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# AUDIT REPORT



SCRANTON HOUSING AUTHORITY  
AUDIT OF LOW-INCOME HOUSING  
AND SECTION 8 PROGRAMS

2003-PH-1006

SEPTEMBER 25, 2003

OFFICE OF AUDIT, MID-ATLANTIC  
PHILADELPHIA, PENNSYLVANIA

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Issue Date	September 25, 2003
Audit Case Number	2003-PH-1006

MEMORANDUM FOR: Malinda Roberts, Director, Office of Public Housing, Pennsylvania State Office, 3APH

*Daniel G. Temme*

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

SUBJECT: Scranton Housing Authority  
Audit of Low-Income Housing and Section 8 Programs  
Scranton, Pennsylvania

We completed an audit of the Scranton Housing Authority (SHA) in Scranton, Pennsylvania. The purpose of the audit was to determine if the SHA administered its Low-Income Housing and Section 8 Programs in an efficient, effective, and economical manner and in compliance with the terms and conditions of the Annual Contributions Contract (ACC), applicable laws, HUD Regulations and other applicable requirements.

We found the SHA's public housing developments were well maintained and in excellent repair. However, we identified operational and administrative issues the SHA needed to take corrective action on for 11 of the 13 activities we reviewed. As we presented the issues and recommended corrective actions, the Executive Director took the necessary steps to implement our recommendations to correct the identified weaknesses. As such, our audit report contains no open findings or recommendations. However, we included a resolved findings section in this report to present the conditions found and the actions taken by the SHA. Our original recommendations are incorporated in the actions taken section of each finding. This accelerated method of resolving issues is in accordance with a HUD memorandum dated February 26, 2003 from the Inspector General and the Deputy Secretary providing for an accelerated process that encourages reaching a Management Decision before a report is processed. Please furnish us copies of any correspondence or directives issued as a result of the audit.

We express our appreciation to you and your Public Housing Staff and to the SHA's Executive Director for the accelerated actions to reach final action on all the findings in this report.

Should you or your staff have any questions, please contact George A. Datto, Senior Auditor, at 215-656-3401, extension 3491.

# Executive Summary

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We audited selected aspects of the SHA's Low-Income Housing and Section 8 Programs. The purpose of our review was to determine if the SHA was managing the areas selected for audit from its Low-Income Housing and Section 8 Programs in an efficient, effective and economical manner and complying with the terms and conditions of its ACC, applicable laws, HUD Regulations, and other applicable requirements.

We performed a survey of the SHA's operations and identified 13 administrative and operational areas that warranted further review. These areas addressed the SHA's allocation of salaries and operating costs to the various Federal and non-Federal programs, method of reporting units to obtain operating subsidy, rehabilitation and occupancy of rehabilitated units, prospective tenant and tenant application and occupancy process, marketing of its housing programs to the public, vacancy problem, employment of relatives, inspection process of Section 8 units, control over financial institutions, accountability of non-rental income, procurement procedures, travel practices and procedures, and maintenance of its public housing units.

We found the SHA's public housing developments were well maintained and in excellent repair. Appendix B includes photos taken by our staff, illustrating the condition of the SHA's developments during the audit. We also found travel was generally performed in accordance with the SHA's established travel policy. However, for the remaining activities we reviewed, we identified areas where the SHA needed to improve its operations or needed to take appropriate administrative action to resolve the problems we identified. These areas are summarized below and described in more detail in the body of this report.

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## Weaknesses In The SHA's Operations Were Identified

We identified weaknesses in the SHA's operations for 11 of the 13 activities we reviewed. Specifically, we found the SHA:

- Charged HUD's Conventional Program \$89,033 for garbage removal and \$117,530 for general administrative salary costs that should have been charged to its city-owned project.
- Improperly received \$9,187 in subsidy for three units used as temporary offices.
- Removed the majority of units in developments from the rental market until the entire development was completely rehabilitated. This practice unnecessarily increased the number of vacant units used by HUD to pay an operating subsidy, and reduced the number of units available for low-income families.

- Did not properly establish waiting lists, account for or process all tenant applications, and contrary to HUD requirements, allowed applicants to wait for units at specific developments.
- Did not perform adequate outreach efforts to find qualified applicants for its vacant units.
- Hired family and/or relatives of the Executive Director and Board Members contrary to the provisions of its ACC.
- Did not perform accurate inspections to ensure Section 8 units met housing quality standards. We found 13 of the 15 units we inspected did not meet housing quality standards. Further, supervisors did not adequately monitor their inspectors' work in order to identify potential problems in the inspection process.
- Deposits in financial institutions were in excess of Federal Deposit Insurance Corporation (FDIC) coverage and not all institutions executed General Depository Agreements.
- Deposited laundry machine income totaling \$81,741 into a non-ACC account. For many years the SHA incorrectly believed laundry income was not income to the Federally assisted program.
- Discontinued using purchase orders when the supply of pre-printed forms was exhausted.
- Paid travelers \$100 for overnight travel to cover costs of meals, gratuities and incidentals without establishing the need and reasonableness for that amount.

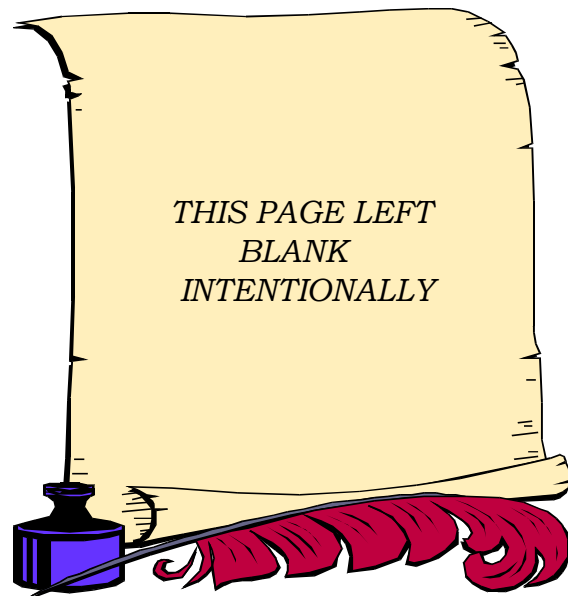
The SHA Took Immediate Action To Correct The Weaknesses

During the course of the audit we presented the SHA's Executive Director outlines of our audit findings that included the conditions found, criteria we used to make our evaluation, and tentative recommendations. After we discussed the findings and recommendations, the Executive Director took immediate action to correct the SHA's

operating policies and procedures and repaid the Conventional Program \$297,491. Since the SHA completed all the required actions prior to the issuance of this report, and we verified the corrective actions were completed, we made only one recommendation in this report to HUD. We recommended HUD's Regional Office of Public Housing complete an onsite review within one year from the issuance of this report to ensure the SHA continues to make satisfactory progress. The Director, Office of Public Housing, Pennsylvania State Office, agreed and stated the SHA will be included in its Fiscal Year 2004 Monitoring Plan. The actions implemented by the SHA during our audit should have a positive impact on the low-income residents of Scranton and ensure HUD funds are used in a more efficient and effective manner.

The SHA Agreed With  
The Audit Results

On August 1, 2003, we provided the SHA a discussion draft report, and an updated draft on August 11, 2003. We held an Exit Conference with the Executive Director on August 15, 2003. At the end of that conference the Executive Director provided us with the SHA's written comments to our draft report. In those comments the Executive Director expressed his appreciation for the Office of Inspector General audit staff's guidance and professionalism during the audit process and for conducting the audit in the spirit of cooperation and forthrightness. Also, the Executive Director stated he had no comments or requested changes to the final draft report. We included the SHA's full response in Appendix C.



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# Table of Contents

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Management Memorandum	i
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---

Executive Summary	iii
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---

Introduction	1
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## Resolved Findings

1. The SHA Did Not Correctly Allocate Some Administrative Costs	5
2. The SHA Received Operating Subsidies For Ineligible Units	9
3. The SHA's Redevelopment Policy Unnecessarily Increased Vacancy Rate	11
4. The SHA Did Not Properly Establish Waiting Lists And Process Applications	15
5. Advertising and Outreach Efforts Need Improvement	19
6. Conflicts Of Interest Occurred	21
7. The SHA Did Not Complete Accurate Section 8 Housing Quality Standards Inspections And Quality Control Inspections	23



8. Investments Need To Be Collateralized And Depository Agreements Updated	25
9. Laundry Machine Income Totaling \$81,741 Was Not Deposited In The Conventional Program Account	27
10. The SHA Did Not Use Purchase Orders To Make Small Purchases	29
11. The SHA's Per Diem Reimbursement Rate For Travel Was Not Reasonable	31

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Management Controls	33
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Follow Up On Prior Audits	35
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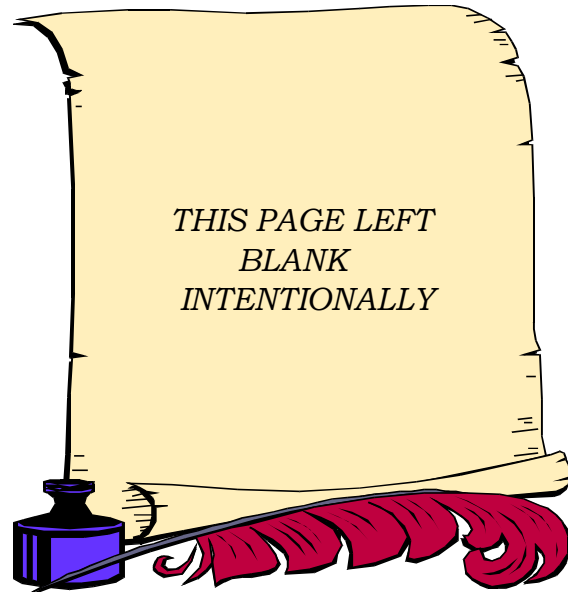
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## Appendices

A. Schedule of Questioned Costs	37
B. Pictures of The SHA's Developments	39
C. Auditee Comments	41

Abbreviations

ACC	Annual Contributions Contract
CFR	Code of Federal Regulations
CPA	Certified Public Accountant
FDIC	Federal Deposit Insurance Corporation
FHEO	Fair Housing and Equal Opportunity
HQS	Housing Quality Standards
HUD	U.S. Department of Housing and Urban Development
OMB	Office of Management and Budget
PHA	Public Housing Authority
PHMAP	Public Housing Management Assessment Program
SHA	Scranton Housing Authority



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# Introduction

The Scranton Housing Authority (SHA) was organized in 1940 under the laws of the Commonwealth of Pennsylvania to provide quality housing to the low and very low-income families in the city of Scranton. A five member Board of Directors, appointed by the Mayor, governs the SHA, with Terrence V. Gallagher, Esquire as the current Chairman of the Board. David E. Baker is the Executive Director. The SHA's main office is located at 400 Adams Avenue, Scranton, Pennsylvania.

The SHA has 1,325 public housing units located in ten developments and various scattered site properties throughout the city. In Fiscal Year 2001 HUD provided the SHA an operating subsidy of \$ 3.9 million. The SHA also has a Section 8 Program (also known as the Housing Choice Voucher Program) that includes about 933 vouchers and a 14-unit Section 8 Moderate Rehabilitation Program. HUD provides annual housing assistance payments of about \$3.3 million. The SHA also manages, operates and administers a city-owned housing development, Park Gardens, for the city of Scranton, Pennsylvania and serves as a Section 8 administrator for another development, Finch Towers. The SHA has an Affordable Housing Program, which is not Federally funded. Other funding provided by HUD includes the Capital Fund Program and the Public Housing Drug Elimination Grant Program. For Fiscal Year 2001 HUD provided \$2.5 million in Capital Funds and \$325,541 in Drug Elimination Grant funds.

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## Audit Objectives

Our overall audit objective was to determine if the SHA was administering its HUD Programs in an efficient, effective and economical manner according to the terms and conditions of its ACC, applicable laws, HUD Regulations, and other applicable requirements. During our audit survey of the SHA's operations, we identified a number of operational and administrative areas to review to meet this objective. Specifically, we wanted to determine whether the SHA:

- Properly allocated salary and operating costs to the SHA's various Federal and non-Federal programs.
- Properly accounted for all units in the Public Housing Program.
- Did an effective job in placing rehabilitated units back into the rental market in a timely manner.
- Properly processed and placed applicants who applied for public housing and Section 8 assistance

in accordance with HUD requirements, and its own policies and procedures.

- Efficiently advertised its vacant units and performed outreach to various organizations and potential applicants.
- Enforced the conflict of interest provisions of its ACC.
- Properly maintained its public housing units and ensured units under its Housing Choice Voucher Program were safe, decent and sanitary and complied with HUD's housing quality standards.
- Ensured financial institutions collateralized Federal funds when they exceed FDIC coverage limits.
- Properly accounted for all funds related to its Public Housing Program.
- Made and processed purchases in accordance with local, state and Federal requirements.
- Ensured employees' travel was reimbursed in accordance with its travel policy and that policy conformed to the cost limitations established under OMB Circular A-87.



Audit Scope and  
Methodology

To accomplish our objectives we:

- Reviewed files and records maintained by the HUD Office of Public Housing. The files and records included monitoring reviews and financial records.
- Interviewed HUD Pennsylvania State Office Public Housing and Multifamily Housing Staff.
- Reviewed all applicable Federal and HUD requirements, the Authority's organizational and administrative structure, personnel policy, and recorded minutes of the Board of Commissioners' meetings.

- Reviewed the SHA's financial records for the period January 1, 1999 through March 31, 2002 and the SHA's Independent Public Accountant reports for Fiscal Years 1998 through 2000.
- Interviewed appropriate SHA staff, which included the Executive Director, representatives from various housing developments and social services agencies in Scranton, and individuals who applied for the SHA's housing assistance.
- Non-statistically selected and performed physical inspection on 10 low-income public housing units and 15 Section 8 units.
- Reviewed the SHA's Administrative and Occupancy Policy for the Low-Income Public Housing Program, Section 8 Administrative Plan, and the Comprehensive Grant and Capital Fund Programs reports for Hilltop Manor, Bangor Heights and Adams Hi-Rise developments.
- Reviewed the SHA's Monthly Unit Status reports for all of the 1,325 public housing units and selected applicant and tenant files related to the Public Housing and Housing Choice Voucher Programs.
- Obtained and analyzed downloads from the SHA's databases containing information on vendor payments.
- Reviewed personnel files, vouchers, agreements, policies and procedures, and other financial and accounting records and files as needed.

Audit work was performed between March 2002 and March 2003 and covered the period January 1, 1999 through March 31, 2002. When appropriate, our review was extended to include other periods.

We conducted the audit in accordance with generally accepted government auditing standards.



# The SHA Did Not Correctly Allocate Some Administrative Costs

The SHA administers the following HUD-assisted programs: Public Housing, Section 8, Comprehensive Grant (Capital Fund) and Drug Elimination. The SHA also manages and administers a city-owned housing development, Park Gardens, for the city of Scranton, Pennsylvania, and serves as an administrator for another development, Finch Towers. We found the Park Gardens development did not bear its fair share of the cost for garbage removal (\$89,033) and for general administration (\$117,530). A total of \$206,563 was incorrectly charged to the HUD-assisted Conventional Housing Program, Annual Contributions Contract P-109 (Conventional Account). This occurred because the SHA did not have an accurate cost allocation plan in place that fairly allocated administrative costs among its Federal and non-Federal Programs.

OMB Circular A-87, Attachment A, requires state and local governments to establish principles to provide Federal awards bear their fair share of appropriate costs. Attachment C of the Circular states governments need a process whereby costs can be assigned to benefited activities on a reasonable and consistent basis. The cost allocation plan provides that process. Formal accounting and other records should support all costs and other data used to distribute the costs included in the plan including the support needed for establishing the propriety of the costs assigned to Federal awards.

## Garbage Removal Costs

Garbage removal costs were the only operating costs allocated between the SHA's Federal and non-Federal programs. The SHA would pay the total cost of garbage removal from the Conventional Program and then reimburse the Program \$1,994 per month from Park Gardens' private funds. However, we found that in October 1998, Park Gardens stopped reimbursing HUD's Conventional Program for its fair share of the garbage removal costs. As a result, from October 1998 thru July 2002, the SHA failed to reimburse the Conventional Program account \$89,033 in garbage removal costs.

## Administrative Staff Salaries

The SHA's general administrative staff is responsible for the administration of all its programs and activities. Accordingly, costs should be allocated fairly among HUD's programs and the SHA-managed private development. However, for the period October 1999 through June 2002, we found the SHA did not allocate a fair share of its



administrative expenses to its private development, Park Gardens. We estimated costs totaling \$117,530 benefiting Park Gardens should not have been charged to the Conventional Program.

In October 1999, the SHA's administrative staff developed a cost allocation plan for payroll based upon the SHA's estimate of how much time each employee spent on the various programs. In September 2001 this plan was updated, again using the SHA's estimates. However, the SHA's records indicated the only salary allocated to both HUD and non-HUD programs for that period was the salary of the purchasing manager. Further, the SHA did not have documentation to support the estimates used in the two plans and the time sheets did not show the time spent on each program.

We estimated a fair allocation based on the cash flow by program type (ACC vs. non-ACC). Our analysis of cash flow showed non-ACC programs accounted for six percent of the SHA's funds. We determined the SHA incorrectly allocated administrative salaries for 33 months, and annual administrative salaries totaled \$758,405 per year. Using this information, we estimated administrative salaries totaling \$125,137 should have been charged to Park Gardens. However, since only \$7,607 had been charged, we estimated an additional \$117,530 should have been charged to Park Gardens.

OMB Circular A-87, Attachment B, paragraph 11.h, states that when employees work on multiple programs, a distribution of their salaries will be supported by personnel activity reports or equivalent documentation. Attachment A of the Circular states that to be allowable under Federal awards, costs must be necessary and reasonable for the proper and efficient performance and administration of Federal awards.

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**Corrective Actions  
Taken By Auditee**

In August 2002, the SHA started using the services of a private hauler for the removal of garbage from Park Gardens and, on December 6, 2002, reimbursed the Conventional Program \$89,033.

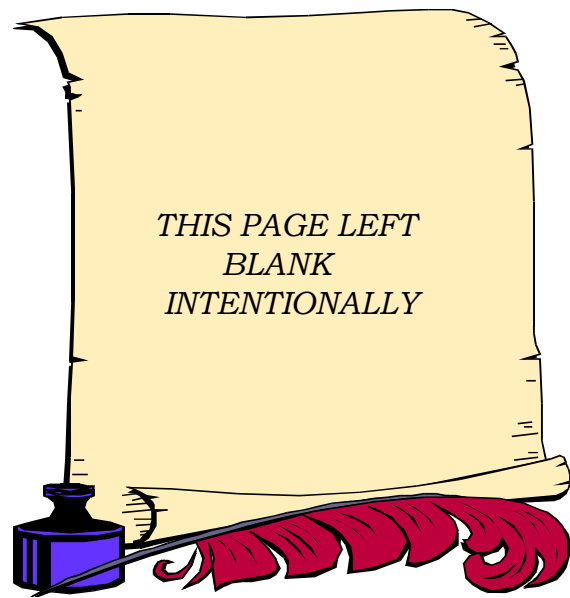
In July 2002, the SHA developed and started to use time sheets that record time by program. The time sheets are to be completed on a daily basis by all SHA administrative employees who perform services for various programs. Employee salaries are now paid based upon actual time spent on a program. Also, the SHA began paying the private development's employee salaries directly from the private development's bank account. On December 6, 2002 the SHA reimbursed the Conventional Program \$117,530.16.

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## Recommendations

We evaluated the actions taken and determined the actions were sufficient to resolve these issues. We have no further recommendations.



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## The SHA Received Operating Subsidies For Ineligible Units

The SHA received \$9,187 in excess operating subsidies for three units it used as temporary administrative offices. Title 24 CFR 990.108 provides that under certain conditions only units approved for non-dwelling use to promote economic self-sufficiency services and anti-drug activities are eligible for operating subsidy, and the costs attributable to these units are to be included in the operating budget. The SHA did not remove these three ineligible units when it calculated its operating subsidy for Fiscal Year 2002. The SHA also did not obtain approval from HUD to use these units as administrative offices.

In September 2001, the SHA informed HUD it was using the three units as temporary administrative offices. HUD requested the SHA provide specific information before it could grant approval. The SHA never provided HUD with the information it requested. However, the SHA removed the three units from its operating subsidy calculation for Fiscal Year 2003.

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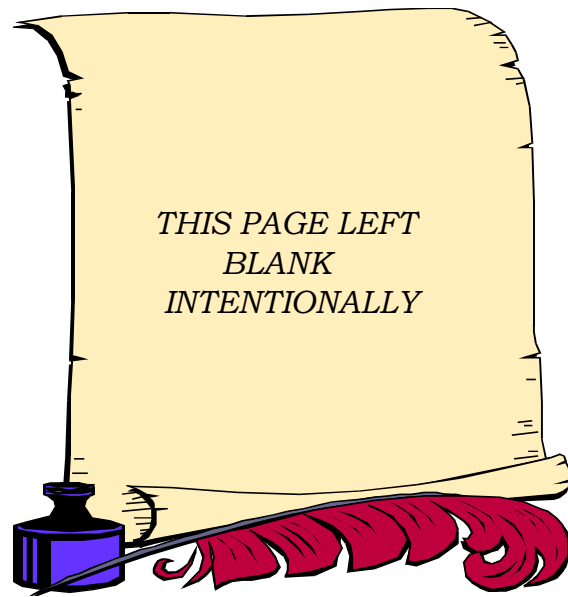
### Corrective Actions Taken By Auditee

The SHA requested we instruct HUD's Office of Public Housing to reduce its operating subsidy for fiscal year ending September 30, 2003 by \$9,187. The Office of Public Housing took the actions needed. The SHA also provided HUD the information previously requested so HUD can determine whether or not to grant approval for the temporary conversion of these three units.

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### Recommendations

We evaluated the actions taken and determined the actions were sufficient to resolve these issues. We have no further recommendations.



## The SHA's Redevelopment Policy Unnecessarily Increased Vacancy Rate

The SHA's redevelopment policy unnecessarily increased its vacancy rate. When a development is targeted for rehabilitation, the SHA's policy has been to remove the majority of units in the development from the rental market until all rehabilitation work is completed. Since the SHA has been performing major rehabilitation work on its developments, this policy created an abnormally high vacancy rate at the SHA, for which HUD paid substantial operating subsidies each year. For example, in Fiscal Year 2002 HUD provided the SHA a total operating subsidy of \$4,078,191, of which \$1,046,479 or 26-percent was tied to vacant units. Of the \$1,046,479 tied to vacant units, 60-percent, or \$630,963, was associated with units under rehabilitation, which had been removed from the market. Altogether, HUD provided the SHA \$4.2 million in operating subsidies on vacant units for Fiscal Years 1999 through 2002.

### Continuing Problem With High Vacancy Rate

Our review of SHA correspondence and data showed that a high vacancy rate has been a continuing problem at the SHA. In Fiscal Year 1998 the SHA received a failing grade because of the high number of vacancies under the annual Public Housing Management Assessment Program (PHMAP). The SHA appealed the failing grade providing additional information for HUD's consideration. Based on the appeal, HUD changed the grade from "F" to "A". Although the number of vacant units during the four-year period ending September 30, 2002 decreased, the vacancy rate was still quite high at 26-percent as of September 2002.

For the fiscal year ending September 1999, the SHA reported to HUD it had 452 vacant units of which 286 units were being rehabilitated. For the fiscal year ending September 2002, the SHA had 340 vacant units of which 205 units were being rehabilitated. The units being rehabilitated were located at Adams Hi-Rise and Riverside Apartments. We adjusted the total number of vacant units by the number under rehabilitation and as of September 30, 2002, the SHA's vacancy rate was reduced to 10-percent, the same percentage found by the U.S. Census Bureau in year 2000 for the city of Scranton. We performed a survey of 12 housing developments in the city in October 2002 and determined the average vacancy rate of those developments was 11.2-percent compared to the SHA's adjusted rate of 10-percent.

Length of Time Units  
Were Vacant Was  
Excessive

The Adams Hi-Rise Apartments has 184 units. In October 1998 there were 141 vacant units and as of September 2002 there were 161 vacant units. Our review of the SHA's records indicated the SHA performed rehabilitation work at this development since 1998 using the force account program. For four years, from October 1998 to September 2002, over 141 units remained vacant; a period of time we believe is excessive. The SHA expended over \$2 million of Federal funds for the rehabilitation, which included renovations of bathrooms and kitchens. In June 2002 we inspected the units at Adams Hi-Rise and were told by SHA staff that the units were ready for occupancy. But, the rehabilitation of the first floor area (social areas, meeting rooms, dining areas, kitchen, offices, etc.) was not completed; therefore, the units were not leased.

The following pictures are examples of the units that were ready for occupancy.



The SHA's policy has been to take the majority of units off line for rehabilitation and not start the rent-up of the development until work on the entire development was

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completed. We believe the SHA should keep the number of vacant units to a minimum by only vacating those units being rehabilitated and reoccupying them when the work is completed. The Annual Contributions Contract, Part A, Section 4, requires the SHA to manage its projects to promote economy, efficiency, and stability.

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### Corrective Actions Taken by Auditee

The SHA provided evidence it is currently advertising the Adams Hi-Rise development for applicants in the newspaper, on television and on the radio. In addition, the SHA provided the Office of Public Housing a plan related to the future rehabilitation of developments. The plan satisfies the recommendations contained in the draft audit finding. The following are those recommendations:

- Organize rehabilitation work at a development to allow only the units being rehabilitated to be vacated and return rehabilitated units to the market prior to completing of the entire development.
- Develop and coordinate with HUD a vacancy/occupancy plan for developments currently being rehabilitated and for developments being considered for future rehabilitation work.
- Develop a method to shorten the period of time to rehabilitate units and to return them to the rental market.

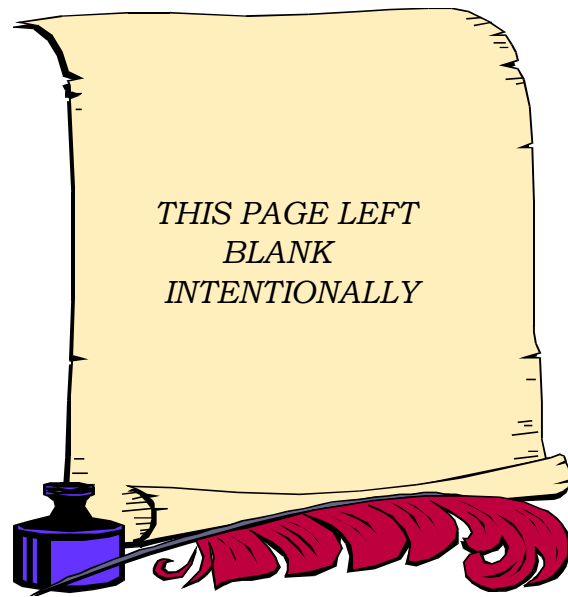
The Plan included information on moving tenants and how rehabilitation work will take place at Jackson Heights and Jackson Terrace, the next developments to be rehabilitated.

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### Recommendations

We evaluated the actions taken and determined the actions were sufficient to resolve these issues. We have no further recommendations.





# The SHA Did Not Properly Establish Waiting Lists And Process Applications

We found the SHA needed to improve its administration in selecting, qualifying and placing applicants who applied for housing assistance under both the Conventional and Section 8 Programs. Specifically, we found the SHA did not: maintain waiting lists for selecting applicants; process tenant applications properly to ensure all applications were processed in accordance with HUD requirements; always make an eligibility determination for applicants applying for Conventional and Section 8 Housing; and, contrary to HUD requirements, allowed applicants to request to live in a particular development. We believe these conditions contributed to the SHA's vacancy problem.

## Waiting Lists Not Maintained

The SHA did not maintain waiting lists for its Conventional and Section 8 Programs. Title 24 CFR 960.202 requires Public Housing Authorities (PHAs) to establish and adopt written policies for admission of tenants into the Conventional Housing Program. These policies include the requirements for applications and a waiting list. In addition, Title 24 CFR 960.206 (e) provides that the method for selecting applicants must leave a clear audit trail that can be used to verify that each applicant was selected in accordance with the Authority's Admission and Occupancy Policy. The SHA's Admission and Occupancy Policy for Conventional Housing and the Administrative Plan for the Section 8 Program require the SHA to maintain a waiting list. Further, for the Section 8 Program, HUD's guidebook entitled "Housing Choice Voucher Program Guidebook" sets forth similar responsibilities that the Authority should follow. The guidebook states that the housing authority's application and selection policies must be stated in the administrative plan.

## Application Process Was Not Adequate

In order to assess the SHA's housing application process, we non-statically selected 50 applicants to review who applied for either Conventional or Section 8 Housing. Twenty-four of the applicants applied for Conventional Housing and twenty-six applicants applied for Section 8. The SHA staff could not locate the applications for 11 of the 50 applicants. We interviewed one applicant who applied for Section 8 housing in November 2001. That applicant stated she applied for Section 8 assistance and returned in August 2002 to check the status of the

application. At that time, the SHA advised the applicant the application was lost and advised the applicant to re-apply.

Title 24 CFR 960.208 for Conventional Housing requires the Authority to promptly notify any applicant determined to be ineligible for admissions, the basis for such determination, and must provide the applicant, upon request, an opportunity for an informal hearing on the ineligibility determination. Title 24 CFR 982.201 (f) for the Section 8 Program also provides similar language. For the 39 applications we reviewed, we determined the SHA did not make an eligibility determination on 8 applicants. Also, SHA staff did not notify applicants whether they were eligible or ineligible to participate in either the Conventional Housing or Section 8 Programs.

HUD Handbook 7465.1 REV-2 Paragraph 5-6 (a) (The Public Housing Occupancy Handbook: Admission) states, “No Public Housing Authority may solicit a statement from an applicant regarding his or her desire to live in a particular project or projects unless this practice has specific approval from the Assistant Secretary for FHEO”. However, for 11 of the 50 applications in our sample, applicants waited for housing at a particular development. The SHA does not have a site-based waiting list and therefore cannot allow applicants to request a unit at a particular development.

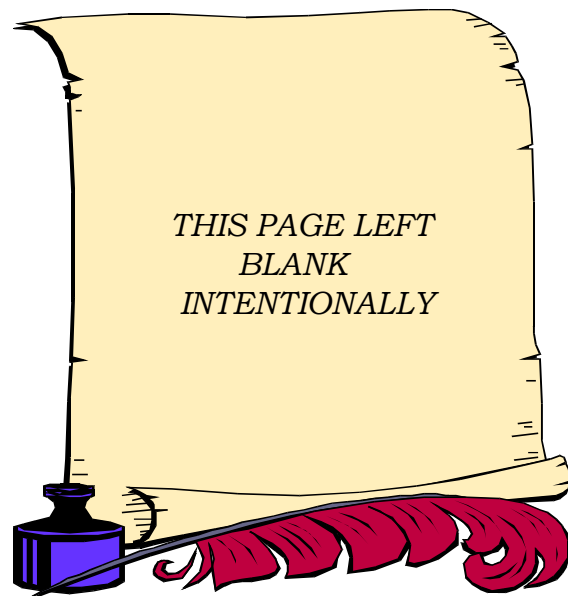
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**Corrective Actions  
Taken By Auditee**

Based on our recommendations the SHA established waiting lists for its Conventional Housing and Section 8 Programs in accordance with HUD requirements. In addition, the SHA now uses pre-numbered applications for Conventional Housing and Section 8 and maintains application logs for both Programs. The application logs are reviewed by SHA staff to determine the status of the applicants and if additional information is needed from the applicants. The SHA also discontinued the practice of allowing applicants to request a particular development.

Recommendations

We evaluated the actions taken and determined the actions were sufficient to resolve these issues. We have no further recommendations.



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# Advertising And Outreach Efforts Need Improvement

The SHA's advertising and outreach efforts were not sufficient to reduce its vacancy rate. HUD's Public Housing and Occupancy Handbook 7465.1 REV-2 provides that Public Housing Authorities should conduct outreach efforts in order to obtain new applicants. The Handbook further lists various ways of conducting adequate outreach and advertising. In addition, the SHA's own Admissions and Occupancy Policy states that its marketing materials and techniques will accurately describe the housing units, application process, waiting list and preference structure, and will also make clear who is eligible to apply.

The SHA's advertising efforts consisted of placing advertisements in newspapers, on public transit system buses, on paid cable television, and in internal SHA publications. We determined the information included in all four means of advertising was general and non-specific. The advertisements did not state the location and size of the available units and some advertisements were geared towards senior citizens only. Furthermore, the advertisements did not accurately describe the housing units, application process, waiting list, preference structure, and did not make clear who is eligible for subsidized housing, as required in the SHA's policy.

In 2001, the SHA began sending annual letters to social service agencies requesting support to increase public awareness of housing opportunities provided by the SHA. Again, the information in the letters only provided general statements and was not specific as to what services the SHA offered.

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## Corrective Actions Taken By Auditee

We discussed our concerns with the Executive Director and he agreed to hire an outreach coordinator to aid in the SHA's efforts to fill vacancies. Subsequently, the SHA assigned an employee to spend about 60-percent of their time to be the outreach coordinator. Also, the SHA provided copies of its most recent advertising efforts, such as a videotape of a television advertisement, an audiotape of a radio advertisement and newspaper advertisements. We reviewed the new advertisements and noted the content is much more comprehensive and now conforms to the SHA's Admissions and Occupancy Policy.

Recommendations

We evaluated the actions taken and determined the actions were sufficient to resolve these issues. We have no further recommendations.

## Conflicts of Interest Occurred

During our review, we discovered two potential conflicts of interest and were made aware of three others. The ACC Section 19 - Conflict of Interest (B)(1) provides that the Authority may not hire an employee in connection with a project under this ACC if the prospective employee is an immediate family member of any present or former member or officer of the governing body of the Housing Agency except for one who does not occupy a policy-making position within the Housing Agency, and/or any employee of the Housing Agency who formulates policy or who influences decisions with respect to the projects. The ACC describes "immediate family member" as the spouse, mother, father, brother, sister, or child of a covered class member. Further, if a potential conflict of interest exists, the class member shall disclose to the Housing Agency and HUD the member's familial relationship to the prospective employee. The Housing Agency's Board of Commissioners may waive the restriction of not hiring family members for good cause, provided state and local laws permit such waiver.

One potential conflict deals with the SHA's Certified Public Accountant (CPA) who is a former SHA Board Member and brother to the Executive Director. The SHA's Board made an exception to hire the Executive Director's brother based on his experience as a former Board Member as well as his education and training as a CPA, and not from the perspective of being the Executive Director's brother. However, this decision should have been part of the public record at the time of his hiring. At the time of his original employment, the CPA was hired to manage Park Gardens' operations only, a private development managed and operated by the SHA. HUD program staff was aware of this arrangement. However, the potential conflict of interest occurred in December 2000 when the CPA began performing work involving the SHA's Conventional Housing operations. HUD's program staff did not receive any waiver on the conflict of interest provisions of the SHA's ACC. The CPA retired from the SHA at the end of December 2002. The other four conflicts involved four different SHA Board Members and their relatives; however, currently, the four members no longer reside on the Board.

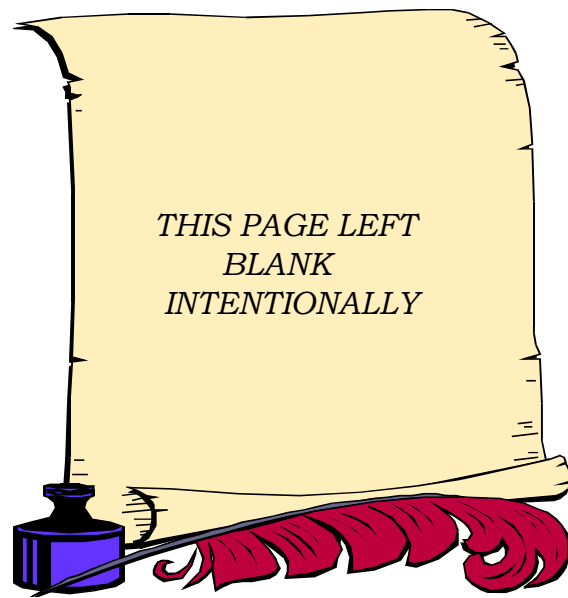
### Corrective Actions Taken By Auditee

Although all potential conflicts of interest at the SHA were resolved, the SHA concluded its Board needed to pass a resolution to incorporate ACC Section 19, thereby making all Board members responsible and knowledgeable about Conflict of Interest requirements. On February 3, 2003, the Board passed Resolution Number 03-7 incorporating Section 19 of the ACC into the Authority's operations when utilizing Conventional Program Funds or Capital Funds.

### Recommendations

We have no further recommendations.





# The SHA Did Not Complete Accurate Section 8 Housing Quality Standards Inspections And Quality Control Inspections

The SHA housing inspector did not always complete accurate Housing Quality Inspection reports. We found 13 of the 15 Section 8 Program units we inspected failed to meet Housing Quality Standards (HQS), HUD's minimum standards for decent, safe and sanitary housing. Also, we found the SHA staff did not complete quality control inspection reports for 29 of the 49 inspection reports we reviewed.

HUD's Housing Choice Voucher Program Guidebook 7420.10 G, Chapter 10, provides that before approving a housing lease, the Authority shall inspect the unit for compliance with HQS. In addition to the initial inspection, the unit will be inspected at least annually to assure that it is being maintained in a decent, safe and sanitary condition. This guidebook along with Title 24 CFR 982.401 provides the performance requirements the Housing Authority must use to determine whether units are in compliance with HQS.

## SHA Inspections Did Not Meet Housing Quality Standards

We non-statistically selected and inspected 15 Section 8 units from the 901 Section 8 units in the SHA's program. All 15 units had been inspected by the SHA's inspectors within 10 days to 9 months of our inspections and passed HQS. Our inspections disclosed 13 units did not meet HQS, and 10 had multiple violations. The 13 units that failed HQS had a total of 56 violations. We determined that 42 of the violations existed at the time of SHA's last inspection. Thus we concluded the SHA inspectors were not completing HQS inspections according to HUD guidelines.

## Quality Control Inspection Reports Were Not Adequate

According to HUD Guidebook 7420.10 G, the SHA is required to perform quality control inspections during its fiscal year. For the fiscal year ending September 30, 2002, two SHA employees performed 49 quality control inspections. We reviewed all the quality control inspection reports and noted that in 29 of the 49 inspections the SHA's staff did not complete the inspection reports. One of the inspections involved a property we inspected and found deficiencies; but the quality control inspection noted that no problems existed. From our review of the inspection reports we noted certain parts of the inspection reports were blank.

The blank sections included the building exterior, heating and plumbing, and general health and safety. The SHA's staff advised us that even though the inspection reports were blank they would have noted if there were any deficiencies related to the properties. Consequently, the quality control process was not effective in identifying problems in the inspection process.

One of the purposes of the quality control inspections is to catch inadvertent errors that may have been made by the inspector. Furthermore, quality control inspections provide the inspection supervisor with information concerning the general level of competence and consistency of the inspection staff.

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**Corrective Actions  
Taken By Auditee**

The SHA provided recent inspection reports that indicated the deficiencies we identified in our inspections were corrected. In addition, the Executive Director gave written instruction to the Section 8 Coordinator to review the housing inspector's inspection reports at the end of each day to assure the deficiencies reflected in this finding do not reoccur. Further, the Section 8 Coordinator was instructed to perform the quality control inspections in accordance with Federal regulations. The Executive Director also provided written instructions to the Deputy Executive Director to review the quality control inspections, determine if staff needs additional formal training, make arrangements if training is needed, and/or recommend other actions as deemed appropriate.

The Deputy Executive Director discussed the deficient work with the inspector and the Section 8 Coordinator and established responsibilities for each position. Also, in addition to reviewing their work, he will have periodic independent inspections performed, on a sample basis, to determine the quality of the inspector's and Section 8 Coordinator's field inspection work.

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**Recommendations**

We have no further recommendations.

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# Investments Need To Be Collateralized And Depository Agreements Updated

The SHA does not have a formal written investment policy. Instead the SHA elected to follow HUD's Financial Management Handbook. However, the SHA did not always follow these policies. For example, we found the SHA's deposits exceeded the FDIC coverage, were not collateralized by the financial institution, and Depository Agreements were not properly executed as required.

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## Collateralization of Assets

The SHA did not obtain a pledge of specific/identifiable assets from the financial institutions for deposits in excess of FDIC coverage of \$100,000. HUD's Financial Management Handbook 7475.1 and HUD Public Housing Notice 96-33 both state that housing authorities shall require their depositories to continuously and fully (100-percent) secure all deposits whether regular, savings, or time accounts that are in excess of the \$100,000 FDIC insurance. Financial institutions can pledge or set aside collateral of identifiable U.S. Government securities as prescribed by HUD.

## Depository Agreements

For three of five SHA-executed General Depository Agreements, we found the agreements included the former names of the financial institutions servicing the SHA. The SHA did not execute new agreements after the names of the institutions changed.

Public Housing Notice 96-33 provides that a General Depository Agreement shall be executed by the Housing Agency and the depository. The depository must be a financial institution whose deposits are insured by the FDIC or the National Credit Union Share Insurance Fund. In addition, each financial institution that issues a Certificate of Deposit must execute a General Depository Agreement.

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## Corrective Actions Taken By Auditee

The SHA contacted its five financial institutions to obtain the pledges of specific/identifiable assets. The financial institutions provided pledge documents to the SHA.

## Resolved Finding 8

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The SHA executed new Depository Agreements with the three financial institutions whose names had changed.

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### Recommendations

We evaluated the actions taken and documents received/executed and determined the actions were sufficient to resolve these issues. We have no further recommendations.

# Laundry Machine Income Totaling \$81,741 Was Not Deposited In The Conventional Program Account

Income generated from the laundry machines at the Conventional Housing developments, totaling \$81,741, was not deposited into the Conventional Program's bank account nor was it recorded in the income account on the SHA's Conventional Program's Books of Account. Instead, the SHA maintained a separate bank account for all washer and dryer revenue because it believed all revenue generated from this service was considered non-Federal income.

Our review of disbursements for this account indicated there were some questionable disbursements. These questionable disbursements included donations, flowers, Christmas parties, and payments to two credit card companies. The payments to American Express appeared to be for food provided at SHA board meetings. It appeared some of those expenditures were eligible. For example, the SHA paid a legal firm \$6,491 for legal services. This payment included legal services related to an SHA employee arbitration, which could have been charged to the Conventional Program.

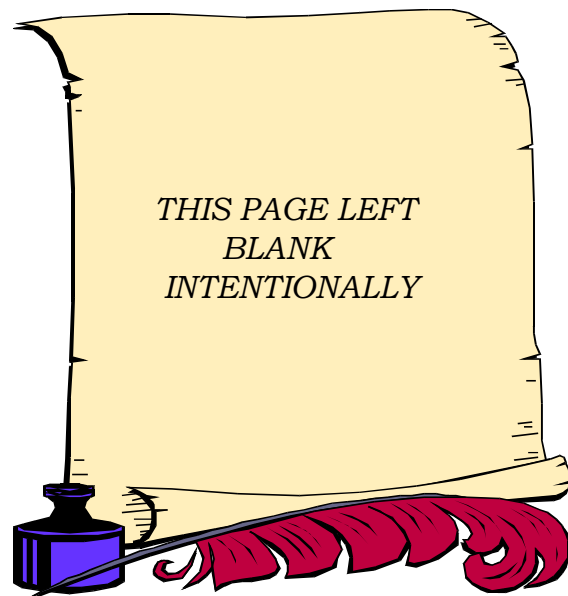
The ACC requires the SHA to develop and operate all projects covered by the ACC in compliance with all the provisions of the ACC and all applicable statutes, executive orders, and regulations issued by HUD. The ACC states that operating receipts shall mean all rents, revenues, income, and receipts accruing from, out of, or in connection with the ownership or operation of such project.

## Corrective Actions Taken By Auditee

The SHA reimbursed the washer/dryer account \$47,456 from non-Federal funds for the amount expended from January 1999 thru April 2002. On May 14, 2002, the SHA closed the washer/dryer account and transferred the balance of \$81,741 to the Conventional Program. Currently the SHA considers all washer/dryer revenue as public housing funds and is depositing them into the Conventional Program's bank account.

## Recommendations

We evaluated the actions the SHA took and determined the actions were sufficient to resolve these issues. We have no further recommendations.



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## The SHA Did Not Use Purchase Orders To Make Small Purchases

The SHA stopped using hardcopy purchase orders for making small purchases in March 2002 when it was time to replenish the supply of purchase order forms. SHA personnel did not see the need to use hardcopy purchase orders and decided not to re-order the forms. HUD Handbook 7460.8, paragraph 3-4(B) provides that the Contracting Officer is responsible for ensuring that all contracts awarded comply with the requirements of HUD Regulations at Title 24 CFR 85.36, the Authority's written procurement policy, and any other applicable laws and regulations. The SHA's procurement policy states that any procurement not covered by a contract shall: be made by standard purchase order; be clearly specifying the items purchased; indicate the services and the terms and conditions of the purchase; and be approved by the Executive Director. Purchase orders are necessary to ensure that the procurement is properly authorized, that items purchased are needed, and correct quantities/items are received and are properly accounted for in the financial records.

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### Corrective Actions Taken By Auditee

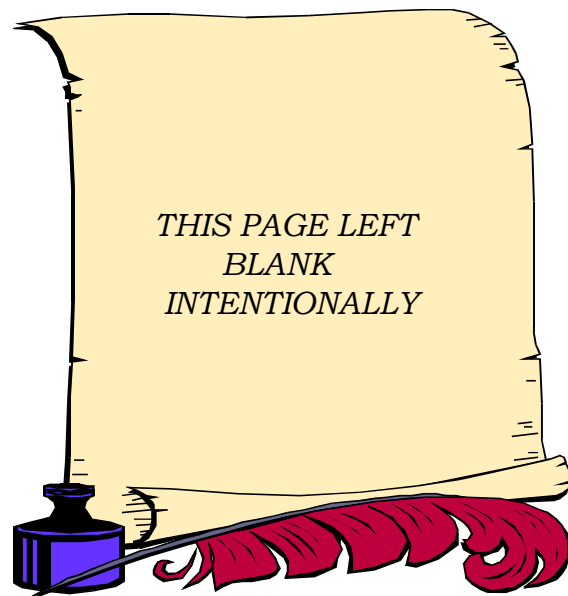
After we discussed the matter with the Executive Director, the SHA agreed to implement a new purchase order procedure and ordered new three-part purchase order forms. As of April 2002, the SHA reestablished the use of hardcopy purchase orders.

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### Recommendations

We evaluated the actions taken and determined that the actions were sufficient to resolve these issues. We have no further recommendations.





## The SHA's Per Diem Reimbursement Rate For Travel Was Not Reasonable

The SHA's travel policy included a per diem reimbursement rate for travel that was not reasonable. The policy included a per diem allowance of \$100 per day (excluding lodging) for overnight subsistence to cover the cost of meals, gratuities and incidentals. Receipts or other documentation were not required. Further, the SHA did not have any basis to support the established \$100 rate.

OMB Circular A-87, Attachment A, provides that for a cost to be allowable under Federal awards, the cost must be necessary and reasonable for proper and efficient performance and administration of Federal awards.

We informed the SHA the \$100 per diem rate was unreasonable and unnecessary, and recommended it adopt the U.S Government per diem rates to cover the cost of meals, gratuities and incidentals.

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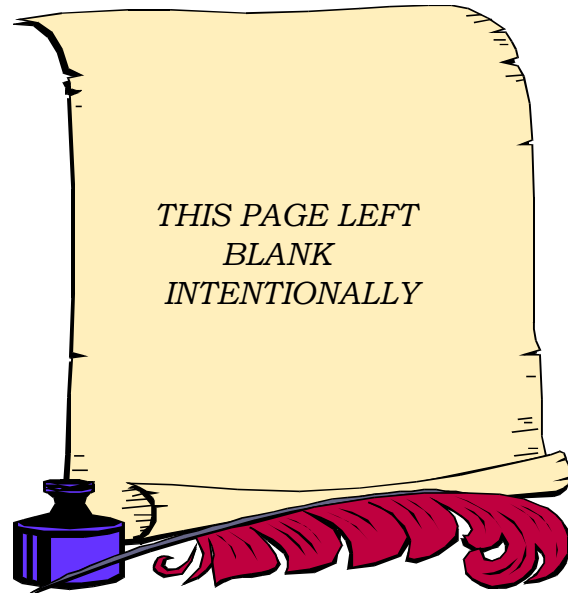
### Corrective Actions Taken By Auditee

The SHA agreed with our assessment and, in July 2002, changed its travel policy and adopted the U.S. Government per diem rates for overnight subsistence to cover the cost of meals, gratuities and incidentals.

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### Recommendations

We evaluated the actions taken and determined the actions were sufficient to resolve these issues. We have no further recommendations.



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# Management Controls

Management controls consist of a plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies. Management controls include the processes for planning, organizing, directing and controlling program operations. They contain the control environment for risk assessment, information systems, control procedures, communication, and measuring and monitoring program performance.

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## Relevant Management Controls

In planning this performance audit, we evaluated the SHA's management controls related to our objectives to determine the audit scope and the audit procedures. We determined the following management controls were relevant to our audit objectives:

- Allocating costs to Federal and non-Federal programs.
- Properly accounting for all Public Housing units.
- Occupying rehabilitated units in a timely manner.
- Properly selecting and processing applicants from waiting lists.
- Advertising and performing applicant outreach.
- Complying with ACC requirements.
- Ensuring that units are in compliance with HQS.
- Accountability over non-rental income.
- Implementing an investment policy that ensures that funds are collateralized and depository agreements are updated.

## Significant Weaknesses

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

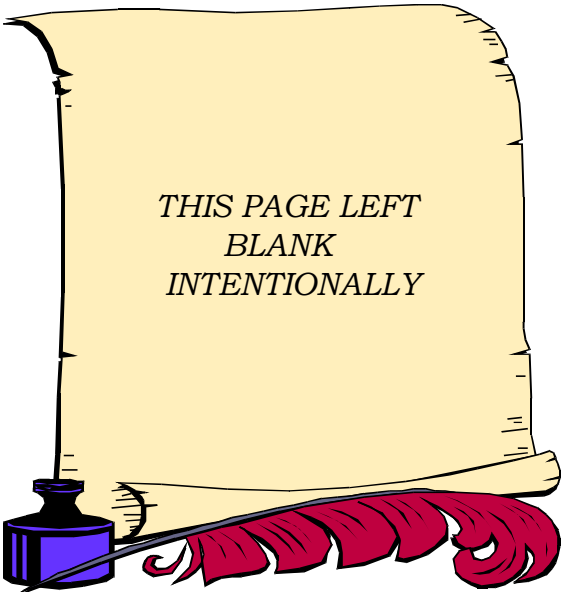
During the audit we identified a number of significant management control weaknesses. Specifically, we found the SHA did not:

- Properly allocate all salaries and operating costs to the various Federal and non-Federal programs.
- Obtain HUD approval for the use of units for office space.
- Do an effective job of placing rehabilitated units back on the rental market.
- Follow HUD requirements when applicants applied for assistance.
- Do an efficient job in advertising its vacant units and performing outreach.
- Ensure units in its Section 8 Program meet HQS.
- Deposit non-rental income into the Conventional Program account.
- Ensure Federally assisted program funds are collateralized when they exceed FDIC coverage and Depository Agreements are updated.

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# Follow Up On Prior Audits

There were no prior audits performed by the Inspector General.



# Schedule of Questioned Costs

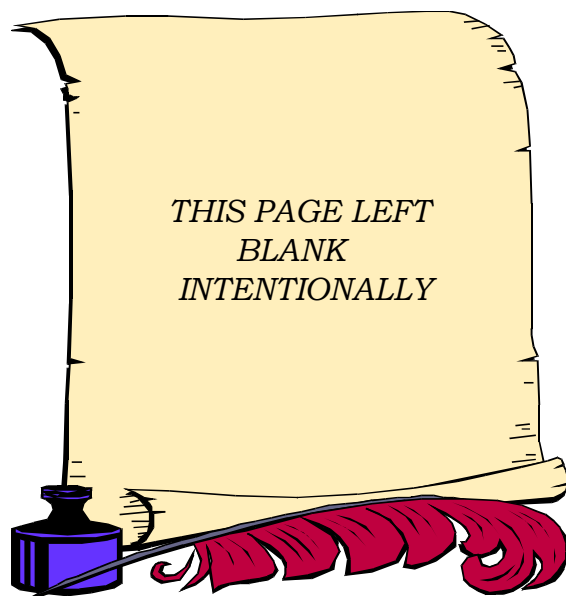
Finding Number	Type of Questioned Cost		Cost Repaid By SHA
	Ineligible <sup>1/</sup>	Unsupported <sup>2/</sup>	
1	\$206,563		\$206,563
2	9,187		9,187
9	81,741 <sup>3</sup>		81,741
Total	\$297,491	-0-	\$297,491

<sup>1/</sup> Ineligible costs 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.

<sup>2/</sup> Unsupported costs 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.

<sup>3/</sup> These costs were considered ineligible since they were deposited in a bank account outside the ACC. Of this amount, \$34,285 was never expended and \$47,456 was expended and reimbursed from non-Federal funds. We did not review those costs to determine if they were eligible to the Federal program since they were reimbursed from non-Federal funds.





# Pictures of SHA's Developments

The following pictures illustrate the condition of the SHA's developments during the audit. We found the units in good repair and the units well maintained.

**Adams Hi-Rise Apartments 184 units**



**Washington Plaza 60 units**



**Hilltop Manor 250 Units**



**Bangor Heights 150 Units**



**Valley View Terrace 240 Units**



**Scattered Site 1723 Olive Street**



# Auditee Comments

## Scranton Housing Authority

400 ADAMS AVENUE, SCRANTON, PA 18510  
MAIN OFFICE—TELEPHONE: (570) 348-4400

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August 15, 2003

Mr. Daniel G. Temme  
District Inspector General for Audit  
U.S. Dept of HUD  
Wanamaker Building, Suite 1005  
100 Penn Square East  
Philadelphia, PA 19107-3380

**In Re:      Audit Report of Scranton Housing Authority**

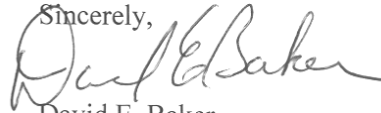
Dear Mr. Temme:

I am in receipt of the revised version of the discussion draft Audit Report for the Scranton Housing Authority (SHA). Please allow me to express my appreciation for your staff's guidance and professionalism during this audit process. Myself and the entire staff of the SHA benefited greatly, because this audit was conducted from the very beginning in the spirit of cooperation and forthrightness by the Office of Inspector General, and for that I say thank you.

During the past year there were many times when myself and your staff respectfully disagreed. However, in every instance whatever was agreed upon was immediately implemented by the SHA. I believe this audit proves that when a government agency and a grant recipient listen and respect one another and have a common interest to do the right thing, the end result is very positive.

With the above said, I have no comments or requested changes to this August 11, 2003 Draft Audit.

Sincerely,



David E. Baker  
Executive Director

DEB/af