
AUDIT REPORT



CHESTER HOUSING AUTHORITY
CHESTER, PENNSYLVANIA

2001-PH-1002

FEBRUARY 15, 2001

OFFICE OF AUDIT, MID-ATLANTIC
PHILADELPHIA, PENNSYLVANIA



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TO: Karen Newton, Director, Office of Troubled Agency Recovery, PB
Malinda Roberts, Director, Office of Public Housing, Pennsylvania State Office,
3APH

for J. Phillip Schiff

FROM: Daniel G. Temme, District Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: Chester Housing Authority
Chester, Pennsylvania

We have completed our audit of selected operations at the Chester Housing Authority (CHA). The audit was an update of conditions we had noted during earlier audit work at the CHA. Our report contains four findings. We have provided copies of this report to the CHA, the CHA Receiver, and the Court.

Within 60 days please give us, for each recommendation in the report, 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 considered unnecessary. Also, please furnish us copies of any correspondence and/or directives issued because of the audit.

Should you or your staff have any questions, please contact Tina Schimony, Acting Assistant District Inspector General for Audit, at (215) 656-3401.

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Executive Summary

In November 1991, HUD designated the Chester Housing Authority (CHA) as a troubled authority and took control of the Authority because of numerous and long standing deficiencies. On April 29, 1994, the United States District Court for the Eastern District of Pennsylvania declared HUD liable for de facto demolition of housing units at the CHA. On August 31, 1994, the Court placed the CHA in Receivership. The Court appointed Receiver was to improve the CHA's operations so the agency would provide its tenants housing that is structurally sound and functionally adequate along with appropriate services. Further, the Scope of Services, set by the Court in the August 31, 1994, Order of Appointment of Receiver, recognized that ineffective policies and procedures played a major role in the operational problems confronted by the CHA.

On January 7, 2000 we began an audit to assess the Receiver's and the CHA's progress in:

- analyzing existing policies and procedures; updating or revising procedures where warranted; training staff on and monitoring the effectiveness of the new policies and procedures;
- improving procurement and administration of its legal service contracts;
- developing procedures to govern the use of the CHA credit cards and stipulate the documentation required to obtain payment for credit card and out-of-pocket expenses; and
- reducing tenant rent receivables and improving rent collections.

Unfortunately, the Court did not permit our free and open access to CHA personnel and records during the conduct of this audit. The impediments and limitations to our audit constituted an external impairment and affected our independence. Hence, we were unable to comply with government auditing standards regarding independence and the external impairment constrained our efforts to form independent and objective opinions and conclusions. The results and observations from our review are summarized below and detailed in the report that follows.

Actions To Rework
Outdated, Incomplete and
Neglected Procedures Not
Timely

Although the Receiver made progress updating CHA policies and some procedures, the Receiver did not update procedures for some fundamental operations. As a result, CHA staff worked with outdated and incomplete procedures. Though in fiscal year 2000, the Receiver contracted for the development of procedures, the CHA needs a plan to train its staff to apply the new procedures, monitor their application, and ensure the procedures are effective.

Insufficient Progress In Procurement and Administration of Legal Services

The Receiver did not use free and open competition to procure legal services for the CHA because the Court excused the Receiver from observing that and other Federal and HUD requirements. Consequently, capable law firms did not have the opportunity to compete for the CHA's business. Also, the CHA did not have written procedures for reviewing and approving legal service invoices which may have contributed to CHA Counsel not critically reviewing all invoices. Further, the Receiver and CHA did not employ adequate safeguards to oversee a conflict of interest situation involving CHA's General Counsel. The CHA needs to establish controls for procuring and administering its legal service contracts.

Inadequate Controls Over Out-of-Pocket and Credit Cards Expenses Paid To Receiver

The CHA needs to develop and implement adequate controls to ensure the Receiver's out-of-pocket expenses and credit card charges are appropriate and adequately supported. The CHA relied on the Court to review and approve Receiver out-of-pocket expenses. However, the CHA paid the out-of-pocket expenses without first obtaining written authorization from the Court. Therefore, the CHA lacked documentation to support the expenditures. We attributed the lack of controls over credit card charges to managers not being aware of the need for such procedures. The lack of controls contributed to the CHA paying for unsupported and ineligible credit card charges. During the audit, the CHA introduced some controls over the payment of credit card charges, but additional controls are needed.

CHA Should Effect Further Improvements In Its Rent Receivables and Rent Collection Practices

The Receiver and the CHA have reduced significantly tenant rent receivables and established a more effective rent collection operation. Although the Receiver and CHA made progress to improve rent collections, the CHA did not:

- Evaluate prospective tenants thoroughly, and as a result, CHA could not ensure it accepts applicants who will meet their full obligations as tenants.
- Apply its rent collection strategies consistently because the CHA did not have up-to-date comprehensive rent collection and eviction procedures. The CHA contracted to have the procedures developed to reflect a change in management philosophy.

- Pursue in an aggressive manner, collection of rents from delinquent vacated tenants receiving Section 8 assistance. As a result, CHA may have recorded losses that were collectable if it had been more diligent in its collection efforts.

The CHA needs to establish procedures, and train and monitor its staff in the areas of applicant screening, rent collections, and evictions.

We discussed the results of our review during the audit and provided the Court, the Receiver, and the CHA with a draft report for comment. We discussed the draft report at an exit conference on December 19, 2000. The CHA provided a written response, which we included as Appendix B without exhibits, and where appropriate their comments are summarized in this report. CHA generally agreed with our recommendations, but disagreed with some of the reported facts.

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Abbreviations

ACOP	Admissions and Continued Occupancy Plan
CHA	Chester Housing Authority
HUD	US Department of Housing and Urban Development
OIG	Office of Inspector General
TAR	Tenant Accounts Receivable

Introduction

The Chester Housing Authority (CHA) was organized under the laws of the Commonwealth of Pennsylvania to develop, acquire, and operate low rent housing. In November 1991, HUD took control of the CHA because of the CHA's numerous and long standing deficiencies. HUD determined the CHA was in substantial default and breach of the Annual Contributions Contract. The housing stock was in a deplorable condition. Furthermore, rent collection was a continuing problem and expenditures exceeded funding. Essentially, management lacked the capability to obtain and manage the funds necessary to make the needed improvements.

On April 29, 1994, the United States District Court for the Eastern District of Pennsylvania ordered that HUD was liable for de facto demolition of housing units at the CHA. On June 2, 1994, the Court granted the Government's motion to appoint a Receiver. On August 31, 1994, the Court placed the CHA in Receivership and appointed the Chairman of Grenadier Realty Corp., to serve as the Receiver. The Receiver left Grenadier in June 1997, formed the Rosenberg Housing Group, Inc., and continued to operate as the Receiver.

The Court appointed the Receiver to improve the CHA's operations so that the agency would provide its tenants housing that is structurally sound and functionally adequate, and provide residents with appropriate services. The Receiver appointed an employee of his organization to act as the CHA's Executive Director. The Receiver appointed a permanent Executive Director in January 1997.

By March 1998, the CHA's condition improved to the point where HUD designated the Authority as a standard performer and removed the CHA from its list of troubled agencies. A major reason for the CHA's improved condition was the substantial modernization work done at its developments. HUD provided more than \$98 million to the CHA for modernization efforts during fiscal years 1995 through 1999. In June 1994, the CHA had 1,707 dwelling units in five conventional developments and 24 scattered site locations. By June 1999, the CHA's public housing inventory included 1,453 dwelling units. Of these, tenants were occupying only 774 units. The other units were unoccupied due to pending demolition. The CHA relocated tenants occupying those units to housing in both the public and private sectors. In 1998, the CHA completed a major rehabilitation of one project and in 1999 completed the demolition and reconstruction of another project. Two additional projects were in the process of demolition and reconstruction.

We did onsite audit work at the CHA between July 22, 1997 and July 24, 1998. The audit covered CHA operations during the period April 1, 1995 through March 31, 1998. We issued a report to HUD that addressed the Receiver's compensation and term of services, but experienced delays in reporting on other areas. Government Auditing Standards require that reports be issued promptly so that information is available for timely use by management. Many of the reportable conditions we planned to address in the report, including Housing Quality Standards and maintenance issues, had since been superceded by the CHA's modernization activities. However, there remained conditions noted earlier which were still unsettled and required updating to reflect current conditions. These conditions covered four areas: development of the CHA's policies and

procedures; credit cards and Receiver's out-of-pocket expenses; tenant receivables and rent collections; and procurement and administration of legal services.

We resumed the audit on January 7, 2000, intending to update conditions noted during the earlier audit work to learn if the CHA made needed improvements in the four areas. We notified the Court, the Receiver, and the CHA of our resumed audit. We requested an entrance meeting with the CHA's Executive Director for January 24, 2000. The Court rescheduled the meeting to February 3, 2000. The meeting attendees were the Court, the Receiver, the HUD-OIG and CHA personnel. We notified the Court that we wished to update issues that remained open from our earlier audit work. The Court agreed that we should continue with a limited scope audit and agreed with the four objectives we outlined during the meeting. The Court expressed concerns that the audit resumption would disrupt the CHA's operations and requested we limit our time onsite. The Court also specified points of contact for each of the four audit objectives. To mitigate the Court's concerns, we agreed to perform much of our audit effort off-site.

On February 24, 2000, the Court further restricted our review to events and transactions that occurred in 1999 and 2000. On March 9, 2000, we explained to the Court that the restrictions limited our audit scope. We said that to accomplish the four objectives we needed to review events and transactions that occurred before 1999. We explained that by update we meant to complete our review of the activities in the four areas since the time the Receiver assumed control of the CHA. On March 17, 2000, the Court affirmed the audit period to 1999 only. However, in the interests of comity and cooperation, the Court said it would order the CHA to provide us with information prior to 1999 if, in the course of our audit, such information became necessary. The Court directed us to submit such requests to the Court as the need arose. We discuss this and other work impediments and audit scope limitations we experienced throughout the audit in the Audit Scope and Methodology section of this report.

It is most unorthodox for auditors to function without free and open access to an auditee's records and personnel. However, we recognized that the Court had a genuine commitment to improving the CHA's operations and improving the CHA's services to the residents of the CHA developments. We also shared the Court's commitments and designed our audit to cause as little disruption to the CHA's operations as possible so long as we were able to accomplish our audit objectives. However, the impediments and limitations we experienced during this audit constituted an external impairment which affected our independence. Hence, we were unable to comply with government auditing standards because the external impairment constrained our efforts to form independent and objective opinions and conclusions.

Audit Objectives

Our objectives were to assess the Receiver's and the CHA's progress in:

- analyzing existing CHA policies and procedures; updating or revising procedures where warranted; training CHA staff on and monitoring the effectiveness of the new policies and procedures;

- improving procurement and administration of its legal service contracts;
- developing procedures to govern the use of the CHA credit cards and stipulate the documentation required to obtain payment for credit card and out-of-pocket expenses; and
- reducing tenant rent receivables and improving rent collections.

Audit Scope and Methodology

We performed our initial audit work at the CHA between July 22, 1997 and July 24, 1998, and covered the CHA operating period extending from April 1, 1995 through March 31, 1998. We experienced delays in reporting on various aspects of the CHA's operation. Many of the reportable conditions we planned to address were superseded by the CHA's modernization activities. However, there remained four conditions which were still unsettled and required updating to reflect current conditions. The audit work discussed in this report represents an update of the conditions we discovered during our earlier audit work that remained reportable conditions.

We were not able to resume audit work until January 7, 2000 because an experienced auditor was not available to lead this assignment until that date. The original auditor-in-charge for this assignment experienced a serious illness which eventually caused him to leave government service.

We extended the period as necessary to include more recent data, so that our report would reflect current conditions. Our audit period eventually covered transactions from April 1, 1995 through June 16, 2000. We reviewed copies of pertinent records, discussed issues with the Court, and interviewed designated CHA officials and key personnel at HUD's Pennsylvania State Office.

We also reviewed:

- HUD's monitoring reports and other correspondence,
- independent public accountants reports,

- tenant files and tenant accounts receivable,
- policies and procedures,
- contract files,
- payment transactions, and
- Receiver's reports.

We tried to audit within the guidelines we agreed to with the Court. However, we encountered obstacles from the audit outset. For example:

- The auditors found themselves being judged by the CHA personnel. The auditors were questioned whether the records they requested or operations they wanted to review complied with the four audit objectives agreed to with the Court. These CHA personnel, rather than accepting the auditors' assurances that their requests were consistent with the audit objectives, would delay assisting the auditors until they first obtained the Court's consent.
- The general CHA employee population was not permitted to converse or interact with the auditors under the threat of dismissal. The Court said it directed this threat be conveyed to CHA employees.
- The CHA staff refused auditors access to site locations and oversaw the areas of audit interest and the records which were being evaluated by the auditors. The Court said CHA staff was following the Court's directions.
- The CHA officials designated as contacts for audit inquiries were often not available and slow to respond to requests for records. Further, the records provided the auditors were copies and not the original documents.
- The Court determined that the Receiver was answerable for his performance only to the Court and that his performance could not be the subject of any audit work. The Court, therefore, denied our request to meet with the Receiver during our attempt to audit. However, the Court did arrange for the Receiver to be present to discuss the draft report at our Exit Conference on December 19, 2000.

- The Court and the CHA did not allow the auditors access to all the records pertinent to the four audit objectives and determined the period of the CHA operations the auditors were to review. Finally, the Court suggested when the audit should be concluded.

The audit impediments and limitations created an atmosphere not helpful to accomplishing our audit objectives timely or with the level of completeness we wanted to achieve. This situation constituted an external impairment of our audit independence. We were not able to reach reliable conclusions concerning the adequacy of the CHA policies and procedures, the propriety of the CHA credit card usage, the propriety of legal services procurements and the adequacy of the legal contract administration, or the adequacy of CHA actions with respect to Tenant Receivables.

Due to the external impairments previously discussed, we did not complete this audit according to the generally accepted government auditing standards.

We provided a copy of this report to the Court, the Receiver and the CHA Executive Director.

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Receiver Did Not Rework Outdated, Incomplete and Neglected CHA Procedures

In 1994, the Court ordered the Receiver to review, and as necessary, update the CHA's policies and procedures. Although the Receiver made progress updating CHA policies and some procedures, the Receiver did not update procedures for fundamental operations such as rent collections. Also, the Receiver was tasked with the responsibility of training staff on the CHA's policies and procedures, and monitoring how employees applied the procedures to their work. However, since the Court limited our access to information, the CHA staff, and freedom to observe daily CHA operations, we could not determine with certainty whether the Receiver accomplished these tasks effectively.

During FY 2000, the CHA executed a contract with a consulting firm to update its procedures. However, significant CHA operations have transpired during the interim six years, and examples of the impact of not having updated procedures are reflected in Findings 2, 3 and 4 of this report.

Court Recognized the Importance of Effective Policies and Procedures

The Scope of Services set by the Court in the August 31, 1994, Order of Appointment of Receiver, recognized that ineffective policies and procedures played a major role in the operational problems confronting the CHA. The Court also recognized that any immediate improvements at the CHA would not be sustained without the CHA having a comprehensive system of policies and procedures. Therefore, as part of the order establishing the Receivership, the Court directed the Receiver to review the operating effectiveness of the CHA's functions, leading to a reform of those operating areas that were not efficient and cost effective. This review had to include:

- evaluating and updating all CHA's current policies and procedures;
- training staff on new policies and procedures; and
- monitoring new policies and procedures for effectiveness and cost efficiency.

During our earlier audit work, we noted the CHA did not have comprehensive policies and procedures for its staff to use in administering CHA's operations. During our current review we wanted to assess the Receiver's response to and progress made in effecting the Court's directions regarding the CHA's policies and procedures.

In large measure, the Court controlled our access to the CHA information, the CHA staff, and freedom to observe daily CHA operations. The conditions described in this assessment are limited to the CHA records and the CHA officials to which we had access. This situation constituted an external impairment of our audit independence. Because of the external impairment, we were constrained in our efforts to form independent and objective opinions and conclusions concerning the adequacy of the CHA's policies and procedures.

Importance of Internal Controls

Internal controls are a major part of managing any organization. An internal control system is made up of plans, methods, policies and procedures to meet an organization's mission, goals, and objectives. The organization's internal control system requirements change over time because business conditions change. The business environment changes because of changes in laws and regulations, societal concerns, technology, managerial philosophies and leadership. The Court recognized the need to change the policies and procedures used to manage the CHA operations.

Prudent business practices prescribe that policies and procedures should be communicated in writing. The documentation aspect is critical because oral communication of policies and procedures is unreliable; spoken words can be changed too easily, forgotten or never even heard. Further, it is important for organizations to have consolidated policies and procedures organized systematically. Fragmented or decentralized policies and procedures hinder the employees using them and do not ensure for their consistent application. Employees need to be trained in an organization's policies and procedures so they know how to do their jobs efficiently and effectively. Just as important, employees need to know the needs and expectations of those within the organization who rely on their work product.

Receiver's Actions to Update the CHA Policies and Procedures

In 1994, shortly before the Receiver's appointment, a consulting firm completed a Procedures Manual for the CHA that included unit and site inspection, maintenance, security monitoring, investigation, and follow-up on criminal and drug related activity. The Procedures Manual was to serve as a desk reference for the CHA's staff, a tool

for training new employees, and a basis for conducting internal management audits, and evaluating employee performance. The Procedures Manual did not encompass procedures for all the CHA's operations and excluded accounting and Section 8 procedures.

The CHA's Executive Director maintained that because the consulting firm overhauled the procedures immediately before the Receiver's appointment, there was no present need to revise the procedures. The Executive Director said the Receiver revised and updated procedures, as needed, because the Receiver's initial efforts focused on establishing management tools and systems.

We noted that since 1994, the Receiver developed and updated some procedures, but found no evidence the Receiver updated the Operations Manual or developed procedures for other fundamental housing authority functions such as accounting and budgeting.

During the years of Receivership, the CHA introduced new guidance to its staff. For example:

- in January 1995, a set of User's Manuals for operating a new computer software system;
- in February 1996 and June 1998, a revised Procurement Policy Manual;
- in June 1997, with later revisions in October 1997 and October 1999, the Admissions and Continued Occupancy Plan;
- in June 1997, the Section 8 Administrative Plan; and
- in July 1999 and May 2000, revisions to the Human Resources Policy Manual.

Though the Receiver updated some of the CHA's procedures, the updates were not controlled. For example, the procedures manuals did not always:

- list the dates the procedures were initially issued;
- list the dates when procedures were revised, replaced or added; or
- identify the applicable sections of the procedures being revised, replaced or added.

Uncontrolled and
Neglected Revisions to
Procedures

The CHA needs to adopt a control system for its procedures, such as a log in front of each manual, which would allow users to readily ascertain the latest issuance and identify procedures that have been superceded. Also, a log would ensure users that the manuals they need contain the current procedures for their area of responsibility.

The Receiver neglected revising some procedures that were outdated. For example, we asked the CHA to furnish us procedures on rent collection and non-payment evictions. The CHA provided the procedures, but the Deputy Executive Director said the procedures were out-of-date.

Improvements to
Procedures Needed

Our assessment of the CHA staff applying policies and procedures on the job was generally limited to those procedures governing legal service contract procurement and administration, tenant accounts receivable and rent collections, and credit card and out-of-pocket expenses. We cover the details of these assessments in the findings that follow. However, in general, while the CHA has developed or improved its procedures in these areas of the CHA operations, further improvements are justified. For example:

- The CHA did not have written procedures for its General Counsel to use in administering the CHA legal service contracts (Finding 2).
- The CHA did not have written policies and procedures for administering the Receiver's Out-of-pocket expenses (Finding 3).
- The CHA's guidance for rent collections, and evictions was incomplete and out-of-date (Finding 4).

Receiver's Recent
Comprehensive Approach
to Updating Policies and
Procedures

In January 1998, the Receiver instructed the CHA to procure the services of a consulting contractor to develop comprehensive standard operating procedures. However, HUD approval was needed to fund the contract. Problems in defining a specific scope of services for the contract delayed HUD's funding approval until August 1999. The CHA advertised for bids in August 1999 and awarded a contract in February 2000.

The Court ordered Statement of Work for the Receiver identified those CHA operational areas of interest to the Court and thus the procedures the Receiver was responsible to analyze and update. The February 2000 consultant contract's Scope of Services required the contractor to develop procedures for several operational areas that were included in the August 1994 Receiver's Statement of Work. These areas included:

- admissions and occupancy,
- public housing lease enforcement (including rent collection and eviction),
- Section 8,
- modernization,
- accounting and budgeting,
- maintenance, and
- procurement.

The target completion date was June 15, 2000. However, revisions to the delivery schedule pushed the completion date back to June 30, 2000, and then again to October 31, 2000. The CHA's General Counsel did not explain the reason for the slipped delivery schedule.

The CHA Needs to
Ensure Staff Are Trained

The CHA's General Counsel said managers arranged to train their staff on new CHA initiatives, policies and procedures during departmental staff meetings. Counsel said the CHA augmented training by sending staff to training courses or having consultants do the training.

We did not observe sufficient evidence to demonstrate that staff training occurred regularly as the CHA introduced new procedures. For example, though the CHA General Counsel said training was provided at weekly staff meetings, we were provided little evidence to support this statement during our review of Rents Receivable. In Finding 4 of this report, we identify instances where staff did not fully apply the CHA's admission's policy. We attributed this condition to the staff not receiving adequate training and managers not effectively monitoring the work done by staff.

The Court's order required the Receiver to ensure staff received training on the new policies and procedures and to monitor the procedures' effectiveness. Due to audit impairments, we could not determine with confidence the training staff received to execute the policies and procedures, nor that CHA managers monitored staff usage of the updated policies and procedures.

High Personnel Turnover at CHA Adds Urgency to Establishing Sound Internal Control Structure

A properly functioning system of internal control depends on the competence of the entity's officers, department heads and other key employees. A stable environment promotes good internal controls. The impact of not having effective policies and procedures is amplified in an environment of high employee turnover. Effective, documented policies and procedures promote consistency and continuity of operations in an environment with frequent employee turnover. Accordingly, the CHA, through training and managerial oversight, needs to ensure its staff understands the procedures governing their position and apply the procedures correctly on the job.

Since the appointment of the Receiver, the CHA has experienced significant turnover in the management ranks as well as staff positions. Frequent turnover in any organization affects negatively the internal control environment and makes continual training even more essential. A healthy internal control environment that includes sound policies and procedures, an effective training program and good supervision, can minimize the negative effects such turnover can cause.

The CHA Needs to Implement New Operating Procedures

Although we noted the Receiver's recent progress in developing and updating CHA's procedures, additional attention is needed. We believe it is critical for the CHA to introduce the new procedures and train its staff as soon as the procedures become available. Since the consultant was expected to complete the procedures in October 2000, the CHA should have a plan for training its staff in place. Concurrently, the CHA managers must be instructed to monitor staff application of the procedures to ensure they are understood and provide for periodic assessments of the procedures to measure their effectiveness.

Auditee Comments

CHA agrees with the recommendations, but disagrees with some of the reported facts. CHA's response is provided as Appendix B.

**OIG Evaluation of
Auditee Comments**

We modified the report, where necessary, based on an evaluation of CHA's response, and additional information submitted with CHA's response.

Recommendations

We recommend that you request the Court to advise the Receiver to:

- 1A. Direct the CHA to create a plan to train staff on the standard operating procedures being developed by the consulting firm. The training should focus on ensuring that staff understands the new procedures. The CHA should maintain a record of the training staff received including dates and times, the policies and procedures discussed, and an employee attendance sheet.
- 1B. Establish a plan to monitor the effectiveness of new policies and procedures and make modifications as necessary.
- 1C. Annotate revisions to the policy and procedure manuals with the date of the revision, and establish control logs to record changes to procedures so users can determine if their manuals are current.

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Insufficient Progress In Procurement and Administration of Legal Service Contracts

During our prior audit work covering CHA operations from April 1, 1995 through March 31, 1998, we noted certain improvements the CHA needed to make in its procurement and administration of legal service contracts. Since that earlier work, the Court appointed Receiver and the CHA have not improved their procurement of legal service contracts though they have made limited progress to improve their administration of the contracts. This limited progress is reflected in the CHA hiring of an in-house General Counsel in July 1999 to assign work to the law firms, monitor their progress, and review and approve legal service invoices for payment. The Receiver and the CHA still do not comply with all Federal requirements governing their procurement of legal services. Specifically, the Receiver and the CHA: did not use free and open competition to select suitable law firms; did not obtain HUD approval before entering contracts that exceeded two-year terms or involved litigation proceedings; and did not maintain a written record of their actions to procure legal services. Also, we observed the CHA's General Counsel in a conflict of interest situation which the Receiver and the CHA did not adequately address. We also noted incomplete legal service contract files and ineffective controls for managing the legal service contracts.

Court Denied Auditors Access to Records

Though we sought free access to all the CHA's records related to legal services, the Court limited our access and directed the CHA to provide us only 1999 legal services information. The Court reasoned that the 1999 records would be sufficient to measure the CHA's progress. Therefore, our review of legal services procured by, and provided to, the CHA was confined to data we gathered during our earlier audit work and 1999 legal services information.

Since the CHA did not provide us information before 1999, we were unable to review payment information for eight months of 1998. Lack of access also prevented us from confirming certain issues we identified during our earlier audit work. The records to which the CHA did grant us access were copies of invoices, receipts and other supporting documents, and not actual source documentation. It is normal audit procedure for auditors to examine original documentation. Also, the CHA personnel did not respond timely to our questions about legal services, taking as long as two months to provide answers. In addition, the Court did not allow us to discuss with the Receiver the procurement and administration of legal

Historical Perspective of
the CHA's Legal Services

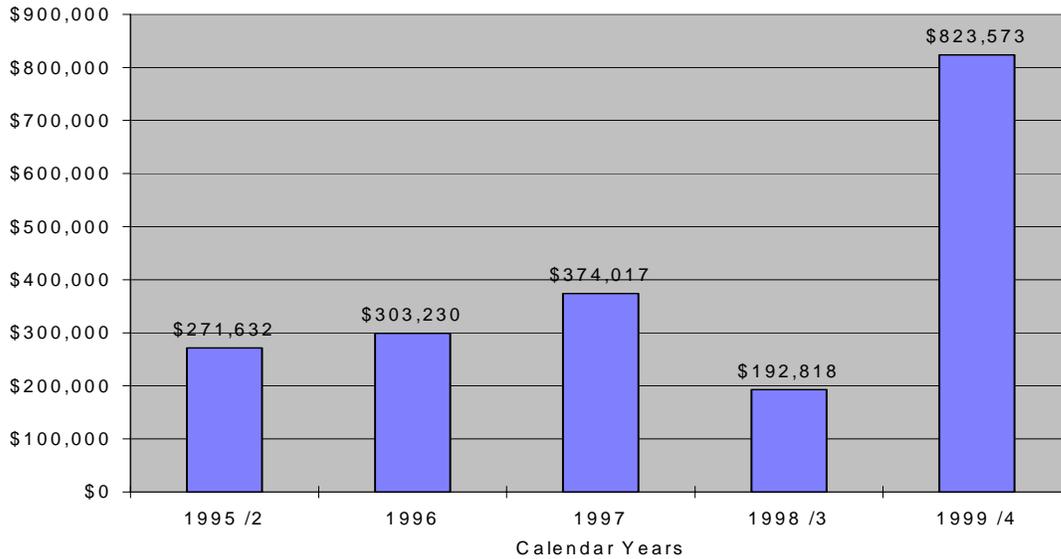
services, or permit us to review the Receiver's records dealing with legal issues.

The Receiver hired a consulting firm to perform a risk management assessment of the CHA. The firm reported that before the appointment of the Receiver in 1994 outside legal counsel represented the CHA. During that time, the CHA experienced severe managerial problems which included monitoring the legal work and the mounting legal expenses. When the Receiver took control of the CHA he considered the quality of services by outside counsel substandard and legal service costs high. To resolve this condition, the Receiver contracted with another law firm. However, the CHA incurred substantial fees from the new legal counsel. While the Receiver reviewed and approved legal invoices for outside counsel, neither the Receiver nor the CHA were tracking the time charged and the expenses claimed by the legal service firms. Consequently, invoices mounted to more than \$400,000 and went unpaid. In May 1997, the Receiver negotiated a unique agreement to pay the debt over time. In June 1999, after the CHA made a final \$96,000 payment to the law firm, the Receiver terminated the agreement.

The consultant's report also said the CHA did not have an experienced person to review the legal work done for the CHA. It advised the CHA to retain in-house counsel to handle routine litigation, monitor legal expenditures, track legal invoices, approve legal work by outside counsel and coordinate legal strategy with the Receiver and senior CHA management. In July 1999, the CHA hired an in-house General Counsel recommended by the Court. The General Counsel's duties included: assigning work to law firms; monitoring their progress; and reviewing and approving legal service invoices for payment.

From July 1995 to December 1999, the CHA paid more than \$1.9 million for legal services provided by 11 different law firms and their own in-house counsel. We could not determine the exact amount paid for legal services due to scope limitations we have detailed in the Executive Summary.

Legal Service Payments /1



Footnotes:

- /1 Costs for 1995 through 1998 could not be verified for completeness
- /2 July through December only
- /3 January through September only
- /4 Includes \$57,300 for cost of in-house Counsel from July through December and a \$96,000 payment for prior years services

A. The Receiver and the CHA Did Not Follow HUD Requirements for Procuring Legal Services

During our prior audit we noted that the Receiver did not use competitive procedures to award contracts for legal services. The Receiver also did not request HUD approval before awarding contracts that exceeded a two-year term and for contracts that involved litigation proceedings. Further, there was no evidence that either the CHA or the Receiver prepared cost estimates for the legal service contracts. As a result, qualified firms were not given the opportunity to participate in the procurement process and HUD’s oversight was diminished.

The Receiver, with the Court’s participation and agreement, selected the CHA’s legal service providers and determined the reasonability of fees to be paid for legal services. The Court assured us that after the CHA’s transition from Receivership to its own governance, the CHA General Counsel would ensure the CHA complied with all applicable regulatory requirements.

Receiver Did Not Use Competitive Procedures To Procure Legal Services

The Receiver awarded at least 17 contracts to 11 law firms during our audit period. Federal requirement 24 CFR 85.36 prescribes that public housing authorities conduct all procurement transactions with full and open competition.

HUD Handbook 7460.8 REV-1, paragraph 4-27 generally amplifies the principles of 24 CFR 85.36 and further provides that, when contracting for legal services, the goal is to acquire the services of a highly qualified firm at a reasonable price. Since qualifications and experience can be as important as price, the procurement of legal services should follow the competitive proposal procedures.

The CHA's Procurement Policy Manual did not reflect Federal and HUD requirements to acquire legal services competitively. It made competition for procuring legal services an option. The only mandatory requirements in procuring legal services were confidentiality and negotiation of a reasonable price.

The CHA did not use competition to procure legal services. The Court directed the Receiver to obtain legal services in the same manner a private client would obtain legal services. The General Counsel said the Court and the Receiver based their selection of legal service firms on the firm's expertise and reputation. The Court and the Receiver would agree on which law firm to select and ensure the legal fees were reasonable.

The CHA Did Not Document Actions to Procure Legal Services

According to 24 CFR 85.36 (f)(1), housing authorities are to do a cost analysis in connection with every procurement action and prepare cost estimates before receiving bids or proposals. Regulation 24 CFR 85.36 (b)(9) requires housing authorities to maintain records sufficient to detail the significant history of a procurement to include the basis for the contract price.

The CHA's files did not contain evidence of cost estimates being prepared in anticipation of the bid for services or documentation explaining the basis of the contract price. The Court and Receiver maintained they reviewed projected charges to the CHA for legal services. However, the evaluation was not documented in the contract file.

Court Participated in Procuring the CHA Legal Services

In normal circumstances, a housing authority that does not use free and open competition to select a contractor and does not maintain records to detail its procurement history would raise audit concerns. We recognize the Court has the personal knowledge and historical perspective to choose capable law firms for the variety of legal services

demanded by the CHA, and negotiate reasonable and appropriate terms for the CHA. In fact, we found the firms were highly skilled, and fees charged by these law firms were in line with fees charged in the region. We believe the CHA was fortunate the Court engaged itself in the selection of legal services during the Receivership. However, the CHA must be prepared for the transition from Receivership to self-governance by having in effect procedures that will allow for free and open competition in all its procurement transactions, including professional services, and a documented record of the procurement's history. Free and open competition will allow all capable law firms the opportunity to compete for the CHA's business.

Court Exempted Receiver
From Complying With
HUD Requirements

The Receiver did not obtain required HUD approval for long-term legal service and litigation contracts.

- HUD Handbook 7460.8 REV-1, paragraph 4-27(B)(2) prohibits housing authorities from entering into agreements or contracts for legal services with any person or firm where the term of the contract exceeds two years, without the prior written approval of HUD. The Receiver did not obtain HUD approval for three legal service contracts that exceeded a two-year term.
- HUD Litigation Handbook 1530.01 REV-4, paragraph 5-4 requires housing authorities to submit a request to HUD Regional Counsel for prior written approval before entering into litigation service contracts over \$100,000. The Receiver did not seek the required HUD approval for two contracts that involved litigation proceedings.

The Court directed the Receiver to obtain legal services in the manner that a client would obtain such services. Therefore, the Court exempted the Receiver from following HUD contracting requirements.

Revised Procurement Policy and Complete Files Will Ease the Transition from Receivership

The Court said that after the CHA changes over from Receivership to self governance, the CHA General Counsel would ensure the CHA complies with all applicable regulatory requirements. However, in preparation for the transition, the Receiver should ensure the CHA's Procurement Policy Manual is revised to reflect Federal and HUD requirements. The Receiver should also provide the CHA complete copies of his legal service contract files.

Auditee Comments

CHA agrees with the recommendations, but did not accept some of the facts. CHA's response is provided as Appendix B.

CHA said it will continue to procure legal services as a private concern during the term of the Receivership, and follow standard business practice in monitoring its legal contracts. Following the end of the Receivership, CHA will adhere to Federal procurement requirements.

OIG Evaluation of Auditee Comments

We revised the report to update facts based on CHA's response and additional information CHA provided. In addition, since CHA said it will procure legal services in accordance with Federal procurement regulations at the end of the Receivership, we consider this matter closed and we deleted a recommendation relating to the procurement of legal services.

Recommendations

We recommend that you:

- 2A. Request the Court to direct the Receiver to improve the CHA's Procurement Policy Manual by including Federal and HUD requirements governing free and open competition for legal services.
- 2B. Request the CHA to fully document the future selection of firms providing legal as well as other professional services.

B. Additional Controls Can Augment the CHA's Administration of Legal Service Contracts

During our prior audit we noted that the CHA's controls for administering its legal service contracts needed improvement. Since our earlier audit work, the Receiver and the CHA have taken steps to strengthen these controls. In July 1999, the Receiver appointed an in-house Counsel. The CHA Counsel's responsibilities included assigning work to law firms under contract to the CHA, monitoring the firms' work, and reviewing and approving law firm invoices for payment. Though the CHA now has a professional to oversee its substantial legal operations, the CHA did not record the Counsel's work responsibilities as written procedures. The absence of written procedures may have contributed to instances where the CHA's Counsel did not critically review invoices by corroborating invoiced work to an independent record of work assignments or assuring that invoice rates agreed with the payment rates specified in contracts. Also, Counsel accepted partial and incomplete documentation in support of legal service invoices.

Reviewing Invoices For Payment

Basic financial accounting principles define an invoice as the basis for entries in the accounting records of both the buyer and seller. An invoice should contain a description of the goods or services rendered, the quantities, prices, and credit terms. The act of verifying an invoice establishes that an entity actually ordered and received the goods or services. It also includes verifying that the prices billed agree with those specified in the contract. Upon receipt of an invoice, the buyer should verify the following aspects of the transaction:

- the invoice agrees with the contract as to prices, quantities and other provisions;
- the invoice is arithmetically correct in all extensions of price times quantity and in the addition of amounts; and
- the goods or services provided were satisfactory.

Closely related to the process of reviewing invoices are controls over expenditures. Good controls will permit the system to process only properly approved invoices and pay vendors for approved invoices. A chain of documentary evidence supports each transaction in an environment with good controls.

The CHA Did Not Have Written Procedures for Reviewing Invoices

Before July 1999, there was no one at the CHA with experience monitoring and reviewing the legal work of outside counsel. The CHA did not assign anyone responsibility for validating legal invoices. With the appointment of a General Counsel in July 1999, the CHA now had a professional with background for overseeing the CHA's legal operations, and reviewing and approving all legal service invoices for payment.

Hiring in-house Counsel to assign, monitor, and approve legal work was a large improvement. However, the procedures Counsel used to effect these functions were not documented. Because the procedures were not documented, Counsel described to us the procedures used to review and approve legal service invoices (see Appendix C).

Counsel Adjusted Some Invoices

Our review of legal services showed that the CHA's General Counsel did review the invoices. We found the General Counsel took exception to and would not approve labor charges for local travel as well as other labor charges the Counsel referred to as "administrative time". Counsel's adjustments to invoices reviewed between July and December 1999 reduced legal expenses by \$4,655.

Though the CHA's General Counsel reviewed invoices submitted by legal service providers, we found Counsel could monitor legal services better if a daily log documenting phone calls and meetings with legal service representatives was compared to firms' invoices. It was during these phone calls and meetings that General Counsel would assign work to the firms or discuss their legal work. Without making the comparisons, Counsel had to rely on memory to review invoices and labor charges resulting from these work assignments or phone discussions. The comparisons would assist Counsel to corroborate the accuracy and appropriateness of the invoices.

Bulk of Legal Service Costs Were Adequately Supported

We reviewed legal invoices totaling \$155,681 the CHA paid from October through December 1999 to determine the effectiveness of the General Counsel's review process. The legal service costs consisted of labor and reimbursable expenses such as photocopying, telephone calls, faxes, postage, and stenographer fees. We reviewed available documentation supporting the payments and determined that \$108,632 had adequate support.

**Insufficient Support For
Some Legal Service Costs**

The CHA did not have adequate documentation to support the remaining \$47,049 in legal service payments. Our review of available contracts and invoices showed that they were not adequate to determine if the payments were appropriate. During our review, Counsel requested the law firms to provide additional information relating to these invoices. We reviewed the additional information Counsel provided.

The additional documents supplied by law firms to the CHA were sufficient to support \$26,458 of the \$47,049 we questioned initially. Of the remaining \$20,591, we determined \$11,501 were still unsupported, and \$9,090 were ineligible costs. The ineligible costs represented duplicate payments, undetected billing errors, and over-billings for labor and other expenses. We also found the CHA underpaid two firms \$4,702 which constitutes unrecorded liabilities.

**Invoices Need To Be
Complete and Reviewed
More Thoroughly**

There are occasions when the General Counsel needs to be more thorough in reviewing the invoices. Also, the CHA needs to be a more demanding customer; requiring all law firms to provide a level of detail in their invoices that will allow the CHA to effectively examine charges. Also, the firms need to provide documentation supporting all claims for reimbursable expenses.

We found legal service invoices lacking: the names of the attorneys charging time on the invoice; the attorneys' billing rates; and extensions of the dollar amounts for individual time charges. Further, the CHA did not maintain lists of each firms' employees by position and the authorized billing rate for each employee. Without detailed information of this sort in the CHA's files, contracts, or invoices, Counsel lacked the means to do comprehensive validations of the charges received for legal services.

Generally, the law firms did not provide the CHA documentation to support the reimbursable expenses they claimed on their invoices. Though labor was clearly the greater part of the invoiced costs, the CHA should still require law firms to provide documentation to substantiate their claims of reimbursable expenses.

Additional Controls
Would Improve CHA's
Administration of Legal
Service Contracts

The procedures under development for reviewing and paying invoices will assist the CHA in their administration of legal service contracts. However, the CHA needs to establish controls to accumulate the data needed to perform efficient, effective reviews of legal service invoices.

Auditee Comments

CHA agrees with Recommendation 2C. CHA also provided additional documentation for Recommendations 2D through 2F to address some unsupported and ineligible costs, and unrecorded liabilities. CHA disagrees with some of the facts and their response is provided as Appendix B.

OIG Evaluation of
Auditee Comments

We modified the report, where necessary, based on an evaluation of CHA's response and additional information submitted with CHA's response.

Recommendations

We recommend that you request the Court to advise the Receiver to:

2C. Direct the CHA to establish controls which will enable the CHA to do efficient and effective reviews of legal service invoices. The controls should include:

- written procedures for reviewing invoices;
- a contract register, log, or similar system that will readily identify contracts, actual and estimated costs for legal service tasks, and amounts due and paid for legal services rendered;
- lists of the law firms' employees working on the CHA matters including names, positions and billing rates;
- a log, maintained by Counsel, which documents phone conversations and meetings with legal service representatives;
- invoices from law firms itemizing the names of the attorneys charging time, the attorneys'

- billing rates, and extended dollar amounts to individual time charges; and
- documentation from law firms to support claims for reimbursable expenses.
- 2D. Direct the CHA to provide documentation to explain the \$11,501 in unsupported legal service costs. The CHA should reimburse its operating account from non-Federal sources, costs that it cannot support as a justifiable CHA legal service cost.
- 2E. Direct the CHA to reimburse the CHA's operating fund \$9,090, from non-Federal funds, representing the ineligible costs charged to the CHA legal services.
- 2F. Investigate with the appropriate law firms the status of the \$4,702 we identified as unrecorded liabilities.

C. General Counsel's Conflict of Interest

The CHA hired a General Counsel in July 1999. Counsel's responsibilities included assigning legal work to outside law firms, monitoring the firms' progress, and reviewing and approving invoices for payment. In June 1998, the Receiver engaged a law firm owned by Counsel's spouse to perform legal work for the CHA. We found that the CHA Counsel reviewed and approved payment of invoices submitted by the Counsel's spouse's firm. Furthermore, we learned that Counsel was a joint owner of the law firm. This familial relationship of Counsel to the law firm principal and Counsel's ownership interests in the law firm constitutes a conflict of interest.

Guidance For Conflict Of Interest Situation

According to 24 CFR 85.36 (b) (3), no employee, officer or agent shall participate in the selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved. Further, the CHA's Human Resources Policy Manual, dated July 1999, requires personnel to discuss conflicts of interest with either their supervisor or the Human Resources Manager.

We attempted to meet confidentially with the CHA's Executive Director to determine whether Counsel disclosed the apparent conflict of interest. However, we canceled the meeting because Counsel insisted on attending the meeting.

Counsel said that the Court directed Counsel to attend all of our meetings with the CHA personnel.

We notified the Court to explain the sensitivity of the conflict of interest situation. The Court said the Executive Director was already aware of the apparent conflict of interest. Also, to avoid any perception of impropriety, the Court directed that services provided by Counsel's spouse be scaled back, and assignments of new work to the spouse's firm made only with the approval of the Receiver and the Court. Further, the Court said the Receiver was reviewing and approving the subject firm's invoices.

Counsel Reviewed and
Approved Spouse's
Invoices

We reviewed the subject firm's invoices and related records maintained by the CHA and found no evidence the Receiver reviewed and approved the invoices for payment. From July through December 1999, the firm addressed invoices totaling more than \$16,500 to the CHA and not the Receiver. While Counsel annotated approval on each invoice, there was no indication the Receiver had seen the invoices. The Court did not permit us to discuss this issue with the Receiver or to review the Receiver's records, which may have provided additional information.

Since the Executive Director was aware of Counsel's relationship with the subject law firm, we anticipated a corresponding management control over the processing and payment of this law firm's invoices. The CHA Executive Director was responsible for authorizing payment to the law firms after the invoices were reviewed and approved by Counsel. The Executive Director was not responsible for critically reviewing the invoices. Rather, the Executive Director relied on Counsel to review the invoices and ensure that the charges represented assigned work, were consistent with the contract terms, and were fully supported.

Counsel, in reviewing invoices from the subject law firm, did not detect, and the Executive Director authorized payment for, a \$5,000 double billing and a \$3,000 bill for services not supported by a contract. The CHA disbursed \$8,000 for these invoices. We requested the CHA to provide the contract supporting the \$3,000 payment. The CHA did not provide any documentation to support this payment. The ineligible and unsupported costs associated

with these payments are covered by Recommendations 2D and 2E under Part B of this finding.

Auditee Comments

CHA agrees with the recommendation, but disagrees with some of the reported facts. CHA's response is provided as Appendix B.

OIG Evaluation of Auditee Comments

CHA's comments were reviewed and considered, and there are no modifications to the report.

Recommendation

We recommend that you:

- 2G. Request the Court to direct the Receiver to remove the CHA General Counsel from participating in the future assignment of work to, or reviewing invoices submitted by, the law firm owned by Counsel and Counsel's spouse. The individual assigning work to, and reviewing the invoices submitted by, Counsel's spouse should be independent of the CHA General Counsel.

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CHA Has Not Yet Established Adequate Controls Over Out-of-Pocket Expenses and Credit Card Charges

During our prior audit work, we noted that the CHA did not have the prerequisite controls to ensure out-of-pocket expenses and credit card charges were adequately supported and eligible for payment. During the current review, we decided to update these conditions to learn whether the CHA had developed the necessary procedures. The following two sections explain the results of our updated audit work.

A. The CHA Lacked Documentation to Support Reimbursements for Receiver Out-of-pocket Expenses

In April 1995, the Court authorized the Receiver up to \$5,000 per month for actual out-of-pocket expenses. This allowance was retroactive to January 1995. Beginning March 1, 1997, the Court reduced the allowance to \$2,500 per month at the Receiver's request. The Receiver made the request because he would not be incurring automobile and housing costs due to the departure of the Acting Executive Director, a Receiver employee. During the period from January 1995 to December 1999, the CHA paid \$215,000 to the Receiver for out-of-pocket expenses.

Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, provides principles for determining allowable costs for Federal awards. This Circular stipulates costs must be reasonable, necessary, adequately documented and consistently treated. Title 24 CFR 85.20 requires that accounting records be supported by source documentation such as canceled checks and paid invoices. Also, the Court, in authorizing the out-of-pocket expenses, noted that the funds were to reimburse the Receiver for actual out-of-pocket expenses incurred.

Out-of-Pocket Expenses Defined

There was considerable discussion between HUD and the Receiver in defining what type of costs should be included as out-of-pocket expenses. In a December 6, 1995 meeting, HUD and the Receiver's representatives agreed that out-of-pocket expenses would include the Receiver's travel expenses to Philadelphia for meetings related to the CHA, travel expenses to the CHA for Receiver employees, and copying expenses for documents related to the Receivership. The Court never defined in writing the types of expenses that would be out-of-pocket expenses. However, the Court informed us during a meeting that out-of-pocket expenses would include travel and related costs

incurred by the Receivership in providing services to the CHA. In our view, the Court, HUD, and Receiver were reasonably consistent in their understanding of what costs constituted out-of-pocket expenses for the Receivership.

CHA Did Not Maintain Documentation

During our earlier audit work, we noted that the CHA reimbursed the Receiver for his out-of-pocket expenses but did not maintain documentation to support that the costs were reasonable or that the expenditures represented appropriate uses. We informed the CHA of this condition at the time of our earlier work and decided to update this condition during the resumed audit.

CHA Did Not Review Receiver's Claims

CHA personnel did not review Receiver claims for out-of-pocket expenses. The CHA, as a matter of routine, simply paid the Receiver's out-of-pocket expense invoices without question and without requiring the Receiver to produce documentation to support the claim. Further, though the payments to the Receiver were designed to be reimbursements for actual costs, the Receiver billed the CHA at the beginning of the month in anticipation of costs being incurred. The CHA advanced the maximum authorized amount for out-of-pocket expenses without objection or observation that the practice was contrary to the procedure set by the Court.

CHA Responsibility for Reviewing Out-of-Pocket Expenses

The CHA personnel were subordinate to the Receiver. Consequently, having a subordinate review and possibly questioning the expenses submitted by the Receiver would not have been appropriate. Therefore, the CHA managers may not have considered developing procedures for processing Receiver out-of-pocket expenses as being in their authority. It is a management weakness for subordinates to review the expenses of a manager having significant control and authority over the subordinates. As a consequence, the Court was in the best position to provide oversight for the Receiver's out-of-pocket expenses.

Court Review of Out-of-Pocket Expenses

The Court assumed responsibility for reviewing the Receiver's out-of-pocket expenses. The Court informed us the Receiver provides the Court with a monthly summary of the out-of-pocket expenses, and the Court reviews the costs claimed for reasonableness and appropriateness. The Court instructed the auditors not to audit these expenses. Therefore, we relied on the Court's assurances that out-of-

pocket expenses claimed by the Receiver and reimbursed by the CHA were reasonable and for authorized purposes.

Court Authorization to Pay Out-of-Pocket Expenses

The Court said that the Receiver did not submit documentation to support the costs listed on the summary of out-of-pocket expenses. However, the Court noted that it was familiar with cost reasonableness for transportation, hotel accommodations and meals, and would be able to identify amounts that were out of line. The Court also noted that invariably the Receiver's out-of-pocket expenses were greater than the monthly allowance for these costs. Therefore, there was no need to pay the Receiver less than the maximum amount established for out-of-pocket expenses. The Court acknowledged that, as a matter of practice, it did not provide the CHA written notification of its reviews nor written authorization that the CHA should reimburse the Receiver. The Court said that in the future, after reviewing the Receiver's out-of-pocket expenses, it would submit written authorization to the CHA to reimburse the Receiver.

Need to Fully Support Out-of-Pocket Expenses

Providing the CHA with written authorization offers assurance that there is oversight for the out-of-pocket expenses claimed by the Receiver. The CHA not making disbursement until it receives the Court's authorization should preclude further advances of out-of-pocket expenses being made to the Receiver. However, for the CHA to comply with the Federal requirement that costs be adequately documented by source documentation, the Court should forward the Receiver's cost summaries with the payment authorization to the CHA. Also, the Court should direct the Receiver to submit the actual payment receipts for the out-of-pocket expenses to the CHA so that its accounting records will be complete. Recording these procedures in writing and providing them to the CHA will enhance fiscal controls.

Auditee Comments

CHA agrees with the recommendations, but did not agree with some of the reported facts. CHA's response is provided as Appendix B.

OIG Evaluation of Auditee Comments

CHA's comments were reviewed and considered, and there are no modifications to the report.

Recommendations

We recommend that you:

- 3A. Confirm that the CHA does not reimburse Receiver out-of-pocket expenses until it receives the Court's written notification that it has reviewed the expenses and that the CHA is authorized to pay the reimbursement.
- 3B. Request the Court to help the CHA maintain complete records of its financial transactions by forwarding to the CHA the approved Receiver summary of out-of-pocket expenses to serve as a supporting document. Also, request the Court to direct the Receiver to submit to the CHA the actual payment receipts for the out-of-pocket expenses claimed on the summary.
- 3C. Request the Court to direct the Receiver to provide the CHA written procedures that require receipt of the Court's written notification and authorization, and the Receiver's supporting documentation prior to reimbursing the Receiver for actual out-of-pocket expenses.

B. The CHA Lacked Documentation to Support Payments for Credit Card Expenses and Incurred Unnecessary Expenses

The Receiver, the former CHA Acting Executive Directors, and the current CHA Executive Director had the use of the CHA credit cards. From July 1995 through December 1999, the CHA paid \$59,066 in credit card charges. The Court did not grant access to credit card information covering the period April through December 1998 because it believed this information was unnecessary to accomplish our audit objective.

Costs Must be Supported

OMB Circular A-87 describes the principles for determining allowable costs for Federal awards. Circular A-87 stipulates that costs must be reasonable, necessary, adequately documented and consistently treated. Also, 24 CFR 85.20 requires that accounting records be supported by source documentation.

The CHA Did Not Have
Written Procedures

During our earlier work we recognized the CHA did not have written procedures governing the use of credit cards or explaining the administration of credit card transactions. Consequently, the CHA lacked guidance for ensuring credit card expenditures were reasonable and necessary to the CHA's operations and adequately supported. Due to the CHA's earlier procedural weakness over credit card usage and processing credit card statements, we wanted to determine the updated status of these conditions to see if the CHA made the obligatory improvements to this portion of its financial operations.

Scope of Credit Card
Review

Our overall review covered CHA's credit card activity from July 1995 through December 1999, excluding the period April through December 1998. The Court did not permit us access to the records for these nine months. Our prior review work covered the period July 1995 through March 1998, and our current work covered the period January through December 1999. We noted the same conditions during both periods.

Though we wanted to review the source documents supporting credit card expenses, the CHA did not grant access to the original documents. We had to rely on copies of the documents. Normal audit practice is to rely on the original documents.

July 1995 through March
1998 Credit Card Activity

Our review of credit card transactions during the period from July 1995 through March 1998 disclosed ineligible expenditures and other charges without documentation to explain their purpose or support their eligibility. Total credit card charges paid by the CHA during this period amounted to \$39,569. However, the CHA did not have procedures requiring credit card statements to be supported with documentation prior to being paid. The statements we reviewed did not contain receipts or information to explain how the credit card charges were related to the CHA's operations. At our request, the CHA researched its records and gathered for our review documentation for \$29,255 of the \$39,569 charged to the credit card account. The CHA did not provide adequate documentation to support \$10,314.

We reviewed the documentation supporting \$29,255 in credit card charges for adequacy and ensured the charges represented an appropriate use of the credit cards. We

found \$520 in credit card charges, for items such as flowers, were unrelated to the CHA's operations and ineligible for payment with Federal funds. Another \$2,239 represented costs attributable to the Receiver's services, such as local travel expenses, and meals and automobile expenses for the Acting Executive Director. The Receiver's allowance for out-of-pocket expenses was the appropriate funding source for these items, and historically the Receiver charged these types of costs as out-of-pocket expenses. Therefore, the \$2,239 was ineligible as a credit card expense. Without credit card receipts, the CHA lacked the means to determine if cardholders were using credit cards appropriately.

January 1999 through
December 1999 Credit
Card Activity

Credit card charges during 1999 totaled \$19,497. During our current review, we found the CHA made improvements in administering credit card charges for payment. Because of concerns raised by the auditors during our earlier work in 1998, the CHA began collecting credit card receipts and supporting documents and attaching them to the credit card statements. This allowed the CHA to reconcile the credit card statements with the supporting receipts and ensure charges were adequately supported. Though the CHA has the means to assure credit card charges are adequately supported, we found that the CHA needed to provide the cardholders additional guidance to ensure credit cards were being used for appropriate purposes.

We reviewed the documentation supporting the \$19,497 in 1999 credit card charges. We found the CHA did not have adequate documentation for \$701 of its 1999 credit card charges. There was either no support for the charges or else the documentation was insufficient to explain how the charges related to the CHA's operations.

We attributed the ineligible credit card payments to: staff not having a clear understanding of what charges were permitted; the absence of written guidance specifying the purpose of the credit card; and the types of costs for which credit cards may be used.

The CHA Develops
Credit Card Procedures

In response to our inquiries to the CHA policies and procedures governing credit card use, the CHA supplemented its Human Resources Policy Manual with a policy on credit card use on May 12, 2000. The policy covered: the positions authorized to hold and use credit

cards; the official business uses of credit cards; credit card security; the process for approving credit card transactions; and the reconciliation process prior to paying the credit card statement.

New Procedures Need Strengthening

We are encouraged the CHA adopted the credit card procedures and believe their implementation will correct the conditions we noted in this finding. However, we believe the procedures can be more complete and more effective if they also: remind the card holder that credit card charges should be reasonable and necessary; prescribe a maximum amount for an individual credit card transaction; specify a CHA position with responsibility for reconciling credit card statements with credit card receipts and assuring the charges are for authorized CHA purposes; and specify appropriate actions in the event of unsupported charges or charges for unauthorized purposes.

Auditee Comments

CHA generally agrees with the three recommendations, but disagrees with Recommendation 3F. CHA said Recommendation 3F was not part of the current audit because it addressed pre-1999 credit card costs. CHA also submitted additional documentation relating to unsupported and ineligible costs. In addition, CHA disagrees with some of the reported facts. CHA's response is provided as Appendix B.

OIG Evaluation of Auditee Comments

We modified the report, where necessary, based on an evaluation of CHA's response and additional information submitted with CHA's response.

Regarding Recommendation 3F, CHA contended that the audit was not to include a review of pre-1999 credit card expenses and we had closed this issue. This was not the case. In our letter notifying the Court, the Receiver, and the CHA of our resumed audit, we said we needed to update conditions we noted during our earlier review. We reiterated this to the Court during our audit. As such, CHA still needs to explain the \$11,015 in credit card charges lacking adequate support (\$10,314 from 1995 through 1998 and \$701 from 1999).

Recommendations

We recommend that you request the Court to:

- 3D. Advise the Receiver/CHA to amend its credit card procedures by including requirements that:
- stipulate that credit card purchases be reasonable and necessary;
 - establish a maximum amount for individual credit card transactions;
 - charge a specific CHA position with responsibility for reconciling credit card statements with credit card receipts and ensuring the charges are for authorized CHA purposes; and
 - specify actions the CHA will take in the event of unsupported credit card charges or charges incurred for unauthorized purposes.
- 3E. Advise the Receiver that the \$2,239 in credit card charges attributable to the Receivership should have been claimed as part of Receiver's out-of-pocket expenses. Therefore, direct the Receiver to pay \$2,239 to the CHA's operating fund.
- 3F. Advise the Receiver to secure from the appropriate cardholder, documentation to explain the \$11,015 in credit card charges lacking adequate support (\$10,314 from the 1995 through 1998 period and \$701 from 1999). Any portion of the \$11,015 the CHA cannot support with documentation, or if the charge is found to be for unauthorized or otherwise ineligible purposes, must be reimbursed to the CHA operating account from non-Federal sources.
- 3G. Advise the Receiver to direct the Authority to reimburse \$520 (from the 1995 through 1998 period) to the operating fund with non-Federal funds for the ineligible expenses paid with Federal funds.

CHA Should Effect Further Improvements In Its Rents Receivable and Rent Collection Practices

During our prior audit work, we noted that CHA's Tenant Accounts Receivable (TARs) were excessive and that the CHA encountered significant challenges in maintaining adequate rent collections. Since that time, the Receiver and the CHA have reduced TARs significantly and established a more effective rent collection operation. Although the Receiver and the CHA made significant progress to improve its rent collections, the CHA can screen prospective tenants better, be more consistent in applying its rent collection strategies, and ensure that collection efforts are not ended prematurely.

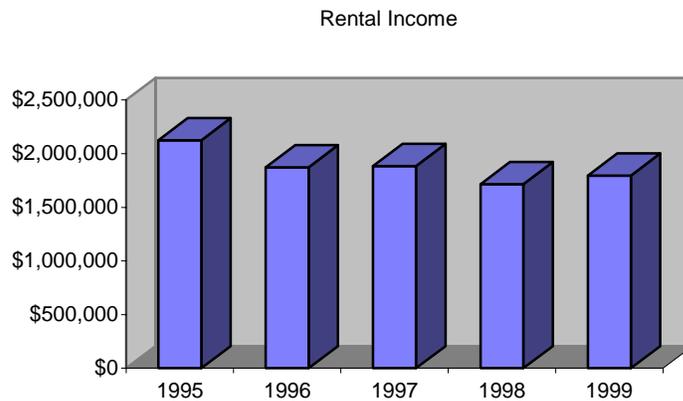
CHA Has Moderated Problems In Rent Collections and Delinquencies

A 1999 consultant's report noted that prior to the appointment of the Receiver in 1994, the CHA historically suffered from severe management problems. Mismanagement impacted heavily the quality and condition of the CHA's public housing units. CHA management would not or could not act against tenants who chose not to pay rent. Also, residents who voluntarily entered into repayment agreements for back rent regularly failed to live up to their agreements. Consequently, the CHA often initiated tenant eviction actions in an effort to collect overdue rent. However, since housing was often substandard, the Court excused tenants from their rent obligations and ordered the CHA to abate their rent. The CHA's modernization program has improved housing quality. Therefore, the matter of tenants not paying rent because of substandard housing conditions is no longer an issue.

The CHA has been able to substantially improve its collections of tenant rent and reduce its tenant rent delinquencies. The CHA was able to accomplish these improvements by adopting several strategies that included: implementing a Federal Master System for evictions; abating TARs; using repayment agreements; counseling tenants on negative effects of bankruptcy filings; developing a policy to evict tenants that habitually paid rent late; and refusing to accept partial payments of rent once the CHA initiated the eviction process.

The CHA Reduced TARs and Losses, and Improved Rent Collections

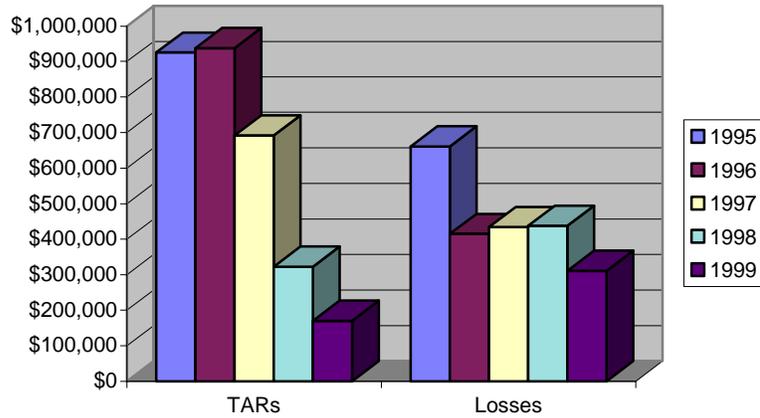
The CHA tenant rent is due on the first of the month and payable by the fifth of the month. When the CHA provides housing to a tenant, it records the amount due as rental income and as a TAR if the tenant does not initially pay the rent due. If the CHA later determines that a TAR is uncollectable, the CHA records the amount as a loss. Applicant screening practices, rent collection strategies, loss recording policies, and modernization efforts can have a major impact on the Rental Income, TAR, and Losses Accounts. The impact of the Receiver's and the CHA's initiatives on the three accounts follow.



Rental Income

The Rental Income Account, amounts earned but not necessarily collected, decreased from \$2,125,538 in 1995 to \$1,796,092 in 1999, or 16 percent. This was due primarily to the reduction in the number of tenants because of the ongoing modernization efforts. The CHA informed us that for 1999, 86 percent of the tenants paid rent during the month it was due and that overall rent collections for the year were 97 percent of rents due. During 1995, the CHA only collected 57 percent of rents due. According to the CHA, overall rent collections improved a significant 40 percent.

Downward Trend In CHA TARs And Losses

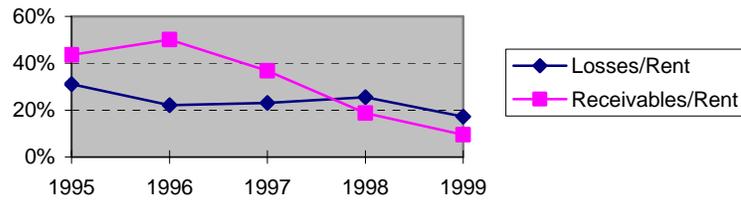


TARs and Losses

TARs and losses decreased substantially from 1995 through 1999. The CHA reduced its TARs from \$925,055 in 1995 to \$169,841 in 1999, a decrease of 82 percent. This decrease is even more notable when examining TAR balances for individual tenants. We compared August 1997 TAR data to March 2000 data. In August 1997, the TAR balance was \$676,691. Of this amount, there were 150 tenants with TAR balances over \$1,000. The balances for these 150 tenants totaled \$602,054, with individual balances as high as \$17,474. As of March 2000, the TAR balance was \$122,940. Of this amount, there were 30 tenants with TAR balances over \$1,000. The TAR balances for these 30 tenants totaled \$73,068, with individual balances as high as \$6,256.

The CHA also reduced its losses from \$660,746 in 1995 to \$310,641 in 1999, a decrease of 53 percent. Of more importance was the relationship of the losses and TARs to the rental income for the same period.

Comparison of Losses and Receivables to Rental Income



The TAR/Rental Income indicator decreased from 44 percent in 1995 to 9 percent in 1999. This was a significant improvement. The Losses/Rent indicator decreased from 31 percent in 1995 to 17 percent in 1999, another significant improvement.

We wanted to determine the methods CHA used to improve rent collections and reduce TARs. We found the changes could be attributed mainly to four factors:

- modernization of housing stock
- screening applicants
- collection strategies
- recording losses

We reviewed the CHA’s files and performed other tests to determine how well the CHA employed these factors and to see if the CHA could realize additional improvements in its rent collections and TARs.

A. HUD and the CHA Devoted Resources to Modernize Housing Stock

From 1995 to 1999, HUD provided over \$98 million to improve the CHA’s housing. The CHA gutted, partially demolished and rehabilitated one development, and completely demolished and rebuilt another development. Presently, the CHA is demolishing and reconstructing two other developments. Due to these modernization efforts, the condition of the CHA’s housing stock has improved considerably. Because of the improved housing stock, the number of Court ordered TAR abatements went down substantially since abatements were based mainly on the condition of the units. Therefore, the amount of TAR write-offs (losses) decreased. Also, the ongoing modernization efforts enabled the CHA to divest itself of hard-core tenants who refused to pay their rent.

B. A Strong Applicant Screening Program Can Create More Acceptable TAR Levels

According to HUD's Public Housing and Occupancy Handbook, HUD Handbook 7465.1 Rev-2, a public housing authority must make an informed judgment about an applicant's suitability as a tenant. The handbook prescribes the authority to examine the applicant's history of meeting financial obligations, especially rent. The CHA's Admissions and Continued Occupancy Plan (ACOP) revised October 1999, Chapter 2, reiterates HUD guidance and defines the CHA's criteria for admission to public housing. It states the CHA will screen applicants to assess their suitability as renters. The CHA Procedures Manual, dated August 15, 1994, identifies the detailed steps admission personnel perform when they screen applicants.

An effective applicant screening program considers such factors as an applicant's rent payment history, housekeeping practices, social interaction with neighbors, and police history. We found the CHA could do a better job evaluating prospective tenants. For example, the CHA did not always: do criminal checks; analyze credit reports nor have evaluation standards for reviewing credit reports; contact prior landlords to determine applicants' rent paying habits; and correctly apply its housekeeping inspection standards. We attributed these conditions to a lack of diligence, inadequate training, and incomplete procedures. As a result, the CHA did not ensure it was accepting applicants for its units who could or would meet their full obligations as tenants. Better tenant screening should lead to a tenant population that creates a more acceptable level of TARs and improved rent collections.

The CHA Screened Prospective Tenants

A CHA report of rejected applicants covering the period from July 1999 to June 2000 identified 57 applicants denied for cause. The reasons for denial included: 18 for negative criminal reports; 23 for negative credit checks; four for negative rental references; seven for negative housekeeping inspections; and five for other causes. Although the report indicated the CHA was screening applicants, we reviewed CHA records to determine the documentation maintained to substantiate applicant screening.

Review of Files

We reviewed the files of 20 tenants, who occupied the CHA units between July 1999 and May 2000, to confirm the CHA's screening checks. We looked for evidence the CHA did criminal checks, obtained and analyzed credit reports, obtained rental references from prior landlords, and performed housekeeping inspections. Following are the results of our review.

Applicant Criminal Checks

CHA procedures require admissions personnel to do criminal checks for applicants of the CHA units and site managers to maintain the criminal checks in the tenants' files. The tenant files for 7 of 20 tenants we reviewed did not contain evidence of criminal checks being done. The Deputy Executive Director later provided evidence of criminal checks for 5 of the 7 tenants but did not explain why the checks were not in the tenants' files. There was no information of criminal checks for the two remaining tenants. Drug and criminal activity has been a problem at the CHA. The CHA's General Counsel informed us that 4 of the last 12 eviction actions were for the "One Strike You're Out" policy. Thorough applicant criminal checks will aid the CHA to avoid these types of tenants.

Applicant Credit Checks

CHA procedures require admissions personnel to perform credit checks for housing applicants and site managers to maintain these checks in the tenants' files. Only 1 of the 20 tenant files we reviewed lacked an applicant credit report. More importantly, however, the files did not contain evidence that anyone from the CHA critically reviewed the credit reports to determine the applicant's financial suitability for a CHA unit. Further, the CHA procedures did not contain guidance for reviewing, or standards for evaluating credit report histories. The credit reports for five tenants showed creditors writing off the applicants' debts as uncollectable. For three of the five tenants, creditors wrote-off tenants' debts at least four times. The creditors for one tenant wrote-off debts 11 times.

References From Prior Landlords

As part of the CHA's evaluation of applicants for housing, the CHA should contact prior landlords to consider their experiences with the applicant. The CHA's ACOP requires admissions personnel to obtain rental references from the prior landlord when a housing applicant resided less than five years with the current landlord.

While the CHA received positive references from applicants' landlords, there were 9 tenants in our sample of 20 who had resided less than five years with their current

landlords. The CHA did not obtain rental references from the prior landlords for these nine tenants.

One tenant's file from another review illustrated the result of not obtaining landlord references. That file contained documentation that the tenant's prior landlord was another public housing authority. We contacted that authority and found the tenant owed that authority \$1,059. The CHA's files did not contain any evidence that it requested a rental reference from the other authority. The CHA eventually evicted the tenant for non-payment of rent.

Housekeeping Inspections

Housekeeping inspections assure that prospective tenants exhibit acceptable housekeeping habits. The CHA's ACOP contained a checklist for use by admissions personnel to evaluate prospective tenants. However, CHA personnel used a different checklist, less detailed than the ACOP checklist, when inspecting applicants' residences. The Deputy Executive Director said the detailed checklist was for the CHA's annual unit inspection, and the less detailed checklist was more appropriate for applicant home inspections.

We examined the less detailed inspection checklist and found it effective for evaluating housekeeping habits. If the CHA intends to use the less detailed inspection checklist in this manner, it should amend its procedures to stipulate this checklist as the mechanism for inspecting prospective tenant housekeeping.

Though the inspections appeared effective, we found that 2 of the 20 tenant files we reviewed did not pass the housekeeping inspection and yet the tenants were granted admission to the CHA units. There was no information in the tenants' file justifying giving units to tenants who failed the housekeeping inspections. The two tenants were too recent to have received the CHA's annual housekeeping inspection.

Effective use of screening procedures would enable the CHA to make further progress in reducing TARs and improving rent collections. CHA has entered into a

Need to Develop
Complete Procedures,
Train and Monitor Staff

contract to develop written procedures for screening housing applicants. CHA needs to ensure these procedures are complete and contain criteria for performing criminal checks; analyzing credit reports; contacting prior landlords; and performing housekeeping inspections. The staff will need to be trained and monitored on the use of the procedures to ensure the procedures and training are effective.

Auditee Comments

CHA agrees with the recommendations, but disagrees with some of the reported facts. CHA's response is provided as Appendix B.

OIG Evaluation of Auditee Comments

CHA comments were reviewed and considered, and there are no modifications to the report.

Recommendations

We recommend that you request the Court to direct the Receiver to:

4A. Ensure procedures under development prescribe the CHA to screen applicants. The screening program should include:

- criminal checks;
- credit checks;
- rental references from prior landlords; and
- housekeeping inspections.

Also, the screening program should include guidelines for interpreting data obtained from the checks, references, and inspections.

4B. Define the Housekeeping Inspection Checklist to be used during the admission process.

4C. Advise the CHA to train and monitor admissions personnel on the procedures to ensure the procedures are effective and applied correctly.

C. The CHA Did Not Demonstrate It Implemented Collection Strategies

The CHA did not have up-to-date comprehensive written rent collection and eviction procedures to provide its employees guidance for executing effective rent collection strategies. The CHA officials said the procedures were out-of-date and were being rewritten to reflect a change in management philosophy. The CHA contracted with a consultant to write the rent collection procedures. Incomplete tenant files complicated our efforts to examine the CHA's actions to collect delinquent rents and pursue evictions for non-paying tenants. We also could not determine the effectiveness of the training received by the CHA staff to apply the rent collection strategies because training was not always documented. From our review, we did learn that the CHA staff was not consistent when preparing and forwarding payment requests to delinquent vacated tenants. Also, the CHA did not report delinquent vacated accounts to a credit-reporting agency. Further, we noted the CHA's contract with a collection agent for vacated tenant receivables was silent regarding the actions the agent must take to collect past due rent.

The CHA Did Not Have Comprehensive Written Procedures for Rent Collection

The ACOP, Chapter 14, provides that when families owe money to the CHA, the CHA will make every effort to collect it. It requires the CHA to use a variety of collection tools to recover debts including, but not limited to, preparing requests for lump sum payments, and reporting delinquent vacated accounts to collection agencies and credit reporting agencies. The CHA Procedures Manual contains steps for preparing and forwarding lump sum payment requests to vacated tenants, forwarding delinquent accounts to collection agencies, and requesting collection agencies to report uncollectable debts to a credit-reporting agency.

The CHA did not have up-to-date comprehensive written procedures to guide its rent collection efforts and eviction proceedings. The CHA's General Counsel provided the following narrative description of the CHA's process for delinquent tenants.

A tenant who has not paid rent is sent a CHA late notice on the fifth day of the month. If the tenant has not paid the rent due by the 15th day, the CHA sends the tenant a Notice to Quit. This Notice informs the tenant to vacate the premises unless the tenant pays all the rent within the next 15 days. It also informs the tenant of the grievance process should the tenant believe there is a just cause for not paying rent. Failure to pay or vacate will result in the CHA notifying the law firm responsible for eviction litigation. The law firm files a Request for Hearing and Order to initiate the eviction process. Court hearings can result in judgments, eviction orders, abatement of rent, and

repayment agreements. When delinquent tenants leave public housing, the CHA provides them lump sum payment requests.

The CHA's General Counsel stated it could take over 10 months to evict a tenant for non-payment of rent.

CHA entered into a contract with a consultant to develop these procedures to move from a central-based to a site-based management system. Meanwhile, employees relied on fragmented guidance found in other documents such as the ACOP and standard lease.

Training Not Documented

The CHA General Counsel told us managers trained their staff on new or changed policies, procedures or initiatives at weekly staff meetings. We reviewed the Property Management Director's minutes from weekly staff meetings held in 1999 to determine the extent of staff training. From January to August, minutes were available for 14 meetings. There were no minutes of meetings after August. While there was evidence of training at some meetings, we could not determine the extent of training provided or establish the training's effectiveness because of the lack of documentation.

Tenant Files Were Not Complete

Tenants' files did not contain information that identified significant events relating to a tenant's occupancy. The files frequently lacked: late notices, Notices to Quit, repayment agreements, Requests for Hearing and Order, Notices of Hearing Date, Notices of Disposition, appeals, and Notices of Intent to Vacate. These documents are necessary for the eviction process.

In September 1999, HUD recommended the CHA use Notation Sheets to record significant events for tenants. Since files were incomplete and the CHA did not record all significant events on the Notation Sheets, the CHA lacked a ready means to determine all the significant actions that occurred during a tenant's residency.

Review of Recent Delinquent Tenants

We reviewed the files of 20 tenants, who became delinquent during 2000, to determine if the CHA used the procedures narrated to us by the CHA Counsel. We found

no evidence in the tenants' files that the CHA prepared late notices for 19 of 20 delinquent tenants. Similarly, Notices to Quit were absent for 17 of 20 files sampled. We requested Counsel to research legal files for the documents, and 4 additional notices to quit were provided.

Though the CHA's documented collection efforts for the 20 delinquent tenants were incomplete, we found the 20 tenants eventually paid in full or the CHA initiated eviction actions.

Tenants Vacated Owing Back Rent

Having the CHA take aggressive action to collect delinquent rent, even after a tenant vacates a CHA unit, can encourage remaining tenants to keep their rent current. The CHA's ACOP and Procedures Manual prescribed specific actions in the event a tenant vacated a unit owing rent. These actions included forwarding the TAR to a collection agency for action and having the collection agent report uncollectable accounts to a credit-reporting agency.

We reviewed the files pertaining to the 20 largest losses recorded by the CHA in 1999 to determine if the CHA took the required actions. We found the CHA forwarded the accounts to the collection agency for collection, but did not authorize its collection agency to report tenants' uncollectable debts to a credit-reporting agency until February 2000. The act of reporting uncollectable debts to a credit-reporting agency is meant to induce tenants to pay their back rents.

Uncollectable Accounts Not Reported to a Credit Reporting Agency

Chapter 11, paragraph 1.B.4 of the CHA's Procedures Manual, requires CHA personnel to refer uncollectable tenants' accounts to a collection agent. CHA personnel are also required to request the agent to report the information to a credit-reporting agency. The CHA's contract with the collection agent did not address reporting referred tenants to a credit-reporting agency. The CHA's Deputy Executive Director did not know if the CHA's collection agent reported uncollectable accounts to a credit-reporting agency. The Deputy Executive Director recognized that the CHA did not have sufficient staff to report uncollectable accounts themselves.

At our request the CHA queried the credit-reporting agency on eight tenants who vacated the CHA units owing rent.

The credit-reporting agency did not list any of the eight tenants' rent delinquencies.

The CHA entered a collection service contract in 1998. The collection service contract was essentially an engagement letter whereby the collection agent acknowledged its engagement by the CHA. The contract was incomplete in that it did not:

- explain how funds collected were to be transferred to the CHA;
- specify the minimum steps the collection agent will take to collect funds;
- explain how collections or uncollectable amounts were to be reported to the CHA; and
- identify the information the CHA would provide to the collection agent.

Need for Formal Procedures, Training, and Monitoring

CHA officials informed us that they contracted for development of new rent collection and eviction procedures to reflect a change in management philosophy. Upon completion of the procedures, the CHA will need to train its staff to use the procedures, and arrange monitoring to ensure the procedures are effective, and that staff correctly apply the procedures.

Auditee Comments

CHA agrees with the recommendations and provided additional documentation for review. CHA's response is provided as Appendix B.

In responding to the recommendations, CHA provided a copy of a new collection recovery procedure that required preparation and forwarding of lump sum payment requests to vacated tenants, and required reporting of uncollectable rents to a collection agency and credit-reporting agencies. CHA also provided copies of the missing five lump sum payment requests.

OIG Evaluation of Auditee Comments

We modified the report, where necessary, based on our evaluation of CHA's response and the additional information submitted with CHA's response.

Recommendations

We recommend that you request the Court to direct the Receiver to:

- 4D. Ensure that the CHA's staff is trained in the use of the rent collection and eviction procedures, and that the staff is monitored to determine the effectiveness of the procedures.
- 4E. Advise the CHA to execute a new contract for collection services. The contract should describe:
- information the CHA will provide to the collection agent;
 - minimum steps the collection agent must take to collect funds;
 - collection progress reporting to the CHA; and
 - details on how funds collected are transferred to the CHA.
- 4F. Establish procedures that ensure tenant files document significant events relating to a tenant's occupancy. The documents include: late notices, Notices to Quit, repayment agreements, Requests for Hearing and Order, Notices of Hearing Date, Notices of Disposition, Notices of Intent to Vacate, Requests for Lump Sum Payment, and Notation Sheets.

D. The CHA Recorded Losses For Tenant Rent When Collections Were Still Possible

We attributed a portion of the reduced level of TARs to the CHA's more effective housing applicant screening, and more timely and active pursuit of rent delinquencies. However, we discerned a major reason for the reduced TARs was the CHA's write-off of uncollectable TARs as losses to the CHA. From 1995 through 1999, the CHA wrote-off TARs totaling \$2,257,226. Though these write-offs were decreasing each year, the CHA write-offs in 1999 still amounted to \$310,641. Because recorded losses were so significant, we wanted to learn the process the CHA used for determining TAR losses, survey the process for effectiveness, and examine a sample of the losses the CHA has recorded for compliance with its procedures to ensure the loss designation was appropriate. We learned that the CHA process for writing-off TARs was not effective and caused potentially collectable TARs to be written-off prematurely.

As discussed in the preceding section, our audit work for the vacated tenants was to assure the CHA referred these delinquencies to their contract collection agency, and reported the delinquent vacated tenant to a credit-reporting agency. Other delinquent tenants vacated their public housing units because of reconstruction, but continue to receive housing assistance in the form of Section 8 vouchers. It was with these delinquent tenants, still relying on the CHA for housing assistance, where the CHA retained authority and leverage to persuade the tenant to pay rent delinquencies.

CHA Reaction To Defaulted Repayment Agreements

It was the CHA procedure to compel delinquent vacated tenants to enter into repayment agreements with the CHA. Through a repayment agreement, delinquent vacated tenants acknowledged their debts to the CHA and tenants had an avenue for repayment. Our review of delinquent tenants, relocated during 1999 from public housing to Section 8 housing because of modernization efforts, showed the CHA was inconsistent in its use of repayment agreements. Also, in those cases where the CHA executed a repayment agreement with a vacated tenant, the CHA did not aggressively pursue collection or eviction actions when the tenant failed to live up to the repayment agreement. The CHA's lack of aggressive action may have sent the wrong message to the CHA tenants that they could get away without paying their rent, and may have caused the CHA to record rent losses that were collectable if it had been more diligent in its collection efforts.

According to 24 CFR 982.552 (b), an authority may at any time terminate program assistance for a tenant, if the tenant currently owes rent to an authority in connection with Section 8 or public housing assistance. Also, an authority may terminate a tenant's Section 8 assistance if the tenant breaches an agreement to pay amounts to an authority. The CHA's ACOP in Chapter 14, provides that when families owe money to the CHA, the CHA will make every effort to collect it. Further, the Section 8 Administrative Plan requires the use of repayment agreements to collect past due rents.

Delinquent Tenants Relocated to Section 8 Housing

We reviewed files applicable to 13 delinquent tenants who, because of the CHA's modernization program, relocated from public housing to Section 8 housing during 1999. The

13 tenants owed \$28,958, ranging from \$322 to \$8,537 per tenant, at the time of their move-out.

Repayment Agreements
Not Used for All
Delinquent Tenants

The CHA entered into voluntary repayment agreements with only 3 of the 13 relocated delinquent tenants. The three agreements were valued at \$5,603. Two other tenants with TAR balances totaling \$2,395 executed repayment agreements about six months before they relocated to Section 8 housing. The two tenants stopped paying on these agreements when they relocated and CHA recorded the balances as losses.

The CHA did not execute repayment agreements with the other eight tenants who owed \$20,961 in back rent. The CHA wrote off the balances as losses even though the eight tenants continued to receive Section 8 housing benefits from the CHA. The CHA's Deputy Executive Director could not explain why the CHA did not enter into repayment agreements with these eight tenants.

Relocated Tenants
Defaulted On Their
Repayment Agreements

The payment record for the three tenants who entered into repayment agreements when they relocated was only partly satisfactory. One tenant, with a \$743 rent delinquency, was current with payments. The remaining two tenants stopped making payments on \$4,860 in acknowledged debt after paying a total of \$58. Subsequently, the CHA recorded the remaining \$4,802 as losses.

Withholding Section 8
Assistance Not Used As
Motivator

The CHA recorded losses for \$28,158 of the \$28,959 owed by tenants who relocated to Section 8 housing. Though the CHA could have used withholding Section 8 assistance as motivation for tenants to pay their back due rents, the CHA chose not to take this action. More recently, the CHA entered repayment agreements with two delinquent tenants and notified another tenant, without a repayment agreement, that it would terminate housing assistance unless the back rent is paid. We asked what action the CHA initiated on the other tenants, but the Deputy Executive Director did not respond to the question.

Need to Collect Funds
from Prior Delinquent
Tenants Receiving
Housing Assistance

The CHA needs to make clear to its tenants that relocating from public housing to other housing assistance does not erase debt, nor will it preclude the CHA from aggressively pursuing such debts. The CHA needs to make repayment agreements with former delinquent tenants a precondition for their receiving Section 8 assistance. Tenants who

Finding 4

choose not to enter repayment agreements, or do not comply with the agreement terms, should expect the CHA to terminate their Section 8 assistance payments.

Auditee Comments

CHA agrees with the recommendations, but took exception with some of the reported facts. CHA's response is provided as Appendix B.

OIG Evaluation of Auditee Comments

CHA comments were reviewed and considered, and there are no modifications to the report.

Recommendations

We recommend that you request the Court to advise the Receiver to:

- 4G. Ensure the CHA has repayment agreements with all former public housing tenants, who relocated to Section 8 units from public housing, owing rent to the CHA.
- 4H. Direct the CHA to end Section 8 assistance payments for tenants who:
 - choose not to execute repayment agreements for their delinquent rent; or
 - acknowledge their debt with a repayment agreement, but do not comply with the terms of their repayment agreements.

Management Controls

In planning and performing our audit, we considered the management control systems used by the CHA to determine our auditing procedures and to provide assurance on the management control. Management control is a process effected by an entity's management, and other personnel, designed to provide reasonable assurance for achieving objectives for program operations, validity and reliability of data, compliance with applicable laws and regulations, and safeguarding resources.

Internal controls assessed

We determined the following control systems were relevant to our audit objectives:

- analysis and development of management's policies and procedures and related training;
- procurement and administration of legal services;
- development of procedures for credit card use and out-of-pocket expenses; and
- reduction of rent receivables and improvement in rent collections.

With the exceptions as noted in our scope limitations discussed elsewhere in this report, we obtained an understanding of the control structure for the above systems, as they relate to the audit objectives. We determined the risk exposure to design audit procedures. We concluded that we could perform the audit more efficiently by doing substantive tests without reliance on management control. Therefore, we did not necessarily make a complete assessment of the control design or determine whether the CHA placed all policies and procedures in operation.

Significant Weaknesses Were Noted

A significant weakness exists if management control does not provide reasonable assurance that control objectives are met. We observed significant weaknesses with: the update of CHA's procedures (Finding 1); procurement and administration of legal services (Finding 2); processing for payment Receiver's out-of-pocket expenses and credit card charges (Finding 3); and CHA practices to reduce tenants' rent receivables and improve rent collections (Finding 4).

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Follow Up On Prior Audits

This audit represented a resumption of audit work we did at the CHA between July 22, 1997 and July 24, 1998. The initial audit work covered the period April 1, 1995 through March 31, 1998. Many of the conditions we planned to report as a result of the earlier audit work concerned Housing Quality Standards and maintenance issues which became invalid due to the CHA's housing and modernization activities. However, there remained conditions, noted earlier, which remained unsettled and required updating to reflect current conditions. These conditions represented reportable matters and are addressed in this report.

The OIG issued an internal Audit Related Memorandum (No. 99-PH-202-0801) to HUD that addressed an issue relating to the Receiver's compensation and term of services to the CHA. Although we did not perform additional audit work in this area, we monitored HUD's progress in implementing the recommendations from that internal audit report.

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Schedule Of Ineligible and Unsupported Costs

<u>Finding Number</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
2	\$9,090	\$11,501
3	2,759	11,015

1/ Ineligible amounts are those that are questioned because of an alleged violation of a provision of a law, Regulation, contract, grant, cooperative agreement or other agreement or document governing the use of funds, or are otherwise prohibited.

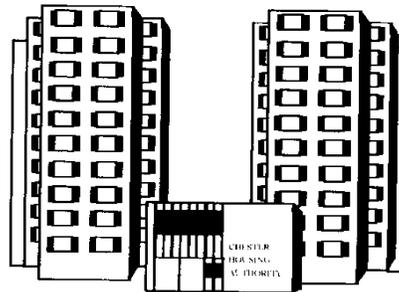
2/ Unsupported amounts are those whose eligibility or reasonableness cannot be clearly determined during the audit since they were not supported by adequate documentation or due to other circumstances. Under Federal cost principles, a cost must be adequately supported to be eligible.

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Auditee Comments

CHESTER HOUSING AUTHORITY Executive Offices

1010 Madison Street • P.O. Box 380
Chester, Pennsylvania 19016-0380
610-876-5561 • Fax: 610-876-0304
TDD: 610-499-4731



January 12, 2001

VIA FIRST CLASS MAIL

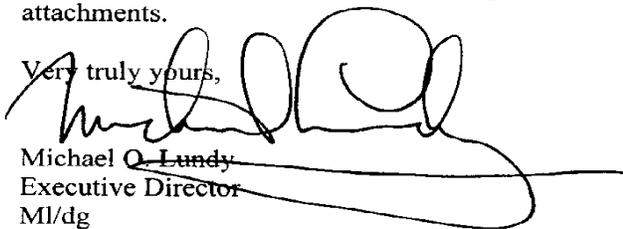
Daniel G. Temme
District Inspector General for Audit
U.S. Department of Housing and Urban Development
Wanamaker Building, Suite 1005
100 Penn Square East
Philadelphia, PA 19107-3380

Re: Chester Housing Authority Response to Draft Audit Report dated November 17, 2000
("Report")

Dear Mr. Temme:

Enclosed please find the Authority's response to the above referenced Report, as well as all the attachments.

Very truly yours,



Michael Q. Lundy
Executive Director
MI/dg

Enclosure

cc: Hon. Norma L. Shapiro
Robert C. Rosenberg, Receiver
Evette Hester, Deputy Executive Director
Maria M. Zissimos, General Counsel

CHA RESPONSE TO DRAFT IG REPORT DATED 11/17/00

Page iii – Executive Summary

1. Receivership was ordered upon motion by the Government on June 2, 1994.
2. Original Audit by the IG began in July of 1997 and ended eighteen months later in January of 1999. During that initial audit, the IG had three staff members on site with no limitations *i.e.*, time or scope. No exit conference was scheduled, no audit report draft or otherwise was ever issued to the CHA.
3. In January of this year the CHA received a letter from the IG stated their intention to begin another audit of the CHA. There was never any closure on the prior 18-month audit, as required by IG regulations, nor a request for an Entrance Conference.
4. A meeting was scheduled by the Hon. Norma L. Shapiro (“Court”) to discuss the new request for an audit; determine the status of the prior audit, and possibly outline the parameters of a new audit of the CHA.
5. At the meeting, the IG agreed to an audit as outlined for the calendar period 1999. It was agreed that the IG would be provided copies of requested materials to be reviewed off site and subsequent to those reviews, two of the assigned auditors would each spend a combined total of three weeks, if deemed necessary, to do additional field work as part of the audit. One of the field auditors, spent approximately five weeks completing field work at the CHA’s executive offices and the Senior Auditor, spent several weeks “supervising” her field work at the CHA while she was completing her assignment.
6. The original time projections for the length of the field audits were determined by the IG, not by the Court. The assigned IG staff were provided with comfortable working spaces and had the full cooperation of the assigned CHA staff. Further, the CHA staff assigned to assist the IG staff in their audit objectives spent 80% of their respective work time from February through July of 2000 responding to the numerous requests for documents. Following requests for items in the four audit areas all of which were provided to the IG staff, the IG staff would make subsequent requests which were more expansive and onerous than the original requests. The CHA provided at least 9 file boxes filled with the requested information to the IG staff. This is in addition to the three file boxes of information that were requested and picked up from the Court’s chambers, relating to an off the record IG investigation into the activities of a former construction agent of CHA, which is not addressed in this draft response.
7. Additionally, there were numerous new requests outside the original agreed scope of the audit, both in terms of time and scope. The assigned staff were diligent in maintaining the integrity of the original audit scope and, as instructed, would forward those requests to the Court. A subsequent meeting was held by the Court in early May with District Inspector General for Audit and the Assistant District Inspector General for Audit and the CHA staff assigned to work with them. At that meeting the Court reviewed many areas of historical interest of the CHA and the receivership with IG staff and agreed to expand the scope of the audit

somewhat as long as it was not too intrusive to the day to day activities of the CHA.

8. In spite of the IG's agreement to the parameters of the audit, which included receiving copies of requested materials, having certain CHA staff be the point of contact with the IG audit staff, agreeing to speak with CHA employees with CHA counsel present, and the acknowledgment of having received all the requested materials, it is now claimed in the Draft Report that the agreed audit parameters impair the ability of the auditors to reach a reliable conclusions. As you know, the Court imposed no restrictions on the prior audit which yielded no Findings or conclusions.

OBSERVATIONS

Page-iii-Action to Rework Outdated, Incomplete and Neglected Policies and Procedures Not Timely—The CHA objects to the characterization of “Not Timely”. This is a purely subjective observation and outside the purview of the IG's audit. Standard Operating Procedures (“SOPs”) had been completed in March of 1994 at the direction of HUD by an outside concern named QUADEL. There was no immediate need to update these new SOPs.

The Court appointed the Receiver and approved the yearly objectives and goals set forth by the Receiver. The standardization of polices and procedures by the Receiver were timely scheduled and completed, according to the Court approved schedule.

Page-iv-Insufficient Progress In Procurement and Administration of Legal Services—The CHA objects to the characterization “insufficient”. The general counsel position is a new position; standard operating procedures were being developed on schedule along with the updating of other departmental operating procedures; the CHA was exempted by the Court from procuring legal services in any different way than a private concern would procure legal services; the general counsel's alleged conflict of interest was known to all and no new services from the firm in question were authorized by her. With the creation of this new position the CHA has made significant progress in its administration of legal services, there is now a single point of control for the oversight of legal services provided to the CHA, all corporate matters are handled in-house reducing substantially the overall expenditure of funds out of operations, the efficiencies realized by the creation of this position are further highlighted by the fact that in 1999, the CHA had \$17 million in construction claims against the CHA (please refer to Interim Receiver's Report dated November 15, 1999) all but one have been favorably settled under the direction of the General Counsel with the approval of HUD and the Court.

Page-iv-Inadequate Controls Over Out-of-Pocket and Credit Card Expenses Paid to the Receiver—The CHA objects to the characterization “inadequate controls”. The Court responded to this issue directly. All out-of-pocket expenditures of the Receiver are reviewed and approved by the Court. The original documentation is maintained by the Court and the Court directs the CHA to pay the authorized amount to the Receiver. The CHA has implemented new controls and procedures which address credit card use.

Page-iv-CHA should Effect Further Improvements In its Rent Receivables and Rent Collection Practices-

The CHA has made substantial improvements in its rent receivables and Rent Collection Practices (see letter dated December 1, 2000 from the local HUD field office marked Finding #4-Rent Collection). The CHA objects to the following characterizations:

- The CHA did not evaluate thoroughly prospective tenants and ensure that its applicants will meet their full obligations as tenants;
- The CHA did not have documented collection and eviction procedures; and
- The CHA did not aggressively pursue collection of rents from delinquent and vacated tenants and recorded losses that were collectable.

The CHA established new procedures (SOPs) in March of 1994. These procedures were provided to the IG staff. Those procedures contained, among others, the following; Chapter 1 Tenant Selection, Unit Assignment and Leasing Procedures; Chapter 3 Rent Collection and Non-payment Eviction Procedures; and Policy on Writing off Collection Losses. The CHA has procedures in the referenced areas, trains and monitors its staff in the referenced areas, and has just updated its procedures to reflect its new structure which is going from a central based management system to a more appropriately modern site-based management system. Further, the IG characterizes the CHA's collection write-off procedure as in violation of HUD accounting rules. This is not true, the CHA follows appropriate collection write-off procedures in accordance with proper accounting rules.

Page-v-Other Matters—The Court provided the Receiver and the CHA with guidance on what is properly charged against the Receiver's out-of-pocket allowance. The enumerated costs were properly reimbursable expenses to the Rosenberg Housing Group by the CHA.

Page-1-INTRODUCTION

1. The IG did on site audit work from July 22, 1997 through January of 1999. An Internal report by the IG regarding the workings of the local HUD field office was issued to HUD not to CHA. In January of 1999, an exit conference was requested by CHA but never scheduled by the IG. On February 3, 2000, during the Entrance Conference with the Court, the IG stated that the prior audit was closed and off the books, and that no Findings were issued; that the new audit would check on CHA's progress in the four enumerated areas for the calendar period 1999 (see letter dated February 7, 2000 from the District Inspector General closing the prior audit marked Page 1-Introduction).
2. CHA objects to the characterization by the IG that there were impediments and limitations that constituted an external impairment to the current audit. The scope of the audit was agreed to by the IG at the onset, and as such should be properly reflected in the introduction.

-Page-3-AUDIT SCOPE AND METHODOLOGY

The IG completed its initial audit work at CHA from July 22, 1997 through January of 1999. The internal memorandum which was issued was not directed to CHA. It was agreed by the IG at the Entrance Conference that the prior audit was closed and no comment or response was required from CHA. Additionally it was suggested and agreed at the Entrance Conference by the IG that a new limited audit of CHA's progress would take place for the period 1999.

Page-4-The Draft Report on this page contains inappropriate subjective commentary and inaccurate information.

- The auditors were not judged by CHA staff. The assigned staff followed the directives of the Court and so indicated to the IG staff.
- The employee population of CHA was not threatened with dismissal if they interacted with the IG staff. The IG staff was told that they could speak to any employee as long as the General Counsel was present. The IG staff did not request any such interviews but would surreptitiously approach employees and attempt to engage them in conversation.
- The IG was not refused access to any location. One time they showed up at a location without prior notice. After that one unconfirmed visit, the IG staff were given the requested files and had access to that particular site location, and all other site locations upon request.
- The CHA staff assigned to the IG were available for meetings during the duration of the audit from February through July 2000, except for pre-planned vacations and training. All requested documents were promptly provided to the IG and all follow-up questions were addressed, except for those questions that were posed following the termination of the audit by the court. The documents provided to the IG were copies the receipt as agreed to by the IG at the Entrance Conference.
- The scope of the audit as was agreed to by the IG at the Entrance Conference was on the progress of CHA operations, not the progress of the Receiver. The Court has made it clear that the IG has no authority to audit the Receivership. The IG did meet with the Senior Vice President of the Rosenberg Housing Group, Mirian Saez, who monitors CHA operations.
- The IG staff were provided with all requested records and were granted access to all requested site locations. The period of time the audit would cover, 1999, was agreed to at the Entrance Conference.

Page-5-As the scope, parameters of the audit, period of time the audit would cover, time limitations for the auditors to be onsite, and method of reviewing the records were determined at the Entrance Conference with the agreement of the IG, it is inappropriate to now claim there were external impediments to the audit process that make the audit findings unreliable.

Finding 1

Page-7-Receiver's Actions to Rework Outdated, Incomplete and Neglected Policies and Procedures Have Not Been Timely—The CHA objects to the characterization of “Not Timely”. This is a purely subjective observation and outside the purview of the IG's audit. The Court appointed the Receiver and approved the yearly objectives and goals set forth by the Receiver. The standardization of polices and procedures by the Receiver were timely scheduled and completed. Further the progress of the operations were reported in detail by the Receiver in the interim reports to the Court beginning in 1994 (see attached relevant pages of the Receiver's Reports to the Court, as well as the new organizational chart dated 9/17/94 marked as Finding # 1-Receiver's Reports).

Page-8- Importance of Internal Controls – In March of 1994, a few months before the Receiver was appointed by Order of the Court, CHA, adopted new policies and procedures that were procured and prepared at the direction of HUD. These procedures were written for a central based agency. CHA would remain as a central based agency until its transition to an asset based agency, following substantial modernization of its property sites. Those procedures were new and complete. There was no urgency to use much needed modernization funds to re-procure operating procedures. On a systematic basis changes in regulations which required updates to existing polices and procedures were adopted and immediately implemented as necessary. Currently, new policies and procedures will be adopted for use beginning in 2001, as CHA will be going to a site based management system, as opposed to the central based system it had previously been operating under.

Page-9- Receiver Should Have Proceeded With Greater Urgency- The Receiver systematically addressed all areas of polices and procedures at CHA including Section 8 Administration Plan and Procurement. The decisions made by the Receiver were thoughtful and timely. The IG's subjective hindsight analysis is not only wrong, but inappropriate as part of its audit analysis.

Page-9-Receiver's Actions to Update the CHA Policies and Procedures-Again the IG uses subjective hindsight to comment on the Receiver's comprehensive and systematic adoption of regulatory updates and revisions to its standard operating procedures.

Page-10-Piecemeal Updates to the CHA's Policies and Procedures-The IG lists only a few revised and updated actions taken by the Receiver since 1994, although the IG was supplied with all the actions taken by the Receiver over the last seven years. The following actions were taken by the Receiver in a systematic and comprehensive manner:

- ACOP
- Establishment of Monthly Management Reports
- Bi-monthly meetings with resident leaders
- Ceiling rents and local preferences
- Dwelling Lease
- Grievance Procedures

- Section 8 Administration Plan
- Human Resources Manual
- Organizational Review and Salary Comparability
- Procurement Policy
- Property Disposition
- Internal Control
- Contract Administration Procedures
- Operating, Modernization and Section 8 Budgets
- MLS Computer software and hardware System for rent collections, general ledger, purchasing, work orders, unit turnover
- Hand held system for HQS inspections
- Safety Committee
- Risk Analysis of operations
- Workman's Compensation Policy
- Formulation of a Public Safety Department
- Public Safety Policy and Procedures
- Resident Patrols
- Participation in Weed & Seed program
- Public Safety Bike Patrols
- Public Safety K-9 Unit
- Grant of Arrest Powers
- One Stop Shop implemented for resident services
- Property Maintenance Training
- Philadelphia Laborer's Union Training

The IG again is commenting on its perception of what is a proper log for changes to manuals. The manuals all have tracking systems that are maintained by the Department heads who are responsible for making required changes to procedures and policy. The IG did not request to view the existing logs (see attached sampling of Personnel and ACOP logs marked Finding #1-Logs).

The IG also states that the Deputy Executive Director indicated that there were no written procedures for rent collection and non-payment evictions. This is simply not true. The IG was provided with a procedures manual with these procedures in it (see attached chapters for rent collection and non-payment eviction procedures previously provided to IG on two separate occasions marked Finding #4-Procedures).

Page-11-Improvements to Procedures Needed-The following are true statements:

- The General Counsel Office is a newly created department, whose procedures were being formulated as part of the new polices and procedures update.
- The Court reviews and approves the Receiver's out-of-pocket expenses, not CHA.
- CHA has an Administrative Plan. and written rent and collections procedures which were provided to the IG.

CHA has written procedures to govern evictions, collections and admissions as spelled out in the Section 8 Administrative Plan, the ACOP and its current central based SOPs.

Page 11-The CHA Needs to Ensure Staff Are Trained-The IG again makes observations of events it claims not to have seen. There are weekly staff meeting which are not only taped, but also are transcribed, which cover not only operational issues but encompass training on new polices, procedures and regulatory changes. In addition to these weekly staff meetings, which last no less than two hours a week, Department heads hold weekly departmental staff meetings, which follow along the same lines as the weekly staff meetings, included are operational issues and training and reviews of any implemented policy or procedure change as well as regulatory revisions. Samples of departmental staff meeting agendas as well as weekly staff meeting agendas were provided to the IG. (see attached marked Finding # 1-Agenda). In addition to these weekly meetings, staff also receive outside training by professional trainers, held in-house, as well as training sessions which staff attend during industry conferences.

Page-12-Receiver's Recent Comprehensive Approach to Updating Policies and Procedures- The Draft Report misstates the operational areas covered by the new policies and procedures. The listed areas include all the original areas of concern to the Court, but are consolidated. For example, the second bullet encompasses property management, eviction procedures, rent collection, lease enforcement and non-payment. This clearly adds four additional areas specifically enumerated by the Court. but counted in the Draft Report as one area.

With respect to the target completion date, CHA's internal goal was June of 2000. Based on the level of review and fine tuning required to produce comprehensive working procedures, CHA's internal goal was modified. The auditors did not at any time question the General Counsel on CHA policies and procedures. At the Entrance Conference and again at a meeting held in the Court's chambers on May 3, 2000, the IG was told that it would receive the updated polices and procedures upon completion. There was never to be any further independent discussion on this subject.

Page-12-Court Imposed Audit Limitations-This audit was to be on the progress of CHA operations, not an evaluation of the Receiver, as a Receiver. The Court made clear at the Entrance Conference that the audit would not be of the Court or the Receiver. The Court appointed the Receiver on motion of the Government and the Court evaluated the progress of the Receiver and the Receivership. In any event the Senior Vice President of the Rosenberg Housing Group, Mirian Saez, who oversees operations at CHA met with the IG. Notwithstanding the fact that she provided her business card to the auditors, the auditors did not fully understand that Ms. Saez was a member of the Receiver's staff and not an attorney.

Page-13-High Personnel Turnover at CHA Adds Urgency to Establishing Sound Internal Control Structure-The IG's note that the employee turnover at CHA is due to bad internal controls is completely speculative. Recent turnover in 2000 is due entirely to

employee life changes *i.e.* relocating to another state to be closer to family, not due to lack of internal controls. Prior employee turnover is due to high CHA standards.

Page-14-The CHA Needs a Plan to Implement New Operating Procedures-The Receiver's systematic progress to up-date CHA's policies and procedures has been on course, and contains a training component.

Page-14-Recommendations-

1A. A training component was part of the development of the site (asset) based SOPs. CHA agrees with this recommendation.

1B. CHA agrees with this recommendation. The internal auditor will be directed to oversee the effectiveness of the new SOPs.

1C. CHA currently maintains a log of changes to its manuals. CHA agrees with this recommendation.

Finding 2

Page-17-Insufficient Progress In Procurement and Administration of Legal Service Contracts- CHA objects to the characterization "insufficient". The General Counsel position is a new position; standard operating procedures were being developed on schedule along with the updating of other departmental operating procedures; CHA was exempted by the Court from procuring legal services in any different way than a private concern would procure legal services; the general counsel's alleged conflict of interest was known to all and no new services from the firm in question were authorized by her. With the creation of this new position CHA has made significant progress in its administration of legal services, there is now a single point of control for the oversight of legal services provided to the CHA, all corporate matters are handled in-house reducing substantially the overall expenditure of funds out of operations. The efficiencies realized by the creation of this position are further highlighted by the fact that in 1999, the CHA had \$17 million in construction claims against the CHA (please refer to Interim Receiver's Report dated November 15, 1999) which all but one have been favorably settled under the direction of the General Counsel, with the approval of HUD and the Court.

The Draft Report refers to its prior audit work which covered the period April, 1995 through March 31, 1998 and the noted improvements which CHA needed to make, in this particular instance to its procurement and administration of legal service contracts. It is important to once again point out that no report was ever issued to CHA, and that at the Entrance Conference held in Judge Shapiro's chambers in February of 2000, the IG indicated that the prior audit was closed and no issues remained open from that audit. Further, that this audit would be a new audit to check the progress of CHA in the four delineated areas. The Receiver was proactive in creating a new department and hiring an in-house counsel to oversee the legal affairs of CHA. Additionally the Court made clear

that CHA was exempt from complying with Federal requirements governing procurement of legal services. During the course of the audit it was made clear to the auditors that the alleged conflict of interest was known to all parties and was being monitored effectively.

Page-17-Court Denied Auditors Access to Records-At the Entrance Conference the IG and the Court agreed to the scope and parameters of this new audit. Part of that agreement was that CHA's day-to-day operations not be disrupted. In order that there would be as little disruption to CHA as possible the IG agreed to review copies off-site of 1999 legal bills. The IG, after receiving the requested information and reviewing it at its leisure, would send numerous follow-up questions which required research by CHA. As soon as all the follow-up information was gathered it was transmitted to the IG. This would result in yet more follow-up questions, most of which were speculative and not substantive questions on financial issues. Although the IG did not speak directly with the Receiver, the IG corresponded frequently during the course of the audit with the Court, and the Court held a subsequent meeting with the District Inspector General and the Assistant Inspector General of the local IG's office in Chambers to provide the IG with additional historical information on CHA and agreed to modify the original parameters of the audit somewhat at the IGs request. The Court was not uncooperative in providing background and information on the procurement and administration of legal services, as the Court spent several hours going through this and other topics of interest with the District Inspector General for Audit and the Assistant District Inspector General for Audit.

Page-18-Historical Perspective of CHA's Legal Services-The Draft Report provides an unverified chart of alleged legal expenses from 1995 through 1999. The chart is not reflective of the legal services provided to CHA in any given year. From the information provided for review by the auditor, the chart only tracks when a payment was made to a particular firm/vendor, and only provides the payment history in the possession of the IG. In addition, the chart contains payments other than for legal services, *i.e.* salary expense for an employee and a negotiated settlement payment.

When the General Counsel was engaged in July of 1999, there were several bills from prior months and even the prior year for legal services that were not paid within a thirty-day billing cycle. Those bills were reviewed systematically by the General Counsel in the first several months of FY00, verified that the work was completed as stated, in accordance with the contract terms and placed the outstanding invoices in line for payment. The chart is therefore not reflective of the actual legal service history of CHA and can be used for no effective analytical or monitoring purpose.

Page-19-A. The Receiver Did Not Use Competitive Procedures To Procure Legal Services-The Court has addressed this issue with the IG in great detail. Following the Receivership legal services will be procured in accordance with federal procurement requirements.

Page-22-Recommendations-

2A. The new procurement policy includes federal procurement regulations governing the selection of professional services which includes the selection of legal services. CHA accepts this recommendation.

2B. CHA currently documents its selections of legal firms in accordance with standard business practice. CHA accepts this recommendation.

2C. CHA will continue to procure legal services as a private concern during the term of the Receivership, and follow standard business practice in monitoring its legal contracts. Following the end of the Receivership, CHA will adhere to federal procurement requirements. CHA accepts this recommendation.

Page-22-B. Additional Controls Can Augment the CHA's Administration of Legal Service Contracts-The General Counsel position was a new position in July of 1999. There were no SOPs relating to the administration of the legal department in place when the General Counsel came on board. But, there were SOPs relating to the payment of invoices which were in place. All invoices whether related to legal services or any other vendor payable go through a multi-step review process. Prior to the creation of the general counsel position, all legal invoices were reviewed by the Accounting Manager, Finance Director, Deputy Executive Director, with final sign-off by the Executive Director. In addition invoices were also received and submitted for payment by the Receiver. After the General Counsel took over the primary responsibility for oversight and review of the administration of legal services and specifically the process of critically reviewing legal bills for services that were previously rendered, as well as reviewing current invoices for services, none of the other controls for the review of legal invoices was changed. The addition of the General Counsel position further augmented the legal invoice review process. This systematic chain of review and oversight is evident on each and every approved invoice.

Page-24-Counsel Adjusted Some Invoices-The Draft Report notes that the General Counsel made adjustments to bills between July and December, 1999. What is not noted is that many of the adjustments were for invoices that were for services rendered prior to those dates. After coming on board, the General Counsel made significant changes in all the legal bills eliminating built in administrative charges in legal bills, requesting supporting documentation of third party charges to be provided with all bills, changing, in those instances where required, the billing information on the invoices to include, the amount of time spent by each individual, including the billing rate, and negotiating a very favorable flat fee agreement for its tenant evictions. These changes were communicated in face-to-face meeting which each firm and were systematically put in place over time by the firms. In addition, the General Counsel maintains a daily log of all phone calls and meetings. Nothing is left to memory as the Draft Report suggests. What is not kept by the General Counsel is daily time sheets which was the subject of inquiry by the IG. (see attached example marked Finding#2-Logs).

Page-24-Insufficient Support For Some Legal Costs-The Draft Report in this section makes certain assumptions on the eligibility of certain costs related to legal services and

suggests if not documented in the manner the auditors find acceptable, will result in those costs being reimbursed by the agency. With the exception of the costs related to meal expenses, all of the other payments for legal services were properly billed by the firms, reviewed and verified by CHA, and paid. None of the remaining costs are ineligible nor unsupported. All the noted invoices were reviewed both by CHA internally and then reverified by the firms in question. Every question raised by the Draft Report in the Finding #2 spreadsheet was previously answered. Attached please find yet additional information related to these invoices. It is important to note, the amount of time spent by CHA and the combined effort of the firms in question trying to respond to this fourth follow-up request exceeds the total amount of the combined alleged ineligible and unsupported costs.

Page-25-Invoices Need To Be reviewed More Thoroughly- As previously noted above, a majority of the invoices reviewed and processed for payment by the General Counsel during the period beginning July of 1999, were of invoices that predated the creation of the General Counsel position and were reviewed systematically beginning in July of 1999. Invoices submitted after July of 1999 evolved as requested by the General Counsel to include attorneys' and paralegal billing rates and total time spent by each individual, as well as supporting documentation for reimbursables. The billing rates are matched against the engagement letters, and any exceptions or additions are noted in the firm file.

Page-26-Recommendations

- 2D.** CHA currently has all the enumerated controls in place. CHA agrees with this recommendation.
- 2E.** The attached support is attached hereto as Finding #2-Spreadsheet.
- 2F.** The attached support is attached hereto as Finding #2-Spreadsheet.
- 2G.** The attached support is attached hereto as Finding #2-Spreadsheet.

Page-27-C. General Counsel's Conflict of Interest-The Court has responded in writing by letter to the IG dated June 28, 2000 (see attached letter marked Finding # 2-Conflict). The alleged conflict of interest between the General Counsel and one of the firms engaged to do work by CHA one and one-half years prior to her appointment to the position was readily known by the Court, the Receiver and the Executive Management of CHA. The invoices submitted by the firm were reviewed and forwarded to the General Counsel for further review by the Receiver, then submitted by the General Counsel to the Modernization Department for processing, the Accounting Manager, the Financial Director, the Deputy Executive Director, the Executive Director, with the final checks being signed by the Executive Management and the Receiver. The review of this firms' invoices is extensive and goes through many layers of review. The General Counsel's signature is just one of many which play a role in the formal review process for invoice payment. The Draft Report suggests that a single signature by an individual can get a check out for any CHA invoice. This is not true and that fact is evidenced by the various

approvals noted on each law firm invoice. Further the Draft Report claims that the General Counsel is a joint owner of the law firm in question. Further questioning of the auditor on this point elicited an unverified nexis search as the source of this inaccurate information. The general Counsel is not a joint owner of the subject law firm.

Page-28-Counsel Reviewed and Approved Spouse's Invoices-All the invoices approved by the General Counsel during the period beginning July of 1999 through December of 1999, whether from the law firm in question, or any other law firm, were forwarded for review and approval to the General Counsel either directly by the Receiver, or by the Executive Director. Following receipt by the General Counsel of these and all other legal invoices, the invoices would then forwarded through the appropriate chain in order for a final check to be cut, either through the Modernization Department and then through the accounting department, or just through the accounting department as appropriate. The Draft Report goes on to state that the Executive Director is not responsible for critically reviewing invoices; although this may technically be true, he does rely on the Accounting Manager, the Finance Director, the Deputy Executive Director, the Hope VI Coordinator and the Modernization Director, as well as the General Counsel to do their individual parts in critically reviewing all invoices.

CHA's review initially of the bills in question and subsequent reviews did not note any discrepancies. CHA authorized a flat fee billing arrangement for certain services relating to tenant evictions which total \$3,000. The services were authorized and properly paid by CHA. With respect to the alleged double billing, the firm gave an equal credit to CHA for the amount in question.

Page-29-Recommendation

2H. CHA will continue to employ the services of the firm in question on a limited basis with the quality controls currently in place. All assignments will be with the prior approval of the Receiver and the Court, and any invoices will continue to be reviewed by the Receiver, as well as being verified and approved by the proper personnel at CHA, including the General Counsel.

Finding 3

Page-31-Inadequate Controls Over Out-of-Pocket and Credit Card Expenses Paid to the Receiver—The CHA objects to the characterization "inadequate controls". The Court responded to this issue directly. All out-of-pocket expenditures are reviewed and approved by the Court. The original documentation is maintained by the Court and the Court directs the CHA to pay the authorized amount to the Receiver. The CHA has implemented new controls and procedures which address credit card use.

Page-31-A. The CHA Lacked Documentation to Support Reimbursements For Receiver Out-of-Pocket Expenses-The Court reviewed and approved all out-of-pocket expenses for the Receiver. The Court received a listing of all the expenditures and following its review would forward the support for these expenditures to CHA. The

review and approval was an action taken by the Court, not by CHA. CHA was directed to make the appropriate reimbursements to the Receiver.

Page-34-Recommendations

3A. Recommendation accepted.

3B. Recommendation accepted.

3C. The Court has provided CHA with direction on how to handle the Receiver's out-of-pocket expenses (see attached letter from the Court marked Finding #3-Out-of-Pocket). Recommendation acceptable.

Page-34-B. The CHA lacked Documentation to Support Payments For Credit Card Expenses and Incurred Unnecessary Expenses-As previously noted at the Entrance Conference, the prior audit work which covered the period July of 1995 through January of 1999 was closed. No further response or information was required by CHA. As agreed at the Entrance Conference the IG was to review the progress CHA has made and would limit its review for that purpose to 1999 records.

Page-35-The CHA Did Not Have Written Procedures-CHA has a written policy contained in the Human Resources Manual which governs the use of credit cards. CHA has further augmented its procedures to contain dollar thresholds for its use.

Page-35-Scope of Credit Card Review-It is standard procedure to review copies of source documents during an audit. This particular point was agreed to by all parties at the Entrance Conference.

Page-35-July 1995 through March 1998 Credit Card Activity-As previously noted, at the Entrance Conference the IG indicated that the prior audit was closed and no further response was due or required from CHA as no formal report was ever issued. The current audit was to be of expenditures and records for 1999.

Page-36-January 1999 through December 1999 Credit Card Activity-The Draft Report indicates that CHA did not have adequate documentation for a certain portion of its 1999 credit card charges. CHA provided sufficient documentation to the auditors to support the \$2,390.50. Although source documents may be lost or misplaced, there is acceptable secondary source documentation that is sufficient to verify costs, otherwise loss of a primary source document would be an uncorrectable error. Such substitute documentation was provided previously to the auditors detailing the credit card charges. With respect to the \$520.00 related to the Receiver's training, this was an allowable expense properly paid by CHA. The \$35.00 miscellaneous cost (please refer to spreadsheet which indicates a \$35.00 charge) was also an allowable expense for the replacement of a primary source document, which was properly documented. The auditor's personal opinion of whether such a cost is allowable, when clearly required and

authorized by CHA is purely subjective, and not within the parameters of a financial audit.

Page-38-Recommendations-

3D. Recommendation accepted.

3E. The Receiver will submit the \$2,284.54 in credit card charges of the prior Executive Directors to the Court for approval based upon his evaluation of the appropriateness of the expenditures. If approved the Receiver will reimburse CHA for these expenses out of his current out-of-pocket allowance. Numerous attempts were made to obtain copies of supporting documentation for these expenditures from Grenadier Realty Corporation without success. Additionally, the Receiver attended training as Chairman of the Board of CHA, and as such the \$475.00 is properly paid by CHA. This part of the recommendation is rejected (see attached response marked Finding #5-Other Issues).

3F. Although the subject of this recommendation **3F** was not part of the current audit, please see response marked Finding #3-3F. Please note on the spreadsheet marked Finding #3 attached to the Draft Report, on Page 9 of 11 for the date January 22, 1997, vendor, Marriott Hotel, San Diego, CA \$375., the comments noted by the auditors are incorrect. The conference/training started on the date the travelers arrived at the hotel in question. The traveler(s) did not arrive two days in advance (see attached support in Folder marked 3F).

3G. Recommendation accepted for \$519.61, a correct journal entry will be made. No reimbursement is necessary for the procurement of a necessary primary source document. This part of the recommendation rejected.

Finding 4

Page-39- CHA should Effect Further Improvements In its Rent Receivables and Rent Collection Practices—

The CHA has made substantial improvements in its rent receivables and Rent Collection Practices (see letter dated December 1, 2000 from the local HUD field office marked Finding #4 Rent Collections). The CHA objects to the following characterizations:

- The CHA did not evaluate thoroughly prospective tenants and ensure that its applicants will meet their full obligations as tenants;
- The CHA did not have documented collection and eviction procedures; and
- The CHA did not aggressively pursue collection of rents from delinquent and vacated tenants and recorded losses that were collectable.

The CHA established new procedures in 1994. These procedures were provided to the IG staff. Those procedures contained the following; Chapter 1 Tenant Selection, Unit Assignment and Leasing Procedures; Chapter 3 Rent Collection and Non-payment Eviction Procedures; and Policy on Writing off Collection Losses (see attached marked

Finding #4-Procedures). The CHA has procedures in the referenced areas, trains and monitors its staff in the referenced areas, and has just updated its procedures to reflect its new structure which is going from a central based management system to a more appropriately modern site (asset)-based management system. Further, the IG characterizes the CHA's collection write-off procedure as in violation of accounting rules. This is not true, the CHA follows appropriate collection write-off procedures in accordance with proper accounting rules.

Page-43-B. A Strong Applicant Screening Program Can Create More Acceptable TAR Levels-The auditors make subjective uncorroborated statements about the level of professionalism *i.e.* lack of diligence, of the CHA staff, after spending four pages praising the efforts of the same staff in reducing CHA's TAR levels. These comments have no place in a formal audit report. Additionally, the Draft Report in this section again comments on the alleged incomplete procedures of CHA when detailed procedures reflecting the subject matter of this finding were provided not once to the audit staff of the IG, but twice.

CHA uses the screening criteria outlined in its ACOP when reviewing applicant information. Individual evaluation standards are utilized when analyzing credit reports.

Page-44-Applicant Criminal Checks-CHA is diligent in conducting criminal checks on its applicants. The Draft Report notes that 2 of the 20 criminal checks were not submitted. There was no follow-up by the auditors to check the status of the remaining 2 criminal checks with CHA staff, which were in fact checked and verified by CHA staff..

Page-45-Applicant Credit Checks-CHA disagrees with the assertion on this page that credit checks are not being critically reviewed. CHA uses industry standards to review credit reports. These Standards were provided to the auditors. Further the auditors note that some tenants had debt written-off, there is no mention of the time period when this occurred (see reference on page 18 of this response marked Page 52-D). It is difficult to formulate a response to unsubstantiated allegations, without the specific examples of where proper procedure was not followed.

Page-44-References From Prior Landlords-Comments acknowledged.

Page-45-Housekeeping Inspections-CHA consistently performs housekeeping inspections for prospective and current tenants. The Deputy Executive Director did not state a preference over which checklist to use for applicant home inspections and objects to this statement.

Again the Draft Report notes that 2 applicants failed the housekeeping inspection, but nonetheless were granted admission. A follow-up by the auditors on this point would have elicited the reason for these two admissions.

Page-46-Recommendations-

4A. The current standard operating procedures will now be site-based and also include screening procedures and a training component. This recommendation is acceptable.

4B. The proper housekeeping inspection checklist is used during admissions. This recommendation is acceptable.

4C. CHA is adopting site-based procedures in 2001, which encompasses admissions. As previously noted, CHA trains its staff in admissions. Please see folder marked Finding 4C-Training. This recommendation is acceptable.

Page-47-C. The CHA Did Not Demonstrate It Implemented Collection Strategies- The Draft Report mistakenly claims that CHA did not have comprehensive written rent collection and eviction procedures, but it is not true. CHA can only surmise that the writer of the Draft Report became confused by the discussion surrounding the new SOP's which were being written to replace the central based SOPs with site (asset) based SOPs. CHA provided the auditors with the current operating SOPs which included rent collection, eviction procedures and collection procedures. It should be noted that at the Entrance Conference and in a subsequent letter, the Court directed the auditors not to focus on SOPs as they were currently under development and would be available for review following completion (see letter from the Court marked Page 47).

Page-47-The CHA Did Not Have Comprehensive Written Procedures For Rent Collection-The Draft Report once again makes the claim in this section that no written procedures exist for rent collection, yet it goes through a detailed review of the of Chapter 14 of the ACOP which specifically refers to collecting delinquent rent, as well as the relevant section in the "procedures manual", which the report claims does not exist. The auditors originally claimed that the relevant chapters relating to rent collection and eviction procedures were missing from their copy of the procedures manual. The Deputy Executive Director and the General Counsel made an additional copy of the entire manual and resubmitted it to the auditors during the audit period. The procedures exist, they are comprehensive, they are written, and they are for a central based management system.

During a face-to face meeting with the auditors the General Counsel gave an oral thumbnail sketch of the eviction process. During that discussion many different scenarios of tenant eviction cases were reviewed with the auditors. It was noted by the General Counsel that an aberrant eviction case, with an appeal and remand to the Special Master, could take up to 10 months to be resolved.

The Draft Report assumes the need to fill in alleged gaps because it misunderstood the reason the new SOPs were being developed. The new SOPs which were developed are for a site (asset) based management system. The new SOPs were not being developed to fill in alleged gaps in the then current central based SOPs. The statement that employees had to rely on fragmented guidance to do their jobs is inaccurate.

Page-48-Training Not Documented-The auditors were given minutes of staff meeting for a period of time in 1999 as requested as a sampling for their information. The rest of the staff meeting, which are all taped, had not yet been transcribed. Had the auditors requested all staff meetings notes, CHA would have provided them with a tape machine and the cassette recordings of the rest of the meetings. The report indicates that of the 14 meeting notes they received there was indeed staff training as indicated by the executive management.

Page-48-Tenant Files Not Complete-The auditors were told at a face-to-face meeting with the General Counsel that once a tenant is placed in the eviction process a separate legal file is kept by the General Counsel. None of the auditors assigned asked to review any of the tenant legal files.

Additionally, the property managers do use notation sheets in all of their property management files to record relevant events (see attached sheet marked Finding #4-Tenant Files).

Page-49-Review of Recent Delinquent Tenants-The Draft Report does not contain a listing of the tenant files reviewed by the auditors. Without a listing of the alleged files reviewed by the auditors CHA cannot make a determination of the accuracy of this notation.

Page-49-Tenants Vacated Owing Back Rent-The Draft Report makes blanket statements about the lack of aggressiveness by CHA in pursuing the collection of delinquent rents of vacated tenants, and suggests that the aggressive pursuit of these delinquent former tenants will cause current tenants to pay on time. This statement is unsubstantiated. CHA has a detailed policy on the collection of delinquent rents of its former tenants and follows its policy accordingly. Of course, there may be extenuating circumstances where the pursuit of certain delinquent accounts is not economically feasible, *i.e.* the tenant was evicted, the tenant died, the tenant vacated the premises and moved to another state or to parts unknown. In each of those circumstances prolonged collection efforts would be fruitless. CHA can make case-by-case determinations and act accordingly just like any other creditor.

The Draft Report on this page notes that the auditors asked the Deputy Executive Director why certain credit reporting actions were not taken with respect to certain tenant files which were reviewed in connection with the audit. The Draft Report notes that the Deputy Executive Director when asked directly about CHA's inaction either declined to give them any information, or did not have the relevant information available to give them. The auditors never broached this topic of discussion with the Deputy Executive Director during the course of the audit. The auditors did fax a request to CHA on December 19, 2000. Please see the attached response marked Finding #4 Page-49-Lump Sum Payment Request.

Page-50-Uncollectable Accounts Not Reported to a Credit Reporting Agency-CHA now routinely reports uncollectable accounts to its credit reporting agency.

Page-50-Need For Formal Procedures, Training, and Monitoring-CHA indicated at the Entrance Conference that it was currently redoing its SOPs as it was moving from a central based management system to a site (asset) based management system. At no time did CHA indicate, or otherwise admit that it needed to improve and formalize its current SOPs. As part of the implementation of the new site-based SOPs CHA staff will be trained as appropriate.

Page-51-Recommendations-

- 4D.** This is already in place. Recommendation acceptable.
- 4E.** Recommendation accepted.
- 4F.** This is already in place, see folder marked Finding 4F. Recommendation acceptable.
- 4G.** This is already in place. Recommendation acceptable

Page-52-D. The CHA recorded Losses For Tenant Rent When Collections Were Still Possible-Although the IG is well aware of the history surrounding the enormous build-up of TARs stemming from the early 1990s when HUD took control of CHA, to the class action suit filed by the tenants, wherein it was determined that HUD was liable for de facto demolition of housing units at the CHA, the Draft Report cites the build up of TARs and the subsequent write-off of these TARs as a problem not properly addressed during the current audit period of 1999. The IG had a two plus hour discussion on the history of CHA specifically relating to the TARs issue with the Court in May of 2000. The subject of the TAR build up and the myriad problems associated with collecting any rent as a result of the mismanagement of CHA prior to the receivership was covered in great detail by the Court. During the term of the receivership global settlements were entered into with affected tenants, there were many forced relocations due to the modernization efforts of the Receiver, as well as countless attempts to evict delinquent tenants who during the early period of the receivership systematically filed bankruptcy in order to avoid eviction. All these issues combined, along with the unreliable tenant records inherited by the Receiver resulted in a large TAR number on the books of CHA. The TAR issue was dealt with systematically by CHA and write offs of these delinquent accounts were properly made over the years in accordance with proper accounting procedures.

Page-52-CHA Leverage to Collect Delinquent Rent-The Draft Report again makes blanket statements about the collection efforts of CHA simply because as they state in the opening paragraph on this page “the CHA write-offs in 1999 still amounted to \$310,641”, as if the number itself justifies criticism. CHA has documented all its attempts to collect delinquent rents from residents who relocated from public housing to Section 8 and continues in its attempts to collect those delinquencies.

Page-52-CHA Reaction to Defaulted Repayment Agreements-The tenant examples used by the IG in this section were the subject of “forced relocation”. These were tenants who were living on sites targeted and approved for demolition and reconstruction and forced to relocate out of their homes at the request of the housing authority. CHA had good reason to move the relocation along; builders schedules and the threat of delay damages, as well as achieving the goals of the receivership. Neither the receiver nor CHA were in a position to threaten or force any of these tenants into doing very much, since the ultimate goal was to rebuild the housing stock of CHA. These “forced relocations” were a challenge and each individual case was handled on a case-by-case basis.

Section 24 CFR 982.552 (b) does in fact give authority to housing authorities powers to terminate program assistance if a tenant currently owes rent or other amounts to the HA. However, Section 24 CFR 982.552 (c) gives CHA complete discretion to consider all the circumstances in each case in deciding whether to deny or terminate assistance to a family. CHA properly used its discretion in determining its collection efforts on a case-by-case basis.

Page-54-Recommendations-

4H. Recommendation acceptable.

4I. CHA will continue to follow HUD regulations in determining whether to deny or terminate program assistance to tenants, specifically 24 CFR 982.552 *et seq.*

Finding 5

Page-57-Other Issues-

CHA Paid Receiver’s Expenses- The Draft Report cites that certain costs related to travel and training for the Receiver should not have been paid by CHA. This section further cites a joint meeting with the Court wherein the Court concurred with the position taken by the IG in the Draft Report. The Court stated that any travel expenses related to the day-to-day-operations of CHA were reimbursable to the Receiver and would be paid as part of his annual \$30,000 allowance. In the instant example cited in the report, the Receiver traveled as Chairman of the Board on behalf of CHA and those expenses were payable directly by CHA for its benefit. In accordance with the discussion at the recent exit conference please find information marked Finding #5-Other Issues.

Page-58-Recommendations-

5A. See attached response Finding #5-Other Issues.

5B. If the expense is personal to the Receiver, or for the benefit of the Rosenberg Housing Group, the expense will be borne by the Receiver or his firm directly. Otherwise, if the Receiver or his employees are training or traveling for the benefit of CHA, as described in the above paragraph, those expenses are properly paid for by CHA.

Page-59-Management Controls-

Internal Controls Assessed-As previously noted the scope, parameters and timeframe of the audit was determined and agreed to by the IG at the Entrance Conference. The auditors were on site for over five weeks with access to documents and staff. This on-site review is in addition to the IGs off site review of documents over a period of three months. There were no impediments placed on the auditors by the Court or the staff during the audit that were not agreed to previously.

Significant Weaknesses Were Noted-There is no disagreement that the operations of any organization can be improved through the use of extended oversight, training, and even increased staff. CHA each year strives to increase its efficiencies, and those increased efficiencies seem to be noted throughout the Draft Report. There are no significant weaknesses. With the agreed recommendations, most of which are already underway, CHA will continue to become an even better performer than in the past.

Page-61-Follow Up On Prior Audit-At the Entrance Conference a significant point of concern of the Court, the Receiver and CHA staff, was the status of the prior audit which lasted 18 months from July of 1997 through January of 1999, which yielded no Findings or closure. The IG staff at the Entrance Conference stated that the prior audit was closed. The audit beginning in January of 2000 was a new audit to check the progress of CHA in the four enumerated areas.

Page-67-Appendix C-The General Counsel in a face-to-face meeting reviewed orally the processing of legal invoices. The approval of legal invoices follows the same procedures for the approval of all other vender payables. With the addition of the General Counsel position there is an added oversight to the existing invoice procedure.

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General Counsel's Review Procedures

The CHA's General Counsel established undocumented review procedures for processing legal service invoices. The review procedures described by Counsel were as follows:

- General Counsel receives all incoming invoices for legal services.
- Counsel reviews invoices for "fluff" charges and obvious errors. Counsel requests corrected invoices if problems exist with the original invoices.
- Counsel approves only current charges for payment on any invoice.
- Counsel does not authorize payment upon receipt of "past due" or "reminder" notices unless supported by a copy of the original detailed invoice.
- Counsel approves amounts for payment by circling the amount on the invoice which Counsel initials and dates.
- Counsel sends approved invoices to the Accounting Department.
- Accounts Payable will not process any invoices for payment without Counsel's approval.
- The Accounting Department directs the approved invoices to the appropriate operational department for their approval.

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Hart Senate Office Building, US Senate, Washington, DC 20515
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Office Building, Washington, DC 20515
Director, Housing and Community Development Issue Area, US GAO, 441 G Street, N.W.,
Room 2474, Washington, DC 20548, Attn: Stanley Czerwinski
The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn
Building, House of Representatives, Washington, DC 20515
The Honorable Henry Waxman, Ranking Member, Committee on Government Reform, 2204
Rayburn Building, House of Representatives, Washington, DC 20515
Mr. Steve Redburn, Chief, Housing Branch, Office of Management & Budget, 725 17th Street,
N.W., Room 9226, New Executive Office Building, Washington, DC 20503
Executive Director, Chester Housing Authority, 1010 Madison Street, PO Box 380, Chester,
Pennsylvania 19016-0380
Honorable Norma S. Shapiro, United States District Court, Eastern District of Pennsylvania,
10614 United States Courthouse, Independence Mall West, Philadelphia, Pennsylvania
19106-1774
Mr. Robert Rosenberg, Receiver, Chester Housing Authority, c/o Rosenberg Housing Group,
Inc., 419 Park Avenue South, Suite 807, New York, NY 10016
Ms. Evette Hester, Deputy Executive Director, Chester Housing Authority, 1010 Madison Street,
PO Box 380, Chester, Pennsylvania 19106-0380
Ms. Maria Zissimos, General Counsel, Chester Housing Authority, 1010 Madison Street, PO
Box 380, Chester, Pennsylvania 19106-0380