Therefore, the amount paid during the audit period of \$145,150 is considered unsupported.

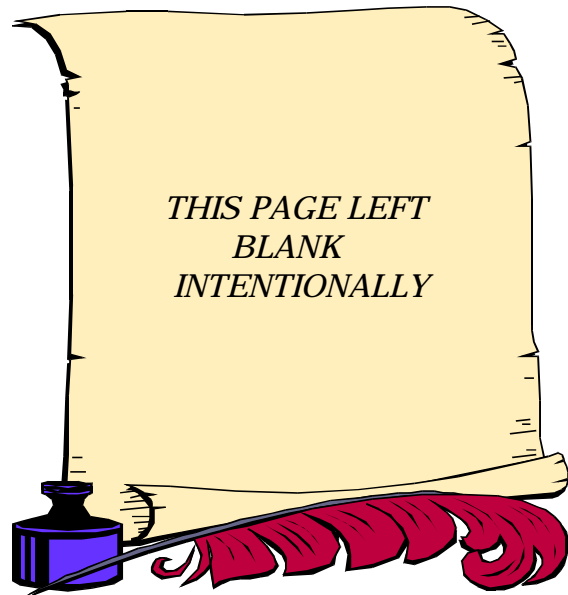
A breakdown of the unsupported amount is as follows:

Consulting costs from June 1998 Through October 1999	\$134,400
Accounting costs from June 1998 To May 15, 2000	<u>10,750</u>
	<u>\$140,150</u>

Recommendations

We recommend that you require the PHA to:


- 1A. Adopt necessary controls to ensure compliance with Federal procurement regulations.
- 1B. Establish procedures that will ensure that adequate documentation for services rendered is obtained prior to payment.
- 1C. Provide justification for the unsupported costs so that an eligibility determination can be made.
- 1D. Reimburse, from non-Federal funds, the amount of any unsupported costs determined to be ineligible.



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## Ineligible and Unsupported Payments Were Made From the General Fund

The PHA did not maintain adequate control over disbursements from its General Fund. The controls were inadequate because procedures were not implemented to ensure that costs were eligible and properly supported prior to payment. As a result, the PHA charged its Low-Rent Housing (LRH) program with ineligible and unsupported costs totaling \$2,690.26 and \$31,557.60 respectively.



### Examination of disbursements

Initially, we selected disbursements at random to test for compliance. The examination disclosed a variety of deficiencies as well as ineligible and unsupported costs. Therefore, the examination was expanded to include disbursements throughout the period from July 1998 through June 2000. The items contained in this finding should not be considered all inclusive; rather, they represent only those ineligible and unsupported costs that were found as a result of our tests.

### Ineligible and unsupported costs

Ineligible costs include payments for ineligible travelers, sales tax, and penalty and interest charges. Unsupported costs include payments for which: (1) there is no documentation to support the costs, other than the check voucher, or the documentation available is inadequate; (2) there is no requisition or purchase order; (3) receiving reports are not signed to indicate receipt of supplies, and (4) a service contract was signed after payment was made.

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

### Criteria

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



The PHA must be reminded that incurring many of these costs reduces assurance that the projects were operated economically and efficiently and that all costs incurred were necessary. Thus, the ineligible costs should be repaid from non-Federal funds, and the PHA should be required to submit additional documentation and justification for the unsupported costs.

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Recommendations

We recommend that you require the PHA to:

- 2A. Implement procedures that will prohibit the incurrence of ineligible costs and ensure that all costs are properly supported prior to payment. The procedures should also ensure that all costs meet the economy, efficiency and necessity requirements.
- 2B. Reimburse the Federal program, from non-Federal funds, the amount of the ineligible costs.
- 2C. Provide additional documentation and information as justification for the unsupported costs so that an eligibility determination can be made.
- 2D. Reimburse the Federal program, from non-Federal funds, the amount of any unsupported costs determined to be ineligible.

## Need to Execute a Current Contract for Supplemental Police Services

The PHA does not have a contract with the City for supplemental police services provided under the 1999 Drug Elimination Program (DEP). Instead, the services are being monitored under a contract that has expired. The lack of a current contract is contrary to PHA and HUD requirements, which is attributed to a lack of proper oversight by the PHA. As a result, assurance that the related costs incurred were proper and reasonable has been diminished; thus, related costs of \$27,439.57 are considered unsupported.

### Background

As part of its 1999 DEP, the PHA is utilizing the City Police Department to weed out crime and drug use at its Low-Rent Housing (LRH) developments. In its application for funding to HUD, the PHA advised that through the use of prior DEP funds the PHA and the City Police Department executed a law enforcement contract to provide the PHA with police services over and above the baseline services provided to the City. The PHA further advised HUD that 1999 DEP funds totaling \$52,500 would be used to continue the contracted community policing services.

Our review of the 1999 DEP law enforcement costs incurred through December 31, 2000 showed:

### Expired contract used for reimbursement

- The most recent contract executed with the City for supplemental police services was on March 18, 1997. The contract provided for reimbursable costs not to exceed \$98,475. More important, Article V of the contract stipulated that the term of the contract was for one year. Thus, the contract expired in March 1998.

### Errors on reimbursement requisition

- Errors were noted on the documentation of one of the requests for reimbursement submitted by the City. An Investigator's weekly time sheet for August 9, 2000 showed 5 hours of regular time charged. Yet, overtime hours were requested for reimbursement and the calculation, even at the overtime rate, resulted in an overcharge to the PHA of \$102.26.

Criteria

Section 1.4 of the PHA's Procurement Policy provides that the Contracting Officer shall ensure that contracts and modifications are in writing and clearly specify the desired supplies or services. Section 1.8 of the Policy states that the PHA may enter into State and local intergovernmental agreements to purchase or use common goods and services. The decision to use an intergovernmental agreement or conduct a direct procurement shall be based on economy and efficiency.

Office of Management and Budget (OMB) Circular A-87 provides that to be allowable under a grant program, costs must be necessary and reasonable for the proper and efficient administration of the program.

Reimbursing the City for police services without having an executed contract precludes the PHA from assuring that the costs incurred are necessary and reasonable and that all of the desired services have been provided. The lack of a written contract also prevents the PHA from maintaining a basis to differentiate between baseline and supplemental services. Therefore, the costs incurred for law enforcement services of \$27,439.57 are unsupported.

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Recommendations

We recommend that you require the PHA to:

- 3A. Execute a contract for supplemental police services that will specifically identify and delineate the services desired.
- 3B. Provide additional documentation and information as justification for the unsupported costs, including the overcharge, so that an eligibility determination can be made.
- 3C. Reimburse the General Fund, from non-Federal funds, the amount of any unsupported costs determined to be ineligible.

# Questionable Compensation Payments to Administrative Employees

During the years 1999 and 2000, payments were made from the Drug Elimination Program (DEP) to certain administrative employees that were in addition to their salaries. The payments were made because the PHA believed that the additional compensation was earned by the employees. In our opinion, the payments may not represent a necessary and reasonable use of program funds. Accordingly, the amount charged the DEP for the payments totaling \$18,000 is considered to be unsupported.

## Background

The 1998 and 1999 applications for funding under the DEP were prepared by the PHA staff. Specifically, the task was assigned to the Tenant Relations Assistant, with assistance from the administrative staff, who ensured that not only was the necessary information obtained for the application but that all of the day to day administrative work was performed in a timely manner. Since the work required, in preparing the applications for funding, was in addition to their regularly assigned duties, the PHA believed that additional compensation of \$2,000 was warranted, and therefore included it in the operating budget. For the 1998 application, five employees received additional compensation, while four employees were involved with the 1999 application.

## Deficiencies found

Our review of the compensation payments showed:

- Performance evaluations were not prepared for administrative employees. Hence, there was no documentation to indicate or justify that the employees performed at a level worthy of additional compensation.
- Section 17 of the Personnel Policy specifically prohibits the payment of bonuses to employees. Thus, if the additional compensation was intended as a bonus, the costs would be ineligible.

## Criteria

Attachment B of the Office of Management and Budget (OMB) Circular A-87 provides the standards for the determination of allowable and unallowable costs. Among other documents, Attachment B, Paragraph C of the Circular

provides that costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards. In addition, Title 24, CFR Part 85.40 of the Code of Federal Regulations provides that Grantees are responsible for managing the day to day operations of grant and subgrant supported activities to assure compliance with applicable Federal requirements.

The lack of documentation to justify the validity of the payments, together with the Personnel Policy stipulation that precludes the payment of bonuses, has prevented an audit determination from being made on the propriety of the compensation. Therefore, the \$18,000 paid to the administrative employees during 1999 and 2000 is unsupported.

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## Recommendations

We recommend that you require the PHA to:

- 4A. Implement procedures that will only reward exceptional performance demonstrated by individual employees based on their performance evaluation.
- 4B. Provide you with evidence to show that the payment did not violate the Personnel Policy prohibition against bonuses so that an eligibility determination can be made.
- 4C. Reimburse the DEP from non-Federal funds, the amount of any unsupported costs determined to be ineligible.

## Ineligible and Unsupported Travel Costs

The PHA does not have adequate control over its travel activities to ensure that travel costs are necessary, reasonable and adequately supported, as required. As a result, ineligible and unsupported travel costs of \$47.60 and \$3,333.67 respectively have been incurred. The travel deficiencies are attributed to the PHA's general unfamiliarity with the procedural and documentation requirements.

13 payments were examined

We reviewed 13 payments for out-of-town travel costs incurred during the audit period. Deficiencies were found in all 13 payments reviewed. The deficiencies involved both ineligible and unsupported costs.

Ineligible and unsupported travel costs

The types of ineligible and unsupported travel costs include:

Ineligible travel costs represent penalty and interest charges that were included on the PHAs credit card statement. Attachment B of Office of Management and Budget (OMB) Circular A-87 prohibits the payment of penalty and interest charges. In addition, the costs do not represent necessary or reasonable costs and are considered ineligible.

Unsupported costs include payments for travel costs where: (1) there was no documentation to support the cost, other than the check voucher; (2) the supporting documentation does not explain why the cost was incurred; (3) there was no Board Resolution to approve the trip; (4) receipts were not available for a portion of the costs incurred; and (5) the traveler was paid per diem, but the PHA Travel Policy provides for actual costs.

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

Criteria

The PHA Travel Policy provides that each trip to a destination outside of the jurisdiction of the PHA shall specifically have prior authorization by resolution of the board approving the trip as essential to the conduct of its programs. In addition, the Policy provides that the costs for lodging and meals will be reimbursed on an actual cost basis. Part A, Section 2 of the ACC defines operating expenditures as those necessary for the operation of the

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

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Recommendations

We recommend that you require the PHA to:

- 5A. Implement procedures to ensure that documentation is obtained to support all costs prior to reimbursement.
- 5B. Reimburse from non-Federal funds, the amount of the ineligible costs.
- 5C. Provide additional documentation for the unsupported costs so that an eligibility determination can be made.
- 5D. Reimburse from non-Federal funds, the amount of any unsupported costs determined to be ineligible.

# Discrepancies Exist in Employee's Leave Records

Contrary to its policy and procedures, our review of PHA employees leave records showed that: (1) employees were provided with excessive amounts of vacation leave; (2) an employee was allowed to use more vacation leave than was earned; (3) an employee was paid for time while on unpaid leave; (4) two administrative employees received compensatory time while a third employee did not; and (5) some leave requests were signed by employees other than the one requesting the leave, while others were either not signed, not approved, or were approved by the employee requesting the leave. These weaknesses are attributed to the PHA's general unfamiliarity with applicable requirements. As a result, the PHA could have incurred personnel costs that may not be considered necessary or reasonable. These matters are discussed in greater detail below.

## Employees Provided Excessive Amounts of Vacation Leave

Types of employee's leave record discrepancies

In July 2000, the PHA attempted to reconstruct and consolidate employee leave balances. The method of reconstruction consisted of recording the employee's unused balance at June 30, 2000 and adding to it the amount of leave an employee would accrue from their latest employment anniversary date to June 30, 2000. However, we found that because the method of reconstruction was faulty, excessive amounts of vacation leave were granted some employees.

Our review showed that not only were the unused balances at June 30, 2000 unsupported; but that increases to the balances based on the employment anniversary date resulted in excessive vacation leave for certain employees. Section 8b. of the PHA's Personnel Policy provides that vacation leave shall be taken each calendar year and is not cumulative. At July 1, 2000, the vacation balances that were reconstructed for seven employees exceeded policy requirements as follows:



<b>Title</b>	<b>Vacation Days Provided at July 1, 2000</b>	<b>Maximum Days Allowed Based on Employment Date</b>	<b>Number of Excessive Days Provided</b>
Maintenance Mechanic	39	23	16
Senior Clerk Typist – Part-time	22	7.5	14.5
Maintenance Mechanic	37	23	14
Senior Maintenance Mechanic	36	23	13
Tenant Relations – Section 8	29	23	6
Executive Director	27	23	4
Tenant Relations	18	14	4

Employee Used More Vacation Time Than Was Earned

Although the Personnel Policy requires that vacation leave shall be taken each calendar year and is not cumulative, one employee was allowed to use more vacation leave than he earned in a year. We found that during calendar year 1999, a Maintenance Mechanic used 26.75 days of vacation leave even though he had earned only 23 days.

Employee Was Paid While on Unpaid Leave

During 1999, one instance was noted where an employee was paid while appropriate documentation indicated that he was on unpaid leave. The Modernization Coordinator began employment on June 23, 1999. The Personnel Policy requires that every employee shall serve six months before being entitled to use vacation. As such, the employee would not be entitled to leave until December 22, 1999. Nonetheless, the employee was paid the full rate of pay for the week of July 13, 1999 even though his timesheet

showed that he was on unpaid leave for July 15, 16 and 17, 1999.

Two Administrative Employees Received Compensatory Time While a Third Employee Did Not

Section 7b. of the Personnel Policy provides that overtime work shall be avoided as far as possible but may be required by the Executive Director of any and all employees in the interest of efficient operation, in which case a member of the principal executive staff shall be granted compensatory time off within 60 days.

A review of the employee timesheets and leave records showed that two administrative employees received compensatory time for overtime hours worked while a third employee received nothing for his overtime. The review showed that the Project Manager regularly received compensatory time by as much as 19 ½ hours a week and the Accountant also received compensatory time. Yet, even though the timesheets of the Modernization Coordinator showed hours worked that were well in excess of the normal work day, no compensatory time was shown on his leave record. For those employees who received compensatory time, it should be noted that none of the overtime hours worked were documented as having been required by the Executive Director and the compensatory time received was not used within 60 days as mandated in the Personnel Policy.

Signature on Leave Requests Were Lacking or Were Inconsistent

The PHA's leave request form provides for the employee's name and signature and for supervisory approval. Our cursory review of the leave request forms showed that some were signed by employees other than the one requesting the leave, while others were either not signed, not approved, or were approved by the employee requesting the leave.

We believe that greater emphasis is needed by the PHA over its preparation and maintenance of leave records. The emphasis should assure that leave is accrued and used in accordance with established policy requirements. The emphasis should also assure that leave requests and records are properly signed and approved. Unless an effort is made

to enforce the established requirements, deficiencies similar to those already described will continue and the PHA could incur personnel costs that may not be considered necessary or reasonable.

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Recommendations

We recommend that you require the PHA to:

- 6A. Implement controls that will ensure that the vacation time accrued for employees is in accordance with the Personnel Policy.
- 6B. Establish procedures that will assure that employees do not use more vacation time than is earned each year.
- 6C. Adopt necessary controls to ensure that employees are not paid for days while on unpaid leave.
- 6D. Institute procedures that will ensure that the provisions for compensatory time are applied equally among all employees.
- 6E. Implement controls that will ensure that leave requests contain the appropriate signatures.

## Need to Strengthen Administrative and Accounting Controls

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

### Administrative and Accounting control deficiencies

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

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

Voucher No.	Date	Amount of Sales Tax Paid
11092	4/2/99	\$52.59

- b. Two instances were noted where the PHA paid ineligible penalty or interest charges. The instances are contained on Voucher Nos. 12025 and 12382.

- c. On two occasions, the PHA paid travel costs for their consultants who are ineligible travelers. They include:

Voucher No.	Date	Ineligible Travel Costs
10820	1/22/99	\$1,989.06
12704	6/23/00	296.49

- d. Deficiencies associated with the purchasing of goods and services include the lack of:

1. Requisitions and purchase orders.

- 2. Adequate documentation to support the costs.
  - 3. A breakdown of the cost on supporting documentation.
- e. A review of the disbursement vouchers showed certain instances where costs were overpaid. An instance of an overpayment is:

<b>Voucher No.</b>	<b>Date</b>	<b>Amount Overpaid</b>
10990	3/5/99	\$50.00

- f. Individual contracts were entered by the PHA for painting apartments. However, in many instances the contracts were not signed by the PHA; in other instances, the contracts were not signed by the contractor; and, in one instance a contract was not signed by either the PHA or the contractor.
- g. Several instances were noted where the PHA failed to claim cash discounts that were earned. An example is:

<b>Voucher No.</b>	<b>Date</b>	<b>Discount Not Claimed</b>
11850	10/22/99	\$21.89

- h. In some cases, discounts were offered but were not taken due to untimely payment such as:

<b>Voucher No.</b>	<b>Date</b>	<b>Discount Lost By Untimely Payment</b>
11113	4/2/99	\$6.02

- i. In still other cases, the PHA claimed discounts that were not earned. For example:

<b>Voucher No.</b>	<b>Date Paid</b>	<b>Date Discount Expired</b>	<b>Discount Taken But Not Earned</b>
9991	8/15/98	8/12/98	\$150.00

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

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## Recommendations

We recommend that you require the PHA to:

- 7A. Establish controls to ensure that invoices containing ineligible sales taxes are not processed for payment.
- 7B. Adopt procedures that will ensure that invoices containing ineligible penalty or interest charges are not processed for payment.
- 7C. Institute controls that will prohibit travel costs being paid for ineligible travelers.
- 7D. Implement procedures over purchasing and the payment for goods or services to ensure that:
  - 1. Requisitions and purchase orders are prepared.
  - 2. Adequate supporting documentation is obtained prior to payment.
  - 3. Documentation obtained provides a breakdown of the costs.
- 7E. Strengthen its procedures to ensure that the proper amounts are disbursed for costs incurred.
- 7F. Adopt controls that will assure that all contracts are properly executed by the parties involved.
- 7G. Institute procedures that will ensure that all discounts earned are claimed.

- 7H. Implement controls that will assure that payments for costs are made timely so that all discounts offered are claimed.
- 7I. Establish controls to ensure that all discounts claimed have been earned.

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# Management Controls

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

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## Relevant Management

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

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

We assessed all of the relevant controls identified above.

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

## Significant Weaknesses

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



Validity and Reliability of Data

Employee leave records contained discrepancies that were contrary to PHA policy and procedures (Finding 6).

Compliance with Laws and Regulations

The PHA did not comply with Federal procurement regulations for competitive proposals (Finding 1).

HUD regulations were violated by the PHA in securing supplemental policies services under the 1999 Drug Elimination Program (Finding 3).

The PHA made payments to certain administrative employees that were additions to their salaries and may not meet HUD requirements (Finding 4).

Safeguarding Resources

Ineligible and unsupported costs were incurred because the PHA did not maintain adequate control over costs charged the Low-Rent Housing program (Finding 2).

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

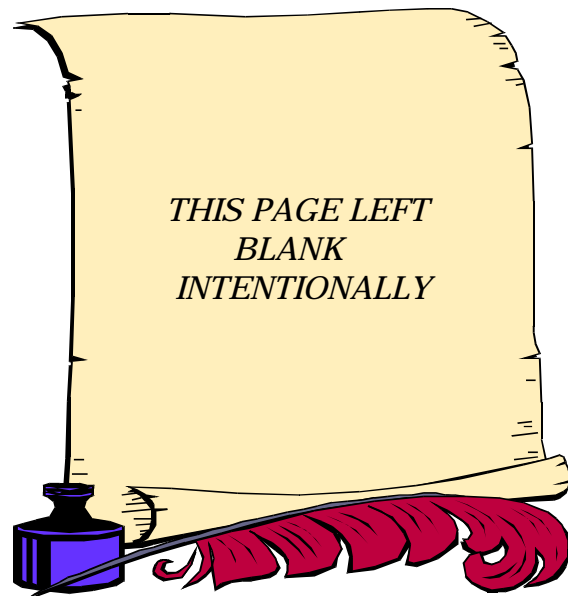
The PHA needs to strengthen control over its administrative and accounting procedures (Finding 7).

# Schedule of Ineligible and Unsupported Costs

<u>Findings</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1		\$145,150.00
2	\$2,690.26	31,557.60
3		27,439.57
4		18,000.00
5	<u>47.60</u>	<u>3,333.67</u>
Total	<u>\$2,737.86</u>	<u>\$225,480.84</u>

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

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



# Schedule of Ineligible and Unsupported Payments From the General Fund

Date	Voucher Number	Description	Amount Ineligible	Amount Unsupported	Notes
06/30/98	9632	Fingerprints		\$ 96.85	1
07/10/98	9711	Supplies/Opening		79.97	1
09/11/98	10110	3 cotton sash cords		360.95	2,3
09/25/98	10211	Code book		42.00	4
10/02/98	10264	Plumbing repairs		369.48	2,5
10/23/98	10390	Install heat-office		250.00	2,5
10/23/98	10407	Fingerprints		120.00	6
11/06/98	10470	Replace valves and repair water lines		5,837.61	2,5
11/30/98	10577	Balance due on code book		9.60	4
12/31/98	10745	Repair water supply for garage		807.30	2,5
01/22/99	10820	Provide computer training	\$1,989.06		7
02/24/99	10944	Increase comp memo		247.50	1
03/05/99	10990	Work-Neighborhood Center		3,196.50	8
03/05/99	10992	Dead Bolts and interest on dead bolts and flooring		4,615.71	8
03/26/99	11045	Credit card payment		2,120.75	9
04/02/99	11087	Balance Due		94.50	10
04/02/99	11089	Misc. tools and supplies	34.96	499.41	11,12
04/02/99	11092	Safety signs and gloves	52.59		11
04/16/99	11190	Invoice		102.00	13
06/11/99	11375	Mortar mix	30.99	442.75	2,11,14
06/11/99	11380	Sign		25.00	1
06/18/99	11399	Supplies		837.94	2,3
07/01/99	11465	Barricades		229.72	1
07/16/99	11511	Flower arrangement		37.50	15
08/19/99	11622	Laundry baskets		213.50	1
09/20/99	11761	Service WE 9/17/99		320.00	1
10/01/99	11780	Service WE 9/24/99		320.00	16
10/15/99	11823	Consulting accounting services		150.00	15
10/15/99	11842	FYTJT IN		181.56	2,13
10/22/99	11863	Consulting accounting services		75.00	15
10/29/99	11873	Dorie Perry		60.00	1
12/03/99	11978	Service contract		660.00	17
12/10/99	11997	Consulting accounting services		75.00	15
12/14/99	12009	Construction Trailer	18.55	265.00	2,11
12/17/99	12025	Credit card payment	11.08	406.19	9,18
01/06/00	12097	Credit card payment		1,049.88	9
02/18/00	12255	Fingerprints		120.00	6
02/25/00	12270	Service WE 2/24/00		240.00	16
03/24/00	12382	Penalty for late payment of withholding taxes	256.54		18
04/20/00	12446	Service WE 4/7/00		319.50	1
05/12/00	12556	Blower motor		448.06	2

Appendix B

<u>Date</u>	<u>Voucher Number</u>	<u>Description</u>	<u>Amount Ineligible</u>	<u>Amount Unsupported</u>	<u>Notes</u>
06/02/00	12629	Meeting		95.48	2,19
06/16/00	12678	Census		48.00	16
06/16/00	12680	Issue check to Section 8		1,337.00	8
06/23/00	12691	Heat line repairs		1,920.50	2,20
06/23/00	12704	Fixed asset report	296.49	1,292.57	2,7
06/30/00	12720	Computer Support		797.55	2,20
06/30/00	12723	Payment – Horton		143.77	15
06/30/00	12738	Fingerprint checks		96.00	1
06/30/00	12747	Process server – 20 tenants		500.00	21
<b>Totals</b>			<b>\$2,690.26</b>	<b>\$31,557.60</b>	

Notes

- 1 Other than the check voucher, there was not documentation to support the costs.
- 2 No requisition or purchase order was prepared for the cost.
- 3 The only explanation provided for the expenditures was supplies.
- 4 The billing was in the name of a consultant to the PHA.
- 5 Documentation does not provide a breakdown for the materials and labor costs.
- 6 There is no billing or invoice to support the costs.
- 7 Payee is neither an employee nor Commissioner of the PHA and is therefore an ineligible traveler..
- 8 There is no invoice to support the charge; only a handwritten note by the PHA exists.
- 9 Other than the check voucher, the only documentation to support the cost is a credit card statement.
- 10 Only a statement showing Balance Due supports the costs.
- 11 Sales tax is not an eligible cost.
- 12 Represents costs of \$499.41 charged to employee's credit card and reimbursed by PHA.
- 13 The invoice does not identify the goods or services purchased.
- 14 Receiving reports were not signed to indicate receipt of supplies.
- 15 The documentation does not explain why the cost was incurred.
- 16 The documentation available does not support the cost incurred.
- 17 The service contract was signed after payment was made.
- 18 Penalties and interest are not eligible costs.
- 19 The only explanation provided for the expenditure was meeting.
- 20 Two different labor rates were charged without explanation.
- 21 The documentation does not identify the tenants served.

# Schedule of Ineligible and Unsupported Travel Costs

Date	Voucher Number	Description	Amount Ineligible	Amount Unsupported	Notes
07/21/98	9800	Buffalo Trip		\$150.00	1
09/03/99	11683	Car rent seminar		178.54	2,3
09/03/99	11692	Registration – seminar in Atlanta, GA 5/19-21/99		180.00	3
09/20/99	11759	Travel allowance		152.00	1,4
09/20/99	11766	Travel allowance		152.00	1,4
12/22/99	12046	Travel		40.00	1
02/11/00	12231	Travel		1,418.00	2,3
02/18/00	12248	Travel		31.20	2
03/17/00	12349	Travel reimbursement		22.82	2
03/24/00	12371	Travel		269.72	2,3
03/31/00	12394	Travel to Albany, NY		40.95	2
04/07/00	12417	Travel	\$47.60	518.44	5,6
05/05/00	12507	Travel allowance		180.00	2,7
<b>Totals</b>			<b>\$47.60</b>	<b>\$3,333.67</b>	

## Notes

- 1 There was no documentation to support the cost other than the check voucher.
- 2 The supporting documentation does not explain why the cost was incurred.
- 3 There was no Board Resolution to approve the trip.
- 4 Check voucher was located in the employee's payroll folder.
- 5 Penalty and interest charges are not allowable costs.
- 6 Receipts were not available for parking, airfare and hotel costs.
- 7 Traveler was paid per diem, but the PHA travel policy provides for actual costs.

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# Auditee Comments

**Saratoga Springs Housing Authority  
1 South Federal Street  
Saratoga Springs, NY 12866  
Telephone: (518) 584-6600  
Fax: (518) 583-3006**

June 1, 2001

Mr. William H. Rooney  
Assistant District Inspector General for Audit  
U. S. Dept. of Housing and Urban Development  
Office of Inspector General  
26 Federal Plaza, Room 3430  
New York, NY 10278-0068

Dear Mr. Rooney:

As you requested in your letter to the Saratoga Springs Housing Authority dated May 22, 2001, we have completed the responses to the findings pertaining to our recently completed audit. We have attached our responses to this letter along with any additional information that we felt might be pertinent.

If there is any further information that you will require or anything we can do to assist with finalizing this process, do not hesitate to let us know.

Sincerely yours,



Gerard Zabala  
Executive Director



## **Saratoga Springs Housing Authority**

### **Finding #1 – Procurement**

Consulting: The Saratoga Springs Housing Authority (SSHA) required the services of a housing and construction administrator in order to execute contracts and comply with Housing and Urban Development deadlines for the Modernization Grant Programs. The fees were deemed reasonable when compared to A&E fees and construction consultant fees the Authority had previously utilized.

Accounting: Due to the untimely death of the SSHA staff accountant, the SSHA procured the services a fee accountant who was familiar with the ongoing operations and software of the housing authority. These services were urgently required in order to sustain the current operations of the authority.

All future procurement shall be completed in accordance with SSHA policy and applicable HUD requirements. The SSHA will review its current procurement and fiscal policies and procedures to ensure that the necessary controls are in place to adequately meet the requirements for compliance with Federal procurement regulations.

### **Finding #2 – Ineligible and Unsupported Payments from the General Fund**

The SSHA shall adhere to and comply with, our procurement policy as outlined in this recommendation. Also, the Saratoga Springs Housing Authority (SSHA) will review its current procedures and fiscal policies to make sure that they contain the necessary controls to ensure compliance with Federal procurement regulations.

### **Finding #3 – Contract for Supplemental Police Services**

Contract shall be executed and is in place.

Reimbursement to the City for officer's time on August 9, 2000 was for one officer (Tim Sicko) on regular shift running concurrently with another officer (Christopher Kuznia) on overtime. Since August is a busy tourist time in Saratoga Springs, it is not unusual for an incident at the Housing Authority property to require two officers. However, the extension of the hours times the rate on Office Kuznia's time sheet is incorrect. The dollar amount charged by the city equates to 8 hours rather than 5. The city has been contacted and is reviewing these records. If the time documented (5 hours) is correct, they will credit the Housing Authority for \$102.26 on the next invoice sent.

## Saratoga Springs Housing Authority

### **Finding #4 – Questionable Compensation Payments to Administrative Employees**

The SSHA Board of Directors is in the process of reviewing and adopting a new personnel policy to be completed by the end of the calendar year. This policy shall address the recommendations made with respect to performance evaluations.

In addition, the SSHA no longer provides supplemental compensation from the PHDEP for employees.

### **Finding #5 – Ineligible and Unsupported Travel Costs**

A new travel policy has been adopted by the Board of Directors and has been implemented. In addition, a new travel voucher form has been created to be used prior to payment of any travel expenses.

The SSHA shall obtain all necessary supporting travel documentation.

### **Finding #6 – Discrepancies Exist in Employee's Leave Records**

**Conversion of Vacation Time Accruals:** The SSHA states that all vacation time earned must be used within one year or lost. Vacation time was given to the employee on their anniversary date. To avoid having a vacation time liability to compute at fiscal year end and to compute vacation accruals in the same manner as the City does, it was decided that it would be easier if all employees received their vacation on 7/1 so that all vacation time would be used or lost at fiscal year end 6/30. In order to achieve this end, it was necessary to do a one-time conversion this year. Example: your anniversary date is 1/1 and you would typically receive 10 days vacation to be used by 12/31/99 (12 months). During this conversion period your vacation days were prorated and you received 5 days that had to be used by 6/30/00 (6 months). You would then not receive your 10 days again until 6/30/01. Employees received the prorated days calculated from their actual anniversary date to 6/30.

**Employee Used More Vacation Time Than Was Earned:** Until this conversion was completed, employees received vacation time on their anniversary date. Thus, it was possible that an employee could use more than their allotted time within the **calendar year**.

New procedures are in place to track employees time accruals. These procedures include the establishment of new timesheets, review process and database for the recording of time accruals and usage.

**Saratoga Springs Housing Authority**

**Finding #7 – Administrative and Accounting Controls**

The procurement policy of the SSHA shall be adhered to in the future especially in these areas: 1) proper issuance of purchase orders, 2) review of invoices for sales tax and discounts, 3) proper approvals and signatures, and 4) proper support documentation with cost breakdown.

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# Distribution

Executive Director, Saratoga Springs Housing Authority, Saratoga  
Springs, New York

Principal Staff

(Acting) Secretary's Representative, New York/New Jersey, 2AS

Director, Office of Public Housing, 2CPH, Buffalo Area Office

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Steve Redburn, Chief Housing Branch

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The Honorable Dan Burton  
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