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Audit Case Number	96-NY-204-1004

TO: Carmen F. Valenti, Director, Office of Public Housing,  
New Jersey State Office

FROM: A. Paul Kane, District Inspector General for Audit,  
New York/New Jersey

SUBJECT: Camden Housing Authority  
Low-Rent Housing Program  
Camden, New Jersey

Pursuant to a request from the New Jersey State Office of Public Housing, we completed an audit of the Camden Housing Authority, herein referred to as the Public Housing Authority (PHA) pertaining to its Federal Low-Rent Housing (LRH) program. The purpose of the audit was to determine the adequacy of the PHA's internal controls for safeguarding cash and other assets, and to determine whether the PHA complied with the terms and conditions of the Annual Contributions Contract (ACC) and other applicable U.S. Department of Housing and Urban Development (HUD) regulations and requirements. The audit covered the period from January 1, 1993 through March 31, 1995, and was extended where appropriate to include other periods. The audit field work was performed from April 10, 1995 through February 22, 1996.

The audit disclosed that while the Executive Director is working diligently to obtain training for the staff to improve their performance, we believe that a stronger commitment is needed by the Board of Commissioners to ensure that the deficient administration and operating deficiencies discussed in the findings of this report are addressed and that proper accountability and control over its assets and daily operations are maintained.

This report contains 13 findings. The findings show that the PHA's administrative policies, practices and procedures did not always comply with applicable HUD regulations and requirements pertaining to its LRH program. To ensure compliance, the PHA needs to: (a) improve its administration of HUD programs; (b) ensure that the system for procurement and contracting comply with HUD and its own requirements; (c) improve its monitoring of subgrantees for the Drug Elimination program; (d) comply with approved staffing levels; (e) ensure the propriety of payments for unused vacation time and for overtime; (f) control the use of gasoline by its personnel; (g) ensure that costs are eligible and properly supported prior to incurrence; (h) improve its administrative controls and its controls over inventory and the leasing of vehicles, and (i) ensure that travel and conference costs are economical and in accordance with established policy. These weaknesses have caused ineligible costs of \$37,648.43 and unsupported costs of \$1,782,783.66 to be incurred.

## Management Memorandum

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

Should you or your staff have any questions, please contact William H. Rooney, Assistant District Inspector General for Audit, at 212-264-8000, ext. 3978.

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# Executive Summary

We performed an audit of the Camden Housing Authority (herein referred to as the Public Housing Authority (PHA) pertaining to its Federal Low-Rent Housing (LRH) program. The primary objective of the audit was to evaluate internal controls for safeguarding cash and other assets, and to determine whether the PHA complied with the terms and conditions of the Annual Contributions Contract (ACC) and other applicable HUD regulations and requirements.

The audit disclosed that the PHA generally did not comply with program requirements, and regulations pertaining to its LRH program. Decent, safe and sanitary housing has not generally been provided tenants and the PHA has not timely administered HUD programs. In addition, the inefficient and uneconomical use of funds has deprived the housing programs of needed revenues. In an attempt to improve the PHA's operations, the New Jersey State Office issued a Limited Denial of Participation to the former Chairwoman and HOPE VI Program Administrator. This action was intended to send a message that officials will be held accountable for their actions. In addition, the State Office has initiated biweekly meetings with the PHA. Nonetheless, we believe that if the PHA is going to improve its operation, HUD needs to modify the current form of management. Accordingly, we recommend that HUD consider one of three available options. They are: (1) joint management consisting of the existing PHA administration and HUD, (2) appointment of a third party to manage the PHA, or (3) take over of the PHA by HUD.

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

1. The PHA has not provided tenants with decent, safe and sanitary housing as required by the National Housing Act

In 1994 and 1995 HUD provided the PHA nearly \$31 million in various subsidies and grants to help in its operations. In addition, during 1994 HUD awarded a \$42.1 million HOPE VI Urban Revitalization Demonstration (URD) grant for the revitalization of McGuire Gardens. In spite of more than \$73 million HUD funding, living conditions of the tenants have not noticeably improved, particularly at the family type developments. The unsightly conditions of the grounds, buildings and common areas and the fact that most of the inspected units did not meet the minimum Housing Quality Standards (HQSs) are evidence that the PHA is not providing housing that is suitable for the tenants.

While this finding discusses the failure of the units we inspected to meet HQSs and the unacceptable conditions of the building exteriors, common areas and grounds along with the poor administration and lack of progress of the Comprehensive Grant Program (CGP), Vacancy Reduction Program (VRP), Drug Elimination Program (DEP) and the HOPE VI URD Program, the remaining 12 findings deal with inefficient and sometimes wasteful practices of the PHA. The inefficient and sometimes wasteful practices include: 1) improper procurement and contracting procedures, 2) poor monitoring of the Drug Elimination Program and Youth Sports Program that the City of Camden administers, 3) improper hiring and salary increases, 4) improper vacation and overtime payments, 5) improper contracting for a Parking Study, 6) lack of control over gasoline purchases and travel costs, and 7) various other ineligible costs and administrative deficiencies.

These deficiencies occurred because the former Chairwomen and the Board did not always operate the PHA in the interest of the tenants. Recently, the former Chairwoman and HOPE VI Program Administrator were issued a Limited Denial of Participation by the State Office. We believe this action by HUD was the first positive action that needs to be taken if the PHA is going to improve its operation. A continuation of the status quo will produce no meaningful improvement; therefore, HUD needs to modify the management of the PHA. Accordingly, we recommend that one of three options to the current form of PHA management be considered. They are:

- (1) Joint management consisting of the existing PHA administration and HUD,
- (2) Appointment of a third party to manage the PHA, or
- (3) Take over of the PHA by HUD.

2. The PHA has not complied with its own procurement policy or with HUD regulations and requirements

For procurement and contracting, the PHA has neither complied with its own procurement policy nor with HUD regulations and requirements. Some of the noncompliances include: (1) Request For Proposal (RFP) was received after the expiration date; (2) procurements were made where no quotes were requested; and (3) instances where costs were not adequately supported. The deficiencies and noncompliances are attributed to internal influences and oversight by staff in the review process. As a result, assurance that the related procurement and contract costs were proper and reasonable has been diminished and the PHA has incurred costs of \$733,391.57 that are unsupported.

3. The PHA has not adequately monitored Subgrantees under the Drug Elimination Program

The PHA was awarded Drug Elimination Program (DEP) grants of \$250,000 in 1990 and \$466,600 each for years 1991, 1992 and 1993. The City of Camden, Department of Community Services, acted as Subgrantee for the PHA and incurred costs under the program. Our review of the costs showed various deficiencies occurred because procedures were not established to ensure adequate monitoring of Subgrantees. Consequently, not only has assurance that program objectives were met been diminished; but the PHA has lessened its assurance that program funds were properly safeguarded against waste and loss. As a result, ineligible and unsupported costs of \$5,472.14 and \$607,834.60, respectively, were charged to the program.

4. Improper hiring and salary increases

Despite HUD having informed the PHA not to exceed the staffing levels identified in the approved budget, between October 1992 and December 1995, the PHA added at least six positions that were not previously included in the approved budgets. PHA officials stated that the excess staffing occurred because the former Chairwoman recruited the individuals and directed they be hired. Also during the period, the

former Chairwoman recruited and directed the hiring of another 13 individuals who were placed in positions that had already been approved by HUD. By directing the PHA to hire the individuals, which included known poor performers, we believe the former Chairwoman created an appearance of favoritism. In addition, during 1994 and 1995, the PHA also violated HUD requirements by providing salary increases that were not included in the budget and/or not justified. PHA officials advised that the increases were made at the direction of either the former Chairwoman or the Executive Director. As a result, we consider the salary costs totalling \$219,373 to be unsupported pending a HUD eligibility determination.

5. Improper vacation and overtime payments

Contrary to requirements, the PHA compensated employees for unused vacation leave and overtime. Specifically, the PHA was required by law and union contract to cancel any vacation leave in excess of what each employee was allowed to carry into 1995. Instead, the Executive Director authorized the PHA to use \$65,031 in 1994 operating funds to compensate employees for unused vacation leave. The Executive Director told us that the PHA's past practice of unlimited leave accumulation had resulted in significant employee leave balances. While the Executive Director was aware of the requirements to cancel excess leave, he felt compelled to compensate employees to avoid litigation based upon past practice. Further, the Executive Director authorized \$6,200 in overtime compensation to supervisory administrative employees. The Executive Director told us that while he realized that administrative staff do not qualify to receive overtime compensation, he had authorized overtime compensation to be paid as a bonus because staff had worked overtime in pursuit of certain goals. We consider the overtime compensation to be improper based on: (1) the Federal Fair Labor Standards Act provision which relieves the PHA from any statutory requirement to compensate executive, professional, and administrative employees for overtime, and (2) the lack of any HUD or PHA

provision to authorize overtime. Accordingly, we consider the \$71,231 in total vacation leave and overtime compensation as unsupported.

6. Unnecessary costs may have been incurred

The PHA may have incurred costs that were not necessary by HUD requirements. The costs were incurred for a parking study to be conducted at the various housing projects. Internal assertions may have influenced the actual procurement of the study. However, the need for the study was not planned and was not included in the approved operating budget. As a result, the cost of the study is considered to be unsupported pending a HUD eligibility determination.

7. The administration of the Youth Sports Program needs improvement

The PHA, as Grantee, was awarded a Youth Sports Program grant of \$125,000 on May 4, 1992. The City of Camden, Department of Community Services, was the Subgrantee who incurred program costs. Our review of the costs charged to the program showed various deficiencies that indicate a lack of proper monitoring by the PHA. The deficiencies occurred because controls were not established to ensure adequate monitoring of the Subgrantee. Hence, assurance that program objectives were met has been diminished and the PHA has lessened its assurance that program funds are properly safeguarded against waste and loss. As a result, ineligible and unsupported costs of \$15,555.55 and \$39,998.94, respectively, were charged to the program.

8. Lack of control over gasoline purchases

Because the PHA did not implement procedures to control the purchase of gasoline from the City by its employees, unsupported gasoline costs of \$14,506 were incurred and a cost efficiency of \$33,239.46 is claimed. The weaknesses in controlling the purchase

of gasoline by employees is partly attributed to the PHA's belief that the City's controls over its system were adequate.

9. Inadequate control over the disbursement of project funds

The PHA's Finance Department did not maintain adequate control over the disbursement of project funds as required by the terms and conditions of the ACC and OMB Circular A-87. The controls are inadequate because no procedures were established to ensure that costs are eligible and properly supported prior to incurrence. As a result, the PHA has charged its LRH program with ineligible and unsupported costs totaling \$5,765.61 and \$21,511.49 respectively.

10. Car lease costs may not have been necessary

The PHA incurred costs in our opinion that were not necessary and/or reasonable. The costs were incurred to lease three new vehicles; two for PHA officials and one for the Apartment Turn Over (ATO) crew. The vehicles were leased because the former Chairwoman directed they be leased. As a result, the costs amounting to \$19,648.06 are considered to be unsupported pending an eligibility determination.

11. Travel costs violate prescribed requirements

Throughout the audit period, the PHA paid for travel costs that violated not only the terms and conditions of the ACC, but the provisions of its own policy as well. The violations occurred because the officials responsible for administering travel disregarded the requirements. As a result, the PHA has charged its LRH program with ineligible and unsupported travel costs totaling \$10,855.13 and \$5,289 respectively.

12. Inventory controls need improvement

The PHA has not established controls to ensure that assets are properly recorded and controlled as required by the ACC. Consequently, equipment is not properly



accounted for and is susceptible to theft and/or unauthorized use. We attributed the weaknesses in controls over inventory to the lack of written policies and/or procedures related to the accountability and safeguarding of assets.

13. Administrative controls are inadequate

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

Recommendations

As part of each finding, we have recommended certain actions which we believe will correct the problems discussed in the findings and strengthen the overall administration of the LRH program.

Exit conference

The results of the audit were discussed with PHA officials during the course of the audit, and at an exit conference held on June 27, 1996, attended by:

PHA Officials

Santiago Ibarra, Chairman, Board of Commissioners  
Gregory Adkins, Commissioner  
Benjamin J. Quattlebaum, Executive Director

HUD - New Jersey State Office Officials

Diane Johnson, New Jersey State Coordinator  
Edward De Paula, Acting Director, Office of  
Public Housing

HUD - Office of Inspector General

William H. Rooney, Assistant District Inspector General  
for Audit

Thomas Cosgrove, Senior Auditor

Richard Roseboom, Auditor

Daniel Schultz, Auditor

Michael Zaccaria, Auditor

The PHA disagreed with our recommendation shown in finding 1. Specifically, it is the PHA's position that the finding contains no substantial supportive documentation to conclude that the overall living conditions for residents have not improved or that they are unsuitable. We disagree and remind the PHA that: (1) most of the inspected units did not meet the minimum HQS; (2) the unsightly conditions of the grounds, buildings and common areas, and (3) the poor administration and lack of progress on its housing programs substantially support and document that tenant living conditions have not improved despite the availability of HUD funding.

Regarding the recommendations for findings 2 through 13, the PHA generally agreed. However, in some instances, the PHA's comments do not address all of the recommendations. The New Jersey State Office should ensure that all recommendations are addressed during the audit resolution phase.

The PHA's comments are included as Appendix F to this report.

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## Acronyms

ACC	Annual Contribution Contract
CFR	Code of Federal Regulations
CGP	Comprehensive Grant Program
DEP	Drug Elimination Program
HQS	Housing Quality Standard
HUD	U.S. Department of Housing and Urban Development
LRH	Low-Rent Housing
OIG	Office of Inspector General
OMB	Office of Management and Budget
PHA	Camden Housing Authority
RFP	Request for Proposal
URD	Urban Revitalization Demonstration
VRP	Vacancy Reduction Program

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# Introduction

The PHA was established by an ordinance adopted by the Board of Commissioners on April 20, 1938. The PHA is governed by a seven member Board of Commissioners. The Board establishes policy and takes official action as required by State and Federal law. One Commissioner is appointed by the Governor of New Jersey, and serves at his/her discretion. Another Commissioner is appointed by the Mayor, for a five year term and five Commissioners are appointed by City Council for staggered five year terms; one each year. The Executive Director is Benjamin Quattlebaum, who is responsible for selecting staff and managing the overall day-to-day operations of the PHA. The books and records are located in the PHA's administrative offices, located at 519 Federal Street, Camden, New Jersey 08103.

The PHA's fiscal year is from January 1, to December 31. The PHA operates nine developments containing 2,237 units. The developments consist of 1,931 family units and 306 senior units. The PHA also administers a Turnkey Program consisting of 93 units.

Moreover, two social service programs are administered by the PHA. They are the Drug Elimination Program and the Youth Sports Program. Both programs focus on drug education, intervention and prevention strategies and activities.

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## Audit objectives, scope and methodology

The primary objective of the audit was to evaluate internal controls for safeguarding cash and other assets, and to determine whether the PHA complied with the terms and conditions of the ACC and other applicable regulations and requirements. Specifically, we evaluated controls and procedures over equipment; determined whether the PHA complied with applicable requirements governing procurement and contracting requirements; evaluated the PHA's personnel procedures; determined whether costs charged to the PHA's housing and grant programs were reasonable and eligible; evaluated procedures and practices relating to PHA travel and general accounting and administrative controls; and visited housing developments to determine if any conditions could potentially have a negative impact on the welfare and safety of the tenants. In addition, we statistically selected 100 occupied units and inspected the units to determine if minimum HQSs were met.

The audit covered the period from January 1, 1993 to March 31, 1995. However, activity prior and subsequent to this period was reviewed as necessary. The audit field work was conducted between April 10, 1995 and February 22, 1996.

Audit procedures included examination of records and files, interviews with PHA staff, and development site visits. In addition, the PHA's policies, procedures and practices for managing its operations were reviewed. Detailed audit testing was based primarily on judgmentally or statistically selected samples representative of the transactions in the areas reviewed.

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

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



## The PHA Has Not Provided Tenants With Decent, Safe and Sanitary Housing as Required by the National Housing Act

In 1994 and 1995 HUD provided the PHA with nearly \$31 million in various subsidies and grants to help in its operations. In addition, during 1994 HUD awarded a \$42.1 million HOPE VI Urban Revitalization Demonstration (URD) grant for the revitalization of McGuire Gardens. In spite of more than \$73 million of HUD funding, living conditions of the tenants have not noticeably improved, particularly at the family type developments. The unsightly conditions of the grounds, buildings and common areas and the fact that most of the inspected units did not meet the minimum Housing Quality Standards (HQSs) are evidence that the PHA is not providing housing that is suitable for the tenants.

While this finding discusses the failure of the units we inspected to meet HQSs and the unacceptable conditions of the building exteriors, common areas and grounds along with the poor administration and lack of progress of the Comprehensive Grant Program (CGP), Vacancy Reduction Program (VRP), Drug Elimination Program (DEP) and the HOPE VI URD Program, the remaining 12 findings deal with inefficient and sometimes wasteful practices of the PHA. The inefficient and sometimes wasteful practices include: 1) improper procurement and contracting procedures, 2) poor monitoring of the Drug Elimination Program and Youth Sports Program that the City of Camden administers, 3) improper hiring and salary increases, 4) improper vacation and overtime payments, 5) improper contracting for a Parking Study, 6) lack of control over gasoline purchases and travel costs, and 7) various other ineligible costs and administrative deficiencies.

These deficiencies occurred because the former Chairwoman and the Board did not always operate the PHA in the interest of the tenants. Recently, the former Chairwoman and HOPE VI Program Administrator were issued a Limited Denial of Participation by the New Jersey State Office. We believe this action by HUD was the first positive action that needs to be taken if the PHA is going to improve its operation. A continuation of the status quo will produce no meaningful improvement; therefore, HUD needs to modify the management of the PHA. Accordingly, we recommend that one of three options to the current form of PHA management be considered. They are:

- (1) Joint management consisting of the existing PHA administration and HUD,
- (2) Appointment of a third party to manage the PHA, or
- (3) Take over of the PHA by HUD.

HUD has provided \$31 million in grants and subsidies

While the PHA cannot address the array of social and economic problems that confront public housing, it should be

## Finding 1

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expected to efficiently manage the \$31 million in grants and subsidies HUD has provided for the past two years. The funding provided consists of the following:

	1994	1995	Total
Operating Subsidy	\$ 8,102,343	\$ 8,893,724	\$16,996,067
Comprehensive Grant Program	5,274,249	4,943,101	10,217,350
Vacancy Reduction Program		1,740,000	1,740,000
Drug Elimination Program	582,250	582,250	1,164,500
Youth Sports Program		125,000	125,000
Royal Court - Operating Subsidy (Turnkey III)	196,717	203,856	400,573
<b>TOTAL</b>	<b>\$14,155,559</b>	<b>\$16,487,931</b>	<b>\$30,643,490</b>

In addition, during 1994 the PHA was awarded \$42.1 million under the HOPE VI URD Program.

Our review of the PHA's administration of its grant programs consisted of a physical inspection of the developments, and the evaluation of its funding for the Comprehensive Grant Program (CGP); Vacancy Reduction Program (VRP); Drug Elimination Program (DEP) and the HOPE VI URD Program. The results of our review for each of the areas are as follows:

### Physical Inspections

75 percent of units do not meet HQS

The PHA was provided over \$30 million in 1994 and 1995 by HUD to maintain its housing stock. However, our physical inspections disclosed that the majority of the units did not meet the minimum HQS required by HUD.

We inspected 100 occupied units. The units inspected were statistically selected using random numbers from a universe of 1,917 occupied units as of August 9, 1995. The results of our inspections disclosed that 75 of 100 units inspected failed the minimum HQSs.

The results of our site inspections of the 100 occupied units selected are as follows:

For the 75 units that failed inspection, we found 197 violations in various categories as shown below:

During our review, we determined that the number of violations identified were from zero to seventeen violations per unit. The majority of the reasons for the violations were due to a lack of preventive maintenance as shown below:

In 23 instances, involving 10 units, the violations were extremely serious and dangerous. Appendix B pages 1 and 2 are examples of the serious violations. Likewise the primary reasons for these violations were a lack of preventive maintenance as shown below.

The significant trend observed throughout the PHA was that the building exteriors and common areas along with the grounds required extensive work. Sidewalks and parking lots were also in poor condition and extensive planting of new trees and grass is needed. Appendix B pages 3 and 4 are examples of the poor ground conditions. Also, as part of our review we inspected two vacant units at each of the six family type units. Appendix B page 5 identifies two examples of the debris that we observed at the vacant units.

Comprehensive Grant Program

CGP funding not expended timely

The PHA has lagged in its use of Comprehensive Grant Program (CGP) funds despite the fact that it has vacancy problems, and despite the fact that some occupied units are in need of repair. In addition, our physical inspections at some developments showed that HUD funds were expended ineffectively.

The PHA was awarded CGP funding for the years 1992-1994 amounting to \$15,191,931. Through March 1995, only \$3,720,354 of CGP funds were expended while \$11,471,577, or approximately 75.5% remained unexpended.

During our site visits, we examined the interior and exterior conditions at each development. We found that some HUD funds were expended on poor quality upgrades. For example, we found that roofs and siding at several of the developments, which were installed within the last 10 years, are in need of extensive repair or replacement. Problems with the roofs have also caused interior water damage in some of the units. Other work recently completed at one development included exterior electrical wiring that was not properly covered or secured and created a safety hazard, especially for children.

Notwithstanding the PHA's difficulties in administering HUD funding in the past, efforts are being made to improve deficient conditions existing at the developments utilizing the unexpended modernization funding. However, unless HUD closely monitors the PHA's efforts, problems such as poor workmanship and undue delays in improving the living conditions at the developments will recur.

#### Vacancy Reduction Program

#### Vacancy Reduction Program status

The PHA was awarded \$1,740,000 for its Vacancy Reduction Program (VRP) with activities scheduled to start in January 1995. By early July 1995, the PHA had expended or obligated \$848,000 (69%) of the amount budgeted for dwelling structures at three of its family type developments. Yet, vacancy levels decreased only slightly. Vacancies at the three developments were 231 in December 1994. However, by June 1995 the number of vacancies declined by only seven to 224, even though 63 units had been renovated and were ready for occupancy. The statistics indicate that improvement is needed in the administration of the program.

The PHA continues to experience difficulties with vacancies at all six family type developments since vacancies have remained substantially unchanged since 1988. For example, the number of vacancies in March 1988 were 305 while 317 units were vacant in June 1995. During this time over \$60 million in HUD funds had been expended by the PHA to improve the living conditions at its housing developments.

#### Drug Elimination Program

#### Drug Elimination Program status

HUD has provided funding for the PHA's Drug Elimination Program (DEP) for the past six years. Grants for the later two years have not yet been implemented. For years 1990 through 1993 DEP grants totaled \$1,650,000, all of which were obligated or expended through June 1995.

Statistics provided by the Camden Police Department indicate that drug-related crime rates have not decreased over the past several years in the City. In fact, in 1990 there were 979 drug arrests in the City and the number increased to 1,432 by 1994.

PHA officials advised that it is difficult to accurately assess the impact of the Drug Elimination Program on crime activity in public housing because the limited funding has to be applied not only to drug prevention, but to intervention and security programs as well. Moreover, the police department advised the PHA that a shortage of manpower exists and the crime rate has drained the police resources to combat criminal activity and drug use at the housing developments. PHA officials contend that the scarce resources of the police department have further impacted their ability to effectively respond to drug and crime problems in public housing.

#### HOPE VI URD Program

#### HOPE VI URD Program status

The PHA received a \$42.1 million grant under the HOPE VI URD Program. The grant is intended to transform the McGuire Gardens housing development into a landscaped community and will create opportunity by generating 100 new jobs for residents and by providing opportunities for resident-operated businesses, together with job training and technical assistance in business enterprise development for public housing residents.

Even though the URD staff has been operational since January 1995, only \$175,000 had been expended under the program at May 31, 1995 and was almost entirely for salaries, fringe benefits, and office supplies and equipment. In addition, it was necessary for the PHA to request extensions of the due dates for the submission of various documents as required by Article XXI, Special Conditions of the Grant Agreement. The extensions requested ranged in time from two months to five months.

However, on November 21, 1995 the Acting Assistant Secretary for Public and Indian Housing advised the PHA that: "Article XXI.3. of the HOPE VI Grant Agreement required the PHA to create and empower Success Against All Odds Inc. (SAAO) to administer the HOPE VI Program. The PHA has failed to legally create SAAO. Furthermore, the documents the PHA submitted to HUD on September 25, 1995 fail to seriously address key issues related to the role of SAAO in this project, as required by Article XXI, paragraph 3 including its relationship to the Construction Manager and the PHA."

The PHA was advised that these failures not only constitute a Grant Agreement default but call into serious question the PHA's capability to effectively accomplish a successful revitalization of the McGuire Gardens community. The PHA was required by HUD to prepare and submit a default resolution plan. The plan must demonstrate convincingly that the PHA has recognized and resolved every factor which has caused it to fail to expeditiously revitalize the public housing units covered by the Grant agreement. Should the PHA fail to comply, HUD would recapture the funds and award them to another PHA.

We believe that HUD's warning regarding the inept administration of the URD Program symbolizes the overall poor administration by the PHA of all of HUD's programs. As a result, residents of public housing fail to realize the full benefit of the scarce resources provided by HUD. The seriousness of the problem is illustrated by the other 12 findings included in this report. Accordingly, we believe that HUD should consider one of the three options contained in the recommendation as the future form of management for the PHA.

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PHA Comments

The PHA disagrees with the finding and recommendation. Specifically, it is the PHA's position that the finding contains no substantial supportive documentation to conclude that the overall living conditions for residents have not improved or that they are unsuitable.

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OIG Evaluation of  
PHA Comments

We disagree with the PHA's comments since: (1) most of the inspected units did not meet minimum HQS; (2) unsightly conditions of the grounds buildings and common areas existed, and (3) the poor administration and lack of progress on its housing programs do substantially support and document that tenant living conditions have not improved despite the availability of HUD funding.

Recommendation

The adverse conditions at the PHA require HUD to consider some alternative to the current PHA management.

1A. Therefore, we recommend that you consider one of the following:

- (1) Joint management consisting of the existing PHA administration and HUD,
- (2) Appointment of a third party to manage the PHA,  
or
- (3) Take over of the PHA by HUD.

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# Improvements Are Needed in the System of Procurement and Contracting

Our review of the PHA's system for procurement and contracting showed various instances of deficiencies and/or noncompliance with HUD regulations and requirements, and with its own procurement policy. Some of the deficiencies or instances of noncompliance include: (1) Request For Proposal (RFP) was received after the expiration date; (2) procurements were made where no quotes were requested; and (3) instances where costs were not adequately supported. The deficiencies and noncompliances are attributed to internal influences and oversight by staff in the review process. As a result, assurance that the related procurement and contract costs were proper and reasonable has been diminished and the PHA has incurred costs of \$733,391.57 that are unsupported.

A total of 10 contracts and/or procurements were selected for review. Five were selected based on deficiencies identified during a probe<sup>1</sup> of the PHA conducted under Operation Safe Home in April 1994. Three were selected based on information that came to our attention during the audit and the remaining two were selected at random.

The particulars involving the contracting and procurement deficiencies and noncompliances are discussed in greater detail in the subsections below.

## Noncompliance and Deficiencies in Contracting

1. Contract for Preparation of Application to HUD for an Urban Revitalization Demonstration (URD) Grant - (Unsupported \$165,000)

### URD Grant

The contract files showed that the Request for Proposal (RFP) that was accepted and upon which the contract was awarded was dated three days after the expiration date for acceptance. The RFP was received and date stamped four days after expiration. Nonetheless, the contract was awarded the firm submitting the late RFP. The contract price was

<sup>1</sup> An intensified OIG review to detect fraud

\$165,000 and exceeds the next lowest RFP by \$100,000. Since the RFP was late, it should have been rejected and the amount of \$165,000 is considered to be unsupported.

Federal procurement regulations, 24 Code of Federal Regulation (CFR) Section 85.36, requires solicitation of proposals from an adequate number of qualified sources. In addition, a method for conducting evaluations of the proposals received and for selecting awardees is required. The PHA has adopted procedures to publicize RFPs which include a deadline date for submission of proposals.

Inconsistencies were also noted with the dates of the PHA Board approval and award of the contract dated March 5, 1993.

The Board meeting minutes on March 24, 1993 [1] provide:

"Chairwoman: presented to the Board for approval Resolution "F" Awarding the Board of Commissioners Action Taken on Friday, March 26, 1993, [1] Awarding Contract to (name of Contractor) to Prepare the Housing Authority of the City of Camden's Urban Revitalization Demonstration application in the amount not to exceed \$165,000.00.

RESOLUTION NO. 6837

RESOLUTION AWARDING THE BOARD OF COMMISSIONERS ACTION TAKEN ON FRIDAY, MARCH 5, 1993 [1] [2] AWARDING CONTRACT TO (name of contractor) TO PREPARE THE HOUSING AUTHORITY OF THE CITY OF CAMDEN URBAN REVITALIZATION DEMONSTRATION APPLICATION IN THE AMOUNT NOT TO EXCEED \$165,000"

**[1] There was no plausible explanation for the inconsistency in the dates.**

**[2] There were no Board Minutes for March 5, 1993.**

## Legal Contracts

2. Legal Contracts for Management Operations - (Unsupported \$471,919.14)

The PHA entered into several contracts with a legal firm to provide management legal services for the PHA's operations. We reviewed payments made to the legal firm from January 1, 1992 through the end of our audit period of March 31, 1995 under two contracts. It should be noted that there was no contract in affect from January 1, 1993 through March 31, 1993 even though costs were charged during this period.

During the period reviewed the firm was paid \$516,840.14 for legal services. We found that \$471,919.14 of the costs were not adequately supported since the billings submitted were vague and unclear as to the actual services provided. For example, descriptions on many of the billings merely included language, such as: "review letter"; "prepare brief"; "telephone conversation"; "prepare for court"; "facts investigation"; "conference"; and, "court appearance". While the billings identified the case, only vague descriptions were shown for the services provided.

The contracts also provided for monthly retainer payments for the general scope of services to be provided. Both contracts contained a list of more than 10 areas of general services to be provided. In many instances, the only documentation provided was a copy of that portion of the contract which showed the annual amount due and the provision for monthly payments. In other instances, no documentation was available to support the monthly payments.

Other charges were made for out-of-pocket costs. However, we found that the costs were generally either not supported or represented payments to another legal firm for services that may have been included as part of the monthly retainer amount.

The deficient costs may not meet the reason-ableness, necessity, or economy requirement of Section 406 of Part II of the ACC. Thus, the charges totaling

\$471,919.14 are considered to be unsupported pending a HUD eligibility determination.

Other deficiencies include:

- (1) The files for the later of the two contracts contained two proposals. However, an evaluation or ranking and rating of the proposals was not available even though the firm selected had a base bid of \$1,000 more than the other proposal.
- (2) One payment made in May 1994 included costs for services dated back to July 1992, indicating a breakdown in controls over Accounts Payable.
- (3) Other payments were made to establish, and later increase to \$1,500, a trust account, (in the name of the legal firm) to make funds available to cover court costs on certain tenancy matters. Although the disbursements represented a prepaid expense, they were charged to legal expense, thereby losing control and identity.

3. Legal Contract on the URD Program - (Unsupported \$23,333.31)

URD Legal

A contract was executed on May 19, 1995, to provide legal services for the URD Program. The contract provides for an annual amount of \$40,000 payable monthly as full compensation. The contract scope of services includes eleven areas of services to be provided. At December 31, 1995, the PHA had paid \$23,333.31 under the contract.

Our review showed that the billings submitted for payment merely identified the charges as a monthly retainer. There was no explanation of the services provided. Accordingly, we consider the costs incurred of \$23,333.31 to be unsupported.

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

Making equal monthly payments, without consideration given to the level and extent of the services provided, precludes the PHA from assuring that the costs incurred are necessary and reasonable and that the services contracted for have been provided.

In addition, the files showed that the three proposals received would be evaluated as part of the process for awarding the contract. However, there were no documented evaluations available for review.

#### Relocation Contract

#### 4. Contract for Relocation of Residents to Facilitate Modernization Work at Various Projects - (Unsupported \$8,280)

The PHA originally requested bids on the contract in May, 1993; but received no responses. Bids were again requested in August 1993 and two companies submitted proposals. However, one of the companies, not the one who submitted the lowest proposal, was not a moving company and did not respond to many of the items in the proposal package, such as:

- Evidence of ability to perform the work.
- Demonstration of complete understanding of the proposed project.
- Evidence of license to perform the work.
- Profiles of the firms principals, staff and facilities.
- Certified statement that the company is not debarred, suspended, or otherwise prohibited from professional practice by Federal, State or local agencies.
- Affirmative action plan and/or indication of minority participation.
- Proposed plan of interaction with or outreach to the residents of the development.
- References.

Federal procurement regulations, 24 CFR Part 85.36 provide that proposals will be solicited from an adequate number of qualified sources. Also, the PHA procurement policy provides that if only one

responsive bid is received, the award shall not be made unless a cost or price analysis verifies the reasonableness of the price.

Based on the above deficiencies, the two proposals should have been rejected and the contract re-bid since a cost or price analysis was not performed. Nonetheless, the Modernization Department recommended that the contract be awarded the low bidder. Therefore, the payments made on the contract in the amount of \$8,280 are considered to be unsupported.

Other deficiencies associated with the bid proposal or contract are: when preparing the bid proposal package, the PHA failed to request bids for moves comprising the different types of buildings involved such as Row-Type, High-Rise, or Walk-Up. The contractor, who was awarded the contract, did not stipulate whether the fees, identified by bedroom size, applied to all types of buildings. However, the Modernization Department assumed that the fees applied to any type of move and reported the assumption to the Executive Director when recommending the award of the contract. The proposal selected for award was not prepared on the contractor's letterhead and was not dated. Neither of the two proposals received by the PHA had been time or date stamped. Finally, the contract was submitted to HUD for approval after it had been executed rather than before and the contract did not include a maximum contract price.

24 CFR Part 85.36 of the Federal regulations requires that all solicitations incorporate clear and accurate descriptions of the service to be procured and that adequate procurement records will be maintained. In addition, the HUD Newark Office established threshold levels that, if exceeded, require review and approval of contract documents before execution by the PHA.

5. Contract for Fence Installation at Kennedy, Mickle, and Westfield Towers

## Fence installation

A review of the contract files showed the bid package included a requirement that: "It shall be necessary for the bidder to present a financial statement indicating the condition of his company of not more than three months prior to the bid submission."

However, the contract files contained a note from the bidder that it was agreed to between the PHA employee accepting the bid packages and the bidder that if the bidder was awarded the contract, a financial statement would be mailed immediately. Although the bidder was awarded the contract, a financial statement was still not available in the contract files at the time of our review. On January 23, 1996, the PHA provided us a financial statement. The statement is dated August 10, 1995. Thus, it was not available to the PHA by the bid date of June 7, 1995.

Despite the requirement and the bidder's failure to meet the requirement, the contract was awarded for \$149,300. No payments were made on the contract at the time of our review in January, 1996.

6. Contract for Land Development Planning Review Services on URD Program - (Unsupported \$9,368)

## Land Development

There were no RFP's prepared and no quotes were requested or recorded for the contract. Thus, the PHA was denied the benefit of competitive proposals to ensure that the best possible price and quality services were obtained. Accordingly, the payments made on the contract amounting to \$9,368 are considered to be unsupported.

The contract provided for maximum compensation of \$35,000 per year and included an hourly rate of \$26.92 for services rendered. However, there was no documentation to show how either the maximum compensation or hourly rate were determined.

OMB Circular A-87, Cost Principals for State and Local Governments, provides that, to be allowable under a grant program, costs must be necessary and

reasonable for proper and efficient administration of the program.

The Contractor's duties are vague and unclear. According to the contract, the Contractor's duties are: "Under direction, the Contractor shall perform the duties of Principal Planner Land Development Review, as outlined by the New Jersey Department of Personnel. The Contractor may also perform duties of a similar nature as needed."

The contract was not brought before the PHA Board of Commissioners for approval.

24 CFR Part 85.36 of the Federal regulations requires all procurement transactions be conducted in a manner providing for full and open competition.

7. Contract for Environmental Planning Services on URD Program - (Unsupported \$9,230)

Environmental Planning

There were no RFP's or quotes prepared for the contract. Thus, the PHA was denied the benefit of competitive proposals to ensure that the best possible price and quality services were obtained. Accordingly, the payments made on the contract amounting to \$9,230 are considered to be unsupported.

24 CFR Part 85.36 of the Federal regulations requires all procurement transactions be conducted in a manner providing full and open competition.

The contract provided for an hourly rate of \$65 for services rendered. However, there was no documentation to show how the hourly rate was determined.

OMB Circular A-87, Cost Principles for State and Local Governments, provides that, to be allowable under a grant program, costs must be necessary and reasonable for proper and efficient administration of the program.



The contractor's duties are vague and unclear. According to the contract, The Contractor's duties are: "Under direction, the Contractor shall perform the duties of Principal Planner Environmental, as outlined by the New Jersey Department of Personnel. The Contractor may also perform duties of a similar nature as needed."

The contract was not brought before the PHA Board of Commissioners for approval.

Apart from the above, the contract file contained a purchase requisition and purchase order that were processed for the Contractor for \$195. The purchase requisition described the payment as "To pay Consultant for RFP for McGuire Gardens." Thus, it appears the payment was for the Contractor to prepare a resume and the amount is also unsupported.

#### Noncompliance and Deficiencies in Procurements

##### 8. Purchase Order to Provide Computer Training - (Unsupported \$4,500)

Computer training

The PHA executed a Purchase Order on August 11, 1993 with an employee of the City Clerk's Office to provide Word Perfect Computer Training to 15 employees.

Our review of the Purchase Order showed:

The Purchase Order was executed contrary to the provisions of the PHA's procurement policy. The policy provides that for purchases in excess of \$1,000, but under the State public bid threshold, no less than three offerors shall be solicited to submit price quotations, which may be obtained orally, by telephone, or in writing. The names, addresses, and/or telephone numbers of the offerors and persons contacted, and the date and amount of each quotation shall be recorded and maintained as a public record.

Discussions with PHA officials disclosed that the only proposal (offer) provided was from the City employee,

who worked with the former PHA Chairwoman, in the City Clerk's office. The former Chairwoman had decided that the training was necessary and which employees should attend.

The entire amount of the proposal, or \$4,500, was paid before all 15 employees received the training. In fact, four employees have either not received or have not completed the training. Thus, the PHA should request reimbursement of the cost for any training not provided. In addition, the cost to provide the training may not be reasonable since the cost was almost four times as great as similar training provided at the local community college. Thus, the \$4,500 is considered to be unsupported.

Finally, the City employee did not specify any experience or expertise as an instructor.

9&10. Additional Legal Services - Operations - (Unsupported \$41,761.12)

Legal Services

The PHA incurred costs for legal services in addition to those provided under the legal contract for management operations. The costs were incurred without an RFP having been prepared and without a contract having been executed. Thus, the PHA was denied the benefit of competitive proposals and full and open competition to ensure that the best possible price and quality services were obtained as required by 24 CFR Part 85.36 of the Federal regulations. Accordingly, the costs incurred during the audit period amounting to \$37,346.70 are considered to be unsupported.

In addition, we found that some of the services provided may have been within the scope of services of the PHA's legal contract for management operations. Specifically, charges for personnel and union related matters.

Apart from the above, still other costs were incurred with another firm in addition to those provided under the legal contract for management operations. We

found that quotations were not solicited; an RFP was not prepared and an agreement had not been executed. Moreover, the billings submitted for payment showed that some of the services provided may have been within the scope of services of the PHA's legal contract for management operations such as charges for attending Board meetings and reviewing Board meeting agendas.

Still other charges were made for services relating to liability insurance claims. PHA officials advised that such duties are routinely performed by in-house staff. Therefore, the costs incurred during the audit period amounting to \$4,414.42 are considered to be unsupported.

The procurement and contracting deficiencies cited in this Finding indicate a general weakness in the PHA's system of awarding and administering contracts. Unless the PHA recognizes its responsibility to implement controls that will ensure compliance with the procurement and contracting requirements, these or similar deficiencies will continue.

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## Recommendations

We recommend that you require the PHA to:

- 2A. Provide justification for the unsupported costs so that an eligibility determination can be made.
- 2B. Reimburse from non-Federal funds, the amount of any unsupported costs determined to be ineligible.
- 2C. Adopt necessary controls to ensure compliance with procurement requirements when RFPs are solicited.
- 2D. Establish controls to ensure that price or rate quotes are obtained from an adequate number of qualified sources when procurement by small purchase procedures are followed.
- 2E. Adopt controls to ensure that the proper method of procurement is achieved and, that where mandated,

procurements will provide for full and open competition.

- 2F. Establish procedures to ensure that duplication of services or effort does not occur when work of a similar nature is procured.

## Improvements Are Needed in the Monitoring of Subgrantees for the Drug Elimination Program

The PHA was awarded Drug Elimination Program (DEP) grants of \$250,000 in 1990 and \$466,600 each for years 1991, 1992 and 1993. The City of Camden, Department Of Community Services, acted as Subgrantee for the PHA and incurred costs under the program. Our review of the costs showed various deficiencies that indicate a lack of monitoring by the PHA. The deficiencies occurred because procedures were not established to ensure adequate monitoring of Subgrantees. Consequently, not only has assurance that program objectives were met been diminished; but the PHA has lessened its assurance that program funds were properly safeguarded against waste and loss. As a result, ineligible and unsupported costs of \$ 5,472.14 and \$ 607,834.60, respectively, were charged to the program.

### Review was expanded

Originally we intended to review a sample of selected transactions as to their propriety and eligibility for the 1993 DEP grant. However, due to the wide range of deficiencies noted from the review of transactions for the 1993 grant, it became necessary to review the DEP grants from 1990 through 1993 in detail.

Examples of some of the types of ineligible and unsupported costs included in the claims submitted by the Department of Community Services:

### Ineligible Costs

Includes three instances where claims were made for costs that had already been reimbursed and thus represent a duplication; the documentation for another claim showed the cost pertained to the City's Community Development Block Grant (CDBG) program; and tenant patrol compensation costs were claimed even though they represented an ineligible use of funds.

### Unsupported Costs

Includes several claims for payroll costs that were not adequately supported by payroll journals or time records; various claims contained inadequate documentation such as either no purchase order, purchase requisition, vendor invoice or, where they existed, sufficient detail was lacking to allow an

eligibility determination to be made; and finally the documentation for some claims was unclear as to whether the charges were related to an activity designated to meet program objectives. Generally, the files failed to contain evidence of Subgrantee payment, such as copies of cancelled checks or cancelled invoices for charges to the program.

The above ineligible and unsupported costs are further identified and explained in Appendix C of this report.

Apart from the above, the City Police Department also acted as a Subgrantee on each of the DEP grants. Accordingly, we reviewed costs for a two week period from April 26, 1993 through May 9, 1993 and found:

- Charges were based on a flat \$25 per hour for police work plus a five percent charge for administrative costs. Yet, the PHA files did not document or explain the basis for the charges.
- For the two week period the PHA was charged \$35,512.50 based on the \$25 rate and excluding the charge for administrative costs. However, Police Department payroll records showed payroll costs of only \$32,582.93 or \$2,929.57 less than the amount charged the DEP.

Even though we did not question either the rate or the cost difference, the PHA should address these deficiencies when establishing procedures to provide for effective monitoring of Subgrantee performance.

OMB Circular A-87 provides that, to be allowable under a grant program, costs must be necessary and reasonable for proper and efficient administration of the program. The Circular further provides that, to be allowable under a grant program, costs can not be allocable to or included as a cost of any other federally financed program. In addition, 24 CFR Part 85.40 of the Federal regulations provides that, Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements.

The above deficiencies are even more significant since PHA officials confirmed that site visits were not made to Subgrantees to verify claims and disbursement records. The lack of monitoring is further evidenced from the ineligible and unsupported costs described above. Unless the PHA establishes procedures to provide effective monitoring of Subgrantee performance, deficiencies similar to those cited herein will continue in the administration of the more recent DEP grants of \$582,250 awarded on November 24, 1994 and \$582,250 awarded on August 16, 1995.

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## Recommendations

We recommend that you require the PHA to:

- 3A. Establish procedures that will provide for effective monitoring of Subgrantee performance.
- 3B. Reimburse the ineligible costs of \$5,472.14 from non-Federal funds.
- 3C. Provide additional documentation for the unsupported costs of \$607,834.60 so that an eligibility determination can be made.
- 3D. Reimburse from non-Federal funds the amount of any unsupported costs that are determined to be ineligible.

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## PHA Exceeded HUD Approved Staffing and Provided Unsupported Administrative Salary Increases

Despite HUD having informed the PHA not to exceed the staffing levels identified in the approved budget, between October 1992 and December 1995, the PHA added at least six positions that were not previously included in the approved budgets. PHA officials stated that the excess staffing occurred because the former Chairwoman recruited the individuals and directed they be hired. Also during the period, the former Chairwoman recruited and directed the hiring of another 13 individuals who were placed in positions that had already been approved by HUD. By directing the PHA to hire the individuals, which included known poor performers, we believe the former Chairwoman created an appearance of favoritism. In addition, during 1994 and 1995, the PHA also violated HUD requirements by providing salary increases that were not included in the budget and/or not justified. The Executive Director advised that the increases were made at the direction of either the former Chairwoman or himself. As a result, we consider the salary costs totalling \$219,373 to be unsupported pending a HUD eligibility determination.

a. Former Chairwoman Directed PHA to Hire Personnel (Unsupported Costs \$187,497)

HUD and PHA requirements

HUD notified the PHA each year that any staffing not included in the approved budget would be unauthorized. Further, HUD OIG Program Integrity Bulletin for Public Housing Agency Commissioners dated November 1990 states that Commissioners should set policy and the Executive Director should run the day to day operations. Also, the Bulletin along with the PHA's personnel manual state that the Executive Director is responsible for recruiting and hiring PHA staff.

PHA did not budget six positions

Contrary to the above requirements, we found that between the period October 1992 and December 1995, the PHA hired at least six individuals for positions not previously included in the approved budgets. PHA officials told us that the former Chairwoman recruited the individuals and directed they be

hired. Once hired the positions appeared in the subsequent year budgets.

The decision to hire individuals for positions not included in the approved budget has resulted in additional salary costs of \$187,497 and we consider such costs as unsupported pending a HUD eligibility determination.

The particulars of the six positions are as follows:

Position	Month Hired	Salary
Chief Accountant <u>2/</u>	4/95	\$ 42,000
Assistant Chief, Maintenance <u>1/</u>	4/93	35,000
Housing Coordinator	7/93	35,000
Assistant Budget Examiner	8/93	25,917
Program Monitor <u>2/</u>	2/95	25,000
Field Representative, Rehabilitation	5/93	24,580
<b>TOTAL</b>		<b>\$187,497</b>

1/ Second position having this title.

2/ Even though the positions were filled during 1995; the entire salary is unsupported pending a HUD eligibility determination.

Also, during the period between October 1992 and December 1995, PHA officials told us that, in addition to the six individuals mentioned above, another 13 individuals were hired as a result of the former Chairwoman's influence and were placed in budgeted positions that had already been approved by HUD. Two of the above individuals were then dismissed due to poor performance. Both were later rehired at the insistence of the former Chairwoman. Their poor performance continued and they were again dismissed.

b. Salary Increases to Administrative Staff (Unsupported \$31,876)

HUD and PHA requirements

HUD would notify the PHA each year that salary increases not included in the approved budget were unauthorized. In addition, in 1993, the Board of Commissioners approved the PHA's policy to align administrative salaries with comparable positions in the City/County of Camden. This policy supplements the PHA's 1992 Personnel Manual by specifically addressing how administrative salaries are to be determined. Under the policy, which adopts the provisions of HUD Handbook 7401.7, the Personnel Policies Handbook the PHA would only change administrative salaries as needed to maintain comparability with the City/County of Camden. The policy also required the PHA to maintain comparability data in its files to support any salary changes.

Salary increases made without comparability and/or not budgeted

Our review disclosed that in calendar years 1994 and 1995, the PHA provided salary increases to a total of nine administrative staff employees. These increases were in addition to the employees' annual cost of living increases. The Executive Director advised that no comparability data was developed or maintained to justify or support the increases. In addition, the 1995 increases were not included in the operating budget. Thus, the PHA made the 1995 increases not only without HUD concurrence, but has no assurance that either the 1994 or 1995 increases meet the necessary and reasonable cost requirement of Section 406, Part II of the ACC. As a result, the increases totaling \$31,876 are considered to be unsupported pending a HUD eligibility determination.

The particulars of the increases are as follows:

Finding 4

Position JANUARY 1994	Previous Salary	New Salary	Amount of Increase	Percent of Increase
Chief of Maint.	\$42,000	\$46,500	\$4,500	10.7 <u>1/</u>
Asst. Chief Maint.	36,500	40,810	4,310	11.8 <u>2/</u>
Asst. Chief Maint.	36,500	40,810	4,310	11.8 <u>2/</u>
Housing Coordinator	35,000	39,800	4,800	13.7 <u>2/</u>
<b>JUNE 1995</b>				
Dir. Staff Ops.	\$57,330	\$60,000	\$ 2,670	4.7 <u>3/</u>
Dir. Redevelopment	57,330	60,000	2,670	4.7 <u>3/</u>
Dir. Administration	57,330	60,000	2,670	4.7 <u>3/</u>
Dir. Finance	57,330	60,000	2,670	4.7 <u>3/</u>
Modernization Spec.	54,054	57,330	3,276	6.1 <u>4/</u>
TOTAL			\$31,876	

- 1/ Executive Director determined employee deserved additional compensation for performing the duties of two positions.
- 2/ The Executive Director said that the former Chairwoman directed that the duties and responsibilities of the employee be changed.
- 3/ The Executive Director said that the former Chairwoman directed Executive Director to recommend to the Board that the Director's salary be increased to \$60,000.
- 4/ The Executive Director said that the Former Chairwoman directed Executive Director to increase the salary for this position to equal that previously paid to the various department Directors.

The staffing and salary increase deficiencies described above indicate significant weaknesses in the area of personnel matters. Accordingly, the salary costs totalling \$219,373 are considered to be unsupported pending a HUD Field office eligibility determination.

Recommendations

We recommend that you require the PHA to:

- 4A. Provide assurance that the Executive Director will be responsible for recruiting and hiring staff.

- 4B. Perform a salary comparability study to align administrative salaries with comparable positions in the City/County of Camden.
- 4C. Restrict salary changes to those authorized in the budgets.
- 4D. Adopt procedures that will ensure that anticipated salary increases are included in the operating budgets.
- 4E. Reimburse from non-Federal funds the amount of any unsupported costs determined to be ineligible.

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## Contrary to Requirements Payments for Unused Vacation and for Overtime Occurred

Contrary to requirements, the PHA compensated employees for unused vacation leave and overtime. Specifically, the PHA was required by law and union contract to cancel any vacation leave in excess of what each employee was allowed to carry into 1995. Instead, the Executive Director authorized the PHA to use \$65,031 in 1994 operating funds to compensate employees for unused vacation leave. The Executive Director told us that the PHA's past practice of unlimited leave accumulation had resulted in significant employee leave balances. While the Executive Director was aware of the requirements to cancel excess leave, he felt compelled to compensate employees to avoid litigation based upon past practice. Further, the Executive Director authorized \$6,200 in overtime compensation to supervisory administrative employees. The Executive Director told us that while he realized that administrative staff do not qualify to receive overtime compensation, he had authorized overtime compensation to be paid as a bonus because staff had worked overtime in pursuit of certain goals. We consider the overtime compensation to be improper based on (1) the Federal Fair Labor Standards Act provision which relieves the PHA from any statutory requirement to compensate executive, professional, and administrative employees for overtime, and (2) lack of any HUD or PHA provision to authorize overtime. Accordingly, we consider the \$71,231 in total vacation leave and overtime compensation as unsupported.

### a. Unused Vacation Leave Compensation (Unsupported \$65,031)

State and PHA requirements and regulations

Title 11A "Civil Service", New Jersey Statutes Annotated Section 11A:6-3 provides that vacation not taken in a given year because of business demands shall accumulate and be granted during the next succeeding year only. The statute, along with PHA union contracts with similar requirements, cover all employees except those at the director level. The PHA's personnel manual allows directors to carry up to 60 days vacation leave into the next succeeding year.

PHA paid \$65,031 in unsupported vacation time compensation

The PHA did not comply with the aforementioned State Law, its own union contracts and personnel manual when it compensated employees for unused vacation. Instead of canceling any vacation in excess of the maximum each employee was allowed to carry over to 1995, the PHA

compensated employees for the excess leave. In addition, the PHA paid four directors a total of more than \$16,000 for vacation time when in fact the directors had leave balances below the maximum allowed. In total, the PHA paid \$65,031 in compensation to employees for unused vacation time. Because directors had not accumulated excess unused vacation leave, and because State Law and union contracts require excess accumulated leave for all other employees to be canceled, we consider this expense to be unsupported.

b. Administrative Employee Overtime Compensation (Unsupported \$6,200)

Criteria

Section 213 of the Federal Fair Labor Standards Act provides that any employee employed in a bonafide executive, administrative, or professional capacity is exempt from the requirement of being paid overtime or compensatory pay. Further, Section 307 of the ACC requires the PHA to adopt personnel policies which address employee compensation. The PHA's personnel policy in effect, dated October 1, 1992, does not provide for administrative staff overtime or bonus compensation. Finally, HUD Handbook 7401.7, PHA Personnel Policies Handbook, in effect when this policy was adopted, states that HUD may disallow PHA costs where the PHA has acted imprudently in light of the ACC's Section 201 requirement for an efficient and economical operation.

PHA paid \$6,200 in unsupported overtime compensation

The PHA paid a total of \$6,200 to supervisory administrative staff for compensatory time. This compensatory pay, while termed "compensatory time and tasks payment" and "compensatory award" in the PHA's resolution, was in fact payment based on the amount of overtime each employee worked according to the Executive Director. Supervisory administrative staff received overtime compensation ranging from \$200 to \$500, with a total of \$6,200 charged to the 1994 operating budget. Staff who received compensation included the Assistant Executive Director, all department Directors, Chief of Maintenance, Modernization Specialist, and others. Because of the criteria discussed earlier, we believe the Board of Commissioners did not exercise proper oversight with the adoption of this resolution to ensure for an efficient and economical operation of the PHA. Accordingly, \$6,200 is considered unsupported costs.



Recommendations

We recommend that you require the PHA to:

- 5A. Institute controls that will ensure that payments for unused vacation time and overtime are in compliance with Federal, State and PHA requirements.
- 5B. Provide justification for the \$71,231 of unsupported costs so that an eligibility determination can be made.
- 5C. Reimburse the amount of any unsupported costs determined to be ineligible from non-Federal funds.

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## Questionable Payments for Parking Study

The PHA may have incurred costs that were not necessary by HUD requirements. The costs were incurred for a parking study to be conducted at the various housing projects. Internal assertions may have influenced the actual procurement of the study. We were told that the former Chairwoman directed that the study be conducted. As a result, the cost of the study is considered to be unsupported pending a HUD eligibility determination.

PHA officials advised they were instructed by the former Chairwoman just before a Board meeting on November 12, 1992, to have the parking study performed by the Parking Authority of the City of Camden even though they believed it was not the best use of funds and no previous discussions were held as to the need for such study. In this regard, it was noted that, at the time the parking study was arranged, the former Chairwoman was also the City of Camden City Clerk and the former Executive Director of the Parking Authority was also the Chairman of the City of Camden Democratic Party.

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### Deficiencies found during file review

A review of the parking study file showed:

- A letter to the PHA from the Parking Authority dated November 12, 1992, states that the Camden City Parking Authority is pleased to respond to your request of October 1992 to provide consulting services. However, the PHA was unable to provide us with any written request to the Parking Authority. Had a written request been made, we believe it most likely that the Parking Authority would have cited the date of the request in its letter to the PHA. The Parking Authority was also unable to provide us with any written request from the PHA in October 1992.
- It appears that the Request for Proposal (RFP) was prepared by the Parking Authority rather than the PHA.
- The RFP is dated November 12, 1992, the same date that the PHA Board Resolution was passed authorizing the Parking Authority to perform the study.
- The \$50,000 cost for the study was paid out of Operating Funds and was not included in the approved budget.

- A formal contract was not executed.
- Although the study was performed, the recommendations of the study were never implemented.
- There was no advertising of the PHAs intention to have the study performed. Thus, there was no assurance that the price was competitive.

Regarding competitive bidding, PHA officials advised that it was their belief that competitive bidding was not required in instances where one government entity (PHA) was contracting with another (City of Camden Parking Authority). We advised the PHA that 24 CFR Part 85.36 of the Federal regulations does provide that: To foster greater economy and efficiency, grantees and subgrantees are encouraged to enter into State and local intergovernmental agreements for procurement or use of common goods and services. However, due to the deficiencies cited, we do not believe that the parking study has fostered the economy and efficiency intended by the regulations and may also not meet the necessary and reasonable cost requirement of Section 406, Part II of the ACC. Therefore, the cost of the study, or \$50,000, is unsupported pending a HUD eligibility determination.

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## Recommendations

We recommend that you require the PHA to:

- 6A. Provide justification for the unsupported costs so that an eligibility determination can be made.
- 6B. Reimburse from non-Federal funds, the amount of any unsupported costs determined to be ineligible.
- 6C. Institute controls that will assure that costs meet the economy and efficiency and the necessary and reasonable requirements, prior to incurrence.

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## Improvements Are Needed in the Administration of the Youth Sports Program

The PHA, as Grantee, was awarded a Youth Sports Program grant of \$125,000 on May 4, 1992. The City of Camden, Department Of Community Services, was the Subgrantee who incurred program costs. Our review of the costs charged to the program showed various deficiencies that indicate a lack of proper monitoring by the PHA. The deficiencies occurred because controls were not established to ensure adequate monitoring of the Subgrantee. Hence, assurance that program objectives were met has been diminished and the PHA has lessened its assurance that program funds are properly safeguarded against waste and loss. As a result, ineligible and unsupported costs of \$15,555.55 and \$39,998.94, respectively, were charged to the program.

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The following items should not be considered to be all inclusive; rather, they represent only those deficiencies identified from our review of program costs.

### Ineligible Costs

\$15,555.55 ineligible Youth Sports Program Costs

The Subgrantee made two payments totaling \$14,170.55 to a contractor for services that were charged to its CDBG program. However, the Subgrantee used the same supporting documentation to claim reimbursement under the Youth Sports Program. Accordingly, the reimbursement represents a duplication and is ineligible.

Another payment was made to a contractor by the Subgrantee for \$1,135. Yet, the Subgrantee's books and records showed that the amount was already charged to the Drug Elimination Program (DEP) and is therefore ineligible for reimbursement under the Youth Sports Program.

The Subgrantee's files showed that a vendor's invoice was overpaid by \$250 and represents an ineligible charge to the program.

\$39,998.94 unsupported Youth Sports Program Costs

Unsupported Costs

The Subgrantee submitted claims for payroll costs amounting to \$33,541.94 while only \$589.32 was charged to the program. Neither the Subgrantee nor the PHA files contained adequate documentation to support the costs claimed. For example, \$14,682.72 was claimed based solely on a calculation providing for payment of two thirds of an 18 month budgeted amount. The balance of the costs, or \$18,859.22, was for overtime paid to Subgrantee staff. However, the payroll records maintained by the Subgrantee and the PHA did not identify the overtime as relating specifically to the Youth Sports Program. Thus, the payroll costs of \$33,541.94 are considered to be unsupported.

The Subgrantee executed a contract with a non-profit organization to provide program services. However, a payment was made in the amount of \$5,837 for services that were not included in the contract scope of services. Not only was the cost for the activity (Midnight Basketball) not included in the contract scope of services, but it was specifically deleted by amendment to the program contract between the Subgrantee and the PHA. Accordingly, the amount is considered to be unsupported pending a HUD eligibility determination.

Four other Subgrantee claims totaling \$620 did not contain adequate documentation such as vendor files or canceled checks to support the costs. Therefore, the \$620 is considered to be unsupported.

Criteria

OMB Circular A-87 provides that, to be allowable under a grant program, costs must be necessary and reasonable for proper and efficient administration of the program. The Circular further provides that, to be allowable under a grant program, costs can not be allocable to or included as a cost of any other federally financed program. In addition, 24 CFR Part 85.40 of the Federal regulations provides that, Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements.

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Discussions with PHA  
Officials

Discussions with PHA officials confirmed that site visits were not made to the Subgrantee to verify claims and disbursement records. The failure to monitor the Subgrantee is evident from the ineligible and unsupported costs described above. Unless the PHA establishes controls to provide effective monitoring of Subgrantee performance, deficiencies similar to those cited herein will continue in the administration of the most recent Youth Sports Program grant of another \$125,000 awarded on August 16, 1995.

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Recommendations

We recommend that you require the PHA to:

- 7A. Establish controls that will provide for effective monitoring of Subgrantee performance.
- 7B. Reimburse the ineligible costs of \$15,555.55 from non-Federal funds.
- 7C. Provide additional documentation for the unsupported costs of \$39,998.94 so that an eligibility determination can be made.
- 7D. Reimburse from non-Federal funds the amount of any unsupported costs that are determined to be ineligible.

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## Lack of Control Over Gasoline Use and Charges

Because the PHA did not implement procedures to control the purchase of gasoline from the City of Camden by its employees, unsupported gasoline costs of \$14,506 were incurred and a cost efficiency of \$33,239.46 is claimed. The weaknesses in controlling the purchase of gasoline by employees is partly attributed to the PHA's belief that the City's controls over its system were adequate.

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OIG probe identifies excessive gasoline use

The PHA purchases gasoline for \$1 a gallon and oil for \$1 a quart for its vehicles from the City. During a PROBE conducted under Operation Safe Home in April 1994 it was noted that the PHA had little or no control over its gasoline usage and, in many instances, the amount of gasoline purchased appeared excessive. As a result, gasoline purchased throughout our entire audit period and through September 30, 1995 was examined. During the period, several different systems were used by the City for the purchase of gasoline. However, the systems utilized did not provide any effective means for the PHA to monitor and control its gasoline purchases. We reviewed in detail the gasoline purchased during July 1994 and July and August 1995 and found:

Improprieties relating to the purchase of gasoline

- Vehicle receiving gas was not a PHA vehicle.
- Gasoline purchased for former Chairwoman's personal vehicle.
- No authorization shown or improper authorization shown on the Daily Fuel Disbursement Record.
- Driver purchasing the gas was not a PHA employee.
- Quantity of gasoline purchased exceeded fuel tank size on vehicle.
- Driver's signature does not appear to be driver's handwriting and the driver's name is misspelled.

- Employee on annual leave when gasoline was obtained.
- Driver did not sign the Daily Fuel Disbursement Records as required.
- Gasoline was charged to the PHA even though the Daily Fuel Disbursement Record showed the purchase was made by the City-Department of Community Affairs.
- Gas charged to the PHA but the purchase was not recorded on the Daily Fuel Disbursement Record.
- Some of the footings by the City on the Daily Fuel Disbursement Record were incorrect which means the amount charged the PHA was incorrect.
- The Daily Fuel Disbursement Record was not signed by the City as provided on the form.

Apart from the above improprieties relating to the purchase of gasoline, we found that no contract or agreement exists between the PHA and the City for the purchase of gasoline and oil. The PHA began to recognize in late 1993 that deficiencies existed in the City's system for obtaining and charging gasoline. Accordingly, the PHA's Finance Department refused to pay gasoline charges submitted by the City since October 1993 to present because it was unable to verify the propriety of the usage and charges. Therefore, the costs paid during 1993 of \$14,506 are considered to be unsupported and the costs not paid from late 1993 to present of \$33,239.46 are shown as a cost efficiency.

Criteria

Section 201, Part II of the ACC requires the PHA to operate each project in such a manner as to promote serviceability, efficiency, economy and stability. In addition, Section 406(B) of the ACC requires that operating expenditures be necessary for the operation of such project.

The details pertaining to the unsupported costs and the cost efficiency are contained in the audit working papers.

Recommendations

We recommend that you require the PHA to:

- 8A. Implement procedures that will restrict the purchase of gasoline to only authorized employees and for PHA use.
- 8B. Adopt controls to verify billings from the City to assure that gasoline purchases were accurate and that proper procedures were followed to obtain the gasoline.
- 8C. Provide additional documentation for the unsupported costs so that an eligibility determination can be made.
- 8D. Reimburse from non-Federal funds, the amount of any unsupported costs determined to be ineligible.

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## Ineligible and Unsupported Payments From Operating Account

The PHA's Finance Department did not maintain adequate control over the disbursement of project funds as required by the terms and conditions of the ACC and OMB Circular A-87. The controls are inadequate because no procedures were established to ensure that costs are eligible and properly supported prior to incurrence. As a result, the PHA has charged its LRH program with ineligible and unsupported costs totaling \$5,765.61 and \$21,511.49 respectively.

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### Review was expanded

Our original review of selected disbursements disclosed a wide variety of deficiencies and payments for ineligible and unsupported costs. Accordingly, the review was expanded to include disbursements throughout the entire audit period. However, the items contained in this finding should not be considered to be all inclusive; rather, they represent only those ineligible and unsupported costs that were found as a result of our review.

### Example of the ineligible and unsupported costs

Examples of some of the types of the ineligible and unsupported costs are:

#### Ineligible Costs

Includes the payment of penalties, and duplicate charges.

#### Unsupported Costs

Includes the payment of dues and food costs for the former Chairwoman at a private club; flowers as condolence for employees' family members; Christmas flowers for homes of Executive Director and Board members; contributions; instances of food costs at restaurants and catered; fees for sponsoring floats in holiday parade; reception for being removed by HUD from "troubled status"; invitations to the reception; PHA Christmas party; and purchase of Christmas cards etc.

The above ineligible and unsupported costs are further identified and explained in Appendix D of this report.

Criteria

Attachment B of OMB Circular A-87 provides the standards for the determination of allowable and unallowable costs. Section 101 Part II of the ACC provides that each project shall be undertaken in such a manner that it will be developed and administered to promote serviceability, efficiency, economy and stability and to achieve the economic and social well-being of the tenants. In addition, Section 406(B), Part II of the ACC provides that operating expenditures must be necessary for the operation of a project.

We believe that the incurrence of many of the costs included in this finding has deprived the affected projects of revenues needed for operations. Accordingly, the ineligible costs should be repaid from non-Federal funds and the PHA should be required to submit further documentation and justification for the unsupported costs.

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Recommendations

We recommend that you require the PHA to:

- 9A. Establish procedures within the Finance Department that will eliminate the further abuse of operating funds. The procedures should ensure that prior to incurrence, costs be reviewed and certified as eligible and in accordance with program requirements, and that the costs contain supporting documentation that will meet the necessary and reasonable requirements.
- 9B. Reimburse the appropriate operating account, from non-Federal funds, the amount of the ineligible costs.
- 9C. Provide additional documentation and justification for the unsupported costs so that an eligibility determination can be made.
- 9D. Reimburse from non-Federal funds, the amount of any unsupported costs determined to be ineligible.

## Questionable Car Lease Costs

The PHA incurred costs which in our opinion were not necessary and/or reasonable. The costs were incurred to lease three new vehicles; two for PHA officials and one for the Apartment Turn Over (ATO) crew. The vehicles were leased because the former Chairwoman directed they be leased. As a result, the costs amounting to \$19,648.06 are considered to be unsupported pending an eligibility determination.

### Three vehicles leased

Our review showed that the PHA leased new vehicles for the former Program Administrator of the Urban Revitalization Demonstration (URD) program; the Executive Director, and the ATO crew. The details pertaining to each vehicle through the time of our review at September 30, 1995 are as follows:

### Lease provisions and vehicle information

1995 Luxury Grand Marquis - Former URD Program Administrator.

- Lease cost with maintenance is \$613 per month or \$7,356 per year. Total cost for three year lease period is \$22,068.
- Lease provides 20,000 free miles per year, rather than the customary 10,000 to 15,000.
- Lease provides full maintenance at cost of \$100 per month, even though the new car warranty would still be in effect.
- Leased without utilizing State contract to ensure that the best price was obtained.
- Purchase Order signed by former Chairwoman.
- In a letter to the former Chairwoman on November 13, 1995, HUD advised that the lease arrangement was clearly excessive, inappropriate and unreasonable.
- Vehicle was leased beginning on May 19, 1995, thus the costs incurred to September 30, 1995 of \$2,709.06 are considered to be unsupported.

1994 Mercury Grand Marquis - Executive Director

- Lease cost with maintenance is \$547 per month, or \$6,564 per year. Total cost for the two year lease period is \$13,128.
- Lease provided for 30,000 free miles per year, rather than the customary 10,000 to 15,000.
- Lease provides full maintenance cost of \$37 per month even though the new car warranty would still be in effect.
- Purchase Order and purchase requisition signed by the former Chairwoman.
- Vehicle was leased in September 1994. Thus, the costs incurred to September 30, 1995 of \$7,111 are considered to be unsupported.

1993 Ford Aerostar - Apartment Turn Over Crew

- Lease cost is \$378 per month or \$4,536 per year. Total cost for the three year lease period is \$13,608.
- Lease Agreement and Purchase Requisition were signed by the Modernization Specialist rather than the designated PHA official.
- Vehicle was leased in August 1993. Thus, the costs incurred to September 30, 1995 of \$9,828 are considered to be unsupported.

Criteria

OMB Circular A-87, provides that, to be allowable under a grant program, costs must be necessary and reasonable for proper and efficient administration of the program. In addition, Section 406, Part II of the ACC stipulates that costs must be necessary and reasonable.

The two PHA officials assigned the vehicles advised that their employment contract stipulates they be provided a leased vehicle. In this regard, Section 5 of their employment contract specifies that: "The Authority hereby recognizes that the duties performed by the Employee require the regular use of an automobile. As such, the Authority shall provide Employee



with an Authority-owned and/or leased vehicle for use by the Employee."

We reminded the officials that since the PHA maintains its own fleet of vehicles, it may not be necessary and/or reasonable to lease additional vehicles. Also, HUD has already advised the PHA that the lease arrangement for the former URD Program Administrator's vehicle was clearly excessive, inappropriate, and unreasonable. Therefore, the cost of \$19,648.06 to lease the vehicles is considered unsupported pending a HUD eligibility determination.

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## Recommendations

We recommend that you require the PHA to:

- 10A. Adopt controls to ensure that costs meet the necessary and reasonable requirements, prior to incurrence.
- 10B. Provide additional documentation and/or justification for the unsupported costs so that an eligibility determination can be made.
- 10C. Reimburse from non-Federal funds, the amount of any unsupported costs determined to be ineligible.

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## Improprieties Associated With Travel and Conference Costs

Throughout the audit period, the PHA paid for travel costs that violated not only the terms and conditions of the ACC, but the provisions of its own policy as well. The violations occurred because the officials responsible for administering travel disregarded the requirements. As a result, the PHA has charged its LRH program with ineligible and unsupported travel costs totaling \$10,855.13 and \$5,289 respectively.

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OIG probe indicates travel abuses

During a probe conducted under Operation Safe Home in April 1994 various indications of deficiencies related to travel and out-of-town conference costs were noted. Accordingly, travel and out-of-town conference costs for the entire audit period were reviewed.

Travel cost improprieties

Some of the improprieties and weaknesses in the controls over the accounting for travel costs are:

- Travelers do not prepare travel vouchers. Instead, per diem for both employees and Commissioners is pre-determined, paid in advance, and not reconciled. The failure to prepare travel vouchers and to reconcile travel advances with travel costs violates Section 307(c) Part II of the ACC and Paragraph 21, Chapter 4 of the Low-Rent Housing Accounting Handbook, 7510.1.
- Per diem is based on the number of nights lodging involved which is contrary to the PHA's travel policy. The policy for employees provides for per diem to be computed based on six hour increments for the day of departure and the day of return. Conversely, the policy for Commissioners provides for a full days per diem for the day of departure and the day of return regardless of the departure or return times.
- The travel policy provides for a different per diem rate for Commissioners than for employees. Per diem for

Commissioners is set at \$65 per day, whereas employees receive \$50 per day.

- The travel policy provides for first class and pullman accommodations when traveling by train. Such a provision appears contradictory to Paragraph 1 of the travel policy which provides for travel costs, which are necessary to enable the PHA to operate its program economically and efficiently.
- A total of 14 persons, including Commissioners and employees, attended all or part of two League of Municipalities Conferences in Atlantic City, New Jersey during 1993 and 1994. However, Paragraph 5 of the PHA's travel policy provides that attendance at conferences, conventions, and meetings shall be limited to the number of persons necessary to cover the meeting adequately.

Examples of the ineligible and unsupported costs

The types of ineligible and unsupported travel costs are:

Ineligible Travel Costs

Includes the payment of per diem and/or room cost for several days before and/or after the time of conferences or training; the payment for breakfast, room service and cafe charges since per diem was already paid; travel and meal costs for training held in the City of Camden, and room costs for an ineligible traveler.

Unsupported Travel Costs

Includes the payment of per diem without any departure or return time provided, and a payment to a travel agency that includes ineligible room costs which neither the travel agency nor the PHA could readily determine.

The ineligible and unsupported travel costs are further identified and explained in Appendix E of this report.

Criteria

Paragraph 1 of the PHA's travel policy provides only for the reimbursement of travel costs which are necessary to enable the PHA to operate its program economically and efficiently.

Section 307(c) Part II of the ACC provides that the PHA shall maintain complete records with respect to employees official travel and vouchers supporting reimbursement of travel expense.

Paragraph 21, Chapter 4 of the Low-Rent Housing Accounting Handbook, 7510.1 provides in part that travel vouchers submitted for reimbursement shall state the date and hour of departure, the date and hour of arrival, and shall set forth in detail the expenses for which reimbursement is sought. Travel vouchers shall also conform to the established travel regulations.

We believe that the incurrence of many of the costs cited in this finding has deprived the housing programs of needed revenues. In this regard, the PHA needs to adopt and implement a travel policy that will provide for an economical and efficient use of program funds. Therefore, the ineligible costs should be repaid from non-Federal funds and the PHA should be required to provide HUD with further documentation and justification for the unsupported costs.

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## Recommendations

We recommend that you require the PHA to:

- 11A. Adopt a travel policy and related controls to ensure that all travel costs are necessary and reasonable and in compliance with the ACC and HUD Handbook 7510.1.
- 11B. Justify the higher per diem rate of \$65 per day for Commissioners. HUD should advise the PHA of its determination on the rate.
- 11C. Reimburse, from non-Federal funds the amount of the ineligible costs.
- 11D. Provide additional documentation and justification for the unsupported costs so that an eligibility determination can be made.
- 11E. Reimburse, from non-Federal funds, the amount of any unsupported costs determined to be ineligible.

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## Need to Improve Controls Over Inventory

The PHA has not established controls to ensure that assets are properly recorded and controlled as required by the ACC. Consequently, equipment is not properly accounted for and is susceptible to theft and/or unauthorized use. We attribute the weaknesses in controls over inventory to the lack of written policies and/or procedures related to the accountability and safeguarding of assets.

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Some of the deficiencies identified based on our review of the PHA controls over assets and with specific purchases of equipment are as follows:

Annual inventories not conducted

Annual inventories of nonexpendable equipment and fixed assets are not being conducted and past Independent Accountant (IPA) audits have repeatedly criticized the PHA for not conducting an inventory. Also, the PHA has not prepared or maintained property ledger records or insured that the items of equipment contained inventory control tags. The lack of conducting annual inventories, tagging all items of equipment and maintaining complete and accurate property ledger records, precludes the PHA from sufficiently safeguarding assets and prevents the PHA from ensuring that the amounts recorded on the books and the financial statements are accurate.

In addition, instances were noted where equipment was purchased by the PHA but not delivered to Central Supply. This prevents Central Supply from accounting for all purchases of equipment and not only hinders internal checks and balances but further diminishes the PHA's control over its assets.

Examples of the lack of control over assets is evidenced by purchases of ranges and refrigerators; beepers; computers and cellular phones. The deficiencies associated with the purchases show that funds have been expended to purchase assets which are not accounted for; serial numbers on equipment do not always agree with serial numbers on

property records; and, Central Supply does not always record the serial numbers for equipment at the time of receipt.

#### Ranges and refrigerators

Our physical inspection of a total of 76 ranges and refrigerators placed in service from March 1994 through May 1995 showed a deficiency rate in excess of 20 percent. The deficiencies found include:

- Central Supply records showed two ranges located in the same unit. The unit contained only one range. Thus, the location of the other range could not be verified.
- Several ranges and refrigerators were shown as being located in vacant units. However, the appliances were not in the units at the time of our inspection.
- No location was shown for one range. Thus, the appliance could not be accounted for.
- Other ranges and refrigerators inspected showed serial numbers which did not agree with those shown in the Central Supply inventory records.

#### Beepers

Our verification of 61 beepers consisted of either comparing the serial numbers from the control list to the beeper or by dialing the beeper for a response.

- Of the 61 beepers assigned, three did not respond and four others could not be located because the control list did not show a serial number.
- Five other beepers were located but had different serial numbers than those shown on the control list.
- 12 of the 61 beepers identified on the control list did not show a serial number for the beeper, even though the individuals assigned the beepers responded to our call.

#### Computer Equipment



- Various computer equipment was purchased but was not delivered to Central Supply.
- Several recent police reports showed that three computer hard drives and one laser printer were stolen. However, neither the printer nor two of the hard drives were included on the control list provided and the equipment had not been written off.
- The PHA was unable to provide a control list for portable lap top computer printers. However, a review of disbursements showed that eight printers were purchased. One of the printers could not be located and PHA officials advised that the former Chairwoman had the printer.
- Apart from the control list that was provided for computer equipment, our inspection showed many other items of computer equipment that were not on the control list.

#### Cellular Phones

Our review of the PHA's control list for 19 cellular phones showed:

- We were unable to account for one car phone assigned to the former Chairwoman, PHA officials informed that the former Chairwoman was contacted and asked to return the phone. However, it was not returned at the time of our review.
- Four other phones on the control list could not be located.

#### Criteria

HUD Handbook 7510.1, Chapter 7, paragraphs 5c and 5g, provide that fixed asset accounts for nonexpendable equipment shall be supported by equipment records, and that once a year the PHA must take a physical inventory and reconcile differences between the inventory and the records. Moreover, Section 309 of the ACC requires records be kept in condition to permit speedy and effective audit, and to keep property records which shall include an annual inventory of all equipment.

We believe that deficiencies similar to those identified above will recur unless the PHA takes corrective actions to establish

adequate controls over non-expendable equipment. The PHA's current system of accounting for assets promotes, rather than eliminates, potential abuses to equipment and puts at risk its scarce resources, including those provided by HUD, to fund the purchasing of such equipment.

Recommendations

We recommend that you require the PHA to:

- 12A. Establish controls to ensure that assets are properly recorded and controlled.
- 12B. Institute procedures that will require an annual inventory of all equipment.
- 12C. Implement controls that will ensure that all items of nonexpendable equipment are purchased and delivered through Central Supply so that adequate control and accountability can be maintained.

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## Need to Improve Administrative Controls

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

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

### Administrative control deficiencies

- a. The review showed various instances where the PHA paid costs such as sales taxes and parking fines. The PHA is exempt from State sales tax and OMB Circular A-87 specifically identifies the payment of fines and penalties as unallowable costs.
- b. The former Chairwoman not only signed checks but also approved various purchase orders and purchase requisitions and even approved some invoices for payment. Effective internal controls should provide for an adequate segregation of duties in order to provide some control over the safeguarding of assets.
- c. Several administrative improprieties associated with travel and conference costs were noted that include:
  1. Travelers do not prepare travel vouchers.
  2. Per diem for both employees and Commissioners is paid in advance and not reconciled.
  3. Travel costs including per diem and room costs were paid for several days before or after the time of the conferences, training etc.

Paragraph 1 of the PHA's travel policy provides that reimbursement for travel expenses shall cover only those costs

which are necessary to enable the PHA to operate its program economically and efficiently.

- d. The PHA did not execute formal contracts for costs associated with a Parking Study conducted by the Camden Parking Authority and for costs associated with gasoline purchases from the City of Camden. The failure to execute written contracts on inter-governmental agreements prevents the parties from obtaining a clear understanding of the services to be provided and also reduces the PHA's legal position in the event of default.
- e. Various control deficiencies were noted involving the purchase of gasoline from the City that include:
  - 1. Vehicle receiving gas was not a PHA vehicle.
  - 2. Gasoline purchased for former Chairwoman's vehicle.
  - 3. No authorization shown or improper authorization shown.
  - 4. Driver purchasing the gas was not a PHA employee.
  - 5. Quantity of gasoline purchased exceeded fuel tank size on vehicle.
  - 6. Driver did not sign the Daily Fuel Disbursement Records as required.
  - 7. Some of the footings by the City on the Daily Fuel Disbursement Record were incorrect which means the amount charged was incorrect.

Effective administrative controls should provide for proper review of the documentation submitted for costs charged in order to determine that the costs are eligible and proper.

- f. A vehicle lease agreement and Purchase Requisition were signed by the Modernization Specialist rather than the designated official. The PHA's system of control should ensure that only authorized officials execute documents on the PHA's behalf.
- g. Various payments were made by the PHA without the benefit of Purchase Orders or Purchase Requisitions to authorize or support the propriety of the payment. Sound administrative control would dictate that Purchase Orders and Requisitions be executed for goods and services obtained.

- 
- h. The PHA has failed to conduct annual inventories of nonexpendable equipment and properly tag and centrally control purchases of equipment. Chapter 7, Paragraph 5g. of the Low-Rent Housing Accounting Handbook, 7510.1 requires a physical inventory of nonexpendable equipment be made at least once a year and that differences be adjusted by authorized officials.
  - i. Instances were noted during the review where duplicate payments were made for goods or services. Making duplicate payments illustrates that a proper review of bills and invoices is not performed prior to payment.
  - j. Instances were noted where the PHA expended operating funds for expenses relating to other programs such as Modernization and DEP. HUD requires a separate accounting and classification of expenditures under each of its programs.
  - k. A review of the PHA's three petty cash funds showed:
    - 1. The Finance Department petty cash fund exceeded the amount recorded on the books and the amount on the books did not agree with the amount authorized by the Board resolution. Various instances were also noted where petty cash was used for large or unusual purchases.
    - 2. Payment for an accident report pertaining to an incident in Philadelphia, PA. and payment for a purchase supported by a hand written receipt that did not identify the vendor, were noted during a review of the Modernization Department petty cash fund. In addition, the vouchers maintained in the fund were not numbered.
    - 3. In an attempt to account for the Operations Department petty cash fund, the custodian informed that all funds and vouchers were submitted to the Finance Department and therefore, there were no funds to count at the time of our visit on December 12, 1995. However, a review of the bank statement and cancelled checks showed that the custodian had endorsed and cashed a petty cash replenishment check

on December 11, 1995 for \$302.34 that was issued by the PHA on December 5, 1995.

Chapter 3, Section 1 of the Low-Rent Housing Accounting Handbook, 7510.1 provides for a petty cash fund as an imprest fund for the payment of minor expenses. Moreover, Section 309 Part II of the ACC provides that the PHA shall maintain complete and accurate books of accounts and records.

The above deficiencies have reduced the PHA's ability to establish a reliable system to evaluate its overall housing program performance. Unless corrective actions are implemented, deficiencies similar to those described above will recur.

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## Recommendations

We recommend that you require the PHA to:

- 13A. Establish controls to ensure that invoices and billings containing ineligible costs, such as sales taxes and parking fines are not processed for payment.
- 13B. Implement procedures that will ensure an adequate segregation of duties among officials and employees.
- 13C. Establish procedures that will ensure that travel and conference costs conform not only to its travel policy but with HUD requirements as well.
- 13D. Institute procedures that will require that written contracts be executed on intergovernmental agreements.
- 13E. Adopt controls that will ensure that supporting documentation is thoroughly reviewed and accepted prior to cost incurrence.
- 13F. Establish procedures that will ensure that only authorized officials execute documents on the PHA's behalf.

- 13G. Institute controls that will ensure that Purchase Orders and Purchase Requisitions be executed for all goods and services obtained.
- 13H. Implement controls that will assure that an annual inventory is conducted for all nonexpendable equipment and that the equipment is labeled and centrally controlled.
- 13I. Establish procedures to ensure that bills and invoices are thoroughly reviewed to preclude duplicate payments.
- 13J. Adopt procedures that will ensure that expenses are properly classified and charged the appropriate program.
- 13K. Maintain effective control over its Petty Cash Funds by:
1. Periodically reconciling petty cash funds with book balances.
  2. Requiring submission of adequate supporting documentation prior to disbursement of petty cash funds.
  3. Limiting the use of petty cash funds to small non-routine type purchases.
  4. Reconciling the petty cash fund maintained by the Operations Department.

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# Internal Controls

In planning and performing our audit, we evaluated the internal controls of the PHA to determine our auditing procedures and not to provide assurance on internal controls. Internal controls are the process by which an entity obtains reasonable assurance as to achievement of specific objectives. Internal controls consist of interrelated components, including integrity, ethical values, competence, and the control environment which includes establishing objectives, risk assessment, information systems, control procedures, communication, managing change, and monitoring.

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## Internal controls assessed

Our audit objectives related to the following internal controls that we assessed:

- Controls over the administration of its HUD programs.
- Controls over disbursements.
- Controls over supporting documentation for costs.
- Controls over procurement and contracting.
- Controls over personnel procedures.
- Controls over payroll.
- Controls over travel.
- Controls over gasoline usage.
- Controls over leasing of vehicles.
- Controls over property and equipment.

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

## Assessment results.

Our review identified the following significant internal control weaknesses:

- Controls over the administration of its HUD programs (Findings 1, 3 and 7).
- Controls over disbursements (Findings 2,3,5,7,8,9,11 and 13).
- Controls over supporting documentation for costs (Findings 2,3,5,7,8,9,11 and 13).
- Controls over procurement and contracting (Findings 2,6,8 and 13).
- Controls over personnel procedures (Finding 4).
- Controls over payroll (Finding 5).
- Controls over travel (Finding 11).
- Controls over gasoline usage (Finding 8).
- Controls over leasing of vehicles (Finding 10).
- Controls over property and equipment (Finding 12).

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## Follow Up On Prior Audits

A prior audit of the PHA was performed by an Independent Auditor (IA) for the twelve month period ended December 31, 1994. The report contained two findings which remained opened as of March 31, 1995, the end of our audit period. One finding shows that the PHA did not perform an annual inventory of equipment or properly account for non-expendable equipment. This report also contains a finding on controls over equipment (see Finding 12). The other finding indicates that modernization accounting is not done by phase, project, or work item. The PHA has submitted correspondence to HUD to resolve the deficiencies.

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## Schedule of Ineligible and Unsupported Costs, and Cost Efficiencies

Finding Number	Ineligible (1)	Unsupported (2)	Cost Efficiency (3)
2		\$733,391.57	
3	\$5,472.14	607,834.60	
4		219,373.00	
5		71,231.00	
6		50,000.00	
7	15,555.55	39,998.94	
8		14,506.00	\$33,239.46
9	5,765.61	21,511.49	
10		19,648.06	
11	10,855.13	5,289.00	
<b>TOTAL</b>	<b>\$37,648.43</b>	<b>\$1,782,783.66</b>	<b>\$33,239.46</b>

- (1) Costs clearly not allowed by law, contract, HUD or local agency policies and regulations.
- (2) Costs not clearly eligible or ineligible but warrant being contested (e.g. lack of satisfactory documentation to support the eligibility of the costs, etc.).
- (3) A cost efficiency is an action by management in response to the Inspector General's recommendations to prevent improper obligation or expenditure of funds or to avoid further unnecessary expenditures.

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