
AUDIT REPORT



SPRINGFIELD HOUSING AUTHORITY
SPRINGFIELD, MASSACHUSETTS

2004-BO-1005
December 10, 2003

OFFICE OF AUDIT, REGION 1
NEW ENGLAND



Issue Date	December 10, 2003
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TO: Robert P. Cwieka, Acting Director, Office of Public Housing, 1APH

FROM: Barry Savill, Regional Inspector General for Audit, 1AGA

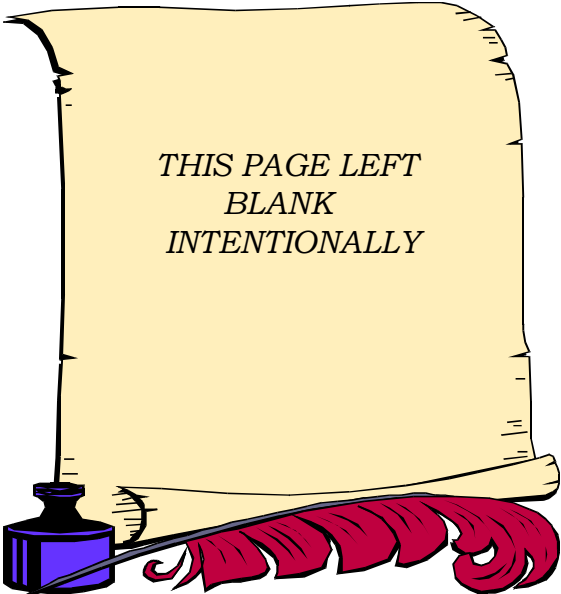
SUBJECT: Springfield Housing Authority
Springfield, Massachusetts

We completed an audit of the Springfield Housing Authority (SHA), located in Springfield, Massachusetts. The primary purpose of our audit was to determine whether the SHA is administering its public housing and Section 8 programs efficiently, effectively, economically, and in compliance with the terms and conditions of its Annual Contributions Contract, applicable laws, HUD regulations and other applicable directives.

Our report contains eight findings with recommendations requiring action by your office. The eight findings address: (1) Housing Quality Standards; (2) Conflicts of Interest; (3) Capital Fund Program; (4) Management Controls; (5) Cost Allocation; (6) Section 8 Rent Reasonableness; (7) Inaccurate Performance and Financial Data; and (8) Contract Procurement and Program Monitoring.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without management decisions, 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. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (617) 994-8380.



Executive Summary

We performed an audit of the Springfield Housing Authority (SHA) located in Springfield, Massachusetts. The primary purpose of our audit was to determine whether the SHA is administering its public housing and Section 8 programs efficiently, effectively, economically, and in compliance with the terms and conditions of its Annual Contributions Contract, applicable laws, HUD regulations and other applicable directives. The issues identified in our report deal with administrative and management control activities that we feel are necessary to bring to the attention of HUD and the PHA now, even though many issues surrounding the PHA's management actions remain a continuing interest to our office as well as other Federal agencies. This report does not absolve or exonerate any individual or entity from civil, criminal or administrative liability or claim resulting from future actions by the Department of Housing and Urban Development and other Federal agencies




Audit Results

Our audit disclosed that the SHA is not administering its programs in an efficient, effective, and economical manner, or in compliance with applicable regulations. Specifically, our audit disclosed that the SHA:

- Failed to ensure that its Section 8 housing met Housing Quality Standards;
- Violated Federal conflict of interest provisions;
- Inappropriately charged \$550,623 to the Capital Fund Program and, if it does not change its practices, stands to charge an additional \$411,362;
- Lacked adequate management controls to protect the integrity of its Federal programs;
- Ignored implementing an equitable method of allocating costs between its Federal and State housing programs;
- Inadequately determined the rent reasonableness for units entering the Section 8 program and subsequent rent increases;
- Submitted inaccurate performance and financial data to HUD; and
- Improperly procured goods and services, and lacked adequate documentation to ensure its grant program complies with Federal regulations.

The SHA's Federal Section 8 housing stock does not meet mandated Housing Quality Standards (HQS). Based upon a statistical sample, we project that 86 percent of Section 8 units administered by the SHA do not meet HQS. We identified sixteen units that should be removed from the Section 8 program due to numerous HQS violations—including life-threatening conditions. We further identified

hundreds of HQS violations that went unidentified by the SHA inspectors leaving the Section 8 tenants in substandard housing that is not decent, safe, and sanitary. These conditions occurred because the SHA has an inadequate inspection process, an insufficient number of Section 8 inspectors, and inadequately trained inspectors. Consequently, 86 percent of the SHA's \$11 million Housing Assistance Payments for fiscal year 2002 is questionable because HUD cannot be assured that the payments were for decent, safe, and sanitary housing.

The SHA's Board of Commissioners and former Executive Director violated Federal conflict of interest provisions resulting in \$722,509 of ineligible and unsupported costs. Specifically, the Commissioners and former Executive Director disregarded regulations prohibiting the SHA from loaning funds, entering into agreements, and paying commissions to associations for which they had a vested interest.

The SHA inappropriately charged \$550,623 in ineligible salaries and benefits to its Capital Fund Program (CFP). Management's disregard for Federal regulations and their failure to adequately distribute the salary and benefits of its staff in relation to their assigned duties were the reasons for these ineligible costs. As the SHA continues to charge these salaries and benefits, the SHA may expend an additional \$411,362 for ineligible costs, further reducing the funds available to correct any physical and management deficiencies for which the CFP is intended.

The SHA does not have proper management controls to protect the integrity of its Federal programs, and operate these programs in an efficient, effective, and economical manner. The SHA is not properly documenting operating procedures, separating duties, and maintaining accurate records. Further, purchases are not properly controlled or expended. More importantly, the SHA's assets are not safeguarded against waste, loss, and abuse.

The SHA did not implement an equitable method of allocating costs between its Federal and State housing programs. The SHA appropriates costs to its programs based upon the funding available in that programs' budget. Additionally, the SHA uses its resources to provide services to its nonprofit affiliate without proper

reimbursement. Consequently, the SHA's allocation of \$21.6 million of salaries to their Federal programs over the past four fiscal years is questionable.

The SHA does not have an adequate process for determining rent reasonableness for units entering into the Section 8 program and units receiving subsequent rent increases. The SHA does not maintain a proper database of comparable unassisted units, or proper file documentation supporting their rent reasonableness determinations. As a result, HUD cannot be assured that Housing Assistance Payments to the SHA's Section 8 landlords—\$11 million in fiscal year 2002 alone—were based upon reasonable rents.

The SHA submitted inaccurate data to HUD's Section 8 Management Assistance Program (SEMAP) and Public Housing Assessment System (PHAS). These inaccuracies obscured the true performance of the SHA leading HUD to erroneously believe the SHA was a high performer, and then subsequently performing less monitoring. Furthermore, contrary to their SEMAP reporting we believe that the SHA did not properly operate their Section 8 program and therefore, inappropriately received \$1.6 million in Section 8 administrative fees in fiscal year 2003.

Although the SHA expended \$19 million in Federal awards in fiscal year 2002, the SHA did not follow its own policies or Federal regulations when procuring goods and services. As a result, the SHA is unable to assure HUD that it used full and open competition to obtain the best available prices in its procurement of goods and services. Furthermore, the SHA cannot assure HUD that it properly monitors its modernization grants by maintaining sufficient records to ensure that its \$10 million dollar modernization program complies with Federal regulations and that related performance goals are being realized.



Recommendations

We recommend that the SHA provide assurances that \$9.8 million in Housing Assistance Payments for fiscal year 2002 was used for decent, safe, and sanitary housing; issue new vouchers to the sixteen identified families; and re-inspect its Section 8 housing stock and ensure that all HQS violations are identified and corrected within the required timeframes. We recommend that the SHA ensure that the authority acts legally and with integrity in its daily operations; and formally disclose any financial interest of

any Commissioner, any staff member, or any family member of a Commissioner or staff member.

Additionally, we recommend that HUD determine if SHA has any funds available from its low income operating budgets for fiscal years 1998 through 2001 and whether SHA may reassign \$550,623 in ineligible costs and \$411,362 in questioned costs. We also recommend that SHA submit revised Annual Statements for its 2000 through 2001 grant years.

We recommend that SHA implement an equitable method of allocating costs between its Federal and State housing programs; execute a proper agreement with its non profit affiliate and seek reimbursement for services accordingly; and submit corrected operating budgets and audited financial statements for the last four fiscal years in support of \$21.6 million in salaries charged to Federal Programs. Further, we recommend that the SHA develop proper management controls to ensure data authenticity, the accuracy and completeness of its reporting requirements to HUD, and that their assets are safeguarded against waste, loss, and abuse. We recommend that the SHA conduct rent reasonableness determinations in accordance with regulations; and establish and implement effective controls over procurement and grant monitoring. We also recommend that the SHA repay unearned administrative fees of over \$1.6 million in fiscal year 2003. Finally, we recommend that HUD take appropriate administrative sanctions, where warranted. Additional recommendations are outlined within each finding of this report.

Findings and
Recommendations
Discussed

We discussed our findings with the SHA's officials during the course of the audit. We held an exit conference on October 21, 2003. On October 30, 2003, we provided the SHA a copy of the draft report for comment. We received the SHA's narrative response and supporting documentation for their position on November 18, 2003, and included pertinent comments from their response in the findings' section of this report. The SHA's narrative response is in Appendix E. We did not attach the SHA's supporting documentation because it was too voluminous.

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Abbreviations

ACC	Annual Contributions Contract
CFP	Capital Fund Program
CFR	Code of Federal Regulations
FASS	Financial Assessment Subsystem
GFI	Ground Fault Interrupter
HQS	Housing Quality Standards
HUD	Department of Housing and Urban Development
LIPH	Low Income Public Housing
MASS	Management Assessment Subsystem
MPLHP	Memorial Parish House Limited Partnership
OMB	Office of Management and Budget
PASS	Physical Assessment Subsystem
PHA	Public Housing Authority
PHAS	Public Housing Assessment System
RASS	Resident Assessment Subsystem
SEMAP	Section 8 Management Assistance Program
SHA	Springfield Housing Authority

Introduction

The Springfield Housing Authority (SHA) is authorized by and operates under the provisions of Chapter 121B of the Massachusetts General Laws, as amended. The SHA provides low rent housing for qualified individuals in accordance with rules and regulations prescribed by the United States Department of Housing and Urban Development (HUD) in accordance with the United States Housing Act of 1937, as amended. The SHA is governed by a five-member board and employs an Executive Director to administer the affairs of the authority. The SHA is located at 25 Saab Court, Springfield, MA, and has a fiscal year ending March 31st. As of March 31, 2002, the SHA administered 2,385 units under the Section 8 Program and 1,327 units in 17 developments under the Low Rent Public Housing Program. The SHA also administered 1,342 State units, including 280 units under the Massachusetts Rental Voucher Program.

During SHA's Fiscal Years 2000 to 2002, HUD provided over \$54 million in subsidies and grants.

Program	FY 2000	FY 2001	FY 2002	Total
Section 8	\$12,718,835	\$12,587,799	\$14,897,040	\$40,203,674
Capital Fund	\$2,718,127	\$2,779,758	\$2,653,382	\$8,151,267
Operating Subsidy	\$1,771,246	\$2,021,657	\$2,011,898	\$5,804,801
Drug Elimination	\$304,179	\$326,033	\$0	\$630,212
Total	\$17,512,387	\$17,715,247	\$19,562,320	\$54,789,954

During this same period, SHA also expended HUD funding from grants and subsidies awarded in prior years. We examined expenditures during our audit period related to aspects of SHA's Section 8 Program, Capital Fund, and Operating Subsidy. Collectively, these programs account for \$54,159,742, or 99 percent of HUD funding authorized.


The Housing and Community Development Act of 1974 authorized the Section 8 certificate program, and the Housing and Community Development Act of 1987 authorized the Section 8 rental voucher program. In October 1998, Congress passed housing reform legislation, including a full merger of the certificate and voucher programs. This legislation eliminated all differences between the two programs, and it required that the subsidy types merge into one Section 8 program entitled the Housing Choice Voucher Program.


The United States Housing Act of 1937 created and funded the Public and Indian Housing program. Public Housing Operating Subsidy provides PHAs with subsidy to fund the daily operating expenses of the developments that the PHA owns. This subsidy enables PHAs to keep rents affordable for lower-income families and cover a variety of expenses including administration, maintenance, utilities, tenant services, and protective services.

Created under Section 119 of the Housing and Community Development Act of 1987, the Comprehensive Grant Program funds the modernization needs of larger housing authorities. The Comprehensive Grant Program was the primary source of modernization funds for physical improvements to public housing units through 1999. The Quality Housing Work Responsibility Act of 1998 converted prior HUD modernization initiatives into the Capital Fund Program. The

Capital Fund provides funds, annually, to PHAs for the development, financing, and modernization of public housing developments and for management improvements.

On March 5, 2003, the SHA's Board of Commissioners suspended the Executive Director, the Assistant Executive Director for Operations, and the Purchasing Agent for allegedly violating state conflict of interest laws. On April 10, 2003, the Executive Director retired from his position with the SHA. The Assistant Executive Director for Operations also retired and the Purchasing Agent chose to resign. As the SHA seeks a new Executive Director, the SHA's Attorney was appointed the acting Executive Director. The SHA is the subject of an on-going Federal probe led by the Federal Bureau of Investigation.





Audit Objectives

The purpose of our audit was to determine whether the SHA is:

- Managing its Federal housing programs in an efficient, effective, and economical manner; and
- Complying with the terms and conditions of its Annual Contributions Contract, applicable laws, HUD Regulations, and other applicable directives.



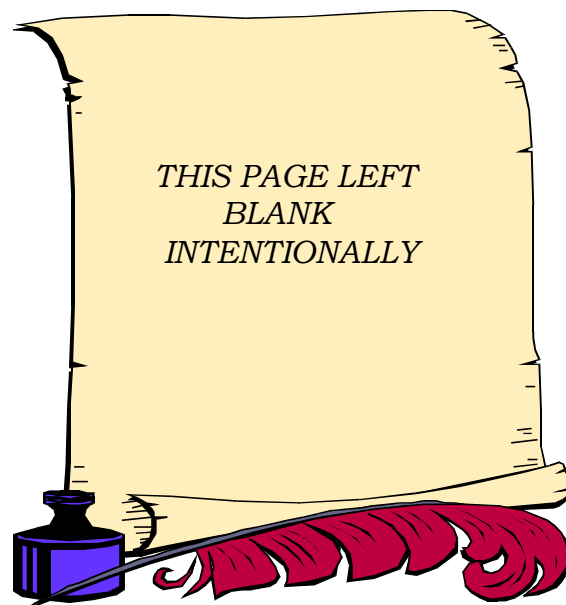
Audit Scope and Methodology

To accomplish the audit objectives, we:

- Interviewed SHA personnel and HUD personnel to obtain procedures for accounting, administration, procurement, maintenance, occupancy, cash receipts, cash disbursements, and fixed assets related to their Low Income Public Housing, Section 8, and Capital Fund Programs.
- Reviewed Federal requirements including the Annual Contributions Contract, Code of Federal Regulations, HUD Handbooks, Public and Indian Housing Notices, Office of Management and Budget Circulars, SHA Policies and Procedures, applicable Massachusetts General Laws and applicable Federal Laws related to public housing.
- Reviewed Independent Public Accountant's reports, HUD's Comprehensive Grant/Capital Fund Reviews, minutes of the SHA Board of Commissioners' meetings, and inspection reports to obtain information relating to SHA operations.

- Analyzed the SHA's system to ensure accurate, reliable data is maintained for their Federal programs and to determine, at a minimum: (1) whether computer data receives proper and continuing audit coverage; (2) whether there is an adequate separation of duties for those involved with computer operations; and (3) whether controls are in place to ensure proper use of the SHA's resources and to safeguard against waste, fraud, and inefficient use.
- Analyzed relationships between SHA accounts.
- Examined the SHA's procurement, maintenance, and Section 8 Program procedures and supporting documentation.
- Examined non-statistical samples of CFP contracts, other contracts, rent reasonableness certificates, and small purchases. For these samples, non-representative selection was appropriate because we know enough about the populations to identify a relatively small number of items of interest that had a high degree of risk. Results of these samples were not projected to the populations.
- Inspected a statistical sample of Section 8 units to determine whether the units met Housing Quality Standards.

The audit was conducted between May 2002 and April 2003, and covered the period from April 1, 1999 to March 31, 2002. When appropriate, the audit was extended to include other periods. Our audit was conducted in accordance with generally accepted government auditing standards. During the course of our review, Federal Law enforcement officials seized some of SHA's records. While we were generally able to review most records, certain aspects of our transactions testing were limited because of the seizure of records. We have annotated the report to identify where our testing of transactions was limited.



Section 8 Units Do Not Meet HQS

The Springfield Housing Authority's (SHA) Federal Section 8 housing stock does not meet Housing Quality Standards (HQS). Our review of a statistical sample of units showed that 86 percent of the SHA's 2,852 occupied Federal Section 8 units do not meet HQS. We identified sixteen units that should be removed from the Section 8 program due to numerous HQS violations—including life-threatening conditions. We further identified hundreds of HQS violations that went unidentified by the SHA inspectors leaving the Section 8 tenants in substandard housing that is not decent, safe, and sanitary. These conditions occurred because the SHA has an inadequate inspection process, an insufficient number of Section 8 inspectors, and inadequately trained inspectors. Consequently, 86 percent of the SHA's \$11 million Housing Assistance Payments for fiscal year 2002 is questionable because HUD cannot be assured that the payments were for decent, safe, and sanitary housing. The SHA needs to relocate these sixteen families and provide assurances to HUD that its annual Housing Assistance Payments are used for Section 8 units meeting HQS.

Section 8 Units Must Meet HQS

HUD requires that Section 8 housing units be decent, safe, and sanitary (24 CFR Part 982.1(a)). To ensure the minimum quality of units, HUD requires the PHA to inspect each unit leased to a Section 8 family prior to the initial lease, at least annually during assisted occupancy, and at other times, as needed. Additionally, the PHA must not make any Housing Assistance Payments for any dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the PHA verifies the correction (24 CFR Part 982.404 (a)(3)). If a defect is life threatening, the owner must correct the defect within no more than 24 hours. For other defects, the owner must correct the defect within no more than 30 calendar days, or any PHA-approved extension.

86 Percent of Units Do Not Meet HQS

The SHA's Federal Section 8 housing stock does not meet HQS. HQS is the *minimum* standard for housing assisted under the Section 8 program. We reviewed 115 statistically selected units. Our sampling methodology is detailed in Appendix B and the addresses of the units reviewed are listed in Appendix C. Based upon our review, we project that 86 percent of the SHA's 2,852 Federal occupied Section 8 units do not meet HQS. Our review found a wide variety of problems: including electrical, heating, structural, and weatherproofing. Consequently, 86 percent of the SHA's \$11,425,393, or \$9,825,837, in Housing Assistance Payments for fiscal year 2002 is questionable.

Finding 1

HUD cannot be assured that these payments were for decent, safe, and sanitary housing.

SHA Needs to Remove 16 Units from the Section 8 Program

Additionally, our review found sixteen units where the condition warrants removal from the Section 8 Program. Our inspections found as many as twenty-nine HQS violations in a unit; some of these were serious health and safety violations. The SHA is paying over \$6,800 per month in scarce Section 8 subsidy for these sixteen units.

16 Units Should Be Removed from the Section 8 Program			
Address	Monthly	Annual	Violations
84 Greene Street	\$498	\$5,976	29
43 Longfellow Terrace #2	\$733	\$8,796	28
43 Talcott Avenue 1 st Fl	\$329	\$3,948	23
26 Ambrose Street	\$356	\$4,272	22
565 Plainfield Street 2 nd Fl	\$559	\$6,708	21
136 Washburn Street	\$347	\$4,164	20
399 Orange Street, #3R	\$378	\$4,536	19
6 Putnam Circle	\$121	\$1,452	18
128 Orange Street	\$766	\$9,192	18
24 Norfolk Street	\$478	\$5,736	17
246-D Quincy Street	\$178	\$2,136	17
21 Rutland Street #2L	\$482	\$5,784	16
44 Narragansett Street	\$387	\$4,644	16
70 Mooreland Street 2 nd Fl	\$517	\$6,204	16
18 Phoenix Street	\$316	\$3,792	15
140 Chestnut Street #809	\$405	\$4,860	5
Total	\$6,850	\$ 82,200	300

Serious Health and Safety Violations

Furthermore, the serious health and safety violations identified during our review create an immediate concern for the well being of the Section 8 tenants. This seriousness can be illustrated in our review of 26 Ambrose Street, 18 Phoenix Street, and 140 Chestnut Street.

26 Ambrose Street

In March 2003, our inspection of 26 Ambrose Street identified a serious mold and mildew problem along with many other violations. We found mold and mildew in every room on walls, ceilings, floors, and windows. This serious health and safety concern could adversely affect the health of the Section 8 family, which includes young

children. Only ten months earlier, the SHA inspected this unit, identified freshly painted surfaces and new linoleum, and passed the unit



Mold on windows - 26 Ambrose Street



Mold underneath side window - 26 Ambrose Street

18 Phoenix Street

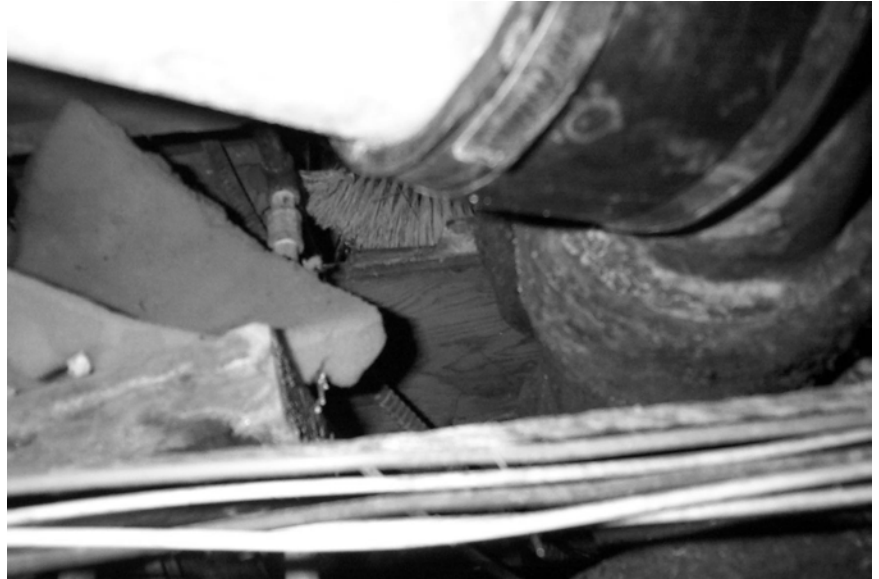
In February 2003, our inspection of 18 Phoenix Street found broken windows, poor weatherproofing, and inadequate flooring under the toilet. The kitchen window contained jagged edged glass. We also found holes in the bathroom floor behind the toilet. From the basement, we were able to see contents of the bathroom above.



Broken Window - 18 Phoenix Street



Hole in Bathroom Floor - 18 Phoenix Street



**Hole in Bathroom Floor Viewed From Basement –
18 Phoenix Street**

140 Chestnut Street

In March 2003, our inspection of 140 Chestnut Street, Apt. 809, identified hazards in common areas and fire escape stairwells with severe peeling and chipping paint. Additionally, only one elevator was in service, which limited the access to the unit. The SHA inspected the unit eight months earlier and the only problem identified in common areas was that exit signs had no illumination.



Excessive Peeling Paint in Hallway – 140 Chestnut St.

Inspection Process is Inadequate

The inspection process used by the SHA does not assure HUD that its Section 8 units meet HQS. The inspectors do not identify all violations; the inspectors pass units with HQS violations; and the SHA does not properly ensure that reported violations are corrected.

SHA's Inspectors are not Identifying Violations

The SHA inspectors are not identifying health and safety violations that affect the well being of the assisted families. A comparison of our inspections to the SHA's most recent inspections for 37 units showed the SHA inspectors did not identify 439 HQS violations that were clearly evident in our review. The SHA inspections were conducted within one year of our review. Appendix D shows each of the 439 violations not identified by SHA inspectors. The majority of these violations were in the following categories:

- ◆ Exposed or broken electrical wiring/outlets/fixtures;
- ◆ Non-Ground Fault Interrupter (non-GFI) outlet near a water source;
- ◆ Inoperable lighting and no ceiling fixture or outlet operated by a wall switch¹;
- ◆ Missing/broken hardware on interior doors and cabinets;
- ◆ Inadequate security in the unit;
- ◆ Lack of weatherproofing;
- ◆ Flooring is torn, unsecured or not sealed; and
- ◆ Hole(s) in wall(s), floor(s), door(s), foundation, or siding.

Electrical Hazards Overlooked

Electrical hazards are the most common problem overlooked. We noted that 120 of 439 overlooked violations were electrical problems including exposed wiring/outlets, broken outlets, improperly installed wiring, insufficient number of outlets, non-GFI outlets near water sources, and inoperable lighting and no wall fixture or outlet operated by a wall switch². Exposed wiring and outlets are considered life threatening HQS violations and should be corrected by the landlord immediately.

¹ Either a ceiling fixture or an outlet operated by a wall switch is required in a room.

² Either a ceiling fixture or an outlet operated by a wall switch is required in a room.

The seriousness can be illustrated in our review of 44 Narragansett Street and 43 Talcott Avenue.



Ungrounded Outlet – 44 Narragansett Street



Exterior Outlet Non GFI – 43 Talcott Avenue

SHA Inspectors Passing Units with HQS Violations

We also identified six of the 37 units where the SHA inspectors allowed the unit to pass its most recent inspection even though the inspectors identified HQS violations. Each of these units should have failed the inspection and the SHA should have required the landlords to take corrective action.

Address	SHA Inspection	Description of HQS violations
16 Brightwood St.	06/04/02	Smoke detector inoperable, Bathroom sink cracked and faucet assembly rusted, porch steps split and broken
128 Orange St.	08/12/02	Front stairway door - no lock set
52 Ardmore St.	12/16/02	Leaking ceilings, water stains on ceilings
131 Spring St.	06/20/02	Emergency light not working
70 Harrison Ave. #908	10/22/02	Smoke detector has weak batteries, Stained carpets.
82 Pearl St., #3B	04/08/02	Stained Carpets

SHA Allowed 25 Days to Correct Violations

Additionally, when the SHA inspectors found violations, the SHA gave the landlords an average of 25 days to correct the violations. Violations in these units included both life-threatening violations and non-life threatening violations. According to the SHA Section 8 Management, life-threatening items should be fixed immediately, electrical problems should be fixed within 24 hours, and smoke detectors should be fixed within 72 hours. HUD regulations, however, require correction of exigent health and safety violations—including smoke detectors—within 24 hours.

No Evidence of Timely Correction of Life-Threatening Violations

The SHA does not re-inspect the unit to ensure timely correction of life-threatening HQS violations. Instead, the SHA only requires the landlords to certify that the life-threatening violation has been corrected. In our review of a statistical sample³ of tenant files, we found no signed certifications that owners corrected life-threatening HQS violations.

³ Our Statistical Sampling Methodology is exhibited as Appendix B.

Insufficient Number of Inspectors

The SHA does not have an adequate number of inspectors. As of February 2003, the SHA had two inspectors for 2,862 Federally funded Section 8 units and 281 State funded rental assistance units. These inspectors perform annual inspections, re-inspection of failed units, and special inspections. The SHA's Section 8 Management advised that inspectors should be performing roughly five to eight inspections a day, but are currently inspecting fifteen to twenty units per day. In our opinion, the SHA does not have a sufficient number of inspectors to conduct the required inspection.

SHA Inspectors Are Not Adequately Trained

The SHA's inspectors are not adequately trained in identifying HQS violations. The SHA does not provide HQS training to its inspectors nor does it require its inspectors to have training in HQS. As of February 2003, SHA had two inspectors. The senior inspector last received training three years ago and that consisted of the State Sanitary Code—not HQS. At three months into the job, the SHA's newest inspector has received only on-the-job training. The SHA's Section 8 Management advised that the inspectors have not received specific HQS training because no comprehensive HQS courses have been offered. However, we found five national and regional housing-affiliated organizations offering training on HQS—including one offering online training.

Quality of Housing Needs to Improve

The SHA needs to address the quality of their Section 8 housing by reducing all unsafe and unhealthy conditions. The SHA needs to improve their inspection process to provide HUD assurances that its annual Housing Assistance Payments are used for decent, safe, and sanitary housing.

Auditee Comments

The SHA responded that a corrective process is in place. Inspections of units and re-inspections of units are being done pursuant to the HUD Regulations. The SHA advertised and interviewed for an additional Housing Inspector. If funds are available, the SHA will hire a second inspector or outside inspectors hired on a contract basis to reduce the number of inspections per inspector and to have the inspections done timely and accurately. The SHA agrees that there is a definite need for training of inspectors and is researching the most cost effective, yet best way to do quality training for the staff.

OIG Evaluation of
Auditee Comments

The SHA did not disagree with our conclusions or recommendations. The SHA has taken steps to address the conclusions; but has not completed all needed steps. The SHA needs to establish an action plan and a repayment plan. The SHA needs to also establish timeframes for completion of these plans that are acceptable to HUD.

Recommendations

We recommend that HUD require the SHA to:

- 1A. Provide assurances that \$9,825,837 in Housing Assistance Payments for fiscal year 2002 was used for decent, safe, and sanitary housing, or recover funds accordingly.
- 1B. Issue new vouchers to the families living in the sixteen units that should be removed from the Section 8 program and assist these families' relocation to units that are decent, safe, and sanitary.
- 1C. Re-inspect its Section 8 housing stock and ensure that all HQS violations are identified and corrected within the required timeframes.
- 1D. Ensure that all Section 8 inspectors are properly trained in HQS.
- 1E. Hire an adequate number of qualified Section 8 inspectors appropriate for its Federal Section 8 housing stock.
- 1F. Take appropriate administrative sanctions, where warranted.

The SHA Violated Conflict of Interest Provisions

In breach of their Annual Contributions Contract, the Springfield Housing Authority's (SHA) Board of Commissioners and former Executive Director violated Federal conflict of interest provisions resulting in \$722,509 of ineligible and unsupported costs. Specifically, the Commissioners and former Executive Director disregarded regulations prohibiting the SHA from loaning funds, entering into agreements, and paying commissions to associations for which they had a vested interest. Consequently, HUD cannot be assured that the SHA is administered in its best interest and operated strictly within the parameters of the law. Further, the SHA's Board of Commissioners and former Executive Director are profiting from decisions they make overseeing millions of Federal, State, and local dollars allocated to house low-income and elderly families.

Federal Conflict of Interest Regulations

Section 19, Conflict of Interest, of the SHA's Annual Contributions Contract (ACC) states:

(A)(1) In addition to any other applicable conflict of interest requirements, neither the [housing authority] nor any of its contractors or their subcontractors may enter into any contract, subcontract, or arrangement in connection with a project under this ACC in which any of the following classes of people has an interest, direct or indirect, during his or her tenure or for one year thereafter:

(i) Any present or former member or officer of the governing body of the [housing authority], or any member of the officer's immediate family.

(ii) Any employee of the [housing authority], who formulate policy or who influences decisions with respect to project(s), or any member of the employee's immediate family, or the employee's partner.

(iii) Any public official, member of the local governing body, or State or local legislator, or any member of such individual's immediate family, who exercises functions or responsibilities with respect to the project(s) or the [housing authority].

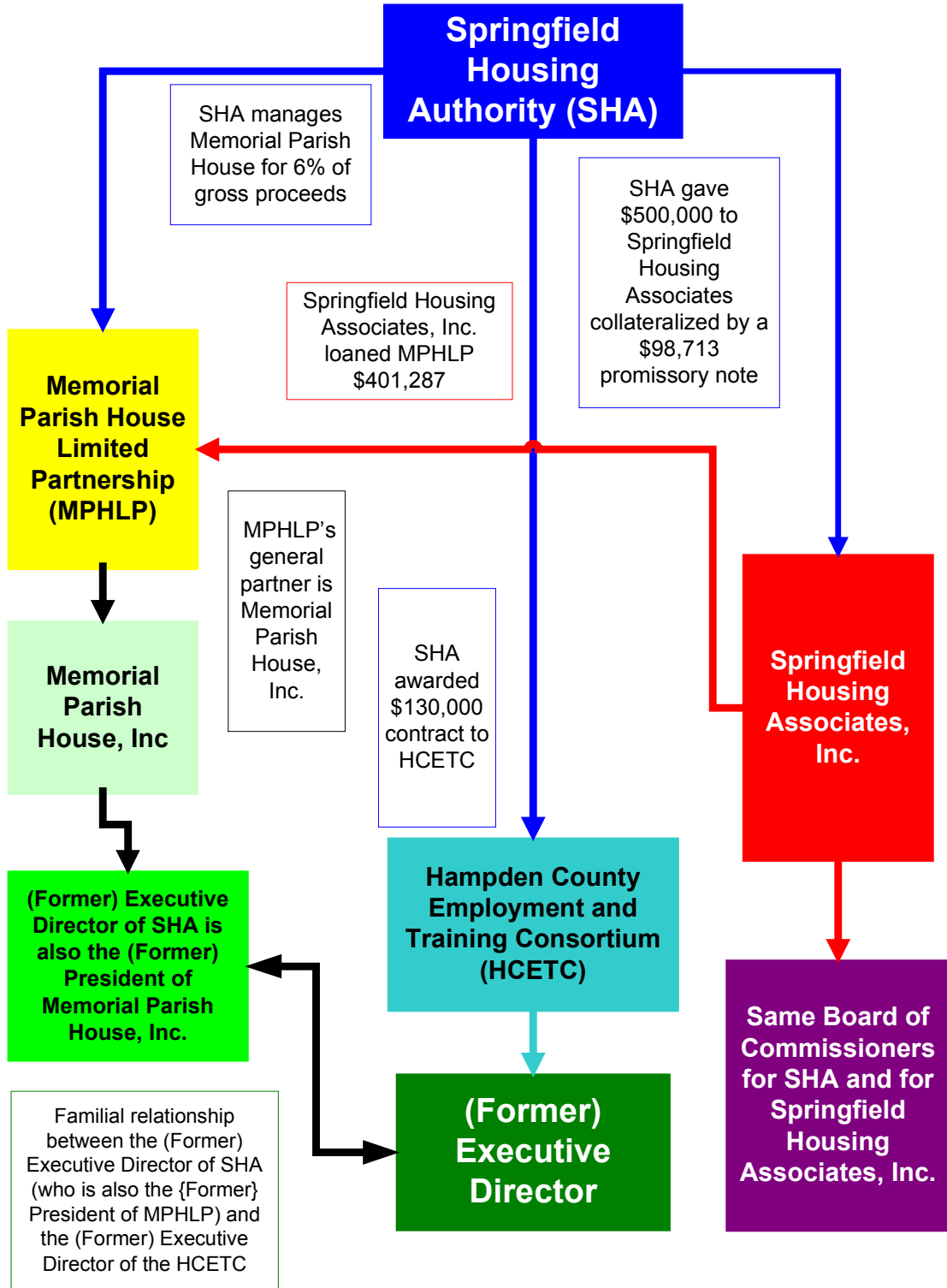
(2) Any member of these classes must disclose the member's interest or prospective interest to the [housing authority], and HUD.

(3) The requirements of this subsection (A)(1) may be waived by HUD for good cause, if permitted under State and local law. No person for whom a waiver is requested may exercise responsibilities or function with respect to the contract to which the waiver pertains.

SHA in Business with
Related Entities

The SHA is doing business with two related entities: Springfield Housing Associates, Inc. and Memorial Parish House Limited Partnership (MPHLP) and a third entity Hampden County Employment and Training Consortium (HCETC) whose Executive Director has a familial relationship with the former Executive Director of SHA.

The chart below displays the network of relationships between entities where we believe a conflict of interest exists.



Loan to Springfield
Housing Associates, Inc.

The SHA has management in common with the Springfield Housing Associates, Inc. as both have the same Board of Commissioners. Memorial Parish House Limited Partnership has a general partner called Memorial Parish House, Inc. The President of Memorial Parish House, Inc. was the SHA's former Executive Director.

In 1995, the SHA's Board of Commissioners approved a loan of \$500,000 from its Section 8 operating reserves to the Springfield Housing Associates, Inc. In June 1996, the SHA entered into a demand promissory note of \$98,713 with Springfield Housing Associates, Inc. Neither review of the financial statements of Springfield Housing Associates, Inc. nor review of the financial statements of the SHA show that these funds were ever transmitted between the parties.

The remaining \$401,287 was transmitted between the SHA and Springfield Housing Associates, Inc. in June 1996. Springfield Housing Associates, Inc.'s audited financial statements for fiscal year ended March 31, 1999 state that, under the terms and conditions of the loan, all principal, interest, and other payments due shall be payable on July 17, 2016 with an option to the borrower to request an extension. Springfield Housing Associates, Inc. used the funds to provide mortgage financing to MPHLP.

The SHA's annual audit cited this issue as a reportable condition in the audited financial statements for fiscal year ended March 31, 2002. That audit stated that the \$500,000 was a donation to Springfield Housing Associates, Inc., which violated the ACC and conflict of interest regulations.

We agree the SHA violated the ACC by not disclosing related interest with Springfield Housing Associates, Inc. prior to the transfer of funds. For this reason, the \$401,287 is an ineligible cost.

SHA is Managing Agent
to MPHLP

By agreement dated July 1996, the SHA serves as management agent to MPHLP. MPHLP was formed to acquire, rehabilitate, and operate 23 units of housing for occupancy by low-income individuals and households. The low-income project is known as Memorial Parish House and is located in Springfield, Massachusetts.

For management services, MPHLP pays the SHA a monthly fee equal to six percent of gross collections. In

addition, reimbursements of certain operating costs directly attributed to Memorial Parish House are paid by the SHA. The SHA's former Executive Director solely signed the management agreement—once on behalf of the SHA and a second time as the President of MPHLP's General Partner, Memorial Parish House, Inc.

SHA awards \$130,000
Contract to HCETC

Effective April 1999, HUD awarded the SHA a \$500,000 Economic Development Supportive Services Grant (MA01-EDC-350198). In July 1999, the SHA entered into a \$130,000 contract with Hampden County Employment and Training Consortium for the period of August 2, 1999 through August 1, 2001. The scope of services for the Consortium's contract included operation of an Entrepreneurial Training Program and Summer Youth Employment Program for SHA residents.

In their audit of the annual financial statements for the fiscal year ended March 31, 2000, the SHA's independent auditors identified the following concerns with this \$130,000 contract:

- The SHA's Executive Director and the Consortium's Executive Director have a familial relationship, both of whom signed the cooperative agreement as part of the grant application to HUD and the final subcontract for services;
- The SHA's Board of Commissioners did not formally approve this subcontract unlike so many other subcontracts noted in the minutes of the SHA's board meetings; and
- A SHA Board member received \$82,000 from the Consortium without bidding for a contract or submitting invoices.

Again, the SHA violated the ACC by not disclosing its related interest with the Hampden County Employment and Training Consortium prior to execution of this contract execution. For this reason, the \$130,000 is an ineligible cost.

Utility Service
Cooperative

The SHA purchases natural gas from a utility service cooperative managed by Springfield Housing Associates, Inc. The cooperative was formed to help several local housing authorities save on energy cost through group

purchasing. However, the independent auditors who performed SHA's annual financial audit for the fiscal year ended March 31, 2002 cited this issue as a reportable condition. This audit stated that SHA's purchases of \$191,222 in natural gas through Springfield Housing Associates, Inc. was not reasonable because there are no assurances that the SHA is receiving the lowest possible cost for natural gas. This audit also stated that the commission paid by SHA to Springfield Housing Associates Inc. ultimately raises the cost of the energy purchased.

HUD needs to take a close look at the SHA's use of the cooperative and determine the reasonableness of the \$191,222 in expenses and the reasonableness of the entire contract. Nonetheless, HUD needs to consider that the SHA violated its ACC by not disclosing its related interest in Springfield Housing Associates, Inc. prior to entering into agreement with the cooperative.

SHA Personnel
Suspended

In March 2003, the SHA's Board of Commissioners suspended three high-ranking SHA personnel for allegedly violating State conflict of interest laws. All three personnel, including the former Executive Director, have since left their positions with the SHA. Although the Commissioners did take appropriate action, we believe that they did not respond promptly to situations that have been present for a number of years.

Commissioners Need to
Improve Performance

The SHA's Board of Commissioners needs to improve their performance. The Commissioners put too much trust in their Executive Director and delegated some of its own responsibilities to him. Specifically, the Commissioners do not have a quality control system that ensures the SHA complies with contractual obligations, record keeping requirements, and reporting requirements. The quality control system is under the management of the Executive Director. Further, the Commissioners do not meet with the SHA's independent auditor during the annual audit or at the end of the annual audit to discuss any identified deficiencies. The Commissioners allowed the Executive Director to address any deficiencies discovered during the audit prior to the release of the audit report. In addition, there is very limited managerial and financial oversight by the Board of Commissioners. The Commissioners do not give their

Executive Director any performance appraisals and do not require detailed monthly accounting reports.

Ultimately, the SHA's Board of Commissioners is responsible for all actions of the SHA—even those made by their Executive Director and staff. Accordingly, it is critical that Commissioners be aware of operating procedures; keep abreast of performance activity, and the comparison of the SHA's performance with HUD standards. Furthermore, the Commissioners need to establish and adhere to policies to prevent fraud, abuse, mismanagement and discrimination. Commissioners must ensure that the SHA acts legally and with integrity in its daily operations.

HUD reviewing SHA operations

Subsequent to the completion of our fieldwork, HUD has begun a series of operational reviews at SHA including a SEMAP confirmatory review, a procurement review, an exigent health and safety review and a financial review.

Auditee Comments

The SHA responded that the Board of Commissioners was never made aware of the contract between the SHA and HCETC. One SHA Board member did have a contract with HCETC and this matter has been referred to the State Ethics Commission. The SHA Board will take appropriate action recommended by the State Ethics Commission. The SHA is no longer doing business with this entity.

The SHA's Board of Commissioners requested their attorney to review the corporation structures of the Springfield Housing Associates, Inc. and Memorial Parish House Limited Partnership, and to draft management agreements between the entities so as to properly allocate for and be paid for services provided. At the end of this review and at a time in the near future the SHA Board will transition Memorial Parish to a separate board with only one or two Housing Authority commissioners on that board.

The SHA's Board of Commissioners agrees that a 1996 loan of Section 8 funds transmitted between the SHA and Springfield Housing Associates, Inc. should be repaid, and under terms of the deal is to be repaid by 2016. The SHA indicates that the independent audit in process at November 14, 2003 will reflect the necessary adjustments to have

these monies repaid to the Section 8 program. The SHA provided correspondence from HUD that SHA states approves the transaction. The SHA also provides the formation of the corporations and Section 8 contract for the units at Memorial Parish House.

The SHA responded that the former Executive Director awarded a \$130,000 contract to HCETC without bringing the contract to the Board of Commissioners for their approval. This matter and other issues of conflict of interest involving the former Executive Director have been sent to the State Ethics Commission for their review.

The SHA's Board of Commissioners, through its auditors and legal counsel, are reviewing the utility service cooperative and the reasonableness of the entire relationship and contracts. The SHA's Board of Commissioners acknowledge that they are responsible for all actions of the SHA and they state that they have made great strides over the year in becoming aware of operating procedures and performance activities. There are still areas to be corrected at the SHA, but the Board is committed to ensure that the SHA acts legally and with integrity in its daily operations.



OIG Evaluation of
Auditee Comments

The SHA generally agreed with our conclusions and our recommendations. The SHA's Board of Commissioners has made progress to become more involved in operating procedures and performance activity. The SHA has taken steps to address the conflict of interest situations. The SHA needs to establish a schedule of completion with timeframes acceptable to HUD.

The SHA's narrative, attached as Appendix E, referenced documents provided by the SHA, which the SHA believes are support for the \$500,000 transaction between the SHA and Springfield Housing Associates, Inc. The SHA's narrative may lead one to believe HUD approved the loan from the SHA to Springfield Housing Associates, Inc. HUD did *not* approve any loan from the SHA's Section 8 Operating Reserves. These documents do, however; disclose a relationship between SHA and Memorial Parish House during SHA's application to allow a project based certificate Section 8 Housing Assistance Contract at

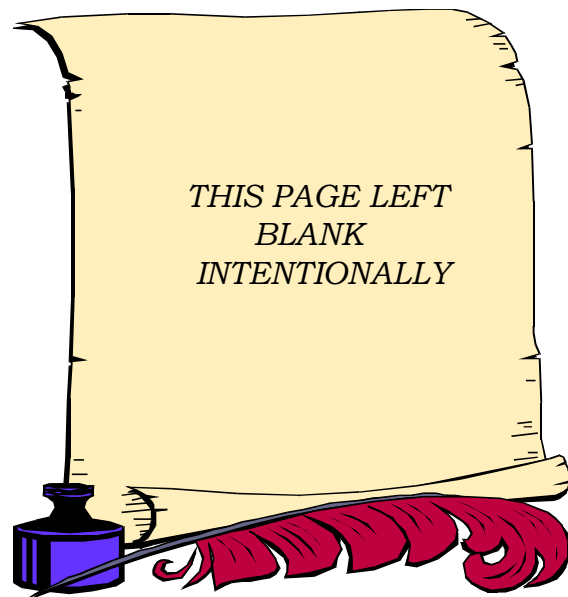
Memorial Parish House. These letters also advise that the SHA and Memorial Parish House have an identity of interest. The \$500,000 loan in question was from the SHA to Springfield Housing Associates. Springfield Housing Associates transmitted \$401,287 to Memorial Parish House.

We agree that SHA should account for the funds loaned from the SHA's Section 8 Operating Reserves and ensure that Springfield Housing Associates repays the loan.

Recommendations

We recommend that HUD:

- 2A. Require the SHA to repay ineligible costs of \$531,287 from non-Federal funds.
- 2B. Determine the reasonableness of the \$191,222 in utility purchases through the cooperative, as well as conduct an independent assessment of all agreements and contracts with an identity of interest to ensure the terms and conditions are reasonable and within an arms length transaction.
- 2C. Take appropriate administrative actions against any member of the Board of Commissioners, as well as the suspended personnel, for conflict of interest violations.
- 2D. Conduct periodic reviews of the SHA's Board of Commissioners.
- 2E. Require the SHA to review all agreements and contracts and disclose any financial interest of any Commissioner, any staff member, or any family member of a Commissioner or staff member.
- 2F. Require the SHA to establish and adhere to policies and procedures to prevent fraud, abuse, mismanagement and discrimination, and to ensure that the authority acts legally and with integrity in its daily operations.
- 2G. Require the SHA to implement procedures to assure that Commissioners are qualified to serve in their capacity.



The SHA Charged \$550,623 In Ineligible Costs to its CFP

Despite clearly defined Federal regulations outlining eligible costs of the Capital Fund Program (CFP), the Springfield Housing Authority (SHA) inappropriately charged \$550,623 in employee salaries and benefits to the program. Management's disregard for Federal regulations and their failure to adequately distribute the salary and benefits of its staff in relation to their assigned duties were the reasons for these ineligible costs. As the SHA continues to charge these salaries and benefits, the SHA may expend an additional \$411,362 for ineligible costs, further reducing the funds available to correct any physical and management deficiencies for which the CFP is intended.

Changes in Name of Comprehensive Grant Program

The Comprehensive Grant Program was the primary source of modernization funds for physical improvements to public housing units through 1999. The Quality Housing and Work Responsibility Act of 1998 incorporated into HUD's 1999 budget was implemented in 2000 and replaced the Comprehensive Grant Program with the CFP. The Comprehensive Grant Program required a PHA to obligate funds within two years of the date of award and expend funds within three years of the date of award. The CFP requires a PHA to obligate funds within two years of the date of award and expend funds within four years of the date of award. As both programs have similar requirements for eligible expenditures, CFP is used to refer to both programs throughout this report. Management Improvements and Administration are two categories of expenditures allowed under the CFP.

Eligible Activities Clearly Defined

Federal regulations clearly define eligible management improvement and administration costs for the CFP. Eligible Management Improvement Costs are defined in 24 CFR 968.112, paragraph (g)(1) which states:

Management improvements that are development specific or PHA wide in nature are eligible costs where needed to upgrade the operation of the PHA's developments, sustain physical improvements at those developments or correct management deficiencies. A PHA's ongoing operating expenses are ineligible management improvement costs.

In 24 CFR 968.112, paragraph (g)(2)(i), eligible costs under general management improvement costs are outlined:

Eligible costs include general management improvement costs, such as: management, financial, and accounting control systems of the PHA; adequacy and qualifications of PHA personnel, including training; resident programs and services through the coordination of the provision of social services from tribal or local government or other public and private entities; resident and development security; resident selection and eviction; occupancy; rent collection; maintenance; and equal opportunity.

Additionally, 24 CFR 968.112, paragraph (g)(2)(v) states:

Preventive maintenance system. Eligible costs include the establishment of a preventive maintenance system or improvement of an existing system. A preventive maintenance system must provide for regular inspections of building structures, systems and units and distinguish between work eligible for operating funds (routine maintenance) and work eligible for modernization funding (non-routine maintenance).

Eligible Administration Costs are defined in 24 CFR 968.112, paragraph (j) which states:

- (1) Salaries. The salaries of non-technical and technical PHA personnel assigned full-time or part-time to modernization are eligible costs only where the scope and volume of the work are beyond that which could be reasonably expected to be accomplished by such personnel in the performance of their non-modernization duties. A PHA shall properly apportion to the appropriate program budget any direct charges for the salaries of assigned full-time or part-time staff (e.g., to the [Comprehensive Improvement Assistance Program], CGP, or operating budget);*
- (2) Employee benefit contributions. PHA contributions to employee benefit plans on behalf of non-technical and technical PHA personnel are eligible costs in direct proportion to the amount of salary charged to*

the [Comprehensive Improvement Assistance Program], or CGP, as appropriate.

Ineligible Costs Charged to CFP

The SHA charged ineligible costs and continues to charge ineligible costs under the management improvements and administration categories of its CFP. A review of the CFP expenses charged to management improvements and administration for the SHA's 1998 and 1999 CFP identified a total of \$550,623 in ineligible salaries and employee benefits.

Description	1998 Actual	1999 Actual	Total
Housing Manager	\$59,998	\$113,862	\$173,860
Housing Manager Clerks	\$25,710	\$0	\$25,710
Pest Control	\$50,323	\$76,523	\$126,846
Resident Service Coordinators	\$8,015	\$4,543	\$12,558
Tenant Selection	\$33,307	\$74,782	\$108,089
Clerical Support	\$17,928	\$85,632	\$103,560
Total Ineligible Costs	\$195,281	\$355,342	\$550,623

Housing Manager

Separate from any allocation plan, the SHA charged \$173,860 in salary and benefits for one Housing Project Manager to the Housing Manager line item under the management improvements category of its 1998 and 1999 CFP grants. HUD pointed out the ineligibility of these costs as management improvement costs during its review of the final cost certification for the 1999 CFP grant. Starting with its 2000 CFP grant, the SHA removed this item from the category of management improvement costs. The ineligible costs incurred under the 1998 and 1999 grants, however, were not returned to the CFP.

Accordingly, the associated salary costs incurred under the 1998 and 1999 grants are ineligible. The responsibilities of a Housing Project Manager, as defined by the SHA, are overall management, maintenance, and coordination of all aspects of the Low Income Public Housing (LIPH) Program. Federal regulations do not allow the SHA's ongoing operating expenses to be management improvement costs. The SHA's definition of a Housing Project Manager does not fit the eligibility criteria under the management improvements category.

Housing Manager Clerks

Separate from any allocation plan, the SHA also charged \$25,710 in salaries and benefits for one Clerk Cashier to the Housing Manager Clerks line item under the management improvements category of its 1998 CFP grant. This cost was not charged to the 1999 CFP grant and was not included as a proposed cost for either the 2000 or the 2001 CFP grants.

Clerk Cashiers are responsible for handling cash, performing a variety of general clerical duties in a project including public counter work, and some limited bookkeeping. These responsibilities are everyday functions of the SHA and do not reflect a management improvement. As ongoing operating expenses, these costs are not eligible management improvement costs.

Pest Control

Separate from any allocation plan, the SHA charged \$126,846 in salary and benefits for a Mechanic to the Pest Control line item under the management improvements category of its 1998 and 1999 CFP grants. This person's responsibilities included performing pest control tasks under the direction of a licensed exterminator. A review of the SHA's detailed expenditure reports for its 1998 and 1999 CFP grants showed that these costs were attributable solely to pest control. Pest control is a normal function of a PHA's maintenance program and does not meet the eligibility criteria under management improvements.

While Pest Control may be considered preventive maintenance and some preventive maintenance is eligible for CFP funds, this expense is not eligible. To be eligible, a preventive maintenance system must provide for regular inspections of building structures, systems, and units and distinguish between work eligible for operating funds (routine maintenance) and work eligible for modernization funding (non-routine maintenance). Pest control is routine maintenance, and therefore, ineligible. The SHA did not propose any additional costs for this category for its 2000 and 2001 CFP grants.

Resident Service Coordinator/Tenant Selection

The SHA charged \$12,558 to its 1998 and 1999 CFP grants for the line item Resident Service Coordinator. Separate from any allocation plan, the SHA charged \$8,015 in salaries and benefits to the Resident Service Coordinator line item under the management improvements category of its 1998 CFP grant. We were able to identify that \$4,843 was charged for the salary and benefits for a Senior Clerk; but could not determine the reason for the remaining \$3,172 charged.

In its 1999 CFP grant, the SHA charged \$4,543 to the Resident Service Coordinator line item under the administration category consisting of \$1,793 for salaries and employee benefits for one Senior Clerk and \$2,750 for stipends paid to two residents.

The responsibilities of a Resident Service Coordinator meet the eligibility requirements of the management improvements category, but do not meet the eligibility requirements for the administration category. However, the \$12,558 (\$8,015 + \$4,543) charged to the 1998 and 1999 CFP grants was associated with the SHA employees other than the SHA's Resident Service Coordinators. Consequently, the associated costs are ineligible.

Alternatively, the SHA charged \$108,089 in salaries for two Resident Service Coordinators to the line item Tenant Selection under the administration category of its 1998 and 1999 CFP grants. The SHA should have charged the \$108,089 in salaries and benefits to the Resident Service Coordinator line item as a management improvement cost for the 1998 and 1999 CFP grants. Resident Service Coordinators do not meet the eligibility requirements for the administration category and, therefore, the costs are considered ineligible. As these grants have been finalized, the SHA does not have the opportunity to reallocate these costs to another CFP year. Additionally, the SHA should avoid any misclassifications on future CFP grants.

Clerical Support

Separate from any allocation, the SHA charged \$103,560 in salary and benefits for three Clerk Cashiers to the Clerical Support line item under the administration category of its

1998 and 1999 CFP grants. As defined by the SHA, the duties of Clerk Cashiers include handling cash and performing a variety of general clerical duties in a project. The salaries of personnel assigned full-time or part-time to the CFP are eligible costs only where the scope and volume of the work are beyond that which could be reasonably expected to be accomplished by such personnel in the performance of their non-modernization duties. The costs associated with Clerk Cashiers is not above and beyond that which could be reasonably expected to be accomplished in the performance of their non-modernization duties. Consequently, the associated \$103,560 is ineligible.

SHA Management
Disregards Federal
Regulations

The disregard for Federal regulations by the SHA management and staff, and management's failure to adequately distribute the salary and benefits of its staff in relation to their assigned duties is the impetus leading to these ineligible costs. As described in the finding titled *The SHA Needs to Implement an Equitable Method of Allocating Cost*, the SHA did not appropriately allocate costs to all of its programs including the CFP. Some employees who are charged to the CFP, however, should not be charged to the CFP; or, their salaries and benefits should be prorated based on the percentage of time actually spent working on the CFP.

At least one employee, the Energy Auditor, is working on the CFP; but is not charged to the program because the SHA failed to adjust the employee's salary distribution subsequent to a change in his duties. Although the defined duties of the SHA's Energy Auditor primarily include responsibility for an energy management program, which is not an eligible CFP cost, the SHA's Energy Auditor absorbed additional duties upon the retirement of another employee. The Energy Auditor took over the inspection responsibilities of the SHA's former Modernization Coordinator in May or June 2002. At that point, the SHA had the opportunity to adjust the salary distribution of its Energy Auditor to reflect his new responsibilities eligible under CFP regulations. The SHA should periodically update its cost allocation as staffing changes or responsibilities of individual staff members change. Updating the cost allocation plan will help the SHA to ensure that all eligible costs and only eligible costs are charged to the CFP.

Potential Ineligible Costs
for 2000 and 2001 CFP
Grants

In addition to the ineligible costs charged to the 1998 and 1999 CFP grants, the SHA's proposed expenses for its 2000 and 2001 CFP grants contain similar ineligible costs in excess of \$411,362. The 2000 and 2001 CFP grants were not fully expended at March 31, 2002. Therefore, we cannot be certain that these planned costs will be expended for eligible salaries.

As of July 1, 2002, the SHA budgeted the following administration costs for its 2000 and 2001 CFP grants:

Description	2000	2001	Total
Housing Manager	\$72,000	\$80,000	\$152,000
Clerical Support	\$64,000	\$68,000	\$132,000
Training/Quality Control	\$52,362	\$75,000	\$127,362
Potential Ineligible Costs	\$188,362	\$223,000	\$411,362

Housing Manager

The SHA budgeted \$152,000 to the line item Housing Manager under the administration category of its 2000 and 2001 CFP grants. Under the administration category, however, the Housing Project Manager's salary and benefits would only be eligible if the scope and volume of the work were beyond that which could be reasonably expected to be accomplished by such personnel in the performance of their non-modernization duties. In this instance, the Housing Project Manager is not performing duties beyond his normal duties. If any of the proposed \$152,000 is expended upon the finalization of the SHA's 2000 and 2001 CFP grants, these costs will be ineligible.

Clerical Support

The SHA budgeted \$132,000 to the line item Clerical Support under the administration category of its 2000 and 2001 CFP grants. As these clerical costs were ineligible under the 1998 and 1999 CFP grants, these costs will also be ineligible under the 2000 and 2001 CFP grants. The SHA has not finalized its 2000 and 2001 CFP grants. If any of these proposed costs are expended in the finalized grants, the costs will be ineligible.

Training/Quality Control

The SHA charged \$12,201 to the line item Training/Quality Control under the management improvements category of its 1999 CFP grant. This cost for an annual subscription to the Housing Television Network is an eligible cost under the management improvements category, Training/Quality Control line item. In its 2000 and 2001 CFP grants, however, the SHA budgeted an additional \$127,362 to the Training/Quality Control line item under the administration category. Training does not meet the eligibility criteria under the administration category. Therefore, if any of the \$127,362 in proposed training costs are expended upon the finalization of the SHA's 2000 and 2001 CFP grants, the costs will be ineligible. These costs may be eligible as a management improvement cost.

Limits on Management Improvement and Administration Costs

HUD regulations limit Management Improvement Costs to 20 percent of the annual grant and Administration costs to 10 percent of the annual grant. Proper assignment of costs currently budgeted to the wrong category may result in the SHA exceeding the statutory limitations. The actual and planned expenditures are illustrated in the table below.

Grant Year	Grant Award	Admin Cap (10%)	Actual or Planned Costs	Mgmt Improvements Cap (20%)	Actual or Planned Costs
1998	\$2,522,183	\$252,218	\$137,140	\$504,437	\$148,269
1999	\$2,871,929	\$287,193	\$319,945	\$574,386	\$202,586
2000	\$2,718,127	\$271,813	\$227,327	\$543,625	\$202,251
2001	\$2,779,758	\$277,976	\$283,000	\$555,952	\$259,000

If proper assignment of the costs leads to any charges in excess of the statutory limitations, the SHA must use non-Federal funds to reimburse the CFP any amount in excess of the statutory limitation.

For example, the SHA budgeted \$230,522 to the line item Resident Service Coordinator under the management improvements category of its 2000 and 2001 CFP grants. The \$230,522 represents a significant increase in the budget for the Resident Service Coordinator line item. As the 1998 and 1999 CFP grants had the incorrect employees charged as Resident Service Coordinators, the SHA should evaluate the planned expenditures to ensure their eligibility and proper assignment.

Salaries charged to CFP may be eligible under Low Income Public

The SHA does not have the opportunity to reallocate costs to another CFP; however, these salaries may be eligible for funding under Low Income Operating Subsidy. Each year the SHA submits a budget for Low Income Operating Subsidy for its 1,327 units. Included in this budget are salaries for employees who work with the low-income public housing projects and expenses to operate low-income public housing projects. While the SHA charged these costs to the 1998 and 1999 CFP, the SHA paid the salaries and expenses in 1998, 1999, 2000 and 2001. Therefore, the costs *may* be eligible for the low-income program under the associated years' operating subsidy budgets.

Reassignment of costs has consequences

If these costs are eligible, the SHA would avoid paying \$961,000 (\$550,623 ineligible costs and \$411,362 questioned costs). If the SHA chooses to reassign these costs to Low Income Operating Subsidy, the reassignment may cause the SHA to exceed its operating budget in violation of Section 11 D of the SHA's Annual Contributions Contract for Low Income Programs. If the SHA reassigns these costs to its Low-Income Operating Subsidy program, the SHA must submit corrected operating budgets and corrected audited financial statements. Under these circumstances, HUD must review this issue and determine the extent of the default of the Low Income Annual Contributions Contract. HUD must also take appropriate administrative actions.

CFP funds to Correct Physical and Management Deficiencies Reduced

Because of the ineligible expenditures, not all CFP funds were used for their intended purpose. As a result, less CFP funds were available to correct physical and management deficiencies and keep units in the SHA's housing portfolio safe and desirable places to live. The ineligible costs and the potential ineligible costs represent over \$961,000 in funding that could have otherwise been used to improve the SHA's physical and management deficiencies and adequately maintain its housing portfolio.

SHA Can Avoid Additional Ineligible Costs

The SHA has the opportunity to adjust its budgeted costs prior to finalizing its 2000 and 2001 CFP grants to avoid any additional ineligible costs. By taking action now, the SHA can maximize the use of its CFP grant funding to meet the physical needs of its housing stock and the needs of its management.

Auditee Comments

The SHA staff is working with HUD Boston Field Office financial personnel to reallocate the CFP cost. The SHA is committed to continue work with HUD to address cost allocation issues, reevaluate budgets, and adopt and put in place the appropriate policies to correct this problem going forward.

OIG Evaluation of Auditee Comments

The SHA did not disagree with our conclusions or recommendations. The SHA and HUD need to continue working together to (1) repay all ineligible costs charged to their CFP and (2) resolve all concerns with their cost allocation to prevent future problems.

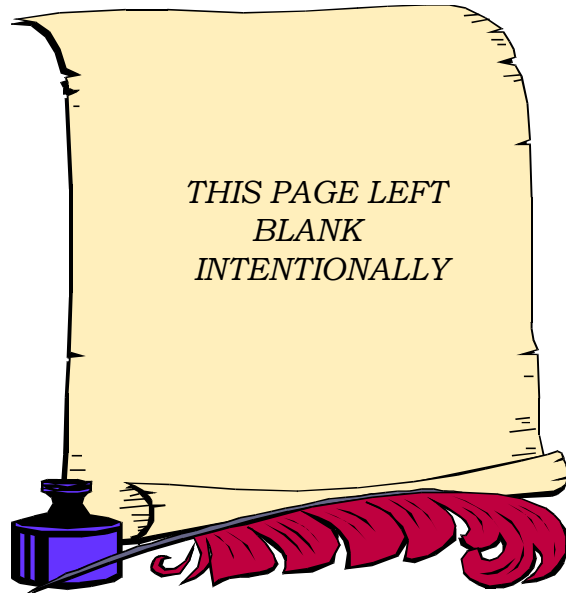
Recommendations

We recommend that HUD:

- 3A. Determine whether SHA has funding available in its low-income operating budgets for 1998, 1999, 2000, and 2001.
- 3B. Determine whether SHA may use these fund to pay for \$550,623 in expenditures ineligible for Capital Funds and \$411,362 in questioned costs.
- 3C. Take appropriate administrative sanctions, where warranted.
- 3D. If SHA does not have low-income funds available, require the SHA to repay ineligible costs of \$550,623 from non-Federal funds, or provide sufficient documentation demonstrating the eligibility of the costs to the CFP.
- 3E. Require the SHA to submit revised annual statements for its 2000 and 2001 CFP grants reflecting changes made to remove \$411,362 in budgeted costs under the administration category that are ineligible or demonstrate the eligibility of these planned expenditures.

- 3F. Evaluate the 2002 annual statement to avoid ineligible charges in the management improvements and administration categories.

- 3G. Evaluate the revised 2000 statement, the revised 2001 statement and the 2002 statement to ensure that the SHA does not exceed the statutory limitations on the amount of allowable management improvements and administration.



Management Control Weaknesses

The Springfield Housing Authority (SHA) does not have proper management controls to protect the integrity of its Federal programs, and operate in an efficient, effective, and economical manner. Although the SHA expended over \$19 million in Federal awards in fiscal year 2002, the SHA has not developed management control procedures or maintained an internal audit function. Consequently, the SHA is not properly documenting operating procedures, separating duties, and maintaining accurate records. Further, purchases are not properly controlled or expended. More importantly, the SHA's assets are not safeguarded against waste, loss, and abuse.

Effective System of Controls is Needed

Government Auditing Standards provide that management is responsible for establishing an effective system of management controls. Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals and objectives are met; that resources are used consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports. Management control means a process, instituted by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) Effectiveness and efficiency of operations; (2) Reliability of financial reporting; and (3) Compliance with applicable laws and regulations.

Data Integrity Problems

Section 14 of the SHA's Section 8 Annual Contributions Contract provides that the PHA must maintain complete and accurate books of accounts for the projects of the PHA. However, the SHA has data integrity errors within their information systems, including the Section 8 tenant database, maintenance work order database, purchase order database, and disposition database. Specifically, we identified the following concerns:

- In the Section 8 tenant database, we found multiple instances where the tenant's social security number, assistance payments, tenants' portion of rent, and payment standards were incorrectly entered; and unit inspection dates were not entered timely.

- In the maintenance work order database, we found instances where:
 1. Thirty-eight voided work orders were charged for supplies and labor totaling \$2,237;
 2. Two issued work orders totaling \$35,976 were overstated by thousands of dollars because the cost of supplies and/or the quantity of supplies was incorrectly stated. For example, on one work order, the price of countertops was also incorrectly entered as the quantity of countertops.

- In the purchase order database, costs entered into the computer system do not always agree with the costs listed on the accounts payable vouchers, or the costs on the physical purchase order. Although the SHA assigns purchase orders to vendors in consecutive order within a manual logbook, the purchase orders are not input into the computer system in consecutive order. Additionally, some purchase orders are omitted without being voided.

- In the SHA's non-expendable property disposition database, the date of disposition is not accurate. The disposition date in the system is the date that the SHA's Board of Commissioners approved the disposition, not the date that the item was scrapped or removed from the unit. We found that the disposition date in the system was much later than the date that the item was actually disposed.

Section 8 Waiting List

Federal regulation 24 CFR 982.204, Waiting List: Administration of Waiting List, provides that each PHA must select participants from the waiting list in accordance with its admission policies and its PHA administrative plan. HUD Guidebook 7420.10G, The Section 8 Housing Choice Voucher Program Guidebook, Chapter 4, *Waiting List and Tenant Selection*, states that each PHA is responsible for establishing an application and selection process that treats all applicants fairly and consistently.

The SHA does not follow its administrative plan. According to the plan, Section 8 applicants are awarded priority points for: (1) victims of domestic violence; and (2) residents who live and/or work in the Springfield area. Instead, the SHA awards priority points for: (1) family unification; and (2) residents who live and/or work in the Springfield area.

Family unification is defined as families for whom the lack of adequate housing is a primary factor in the separation, or threat of imminent separation of children from their families or in the prevention of reunifying the children with their families.

Additionally, we found incorrect application dates in the Section 8 waiting list. The waiting list shows applicants who have been on the waiting list in excess of ten years. For example, there are applicants who have application dates in the 1970s, 1980s, and 1990s. Many of these applicants are already housed. In addition, we found that the waiting list contains applicants whose application date is a date that has yet-to-occur. These instances were caused by data entry errors. Upon correcting the errors, these applicants' position on the waiting list decreased 50 percent.

Finally, the SHA does not maintain their Section 8 waiting list in such a manner to ensure that tenants recently selected for housing were the next eligible applicants. The computerized waiting list maintained by the SHA only reflects the current point in time. The SHA does not maintain historic data on its waiting lists—in either electronic or printed form. Due to the lack of historic information, the SHA cannot evaluate placement of applicants and assure HUD that the applicants are receiving housing in the correct order.

Departmental Controls are Lacking

The SHA's Purchasing and Maintenance Departments are lacking basic management controls. Specifically, the SHA has insufficient separation of duties in the Purchasing Department as the SHA allows the same person, the Purchasing Agent, to purchase items and receive items. Additionally, the SHA did not always follow its purchasing procedures and the SHA could not document the reasons for its deviations from procedures. The SHA does not always document the need for purchases or where the purchased items are being used. In some instances, individuals other than the Purchasing Agent obtained quotes, ordered items, and subsequently created the purchase order. We found many approval vouchers are not signed and dated. Further, we found that maintenance staff is not using current HUD manuals to perform maintenance work, and the SHA does not incorporate HUD-mandated timeframes for completion of emergency and routine work orders into its policies and procedures.

Materials Not Properly
Controlled or Expended

The SHA does not properly control or expend materials. Specifically, (1) costs are not properly allocated between State and Federal programs; (2) items delivered to the SHA's central warehouse are sometimes issued to maintenance staff without proper controlling documentation; (3) items purchased in July 1999 are still unused; and (4) the SHA disposes of assets with only minimal documentation of the reason. Further, the SHA does not track non-stock items, and stocked items are only tracked if the maintenance staff enters the item on the work order. Maintenance has not consistently entered stocked items on its work orders.

SHA Needs Proper
Management Controls

The SHA's management control weaknesses impeded the SHA from accurately reporting financial and performance data into self-assessment systems such as HUD's Public Housing Assessment System and the Section 8 Management Assistance Program. Data integrity and departmental controls, including waiting list administration and purchasing, can improve with the addition of proper management control procedures. The SHA can also combat its greater need to safeguard assets against waste, loss and abuse.

One means of demonstrating accountability and ensuring higher quality of services is through the effective use of management controls. OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations identifies that auditees (such as SHA) must maintain management controls over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. The SHA is managed by a five-member Board of Commissioners who employs an Executive Director to administer day-to-day operations. In support of a system of management controls, professional auditing association advocates the use of an audit committee. This association also recommends that an internal auditing function be established where the auditees have responsibilities for the administration and expenditure of public funds.


Auditee Comments

The SHA's Board of Commissioners agreed that management is responsible for establishing an effective system of management controls. The Board has formed an audit committee to provide integrity to the financial management and structure of the Authority. The Board is also working with staff to implement changes in controls suggested by a private accounting consultant and their independent audit firm. These include changes with data integrity problems; maintenance work order database; purchase order database; non-expendable property; Section 8 waiting list; separation of duties; procurement activities; and inventory control.


OIG Evaluation of
Auditee Comments

The SHA did not disagree with our conclusions or recommendations. The SHA has taken steps to develop and implement a corrective action plan. The SHA needs to establish a schedule of completion with timeframes acceptable to HUD.


Recommendations

We recommend that HUD:

- 4A. Require the SHA to establish and implement management controls to ensure that goals and objectives are met; resources are used consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports.
- 4B. Require the SHA to evaluate management controls in all areas of SHA's operations, identify weaknesses, and develop a corrective action plan to establish and implement proper management controls.



The SHA Needs to Implement an Equitable Method of Allocating Costs

The SHA disregards Federal regulations and appropriates cost to programs based upon the amount of available funds in the programs' budget. Additionally, the SHA uses its resources to provide services to its nonprofit affiliate without proper reimbursement. Consequently, HUD cannot be assured that the operating costs of the SHA's Federal programs are accurate.

Equitable Allocation

OMB Circular A-87, Cost Principals for State, Local, and Indian Tribal Governments, applies to programs other than Section 8. This circular provides:

A cost must be: (1) allocable to the program, and (2) reasonable and necessary for that program's proper and efficient performance. (Attachment A, Paragraph C, Basic Guidelines)

Central service cost allocation plan means the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a governmental unit on a centralized basis to its departments and agencies. The cost of these services may be allocated or billed to users. (Attachment A, Paragraph B, Definitions)

Allocated central service costs are to be identified and assigned to benefited activities on a reasonable and consistent basis. (Attachment C, Paragraph A, General)

Allocated central services means central services that benefit operating agencies but are not billed to the agencies on a fee for service or similar basis. These costs are allocated to benefited agencies on some reasonable basis. Examples of such services might include general accounting, personnel, administration, purchasing, etc. (Attachment C, Paragraph B, Definitions)

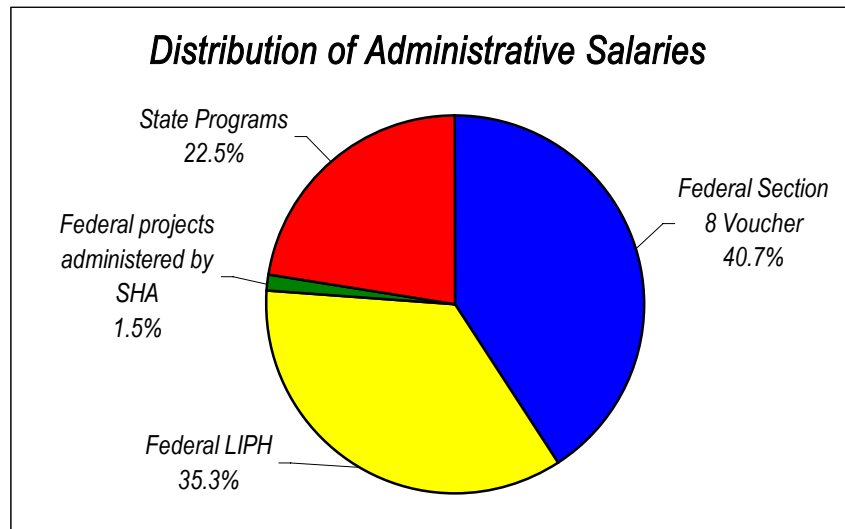
SHA Operates Both Federal and State Housing Programs

The SHA operates two Federally-subsidized housing programs [Low Income Public Housing (LIPH) and Section 8], administers three project-based contracts for HUD, and operates five state-subsidized housing programs. The SHA also received HUD funding and administers Federal grants under the Capital Fund Program, Drug Elimination Program, Economic Development and Supportive Services Program, and Resident Opportunity and Supportive Services Program.

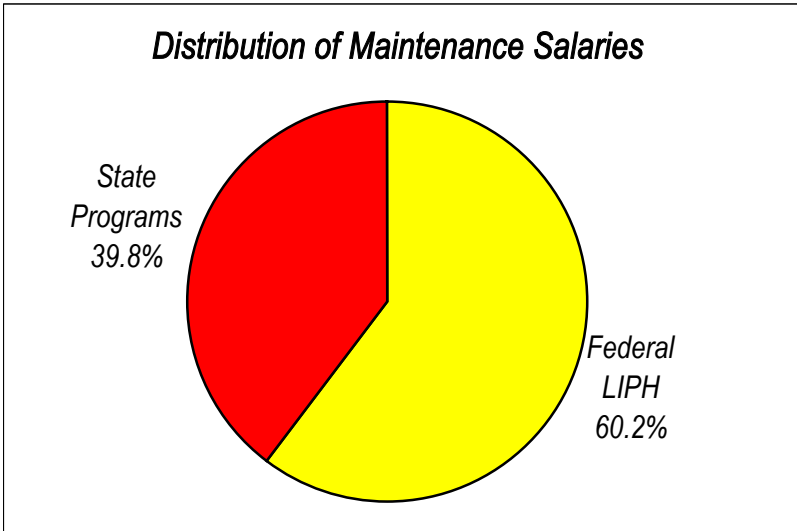
The SHA's cost allocation plan assigns direct costs to the applicable Federal or State program(s) and distributes central service costs to all programs on a per-unit basis. SHA assigns each program to a distribution code. While this methodology appears reasonable, the SHA is not following this plan.

Majority of SHA's salaries assigned to two distribution codes

The majority of SHA's salaries are assigned to two distribution codes: *923 Administrative* and *922 Maintenance*. The SHA uses *923 Administrative* to assign administrative salaries to its Federal and State programs as follows:



The SHA uses 922 Maintenance to assign maintenance salaries to its Federal and State programs as follows:



The SHA uses several other program specific distribution codes to charge salaries that belong in their entirety to a specific program.

Majority of Section 8 Department is allocated

For example, 18 of 20 employees in the Section 8 Department, whose salaries exceed \$543,000, are allocated. According to the SHA's fiscal year 2003 cost allocation plan; these 18 salaries should be charged 100 percent to the Section 8 Program. The SHA did not follow its plan and, instead, used Distribution Code 923-Administrative to allocate these salaries to all programs.

As a result, the operating expenses of the Section 8 Program is understated while the operating costs for the Federal LIPH, Federally-subsidized housing administered by the SHA and the State Programs are overstated.

Section 8 Department				
	Federal Section 8	Federal LIPH	Administered Federally-subsidized housing	State Programs
Percentage Charged	40.7%	35.3%	1.5%	22.5%
Cost Charged	\$221,001	\$191,679	\$8,145	\$122,175
Operating Cost	\$543,000	\$0	\$0	\$0
<i>Amount Over (Under) Stated</i>	<i>(\$321,999)</i>	<i>\$191,679</i>	<i>\$8,145</i>	<i>\$122,175</i>

Purchasing Department is allocated

Additionally, the four employees in the SHA's Purchasing Department, whose collective salaries equal \$147,619, are allocated. According to the SHA's fiscal year 2003 cost allocation plan, only \$616 of one employee's salary would be charged to the Federal Section 8 Program. Salaries for the other three employees would not be charged to the Federal Section 8 Program. This planned allocation for the Purchasing Department is reasonable as the Purchasing Department would only be involved in ordering office supplies for the Section 8 Department, and would not be involved in the Section 8 Department's day-to-day operations. The SHA did not follow this plan and used Distribution Code 923-Administrative to allocate these salaries to all programs.

As a result, the operating costs for the Section 8 program are overstated while operating costs for the Federal LIPH, Federally-subsidized housing administered by the SHA, and State Programs are understated.

Purchasing Department				
	Federal Section 8	Federal LIPH	Administered Federally-subsidized housing	State Programs
Percentage Charged	40.7%	35.3%	1.5%	22.5%
Cost Charged	\$60,081	\$52,110	\$2,214	\$33,214
Operating Cost	\$616	\$94,143	\$18,972	\$33,888
Amount Over (Under) Stated	\$59,465	(\$42,033)	(\$16,758)	(\$674)

OMC Circular A-87 does not apply to Section 8 Program

In accordance with Volume 53 Number 48 of the Federal Register, the Section 8 programs are outside the scope of OMB Circular A-102 and its successor OMB Circular A-87. Therefore, the regulations promulgated under that Circular do not apply to the Section 8 Programs. HUD has signed two Annual Contribution Contracts with the SHA—one for the Section 8 Programs and a second for Low Income Programs.

Under the Section 8 ACC, HUD provides the SHA subsidy to house families. Included in this subsidy is an administrative fee of 7.5 percent of the two-bedroom Fair Market Rent per unit for the first 600 units administered and 7.0 percent of the two-bedroom Fair Market Rent for every unit over 600 units.

SHA collected \$5.7 Million in Admin Fees

In the last four fiscal years, the HUD paid the SHA over \$5.7 million in fees for administering Section 8 units.

Fiscal Year	Administrative Fees ⁴
03/31/00	\$1,287,464
03/31/01	\$1,307,776
03/31/02	\$1,512,361
03/31/03	\$1,616,159
Total	\$5,723,760

⁴ Data from Fiscal Years 2000 to 2002 came from audited financial statements while data from fiscal year 2003 came from unaudited data submitted by SHA.

Section 8 Administrative Fee Reserve.

HUD also requires each PHA to maintain an administrative fee reserve. Each year the PHA must credit to the administrative fee reserve: (1) the total of the amount by which program administrative fees paid by HUD exceed the administrative expenses for the fiscal year; plus (2) any interest earned on the administrative fee reserve.

Reserves used **First** for Administering Section 8 **Then** for Other Housing

According to the Section 8 ACC, the SHA **must** use these funds to pay administrative expenses in excess of program receipts. If any funds remain this reserve, the SHA **may** use these funds for other housing purposes. By allocating salaries for the Section 8 program to all other programs, the SHA has decreased administrative expenses of the Section 8 Program and maximized the administrative fee reserves. As discussed in our finding titled *SHA Violated Conflict of Interest Provisions*, the SHA has withdrawn funds from the administrative fee reserve for questionable loans to affiliates.

SHA Provides Services to Non Profit Affiliate

Additionally, the SHA provided services to one of their nonprofit affiliates, Springfield Housing Associates, Inc without receiving compensation. SHA has not established a formal agreement with Springfield Housing Associates, Inc. identifying: (1) the type of services that the SHA will provide, (2) the reimbursement of expenditures incurred on behalf of Springfield Housing Associates, Inc., or (3) the fee structure that Springfield Housing Associates, Inc. pays the SHA.

The SHA charges Springfield Housing Associates, Inc. for direct costs—such as travel, annual report filing fee, and utility commissions. The SHA **does not charge** Springfield Housing Associates, Inc. for salaries—even though some SHA staff time is attributable to Springfield Housing Associates, Inc. As a result, the SHA is providing services to Springfield Housing Associates, Inc. while the Federal and State housing programs are consuming the cost.

Reported Expenditures do not reflect cost of operations

The SHA is principally allocating salaries to a particular program, regardless of whether the associated employees work in that specific program. The SHA staff advised that salaries are allocated to a program based upon the amount available in that programs' budget. Salaries averaged 19 percent of the SHA's expenditures for the last four years. As a result, the operating costs for the SHA's Federal

programs are inaccurate and do not reflect the amount that the SHA actually spends to operate that program. HUD needs accurate representations of the costs charged to Federal programs and assurance that only eligible costs are charged to its Federal awards. The SHA needs to correct its cost allocation procedures to provide HUD with the necessary assurances and have accurate expenditures to plan for future budgets.

Annual Cost to Federal Programs is Questionable

As a result of the SHA’s failure to allocate cost correctly to each of its programs, and the SHA’s provision of services to their affiliate without including the affiliate in its cost allocation plan, the \$21.6 million in Federal funds expended for salaries over the past four fiscal years is questionable.

Fiscal Year	Salaries	Total Expenses	Percentage
2000	\$5,838,793	\$30,704,706	19%
2001	\$5,401,583	\$30,441,300	18%
2002	\$5,117,999	\$27,649,465	19%
2003	\$5,295,622	\$26,051,458	20%
Total	\$21,653,997	\$114,846,929	19%

Auditee Comments

The SHA finance department is continuing to work with the State and HUD in revising its budgets to account for costs properly.

OIG Evaluation of Auditee Comments

The SHA did not disagree with our conclusions or recommendations. The SHA and HUD need to continue working together to resolve all concerns with their cost allocation to prevent future problems. The SHA needs to establish a schedule of completion with timeframes acceptable to HUD. This includes execution of a proper agreement with their non-profit affiliate for services provided by the SHA.

Recommendations

We recommend that HUD:

- 5A. Require the SHA to implement an equitable method of allocating cost between its Federal programs, and State programs and services to affiliates. This allocation must be in accordance with OMB Circular A-87 for the Low Income programs and must be in accordance with the Section 8 ACC for the Section 8 programs.
- 5B. Require the SHA to execute a proper agreement with all nonprofit affiliates for services and fee reimbursement.
- 5C. Require the SHA to properly account for expenditures associated with its nonprofit affiliate and seek reimbursement.
- 5D. Repay HUD for salaries and benefits of employees inaccurately charged to the Federal Programs.
- 5E. Submit corrected operating budgets and audited financial statements for the last four fiscal years in support of \$21,653,997 in salaries charged to Federal Programs.

The SHA's Rent Reasonableness Determinations are Inadequate

The Springfield Housing Authority (SHA) does not have an adequate process for determining rent reasonableness for units entering into the Section 8 program and units receiving subsequent rent increases. The SHA disregarded their own policies, as well as Federal regulations, to maintain a proper database of comparable unassisted units. In addition, the SHA does not maintain proper file documentation supporting their rent reasonableness determinations. As a result, HUD cannot be assured that Housing Assistance Payments to the SHA's Section 8 landlords—\$11 million in fiscal year 2002 alone—were based upon reasonable rents.

PHA Must Determine Rent Reasonableness

In 24 CFR Part 982.507, Rent to Owner: Rent Reasonableness, regulations require:

(a) PHA determinations. (1) The PHA may not approve a lease until the PHA determines that the initial rent to owner is a reasonable rent. (2)(i) The PHA must re-determine the reasonable rent before any increase in the rent to owner.

(b) Comparability. The PHA must determine whether the rent to owner is a reasonable rent in comparison to rent for other comparable unassisted units. To make this determination, the PHA must consider: (1) the location, quality, size, unit type, and age of the contract unit; and (2) any amenities, housing services, maintenance and utilities to be provided by the owner in accordance with the lease.

Documenting the Rent Reasonableness Decision

HUD Guidebook 7420.10G, The Housing Choice Voucher Program Guidebook, provides that, in each case where the PHA is required to determine rent reasonableness, it must document its decision and the basis for its decision (i.e., information on the unassisted units compared) in the tenant's file. This documentation should identify who conducted the rent reasonableness determination and when the determination was approved.

The SHA's policies and procedures on rent reasonableness, as illustrated in their administrative plan, mirror the Federal regulations at 24 CFR Part 982 and The Housing Choice Voucher Program Guidebook.

Proper Controls Are Not Implemented

The SHA does not properly implement controls over Section 8 rent reasonableness consistent with their own policy and Federal regulations. Specifically, the SHA lacks the proper information to accurately determine rent reasonableness, and does not maintain proper file documentation for their rent reasonableness determinations.

Information on Comparable Unassisted Units is Lacking

The SHA does not maintain a database of comparable, unassisted units that include the factors required by Federal regulations: (1) the location, quality, size, unit type, and age of the contract unit; and (2) any amenities, housing services, maintenance and utilities to be provided by the owner in accordance with the lease. The SHA only maintains a database of rents in a particular census tract by bedroom size obtained through contacting landlords, newspaper listings, and information about its own Section 8 program units.

Tenant Files do not Include Proper Documentation

Further, tenant files do not contain documentation as to the determination of rent reasonableness. We examined the details of the documentation for six units from the statistical sample of units inspected for Housing Quality Standards. We selected these six units because they had the greatest difference between their contract rents and their comparables. For five units, we identified contract rents that exceeded the SHA's comparable rents; however, there was no documented consideration for special amenities, building type, age, condition, or onsite management for the contracted units. The existence of these amenities may explain why the rents being charged exceeded the comparable rents that the SHA was using. Our file review did not find any rent reasonableness certifications; however, SHA personnel were able to show us some certifications. SHA has a contractor reviewing Section 8 files and his reports showed that very few tenant files had a rent reasonableness certification. The available certifications only gave the unit address, utilities that were not included, contract rent, and gross rent. No special amenities were noted and there was no mention of comparable units or any other details on the rent reasonableness certifications.

SHA Not Aware of Regulations

The SHA's Section 8 Management, who direct staff responsible for gathering comparable data and performing rent reasonableness determinations, were not aware of the regulations governing the type of information needed to perform accurate determinations. In fiscal year 2002 alone, the SHA paid \$11 million in Housing Assistance Payments to Section 8 landlords. The SHA cannot assure HUD that these payments were based upon reasonable contract rents.

SHA needs to ensure rent reasonableness.

Due to a limited amount of Federal resources, HUD needs assurances from each PHA that its Section 8 contract rents are reasonable, and Housing Assistance Payments are equitable. The SHA needs to follow its own policies and Federal regulations that have been established to ensure rent reasonableness.

Auditee Comments

The SHA has developed a database for comparable unassisted units to be continually updated in accordance with Federal regulations. The SHA has created a rent reasonableness checklist and rent comparable sheets will be completed and placed in each tenant file in accordance with Federal regulations. Finally, the SHA will perform a review of all tenant files and document whether the contract rents are reasonable in comparison to specific unassisted units.

OIG Evaluation of Auditee Comments

The SHA did not disagree with our conclusions or recommendations. The SHA has taken corrective action to resolve the concerns, and HUD needs to evaluate the action to determine if it complies with Federal Regulations.

Recommendations

We recommend that HUD:

- 6A. Evaluate the SHA's corrective action to develop, use, and continually update, a detailed comparable database of unassisted units inclusive of the location, quality, size, unit type, and age of the contract unit; and any amenities, housing services, maintenance and

utilities to be provided by the owner in accordance with the lease.

- 6B. Evaluate the SHA's corrective action to properly document its rent reasonable determinations in each tenant file in accordance with Federal regulations.
- 6C. Evaluate the SHA's corrective action to perform a review of all of its tenant files to determine whether the contract rents being charged are reasonable as compared to specific unassisted units.

The SHA Submitted Inaccurate Performance and Financial Data to HUD

The Springfield Housing Authority (SHA) submitted inaccurate data to HUD's Section 8 Management Assistance Program (SEMAP) and Public Housing Assessment System (PHAS). HUD requires the PHA to maintain accurate data to permit the preparation of reports in accordance with HUD requirements. These inaccuracies obscured the true performance of the SHA leading HUD to erroneously believe the SHA was a high performer. Therefore, HUD subsequently performed less monitoring. Contrary to their SEMAP reporting we believe the SHA did not properly operate their Section 8 program and inappropriately received \$1.6 million of Section 8 administrative fees in fiscal year 2003.

HUD Requires the PHA to Submit Accurate Data

Section 15 of the SHA's Annual Contributions Contract provides that the PHA must maintain complete and accurate books of accounts for the projects of the PHA in such a manner as to permit the preparation of statements and reports in accordance with HUD requirements, and to permit timely and effective audit.

HUD Depends On Risk Based Monitoring

The effectiveness of HUD programs is largely dependent upon how well HUD policies and program requirements are carried out. HUD uses risk-based monitoring or risk analysis to evaluate which PHAs and programs represents the greatest risk to HUD's program missions, and are the most susceptible to fraud, waste, and mismanagement. The overall objective of risk analysis is to allocate a larger share of monitoring resources to those program functions having the highest risk. HUD uses the risk analysis process to determine the type and timing of PHA monitoring to be performed each year. To maximize scarce resources, HUD uses specific assessment programs to evaluate all housing authorities and all programs in their portfolio through SEMAP and PHAS. These assessment programs are dependent on data reported by the PHA.

Section 8 Management
Assessment Program
(SEMAP)

To standardize the manner which HUD monitors and evaluates a PHA's Section 8 Program, HUD created SEMAP. SEMAP enables HUD to manage the Section 8 tenant based program by identifying a PHA's programmatic capabilities and any deficiencies related to their administration of the Section 8 tenant-based program. SEMAP exists to help HUD provide more effective managerial and program assistance. SEMAP measures a PHA's performance in fourteen key areas of the Section 8 tenant based assistance program:

1. Proper selection of applicants from the Section 8 waiting list;
2. Determination of reasonable rent for each unit leased;
3. Accurate verification of family income;
4. Maintenance of a current schedule of allowances for tenant utility costs;
5. Performance of quality control inspection for housing quality;
6. Ensuring that landlords and tenants promptly correct housing quality deficiencies;
7. Encouragement of expanded housing opportunities;
8. Rents and subsidies do not exceed program limits;
9. Timely annual reexaminations of family income;
10. Correct calculation of the tenant share of the rent and the subsidy portion;
11. Units pass inspection before assistance contracts are entered;
12. Timely annual housing quality inspections;
13. Ensuring use of all available rental vouchers and certificates; and
14. Enrolling families in the family self-sufficiency program, as required, and helping these families achieve increases in employment income.

These indicators will help HUD determine if eligible families are: (1) assisted in compliance with identified critical areas of performance; and (2) able to afford decent rental units at a reasonable subsidy cost as intended by Federal housing legislation and by Congress' appropriation of Federal tax dollars for these programs.

SHA Designated High Performer under SEMAP

Using the data provided by the SHA, HUD rated the SHA's Section 8 operations as a high performer under SEMAP for fiscal years 2001 and 2002.

Fiscal Year Ended	03/31/01	03/31/02
Score	96%	100%
Rating	High	High

A PHA with a SEMAP score of at least 90 percent is rated as a high performer. A PHA that achieves an overall rating of high performer may receive national recognition by HUD and may be given competitive advantage under Notices of Funding Availability.

Concerns with Five SEMAP Indicators

Our review of the SHA's operations found concerns with five of the fourteen indicators used to calculate the SEMAP score.

- ⇒ Determination of reasonable rent for each unit leased;
- ⇒ Proper selection of applicants from the Section 8 waiting list;
- ⇒ Performance of quality control inspections for housing quality;
- ⇒ Ensuring that landlords and tenants promptly correct housing quality deficiencies; and
- ⇒ Units pass inspection before assistance contracts are entered.

Rent Reasonableness

One of SEMAP's fourteen key areas is rent reasonableness. In each fiscal year, the SHA positively responded that its rent reasonableness determination method takes into consideration the location, size, type, quality, and age of the program unit and of similar unassisted units and any amenities, housing services, maintenance or utilities provided by the owners. The SHA does not conduct its rent reasonableness determinations in this manner, as shown in the finding titled *The SHA's Rent Reasonableness Determinations are Inadequate*.

Section 8 Waiting List

The SHA also certified that it properly selected applicants from its Section 8 waiting list. We were unable to confirm the SHA's assertion, as the SHA does not maintain historic data on its waiting lists—in either electronic or printed form. SHA uses a database to track applicants on its waiting lists. The computerized waiting list maintained by the SHA only reflects the current point in time. Due to the lack of historic information, the SHA cannot evaluate placement of applicants and assure HUD that the applicants are receiving housing in the correct order. Additionally as reported in our finding titled *Management Control Weaknesses*, we found that SHA incorrectly entered application dates that had yet-to-occur into its database.

Quality Control Inspections

Another SEMAP indicator is performance of quality control inspections for housing quality. The SHA certified that it performs quality control inspections to ensure the quality of Section 8 housing. Since a comparison of our inspections to the SHA's most recent inspections for 37 units showed the SHA inspectors allowed six units to pass its most recent inspection even though the inspectors identified HQS violations. Each of these units should have failed the inspection and the SHA should have required the landlords to take corrective action. Details on each of the six inspections are discussed in our finding titled *Section 8 Units do not meet HQS*.

Promptly Corrected Housing Quality Deficiencies

The SHA also certified that it ensured deficiencies in HQS were promptly corrected. We found that the SHA gave landlords an average of 25 days to repair deficiencies even when the deficiencies were life-threatening. HUD mandates that life-threatening deficiencies be corrected immediately.

The SHA certified that units pass inspection before assistance contracts are entered. We identified instances where the SHA is passing units even though the inspection identified deficiencies. We further identified instances where the SHA inspectors are not identifying all deficiencies in the unit.

SHA collected \$5.7
Million in Admin Fees

In the last four fiscal years, the SHA collected over \$5.7 million in fees for administering Section 8 units.

Fiscal Year	Administrative Fees ⁵
03/31/00	\$1,287,464
03/31/01	\$1,307,776
03/31/02	\$1,512,361
03/31/03	\$1,616,159
Total	\$5,723,760

Contrary to their SEMAP reporting, the SHA is not properly operating their Section 8 program. Therefore, SHA inappropriately received the Section 8 administrative fees. The SHA failed to ensure that subsidized families lived in decent, safe and sanitary housing; failed to ensure that subsidized rents were reasonable; and does not maintain historic data to ensure that its waiting list is administered properly. The SHA should return to HUD the fees that it did not earn.

Public Housing
Assessment System
(PHAS)

To standardize the manner which HUD monitors and evaluates a PHA, HUD created PHAS. The main objective of PHAS is to compile the data and scores from the four indicator assessment sub-systems, and produce a composite score representing the PHA's overall level of performance. The four indicator assessment sub-systems are: the Management Assessment Subsystem (MASS), the Financial Assessment Subsystem (FASS), the Physical Assessment Subsystem (PASS), and the Resident Satisfaction Assessment Subsystem (RASS).

- MASS evaluates the management capability of the PHA based on individual scores from the six MASS sub indicators: (1) Unit Turnaround; (2) Capital Fund; (3) Work Orders; (4) Annual Inspections; (5) Security, and (6) Economic Self Sufficiency.
- FASS helps measure the financial condition of the PHA and assess their ability to provide safe and decent housing. FASS provides HUD with a complete database of the financial data of the PHA. FASS also provides the PHA the ability to submit financial information electronically, reducing administrative burdens for both the PHA and HUD.

⁵ Data from Fiscal Years 2000 to 2002 came from audited financial statements while data from fiscal year 2003 came from unaudited data submitted by SHA.

- PASS monitors the physical condition of HUD properties through on-site physical inspections. The purpose of PASS is to ensure that public housing units are safe, decent, sanitary and in good repair, using HUD's uniform physical condition standards for the assessment.
- RASS is designed to be both an assessment of current resident opinions regarding their housing quality, and a management tool for identifying areas of concern. Units are randomly selected to receive a survey using an automated system. Therefore, although the survey is conducted annually, not all residents are surveyed at the same time. HUD keeps the identity of individual respondents confidential. Questions in the survey cover such areas as maintenance and repair, communications, safety, services, and neighborhood appearance.

SHA Designated High Performer Under PHAS

Using the data provided by the SHA, HUD rated the SHA's overall performance as a high performer under PHAS for the fiscal year ended March 31, 2002, scoring 91 out of a possible 100 points. A PHA that receives an overall PHAS score of 90 or greater is designated a high performer. As a high performer, the PHA receives incentives such as (1) relief from specific HUD requirements including fewer reviews and less monitoring; (2) public recognition from HUD; and (3) bonus points in Notice of Funding Availability competition.

MASS Submission is Incorrect

Our review of the SHA's MASS submission found incorrect data. For MASS Sub-Indicator 3: *Work Orders*, the SHA reported that 1,037 of 1,038 emergency work orders were completed within 24 hours. Based upon that data, HUD awarded the SHA the maximum number of available points for that sub-indicator. To support their MASS submission for Sub-Indicator 3, the SHA maintains a computerized work order database. Further support is the actual physical hard copy of the work order that details the request and completion date of the work order.

SHA Work Order Database is Inaccurate

Our review of the physical hard copies of twelve work orders disclosed that none of the twelve agreed with information in the work order database.⁶ Although the work orders' *request* date in the database agreed with the physical copies of the twelve work orders, the work orders' *completion* dates did not agree. The physical copy of the work orders showed that the work orders were not completed within 24 hours, but the work order database shows that they were completed within 24 hours. The actual number of days to complete the work orders ranged from one to ten days.

Work Order Number	Work Order Request Date	Work Order Database		Physical Work Order	
		Completion Date	Days to Complete	Completion Date	Days to Complete
179075	08/31/01	08/31/01	0	09/07/01	7
172600	04/17/01	04/17/01	0	04/23/01	6
172530	04/13/01	04/13/01	0	04/23/01	10
180297	09/26/01	09/26/01	0	10/01/01	5
182124	10/30/01	10/30/01	0	10/31/01	1
187624	02/20/02	02/20/02	0	02/21/02	1
180404	09/27/01	09/27/01	0	10/01/01	4
173352	05/02/01	05/02/01	0	05/08/01	6
183109	11/21/01	11/21/01	0	11/24/01	3
184511	12/21/01	12/21/01	0	12/24/01	3
183209	11/23/01	11/23/01	0	11/26/01	3
187232	02/11/02	02/11/02	0	02/12/02	1

A work order completed in 0 days was completed in under 24 hours. A work order completed in 1 day was completed in over 24 hours, but less than 48 hours.

FASS Submission Overstate Expenditures

Under FASS, a PHA submits unaudited financial data within 90 days of their fiscal year end and audited financial data within nine months of their fiscal year end. The SHA's FASS submission shows overstated expenditures in their Federal programs through inaccurate salaries' allocations and improper accounting of their reserve withdrawals.

⁶ During the course of our audit, Federal law enforcement officials seized some of SHA's records. As a result, our review of work orders was limited to fiscal year 2002 and twelve emergency work orders during that year due to the lack of readily available documentation. The twelve emergency work orders were identified through interviews with PHA staff, which raised concerns over a number of irregularities between the work order database and physical copies of the work orders.

Inaccurate Salary Allocation

As discussed in our finding titled *The SHA Needs to Implement an Equitable Method of Allocating Costs*, HUD cannot be assured that the operating cost of the SHA's Federal programs is accurate. The SHA spent over \$21.6 million of Federal funds on salaries. The SHA charges salaries to its Federal and State programs based upon the amount of available funds regardless of whether personnel worked on the specific Federal or State program.

Improper Accounting of Reserve Withdrawals

In 24 CFR 982.155, Administrative Fee Reserve, HUD allows a PHA to use excess reserve funds for other housing purposes permitted by State and local law. The SHA routinely withdraws funds from the Federal Section 8 Operating Reserve, however accounts for the withdrawals as general expenses. For instance, the SHA's Board of Commissioners approved an \$186,000 withdrawal from the Federal Section 8 Operating Reserve in fiscal year 2002 to:

- ⇒ Obtain a heating conversion plan (electric to gas) for four Federal low-income housing projects (\$125,000);
- ⇒ Pay a consultant to convert a Federal project into an assisted living project (\$33,500). This consultant also is doing business with SHA's non-profit affiliate, Springfield Housing Associates, Inc. The State of Massachusetts awarded Springfield Housing Associates, Inc. a contract to convert the same Federal Project to an assisted living project.
- ⇒ Obtain a Section 8 program evaluation study (\$17,624); and
- ⇒ Pay other expenses including several parties, donations, advertisements, and miscellaneous purchases such as coffee, photo developments, and silver plated bowls used for employee awards (\$9,876).

The SHA incorrectly accounted for the reserve withdrawal as program expenses. Consequently, the SHA is overstating the cost of the Section 8 Program. Furthermore, these withdrawals are ineligible as a program expense under OMB Circular A-87.

SHA Certified Accuracy of its SEMAP and PHAS Submissions

Annually, the SHA certified that its SEMAP and PHAS submissions were accurate. HUD can impose appropriate sanctions for intentional false certifications, including civil penalties, suspensions, debarments, the loss of high performer designation, lower scores for the individual PHAS sub-systems, and lower scores for the overall PHAS score.

The SHA has prospered from the incentives granted to recipients of the high performer designation over the past several years. For example, the SHA was not scheduled for onsite monitoring by HUD in fiscal year 2002. Further, the SHA proudly displays numerous performance and recognition awards from HUD including an excellence award in 1985, a sustained performance award in 1995, and a sustained performance award in 2000. Subsequent to the completion of our fieldwork however, HUD has scheduled a SEMAP confirmatory review, a procurement review, an exigent health and safety review and a financial review.

SHA Needs Proper Management Controls

The SHA lacks proper management controls over the accuracy of its financial and performance reports. As reported in our finding titled *Management Control Weaknesses*, the SHA lacks proper controls over its Section 8 data, inventory controls, and work orders. The SHA's management control weaknesses contributed to the SHA inaccurate financial and performance data. We identified data integrity errors in the maintenance work order database, the Section 8 tenant database, the purchase order database, and the disposition databases as well. By developing and utilizing management controls, in particular controls over data authenticity, the SHA may ensure the accuracy of its submissions to HUD.

Auditee Comments

The SHA did not specifically respond to the conclusions and recommendation in the finding. The SHA simply referred to other findings for further information on the corrective action the SHA has begun to take.

OIG Evaluation of
Auditee Comments

HUD and the SHA need to work together toward resolving the concerns and fulfill the recommendations. The SHA needs to establish an action plan and a repayment plan. The SHA needs to also establish timeframes for completion of these plans that are acceptable to HUD.

Recommendations

We recommend that HUD:

- 7A. Require the SHA to repay the 2003 Section 8 administrative fees of \$1,616,159.
- 7B. Obtain and review the SHA's supporting documentation for the entire fiscal year 2003 SEMAP and PHAS submissions.
- 7C. Require the SHA to develop and submit for approval proper management controls to ensure data authenticity, and the accuracy and completeness of its entire PHAS submission.
- 7D. Take appropriate administrative sanctions, where warranted.

The SHA Does Not Follow Federal Procurement Regulations or Monitor its Modernization Grants

The Springfield Housing Authority (SHA) is not following its own policies or Federal regulations when procuring goods and services. The SHA disregarded regulations while expending \$19 million in Federal awards in fiscal year 2002. Consequently, the SHA cannot assure HUD that it used full and open competition to obtain the best available prices in its procurement of goods and services. Additionally, the SHA cannot assure HUD that it properly monitors its modernization grants. The SHA did not maintain sufficient records to assure HUD that its \$10 million dollar modernization program complies with Federal regulations and performance goals are being realized.

Federal Procurement Requirements

As part of 24 CFR Part 85.36, Procurement, HUD requires a PHA to:

Maintain records sufficient to detail the significant history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. (Paragraph (b) (9))

Conduct all procurement in a manner to provide full and open competition. (Paragraph (c) (1))

Take all necessary affirmative steps to ensure that minority firms, women's business enterprises, and labor surplus area firms are used, when possible. (Paragraph (e) (1))

Perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular situation, but as a starting point, independent estimates must be made before receiving bids or proposals. (Paragraph (f) (1))

HUD Handbook 7460.8, Procurement Handbook for Public and Indian Housing Authorities, further provides that the PHA should make an independent cost estimate of what it expects the required items to cost *before starting procurement*. For larger contracts, this process may be more complex, involving the written analysis of the estimated labor categories and hours required, materials needed, subcontractors required, etc.

The common rule on grantee procurement requires that a cost or price analysis be performed for all procurement. Cost analysis involves obtaining a cost breakdown from the proposed contractor(s), analyzing the labor, material, indirect costs, and profit proposed, and identifying areas of questioned cost, unallowable cost, or items which appear to be inflated or unnecessary. A cost analysis serves to assist the PHA in preparing for negotiations with the contractor to obtain a reasonable price.

The PHA shall not make award to any contractor or individual who has been suspended or debarred and whose name appears on the General Service Administration's Debarred Suspended List. When a limited denial of participation is issued, the subject becomes ineligible for participation in HUD programs in which the violation occurred.

SHA's procurement policy

In its procurement policy, adopted September 9, 2002, the SHA outlined its procedures.

- A. For small purchases (purchases under \$5,000 on State developments and under \$2,500 on Federal developments), the SHA shall utilize the open market after inquiring that the price obtained is the most advantageous.
- B. For purchases and contracts from \$5,000 to \$25,000, the SHA shall use competitive negotiation and invite offers from at least three suppliers. For construction projects estimated to cost more than \$10,000, but not more than \$25,000, the project must still be procured using a sealed bid process
- C. For purchases and contracts in excess of \$10,000, the Executive Director shall use formal advertising methods, unless otherwise justified, and shall solicit bids by advertisement

- D. Where proposed contracts are for the construction, demolition, maintenance or repair to any building and are estimated to exceed \$25,000, the Executive Director shall use solicitation of bids.
- E. All procurement of equipment, materials, and non-personal services shall be documented. Expenditures under \$500 shall be supported by receipt and purchase orders. Each purchase, regardless of dollar amount, shall be supported by a purchase request recommended by a department supervisor or higher authority. On monthly basis, in advance, the Assistant Executive Director of Finance shall indicate the amount of dollars in each program available in order to have sufficient funds available for payment.

Prior to September 9, 2002, the SHA's policy allowed small purchases up to \$5,000, which contravened Federal Regulations. Additionally, the SHA's prior policy did not contain the Ethic on Public Contracting. The SHA amended the small purchase limit and added the Ethic on Public Contracting September 9, 2002 policy as a result of a June 2002 HUD review that recommended changes to its procurement methods. The revised SHA procurement policy is in accordance with Federal Regulations.

The SHA Does Not Follow Regulations

However, the SHA disregarded its policy and Federal Regulations in the procurement of contracts and small purchases. Specifically, the SHA did not maintain sufficient procurement documentation to detail: the history of procurement, the rationale for the method of procurement, the contract selection, the contract type, and the contractor price. Further, the SHA does not determine price reasonableness, verify contractor's eligibility, and does not attempt to solicit minority-owned or women-owned business enterprises.

Review of Ten Contracts identified Problems

In our review of ten procurements—three construction contracts, three material/supply procurements, and four service contracts—we found that the SHA did not consistently:

- **Document the history of the procurement files.** We could not follow the history of the procurement in all ten procurements because the SHA's records are not

complete. Evaluation of procurement actions is complicated by the fact that the SHA has documentation in multiple departments, instead of one procurement file.

- **Show the basis for determining price reasonableness.** For the ten procurements reviewed, the files did not show the basis for determining price reasonableness. The SHA could have used independent cost estimates, or comparisons of competitive quotes.
- **Document that bidders were not debarred from Federal procurement or included on HUD's List of Limited Denial of Participation.** For the ten procurements reviewed, we did not find evidence that the SHA determined that bidders were not debarred from Federal procurement or included on HUD's List of Limited Denial of Participation. While our staff found that the firms for these ten procurements were not debarred or subject to limited denials of participation, SHA's failure to perform this procedure puts SHA at risk of paying Federal funds to firms who have lost the right to receive Federal funds.
- **Document bid guarantees.** Additionally, the SHA did not consistently document bid guarantees or other negotiable instruments. We found that SHA did not document the bid guarantees for five procurements where they were required
- **Identify the basis for selecting the type of procurement.** In one indefinite quantity contract, we could not identify why SHA selected a competitive proposal over a sealed bid. Competitive proposals should be used when a contract exceeds \$5,000 and is less than \$10,000; while sealed bids should be used when the contract exceeds \$10,000. As this is an indefinite quantity contract for snow removal at \$3,500 per storm, the associated costs can exceed \$10,000. We also found an instance where the SHA selected the wrong type of procurement—a printing contract costing \$39,540.
- **Evidence that the SHA negotiated with the bidder.** For one contract, the SHA's files did not contain evidence that the SHA negotiated with the bidder or

contain narratives to show the basis for the scoring bidders under Requests for Proposal. Additionally, in four procurements the SHA did not notify the unsuccessful bidders.

- **Select the lowest bidder.** The SHA did not select the lowest bidder in one contract costing \$36,831 of the ten procurements reviewed; nor did the SHA identify why it chose that bidder.
- **Document the reason for selecting one of two bidders who had the same bid amount for various items.** In one contract, two firms bid the same amount for certain items. The SHA's files did not document why the selected firm was chosen.

Problems with Small purchases

We also found problems with small purchases. In our review of 25 small purchases, we identified where the SHA disregarded Federal regulations and its own policies. The SHA did not consistently:

- **Select the lowest bidder.** The SHA did not select the lowest bidder in three of the small purchases reviewed. In two cases, the SHA did not document why it used a bidder other than the lowest bidder. In the third small purchase, the file contained conflicting data regarding the low bidder. Two different quote sheets were prepared with each quote sheet listing a different low bidder.
- **Explain a history of procurement.** We could not follow the history of all of our sampled procurements because five procurement files were not complete. We could not find two purchase orders. We could not find all of the necessary documentation to support three additional purchase orders. Additionally, two files contained conflicting documentation. For one procurement, two different quote sheets listed two different low bidders. For another small purchase, the timing and quantity on the invoice did not match the purchase order. The items purchased were received before SHA obtained price quotes or prepared a purchase order.

Additionally, we found that the SHA's Purchasing Department's procedures for the use of purchase orders and

blanket purchase orders were not consistent. Five of the 25 small purchases reviewed were blanket purchase orders.

Monitoring of
Modernization Grants

In review of three construction contracts, with awards totaling \$2.6 million, the SHA did not maintain sufficient records to document its monitoring of the contracted modernization work, and the SHA's level of review for the submitted payment requisitions was questionable

Federal Monitoring
Requirements

In 24 CFR 85.40, Monitoring and Reporting Program Requirements, Federal regulations provide that grantees are responsible for managing the day-to-day operations of the grant and sub grant activities. Grantees must monitor grant and sub grant activities to assure compliance with applicable Federal requirements and achievement of performance goals. Grantee monitoring must cover each program, function, or activity.

Additionally, 24 CFR 968.140, On Site Inspections, states it is the responsibility of the PHA, not HUD, to provide adequate and competent supervisory and inspection personnel during modernization to ensure work quality and progress.

Inspections of
Modernization Work

With the lack of documentation to support performance of on-site inspections, HUD cannot be assured that the SHA was adhering to its statutory requirement of inspecting modernization work to ensure work quality and progress. Although the SHA's staff advised that on-site inspections took place, the SHA could not provide, nor could we locate, any on-site inspection reports for the three contracts we reviewed.⁷

Monitoring of Contractors
and Sub Contractors

HUD also cannot be assured that the SHA is properly reviewing contractor payment requisitions. The SHA's staff stated that the architects for the project review all payment requisitions. In discussion with the three architects, we received conflicting statements. Two of the three architects advised that they did not review the payment requisitions. The third architect advised that they were involved in the review and execution of the SHA's payment requisitions.

⁷ The process of obtaining this data was complicated by the seizure of the SHA records by Federal law enforcement officials and the suspension and subsequent resignation of the former Assistant Executive Director of Operations.

Nonetheless, a review of recently submitted payment requisitions did not include any signature from an architect, but instead included the signatures of the contractor who performed the work, the former SHA Assistant Executive Director of Operations who signed as the Authorized Project Representative, and the former SHA Executive Director who signed as the Contracting Officer.

Federal Regulations Need to be Followed

The SHA needs to follow Federal regulations and its own policies when procuring materials, supplies, and services, as well as administering its modernization program. With a limited amount of Federal resources available, HUD needs assurances that the SHA's administration of its Federal awards and grants comply with Federal regulations, and that performance goals are being realized.

Auditee Comments

The SHA responded that it has established a new procurement policy and scheduled procurement training for SHA staff. The SHA is implementing procedures to insure all possible firms are used in procurement; centralizing maintenance into one location; confirming contractors are not debarred from performing services; and informing unsuccessful bidders.

OIG Evaluation of Auditee Comments

The SHA did not disagree with our conclusions or recommendations. The SHA has taken steps to develop and implement a corrective action plan. The SHA needs to establish an action plan and a repayment plan. The SHA needs to also establish timeframes for completion of its plans that are acceptable to HUD.

Recommendations

We recommend that HUD:

- 8A. Require the SHA to establish and implement effective administrative controls over procurement in order to provide assurances that all Federal regulations and all phases of the SHA's procurement policies are effectively carried out.

- 8B. Change its threshold requirement for SHA to ensure that all contracts are evaluated as SHA processes the procurement.
- 8C. Evaluate all of the SHA's procurement actions for the last two years to determine if the contracts are appropriate and necessary to the SHA operations.
- 8D. Require the SHA to properly maintain adequate documentation sufficient to detail the history of procurement.
- 8E. Require the SHA to establish and implement effective controls over the administration of its modernization grants.

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls used by the Springfield Housing Authority (SHA) that were relevant to our audit objectives. We reviewed the SHA's management control system to determine our auditing procedures and not to provide assurance on management controls.

Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

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

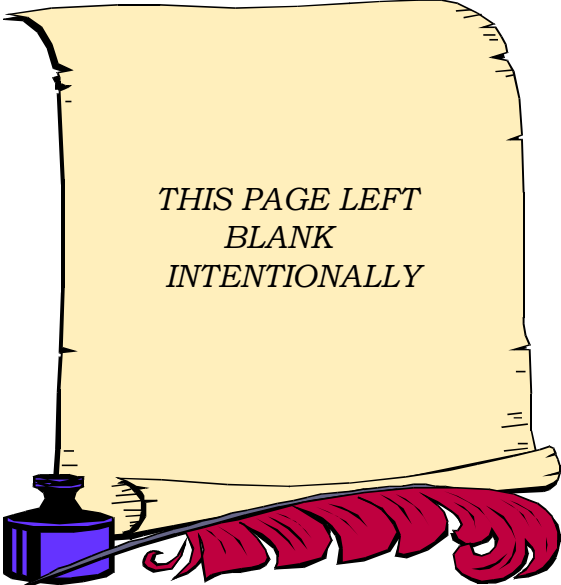
- Program Administration
- Program Funds
- Program Expenditures
- Procurement and Contract Administration
- Information Systems
- Housing Quality Standards
- Financial and Performance Reporting

We assessed the relevant controls identified above.

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

Significant Weaknesses

Based on our review, we identified significant weaknesses in all of the management control areas we assessed. Specific control weaknesses applicable to HUD programs are as shown in Finding 1 (Section 8 HQS), Finding 3 (Capital Fund Program), Finding 6 (Rent Reasonableness), Finding 7 (Performance and Financial Data) and Finding 8 (Procurement and Monitoring). Control weaknesses applicable to administrative and financial functions were summarized and presented in Finding 2 (Conflict of Interest), Finding 4 (Management Controls), and Finding 5 (Cost Allocation).



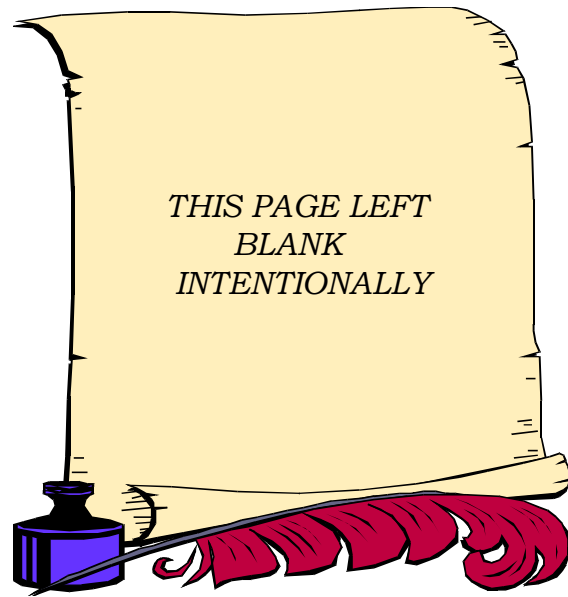
Schedule of Questioned Costs and Funds Put to Better Use

Recommendation Number	<u>Ineligible</u> 1/	<u>Unsupported</u> 2/	<u>Fund Put to Better Use</u> 3/
1A. Assure FY 2002 Housing Assistance Payments was used for decent, safe, and sanitary housing		\$9,825,837	
3D. Repay ineligible cost from non-Federal funds	\$550,623		
3E. Submit revised FY 2000 and 2001 CFP annual statements			\$411,362
5E. Submit corrected audited financial statements		\$21,653,997	
7A. Repay ineligible cost from non-Federal funds	\$1,616,159		

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

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

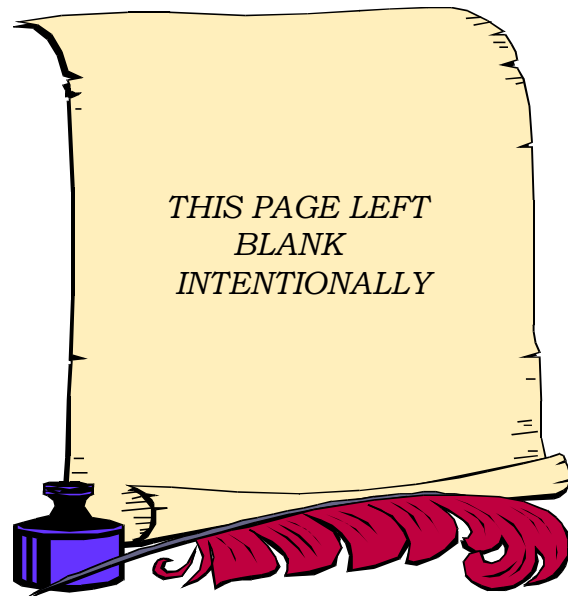
3/ Funds Put to Better Use are costs that will not be expended in the future if our recommendations are implemented.



Statistical Sampling

EZ-Quant is a software program created and promulgated by the Defense Contract Audit Agency. We used EZ-Quant to perform statistical sampling calculations so that we may use the results from the review of a sample to project the rate of occurrence to the universe from which the sample was drawn. Using EZ-Quant, we were able to review a reasonably small number of Section 8 subsidized units, determine whether these units meet Housing Quality Standards and project the percentage of subsidized units failing Housing Quality Standards with a high degree of accuracy to the universe of 2,852 Section 8 units. Using the one-step attribute sampling feature of the EZ-Quant software, we calculated that a sample of 115 units would be appropriate. One-step attribute sampling tests whether a particular condition in the universe exceeds a specified acceptable level. In this instance, the condition was whether the Section 8 unit met Housing Quality Standards.

We selected the sample of 115 units at random without bias. The SHA provided a list of all units in its Federal Section 8 housing stock as of January 10, 2003. We removed ten specific units from this list for separate and distinct testing. We then assigned a sequential number to each unit as it appeared in this list beginning with one and ending with 2,852. Using the random number generator feature in EZ-Quant, we generated 150 random numbers between the range of one and 2,852. By using 150 numbers, we were able to provide replacements in the event that any of the first 115 units in the sample could not be inspected. We used the 150 random numbers to draw our sample of Section 8 units. Inspection of any subsidized unit is dependent on gaining access to the unit. We were not able to gain access to all units. We utilized all replacement units and gained access to 104 units. To properly project the results to the universe, we accepted the remaining eleven units as passing HQS. A listing of the Section 8 properties inspected is available in Appendix C.



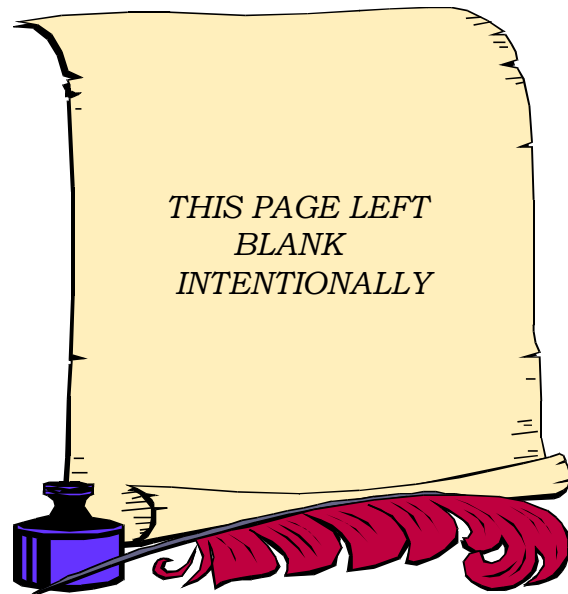
Section 8 Units Inspected

Client #	Unit Address	Date of Inspection	Pass/Fail⁸
18150	306 Page Boulevard Street, 2 nd Floor	02/11/03	Fail
4014	228 Redlands Street, 2 nd floor	02/11/03	Fail
26094	6 Putnam Circle	02/11/03	Fail
9285	52 Ardmore Street	02/11/03	Fail
9604	23 Rapulas Street	02/12/03	Pass
26044	192 Lake Drive	02/12/03	Fail
30774	160 Oak Street	02/12/03	Fail
32030	1236 Worcester Street	02/12/03	Fail
14974	76 Cuff Avenue	02/12/03	Fail
9018	70 Mooreland Street	02/13/03	Fail
11362	27 Montmorenci Street	02/13/03	Fail
29810	44 Narragansett Street	02/13/03	Fail
28037	18 Phoenix Street, Apt 1A	02/14/03	Fail
16783	82 Pearl Street, 3 rd Floor	03/03/03	Fail
27257	82 Pearl Street, 2 nd Floor	03/03/03	Fail
8627	115 Dwight Street, Apt 907	03/04/03	Pass
3846	10 Chestnut Street, Apt 3102	03/04/03	Fail
10458	10 Chestnut Street, Apt 3206	03/04/03	Pass
30542	140 Chestnut Street, Apt. 809	03/04/03	Fail
29828	10 Chestnut Street, Apt 2808	03/04/03	Fail
24992	115 Dwight Street, Apt 504	03/04/03	Pass
19911	70 Harrison Ave., Apt 908	03/05/03	Fail
14511	70 Harrison Ave., Apt 506	03/05/03	Fail
9772	22 Winthrop Street, Apt.7	03/05/03	Fail
16476	37 Spring Street	03/05/03	Fail
28835	834 Worthington Street 1 st Floor	03/06/03	Fail
25627	14 Gunn Sq., 1 st Floor	03/06/03	Fail
26919	90 Westminster Street, Apt. 4l	03/07/03	Fail
18456	55 Allen Park Road	03/10/03	Fail
28265	55 Humbert Street	03/11/03	Fail
19689	44 Lorenzo Street	03/11/03	Fail
9820	131 Spring Street, Apt 1c	03/11/03	Fail
29709	44 Armory Street	03/11/03	Fail
25656	155 Lamplighter Street	03/12/03	Fail

⁸ We used Housing Quality Standards to determine whether an individual unit passed or failed.

Client #	Unit Address	Date of Inspection	Pass/Fail⁸
3147	16 Ashland Avenue	03/12/03	Fail
26404	303 Fernbank Road	03/12/03	Fail
17469	295 Fernbank Road	03/12/03	Fail
9101	408 Fernbank Road	03/12/03	Fail
77	90 Andrew Street	03/13/03	Fail
11473	15 Girard Avenue	03/13/03	Fail
31833	26 Ambrose Street	03/13/03	Fail
19492	19 Ambrose Street	03/13/03	Fail
13634	66 Ft. Pleasant Avenue	03/13/03	Fail
19018	31 Leland Drive	03/14/03	Fail
1097	42 Aster Street	03/18/03	Fail
31677	837 State Street	03/18/03	Fail
28919	27 Shillingford Street	03/19/03	Fail
26832	24 Bristol Street	03/19/03	Fail
25058	24 Norfolk Street	03/19/03	Fail
30960	25 Dunmoreland Street	03/19/03	Fail
14208	126 Hickory Street	03/19/03	Fail
11394	246-D Quincy Street	03/20/03	Fail
1202	472 Hancock Street	03/20/03	Fail
24218	191 Pine Street	03/20/03	Fail
8755	84 Greene Street	03/20/03	Fail
26888	540 Union Street	03/20/03	Fail
884	195 J Hickory Street	03/21/03	Fail
27302	77 School Street	03/24/03	Fail
16330	36 Queen Street	03/24/03	Fail
21169	213 Pine Street	03/24/03	Fail
17969	70 Knox Street	03/24/03	Fail
27712	28 Randall Place	03/25/03	Fail
9348	47 Pomona Street	03/25/03	Fail
2133	70 Belmont Avenue	03/25/03	Fail
11700	78 Belmont Avenue	03/25/03	Fail
10111	29 Fremont Street	03/26/03	Fail
9956	59 Scott Street	03/26/03	Fail
32450	128 Orange Street	03/26/03	Fail
15929	149 Sumner Avenue	03/27/03	Fail
1569	111 Massasoit Street	04/01/03	Fail
29393	21 Waverly Street	04/01/03	Fail

Client #	Unit Address	Date of Inspection	Pass/Fail⁸
9735	68 Jefferson Avenue	04/02/03	Fail
29649	114 Calhoun Street	04/02/03	Pass
1710	31 Calhoun Street	04/02/03	Fail
20951	43 Talcott Avenue	04/03/03	Fail
18575	120 Lowell Street	04/03/03	Fail
1568	16 Brightwood Street	04/03/03	Fail
26337	11 Orchard Street	04/03/03	Fail
1419	79 Belle Street, Apt 1L	04/04/03	Fail
27750	53 Murray Hill Avenue	04/04/03	Fail
9581	38 Draper Street	04/04/03	Fail
29297	115 Maryland Street	04/05/03	Fail
10103	79 Belle Street, Apt 2L	04/05/03	Fail
25737	321 Orange Street	04/05/03	Fail
26929	399 Orange Street	04/05/03	Fail
7263	136 Washburn Street	04/07/03	Fail
27616	130 Plainfield Street	04/07/03	Fail
30878	43 Longfellow Terrace	04/07/03	Fail
12543	387 Oakland	04/07/03	Fail
24129	25 Bancroft Street	04/08/03	Fail
29939	103 Pearl Street	04/08/03	Fail
9852	199 Fernbank #3	04/08/03	Fail
16273	10 Chestnut Street, Apt 901	04/08/03	Fail
10268	414 Chestnut Street	04/08/03	Fail
28238	565 Plainfield Street	04/09/03	Fail
10104	70 Granada	04/09/03	Fail
30265	44 Gordon	04/09/03	Fail
25521	74 Shamrock	04/09/03	Fail
27745	25 Converse	04/09/03	Fail
25954	91 Pine #1	04/10/03	Fail
29072	119 Jefferson	04/10/03	Fail
8580	63 Central Apt C	04/10/03	Fail
29449	2309 Main #19	04/10/03	Fail
24962	10 Chestnut Street, Apt 2307	04/10/03	Fail



439 Deficiencies Overlooked by SHA Inspectors

Deficiencies	Number of Occurrences	Percentage of Total
Exposed electrical wiring/outlet or broken outlet/fixtures	37	8%
Non-GFI outlet near water source	36	8%
Electrical wiring/outlet not installed properly or not enough outlets installed	26	6%
Missing/broken hardware on interior doors and cabinets	26	6%
Inadequate security in unit	23	5%
Floor/wall not sealed	23	5%
Inoperable or No ceiling fixture or outlet operated by a wall switch	21	5%
Flooring is torn, unsecured, or does not cover underlayment	18	4%
Door/window not weather tight	17	4%
Window sash- not weather tight, cords missing or broken	16	4%
Water heater is missing discharge line from the pressure relief valve or line has been downsized	16	4%
Window broken or missing pane	16	4%
Hole(s) in wall, floor, doors, foundation, siding	15	3%
Defective or missing door/trim	13	3%
Missing globe cover	10	2%
Plaster/ drop ceiling panels damaged	9	2%
Defective Refrigerator	9	2%
Kitchen counter damaged/ rotted/not laminated at ends	8	2%
Hazardously splintered doors/trim	8	2%
Defective/missing handrail	8	2%
Exterior/interior wood, floors, or walls rotted out	7	2%
Defective Closet doors	6	1%
Missing smoke detectors	6	1%
Heating circulating pipes are not insulated	5	1%
Defective Sink/tub drain or faucet	5	1%
Defective range/stove	5	1%
Unused gas or sewer lines not capped	5	1%
Heat not working properly	4	1%
Defective toilet	4	1%
Debris	4	1%
Hazards in common areas of building	4	1%
Boiler flue pipes defective	3	1%
Defective Gutters and downspouts	3	1%
Defective Bath vanity	3	1%

Deficiencies	Number of Occurrences	Percentage of Total
No ventilation in bathroom or inoperable fan vent	3	1%
Missing covers for heat ducts/chimney vents	2	0%
Roof leaking	2	0%
Baseboard loose	2	0%
Gas or oil odors in basement not being exhausted	2	0%
Heat vent not flush with floor	1	0%
Excessive Mold and mildew	1	0%
Steps broken or wrong height	1	0%
Peeling/chipping paint	1	0%
Missing closet rod	1	0%
Infestation of mice/ rats	1	0%
Exit blocked	1	0%
No lead paint owner's certification	1	0%
Unused sink sprayer not capped	1	0%
Total Deficiencies	439	100%

Auditee Comments

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(1920 - 2002)

November 14, 2003

Barry L. Savill
Regional Inspector General for Audit
U. S. Department of Housing and Urban Development
Office of the Inspector General
Thomas P. O'Neill Federal Building
10 Causeway Street
Room 370
Boston, MA 02222

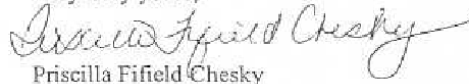
RE: Springfield Housing Authority
Comments on Final Draft Report

Dear Mr. Savill:

On behalf of the Board of Commissioners of the Springfield Housing Authority and the staff, I am enclosing the responses to the final draft report of your office. I realize that you are getting the response a couple of days later than you indicated but I hope they will still be included in your final report.

If you have any questions or concerns regarding the responses please do not hesitate to contact my office.

Very truly yours,

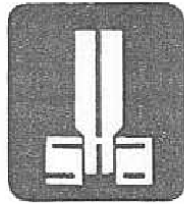


Priscilla Fifield Chesky

FINDING 1
SECTION 8 UNITS DO NOT MEET HQS

As you will see from the attachments to this Response, a corrective process is in place at the Housing Authority. Inspections of units and re-inspections of units are being done pursuant to the HUD Regulations. The department advertised and interviewed for an additional Housing Inspector and one should be hired in the next week or so to assist with the inspections.

There is a definite need for training of inspectors. The Housing Authority is researching the most cost-effective, yet best way to do quality training for the staff. There were an excessive amount of inspections scheduled for each day (15-20). If there are funds available, a second inspector will be hired or outside inspectors will be hired on a contract basis to reduce the number of inspections done per inspector and to have the inspections done timely and accurately.



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OIG SECTION 8 UNITS DO NOT MEET HQS

OIG FINDING

SHA RESPONSE

1A. Provide assurances that \$9,825,837 in Housing Assistance Payments for fiscal year 2002 was used for decent, safe and sanitary housing, or recover funds accordingly.

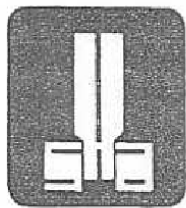
COMMENTS

565 Plainfield Street was scheduled for its annual HQS inspections on 5/12, 5/30, 7/16, 8/13, and 9/15/03. Tenant was not home or was on vacation. SHA had terminated the tenant from the Section 8 Program because of her failure to let SHA inspector to inspect her unit at reasonable times. Tenant met with the Admission and Inspection Supervisor who then re-instated the tenant and has schedule the Annual HQS inspection for 10/29/03

Unit Address	Date last SHA inspection performed	Date SHA inspector passed unit
84 Greene Street	11/27/02	1/27/03
43 Longfellow Terr. #2	6/27/03	7/24/03
565 Plainfield St. 2 nd fl	10/30/03	RE-INSPEC 11-25-03
136 Washburn Street	5/16/03	On Hold \$75.00
6 Putnam Circle	12/11/02	12/11/02
128 Orange Street	9/12/03	9/12/03
24 Norfolk Street	1/23/03	2/21/03
246 D Quincy Street	3/25/03	7/15/03
44 Narragansett Street	11/7/02	12/4/02
70 Moorland Street 2 nd fl	11/7/02	1/6/03
140 Chestnut Street	7/16/03	10/8/03
43 Talcott Ave. 1 st fl	Moved	Moved
26 Ambrose St.	Moved	Moved
399 Orange Street	Moved	Moved
21 Rutland Street	Moved	Moved
18 Phoenix Street	Moved	Moved

Listed above are the most recent inspection reports that were performed between fiscal year 2002 –2003, for the above mentioned unit. As you can see majority of the units failed the HQS inspection first time around which the landlords were cited and re-inspected and found to be in compliance by the SHA inspectors. S.H.A. believes that all HAP payments were made accordingly to the rules and regulations during the fiscal year.





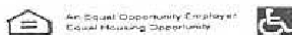
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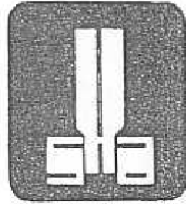
OIG FINDING

SHA RESPONSE

1B. Issue new vouchers to families living in the sixteen units that should be removed from the Section 8 Program and assist these families' relocation to units that are decent, safe, and sanitary.	Unit Address	HQS Inspection to be performed on	Pass/ Fail/ \$75.00
	84 Greene Street	10/30/03	Failed-Re-Insp 11/28/03
	43 Longfellow Terr. #2	10/30/03	Failed-Re-Insp 11/28/03
	565 Plainfield St. 2 nd fl	10/30/03	Failed-Re-Insp 11/28/03
	136 Washburn Street	10/30/03	Failed-Re-Insp 11/28/03
	6 Putnam Circle	10/30/03	Failed-Re-Insp 11/28/03
	128 Orange Street	10/30/03	Failed-Re-Insp 11/28/03
	24 Norfolk Street	10/30/03	Failed-Re-Insp 11/28/03
	246 D Quincy Street	10/30/03	Failed-Re-Insp 11/28/03
	44 Narragansett Street	10/30/03	Failed-Re-Insp 11/28/03
	70 Mooreland Street 2 nd fl	10/30/03	Failed-Re-Insp 11/28/03
	140 Chestnut Street	10/30/03	Failed-Re-Insp 11/28/03
	43 Talcott Ave. 1 st fl	Moved	Moved
	26 Ambrose St.	Moved	Moved
	399 Orange Street	Moved	Moved
21 Rutland Street	Moved	Moved	
18 Phoenix Street	Moved	Moved	



- Letters that were sent out to the Section 8 Participants. **SEE EXHIBIT 1**
- SHA has performed the 11 above listed units as indicated above on October 30, 2003. S.H.A. has notified the landlords of the outstanding H.Q.S. violations and will be giving the landlords up to 30 days for a re-inspection (November 28, 2003). If the unit fails the re-inspection date, then S.H.A. will be charging the landlords a \$75.00 re-inspection fee. At the end of the 30-day extension, if unit fails again, then S.H.A. will terminate the HAP payments and tenants will be placed on voucher immediately. **SEE EXHIBIT 2**



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OIG FINDING

SHA RESPONSE

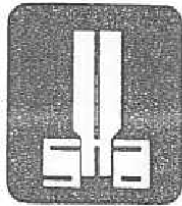
1C. Re-inspect its Section 8 housing stock and ensure all HQS violations are identified and corrected within the required timeframes.

SHA is in the process of hiring one full time inspector within the next couple of weeks. S.H.A. will be looking into hiring 2-3 more inspector's with-in the next couple of months. S.H.A. will anticipate that all housing stock inspections will be completed within one year (December '04)

1D. Ensure that all Section 8 inspectors are properly trained in HQS.

SHA will inquire thru all Housing associations such as; NAHRO, Nan McKay, Section 8 Administration Assoc., Quadel, ABT Assoc., to determine when trainings will be available for our staff. Once a date and location is found, the H.A. inspectors will be attending all seminars in the upcoming and future training programs.





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OIG FINDING

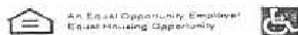
SHA RESPONSE

1E. Hire an adequate number of qualified Section 8 inspectors appropriate for its Federal Section 8 housing stock.

Process of hiring one (1) new inspector within the next 2-3 weeks based on training and the interview process. SHA is looking to hire an additional 2-3 full-time inspectors within 90 - 120 days after hiring another full-time inspector.

1F. Take appropriate administrative sanctions, where warranted.

If sanctions are needed because of lack of experience or passing a unit that does meet HQS requirements. SHA take the appropriate disciplinary actions for any employees or contractors who fail to comply with the performance requirements within their job duties.



FINDING 2

THE SHA VIOLATED CONFLICT OF INTEREST PROVISIONS

1. SHA IN BUSINESS WITH RELATED ENTITIES.

Hampden County Employment and Training Consortium. SHA is no longer doing business with this entity. The Board of Commissioners was never made aware of the contract between SHA and HCETC until after this audit and federal investigation began. One member of the Board of Commissioners had a contract with HCETC. The Board of Commissioners referred this matter to the State Ethics Commission. Since the action is a past action, the review is being handled by the Enforcement Division of the State Ethics Commission. The Board will take whatever appropriate action is recommended by the State Ethics Commission.

Springfield Housing Associates, Inc and Memorial Parish House Limited Partnership. The SHA Board of Commissioners requested their attorney to review the corporations and their structures and to draft management agreements between the entities so as to properly allocate for and be paid for services provided. This process is underway at this time. At the end of this review and at a time in the near future the Board will transition Memorial Parish to a separate board with only one or two Housing Authority commissioners remaining on it.

2. LOAN TO SPRINGFIELD HOUSING ASSOCIATES, INC.

This loan/grant has been reviewed by your office, HUD and independent auditors. The SHA Board of Commissioners agrees that this money that was transmitted between SHA and SHA, Inc. in 1996 should be a loan from the Section 8 program that should be repaid. Under the terms of the deal between SHA, Inc. and MPHLP the loan is to be repaid by 2016. It is our understanding that the independent audit that is being completed at this time will reflect the necessary adjustments to have these monies repaid to the Section 8 program. The SHA Board also submits letters fro HUD to SHA approving this transaction and the formation of the corporations and the Section 8 contract for these units.

3. SHA IS MANAGING AGENT TO MPHLP.

SEE RESPONSE TO #1 ABOVE

4. SHA AWARDS \$130,000 CONTRACT TO HCETC.

The former Executive Director of SHA made this contract without bringing it to the Board of Commissioners for their approval. This matter and other issues of conflict of interest involving the former Executive Director have been sent to the State Ethics Commission for their review. It is the Board's understanding that the federal investigation involves these issues as well. As noted above, the Board

member's contracts have also been sent to the State Ethics Commission for their review.

5. UTILITY SERVICE COOPERATIVE.

The Board of Commissioners through its auditors and legal counsel are reviewing the cooperative and the reasonableness of the entire relationship and contracts.

6. SHA PERSONNEL AND COMMISSIONER PERFORMANCE

The board of Commissioners acknowledges that they are responsible for all actions of the SHA. They have made great strides over the year in becoming aware of operating procedures, performance activities. They reviewed and established a new procurement policy, fraud policy and have met with auditors and HUD officials several times in order to improve performance and correct the situation at SHA. The Board has hired a Human Resource Director and is reviewing the potential job description for an IT Manager. This Manager would review and implement the controls necessary in the computer system and set up inventory controls, etc. within the Housing Authority. There are still areas to be corrected at SHA but the Board is committed to ensure that SHA acts legally and with integrity in its daily operations.

**FINDING 3
THE SHA CHARGES \$550,623 IN INELIGIBLE COSTS
TO ITS CFP**

The Housing Authority staff is working with the HUD Boston Field Office financial personnel to reallocate the costs. SHA is committed to continue to work with HUD to address cost allocation issues, reevaluate budgets and adopt and put in place the appropriate policies to correct this problem going forward.

See attached Inter-Office Memorandum from the accounting department for an update on the corrections made to date.

**FINDING 4
MANAGEMENT CONTROL WEAKNESSES**

1. Effective System of Controls is Needed. The Board of Commissioners agrees that management is responsible for establishing an effective system of management controls. The board has formed an Audit committee to provide integrity to the financial management and structure of the Authority. They are also working with staff to implement the changes in controls as suggested by the auditor firm of Kostin and Ruffkess. (Report attached). The audit that has just recently been completed also suggests changes in management systems that the Board will implement as funding and time permit.
2. Data Integrity Problems.
 - a. Section 8 Data Base – SHA is working on improving the data base. SHA has hired an MIS Director to work with the computer system and diminish the margin of errors. Periodic samples and reviews of the system will be implemented to assure the quality of the data base. Tenants portion of rent, based on the RIM review that was just done, requires the implementation of double checking calculations and new pre-application forms. These will be done within the next two to three weeks along with a clerk checklist to make sure all questions are asked so calculations can be properly done. Staff training when available and funds are available will be done through Nan McKay, NAHRO, Section 8 Administration, ABT Assoc and HTVN. See attached section 8 wait lists as prepared and certified. Tod date.
3. Maintenance Work Order Data Base. SHA will institute the following procedures to control the maintenance work orders: All work orders will return to the central maintenance office for proper closing, checking for completeness, and to ensure supplies used are listed and charged to the proper unit or area.
4. Purchase Order Data Base: Purchases will be entered into the computer system when recorded in the logbook. The name of vendor can be entered even before the material order has arrived at SHA. SHA will implement procedures to assure that the date the item is scrapped or removed from the unit will be entered in the system at the same time. Quarterly reports will be submitted to the Board of Commissioners.
5. Non-Expendable Property: SHA will implement procedures to assure that the date the item was scrapped or removed from the unit will be entered into the system at the same time. The period of time between disposal and the approval of the Board of Commissioners is granted will be shortened with the Board receiving quarterly reports.
6. Section 8 Waiting List. See comments above. SHA has made the corrections on the waiting list and the system is totally mechanized and proper documentation is

kept to show that the participants are selected following the admissions policy and SHA administrative plan. SHA staff is looking into the possibility to join the MASS NAHRO centralized waiting list. Information is attached. The administrative plan has been reviewed and approved by the Board.

7. Lack of separation of duties in maintenance and purchasing departments. SHA hired an accounting consultant and has studied the need to separate the duties. The Purchasing Agent will be assigned and moved to the Maintenance Department, the receiving duties will be separated and staff will be assigned supervision to the accounting department. The purchasing agent position is vacant and has not been filled due to the current criminal investigation.
8. SHA has contacted NAHRO to offer training to the staff during the month of December, 2003 on the federal procurement regulations. Once the staff is trained properly SHA will monitor purchasing procedures. SHA has adopted a new procurement policy and has submitted a copy for HUD's approval and recommendations. See attached. SHA purchase orders are reviewed by the Chief Financial Officer and Executive Director. SHA will develop a system of quality control utilizing the Housing Managers and Working foremen to assure that the maintenance work that is due is following HUD's mandated time frames. As necessary, SHA will provide for staff training.
9. Materials not properly controlled or expended. SHA needs proper management control. SHA has approved a policy of an Audit Committee. The committee is composed of a Commissioner who is an accountant, an auditor and an attorney who normally represents tenants. All members are independent from the day to day operations of management.
10. Complete request for special order materials. When picked up at purchasing the form must be signed by the foreman. This enables SHA to track this type of material by purchase order, signed slip for material and completed work order to show what unit or location they were used.
11. SHA contracted a private accounting consultant who provided recommendations to improve the internal control and the board adopted the recommendations in the meeting of August 11, 2003. (see consultant's report and board minutes.)

**FINDING 5
THE SHA NEEDS TO IMPLEMENT AN
EQUITABLE METHOD OF ALLOCATING COSTS**

See response to Finding # 3. The finance department continues to work with the State and HUD in revising its budget to account for costs property.

**FINDING 6
THE SHA'S RENT REASONABLENESS
DETERMINATIONS ARE INADEQUATE**

See attached information



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Springfield Housing Authority Rent Reasonableness Determinations

SHA has developed a database for unassisted units to be continually updated inclusive of the location, quality, size, unit type, age of the unit, amenities, housing services, maintenance and utilities provided by the owner in accordance with the lease.

(See exhibit 1 for printout of rent comparables by census tract and bedrooms size.)

SHA has created a Rent Reasonableness checklist (Exhibit 2) and the Springfield Housing Authority Rent Comparable Sheets to be completed and placed in each tenant file in accordance with Federal Regulations

SHA will perform a review of all tenant files and document whether the contract rents the contract rents being charged are reasonable in comparison to specific unassisted units. Review of files to be completed by December, 2004.

**FINDING 7
THE SHA SUBMITTED INACCURATE PERFORMANCE
AND FINANCIAL DATA TO HUD**

See enclosed letter from HUD dated September 8, 2003. A corrective action plan dealing with these issues has been submitted to HUD within the time plan provided.

See attached responses to other findings for further information as to steps SHA has taken to improve this finding.

**FINDING 8
SHA DOES NOT FOLLOW FEDERAL PROCUREMENT
REGULATIONS OR MONITOR ITS MODERNIZATION GRANTS**

See response to prior findings regarding procurement (new policy adopted and training of staff in December). SHA has also requested a state procurement training for staff.

SHA is using the Central Register for Goods and Services to make sure that SHA has all possible firms when possible bidding on jobs.

Record maintenance is being centralized in one location with all bids, contracts, payments, employee interviews are being kept in the maintenance department along with all requisitions.

Staff is checking the Central Register list to determine if a contractor has been debarred from performing services. All bidders are now receiving letters if unsuccessful.