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TO: Malinda Roberts, Acting Director, Public Housing
Division, Pennsylvania State Office, 3APH

FROM: Edward F. Momorella, District Inspector General for
Audit, Mid-Atlantic, 3AGA

SUBJECT: Luzerne County Housing Authority
Management Operations
Kingston, Pennsylvania

We audited selected management operations of the Public Housing Programs administered by the Luzerne County Housing Authority (LCHA).

The purpose of the audit was to review the homeownership program and to determine if the LCHA administered its other housing programs in compliance with the Annual Contributions Contract and applicable HUD requirements.

Our audit found the LCHA needs to improve operational controls in the following areas:

- Public Housing Drug Elimination Program
- Administrative costs
- Internal controls
- Public Housing Management Assessment Program

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

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

Executive Summary

The purpose of the audit was to determine if the LCHA administered its housing programs in compliance with the Annual Contributions Contract and applicable HUD requirements. Based on survey of LCHA operations, our audit focused on the homeownership program, internal controls, Public Housing Management Assessment Program (PHMAP), Section 8 Housing Quality Standards (HQS), Public Housing Drug Elimination Program (PHDEP), non-tenant account receivables, monetary assets, procurement, and administrative costs.

Our review of the homeownership program and procurement disclosed no reportable deficiencies. Generally we found the LCHA effectively administered its housing programs. However, management oversight and internal controls were in need of improvement in the remaining areas cited.

PHDEP baseline not established

The LCHA violated HUD's Public Housing Drug Elimination Program regulations by making payments to nine local law enforcement agencies without establishing the required baseline. The LCHA felt they had established a baseline of law enforcement service. However, their actions were improper and resulted in unsupported costs of \$214,032.

Improper administrative costs incurred

The LCHA paid for donations, travel, and miscellaneous costs from operating funds contrary to HUD and local policies. Management's oversight and application of requirements were not always present and resulted in ineligible costs of \$19,968.

Segments of internal controls require improvement

The absence of management oversight and in some instances unfamiliarity with HUD requirements contributed to the following internal control deficiencies: Operating funds paid for non-Federal project expenses; LCHA officials not reviewing monthly expenditures prior to submission for Board approval; no segregation of duties for the preparation, signing, and safeguarding of unissued checks and check signing plates; and records of all official Board member and business luncheons and dinners were not maintained.

PHMAP indicators 1 and 5 unsupported

The LCHA was unable to support its 1995 PHMAP certification. The LCHA's inattention to detail and

unfamiliarity with PHMAP requirements led to the following: The incorrect calculation of Indicator 1, Vacancy Rate and Percentage; a failure to submit the required data source to HUD in order to document PHMAP Indicator 1; documentation did not support the LCHA's calculation of PHMAP Indicator 5, Vacant Unit Turnaround; and a failure to maintain a required schedule of funded modernization units for PHMAP Indicator 5. As a result of the identified discrepancies, the LCHA could not justify the 94.09% PHMAP score, its designation as a high performer, nor benefits derived from the high performer designation.

In its response to the draft findings, the LCHA took issue with many of the finding conditions. The LCHA makes reference to HUD program mandates making it a necessity for all housing authorities to form partnerships with local community and civic organizations. Many of the questioned disbursements were made to cement partnerships, enhance the LCHA's image, and serve LCHA clients and residents. We recognize and compliment the LCHA's intentions, but emphasize the primary purpose for which HUD funds are provided is to provide decent, safe, and sanitary public housing in the community.

Based on the LCHA's response some questioned costs were reinstated and a draft finding covering Section 8 units meeting HQS was resolved.

We recommend the LCHA reimburse the Public Housing Program for ineligible costs, justify the unsupported costs, and implements specific actions to correct the operational and administrative deficiencies cited.

The draft findings were discussed with the Executive Director and appropriate LCHA staff during the audit and at an exit conference on January 14, 1997. Where appropriate their comments are summarized in the findings.

Due to the length of the LCHA's response to the draft findings they were not included as an appendix to the report. However, the response was provided to your office.

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Abbreviations

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ACC	Annual Contributions Contract
CFR	Code of Federal Regulations
HA	Housing Authority
HUD	U.S. Department of Housing and Urban Development
HQS	Housing Quality Standards
LCHA	Luzerne County Housing Authority
FDIC	Federal Deposit Insurance Corporation
PHDEP	Public Housing Drug Elimination Program
PHMAP	Public Housing Management Assessment Program
TV	Television
VCR	V i d e o C a s s e t t e R e c o r d e r

Introduction

The LCHA was established for the purpose of engaging in the development, acquisition and administration of low-income housing programs in Luzerne County. The LCHA's public housing inventory includes 1,352 dwelling units in conventional developments and scattered site units. In addition, the LCHA's Section 8 Program consists of 492 certificates, 314 vouchers, and 72 moderate rehabilitation units.

The Authority has established a Section 5(h) Homeownership Program as authorized by the United States Housing Act of 1937, as amended. Under this program single family homes, acquired through the Public Housing Acquisition and Rehabilitation Development Cost Program, are sold to purchasers, meeting certain criteria. The homes are sold at a reduced price as established under program guidelines. The LCHA has purchased 198 properties, 134 properties have been sold or are under a lease purchase agreement. The remaining 64 properties remain unoccupied or are still being rehabilitated.

The LCHA is administered by a five member Board of Directors appointed by the Luzerne County Commissioners. Each Board member serves a five year term. The Chairman of the Board is James Burns. The LCHA's Executive Director is David Fagula. The LCHA's Administrative Office is located at 250 First Avenue in Kingston, Pennsylvania.

Audit Objectives

The primary objectives of the audit were to determine if the LCHA administered its programs in accordance with its Annual Contributions Contract, and HUD requirements. Based on survey results, the audit focused on the homeownership program, internal controls, PHMAP, Section 8 HQS, PHDEP, non-tenant accounts receivable, monetary assets, procurement, travel, and administrative costs.

Audit Scope and Methodology

We reviewed pertinent Pennsylvania State Office and LCHA records, and Independent Accountant reports. We interviewed HUD and LCHA staff, and tenants. We visited seven development sites and inspected five Section 8 housing units.

Audit work was performed between April and November 1996 and covered the period January 1, 1994 through April 1996. When appropriate, the review was extended to include other periods.

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

The Administration Of The Public Housing Drug Elimination Program Requires Improvement

The LCHA needs to improve its administration of the Public Housing Drug Elimination Program. The LCHA violated HUD's PHDEP regulations by making payments to nine local police departments without establishing the required baseline. The LCHA felt they had established a baseline of law enforcement service. However, their actions were improper and resulted in unsupported costs of \$214,032.

24 CFR Part 961.10(b)(2)(i) Reimbursement of local law enforcement agencies for additional security and protective services states:

"Additional security and protective services to be funded under this program must be over and above those that the tribal, state or local government is contractually obligated to provide under its Cooperation Agreement with the applying HA (as required by the HA's Annual Contributions Contract). An application seeking funding for this activity must first establish a baseline by describing the current level of services (in terms of the kinds of services provided, the number of officers and equipment and the actual percent of their time assigned to the developments proposed for funding) and then demonstrate to what extent the funded activity will represent an increase over this baseline."

No evidence baseline level
of service established

In 1993 HUD awarded the LCHA a PHDEP grant. The LCHA disbursed \$214,032 of the grant funds to nine local police departments to increase law enforcement services within public housing communities. However, there was no evidence on file that the LCHA reviewed police records or held interviews with police department staff to establish baselines. The LCHA's files did not document the establishment of a baseline level of police service, by the nine police departments, prior to the implementation of the PHDEP grant. A baseline is used to measure increases in law enforcement services due to the provision of PHDEP grant

funds. As a result, there was no documentation to support the level of services provided by the police departments prior to use of the PHDEP funds.

According to the Executive Director, based on discussions with each municipality and police department, the baseline for police services was zero. All police officers did prior to the PHDEP grant was respond to telephone calls.

The Executive Director did not agree this issue was a reportable deficiency.

In our opinion a baseline of zero is unrealistic. As stated by the Executive Director, police responded to calls, demonstrating some level of service. Documentation indicating an analysis of baseline service by the LCHA was not evident in the files. The Director of Resident Support stated local police department records were not reviewed to determine a baseline.

Because the LCHA did not establish a baseline of police services prior to the 1993 PHDEP grant as required, \$214,032 is considered unsupported.

Two issues covering the purchase of clothing and a bicycle with program funds were resolved and removed from the finding.

Auditee Comments

It is the contention of the LCHA that a baseline had been established. The manner in which the baseline was established could have been corroborated by any and all of the police chiefs, as well as the investigator under contract who was the police liaison. Police chiefs and investigator are prepared to offer sworn affidavits, if necessary.

The communities receive basic services: police respond to calls, and complete routine patrols throughout the municipality. The location of routine patrols are not documented on time cards; they are just listed as patrols, and are considered a regular part of police responsibilities.

According to the nine police chiefs there was specifically no officers assigned, no equipment assigned, and no community policing activities performed at PHA communities prior to the grant.

The LCHA has evidence of two meetings where the reality of the baseline being responses to calls, and the services rendered being in addition, were discussed. One meeting was with the police chiefs the other with a HUD official, both meetings were held after the implementation of the grant.

OIG Evaluation of
Auditee Comments

Whether the police chiefs and investigator can corroborate the baseline is not in question. As stated by the Executive Director and Director of Resident Support, the LCHA never conducted a review of any police department records. The fact that the LCHA did not conduct a review of any police department records is the premise behind this finding. We question how the LCHA is able to accurately describe the level of service prior to the grant and support the increase in service after implementation of the grant if no review was performed.

The statement that basic services include routine police patrols is a contradiction to the Executive Director's prior statement that police officers only respond to calls. In our opinion it is evident the required baseline was not established.

The OIG is not questioning whether the topic of a baseline was discussed. What is in question is whether the LCHA could support any increase in police services over the level prior to the PHDEP grant. The OIG contacted the HUD official who stated that the topic of review did not pertain to the LCHA's ability to support the baseline of police services, but to the documentation of results.

Recommendation

We recommend the LCHA:

- 1A. Provide documentation to support the baseline of police services prior to the 1993 PHDEP grant. Repay the program, from non-Federal funds, all or any portion of the \$214,032 which cannot be supported.

Ineligible Costs Paid From Operating Funds

The LCHA paid for donations, travel, and miscellaneous costs from operating funds contrary to HUD and local policies. Management's oversight and application of requirements was not always present and resulted in ineligible costs of \$19,968.

A. Donations

The Annual Contributions Contract (ACC), Section 2, Operating receipts and Operating expenditures states:

"Operating Expenditures shall mean all costs incurred by the HA for administration, maintenance, and other costs and charges that are necessary for the operation of the project."

Improper donations made to various organizations

The LCHA made \$10,955 in donations to local organizations, hospital, and charities which in most instances were for significant amounts.

For example, the LCHA made a \$5,000 donation to a local volunteer fire department in a community where an elderly high-rise was located. The Executive Director stated the donation was for a fire truck equipped with a ladder enabling it to reach the higher floors. The Executive Director was concerned for the safety of the elderly tenants due to arson fires which occurred near the project. This project was the only high-rise in the community. The Executive Director believed the donation for the fire truck was allowable. He rationalized if a fire occurred at the elderly high-rise, HUD would be responsible for any tenants hurt or killed. The cited fire service is a community responsibility and is not the responsibility of the LCHA.

We identified \$3,000 disbursed to organizations sponsoring charity golf tournaments. The Executive Director,

Comptroller and Board members participated in the golf tournaments. The Executive Director stated all donations were eligible, with the exception of the donation to a local hospital charity. An LCHA Board member works at the hospital, and apparently the appearance of a conflict of interest generated the Director's comment.

Additional donations totalling \$2,955 were made to other local organizations such as the YMCA, Boy Scouts, Junior League of Wilkes-Barre, Plymouth Historical Society, and others. The Executive Director considered the donations a part of normal business practices within the community.

While nominal donations to promote community and civic concerns may be reasonable, the primary responsibility of the LCHA is to serve the low income population of the community and their housing needs. The LCHA did not establish how the donations served these needs and the \$10,955 is ineligible.

B. Travel

The following travel deficiencies were identified:

- Travel expense reports and receipts were not submitted.
- Travel extended beyond the scope of conferences attended.
- Funds advanced for travel costs for spouses attending conferences.

The LCHA's Personnel Policy, Section H., Travel Policy states:

"...An Employee Business Expense Report form (Appendix F) must be completed to request an advance of long distance travel expenses, as well as to reconcile expenses after the trip."

Guidelines issued by HUD under Handbook 7401.1 Chapter 5, Section 1, Paragraph 7.a.(1) states:

"Reimbursement for travel expenses shall be comparable with local public practice and shall cover only travel costs which

are necessary to enable the local agency to operate its program economically and efficiently."

1. Travel expense reports and receipts were not submitted.

Reports

Required travel expense reports were completed for only 13 of 71 travel disbursements reviewed. The Executive Director traveled 13 times during the audit period. In each case he was reimbursed without submitting a travel expense report. A Board member traveled nine times and submitted only one travel expense report. This was the only Board member to submit a travel expense report during the period reviewed. Two other Board members who took eleven trips combined, did not submit reports.

The Executive Director stated he had been trying to get Board members to submit travel expense reports but they usually did not cooperate. Further, submission of the travel expense reports was not enforced because he was the one who would have reviewed the reports before they were paid. Most of the time he would list expenses for trips taken by himself and the Board members so he would know what to reimburse them for and how much money was spent. Travel expense reports are necessary to identify costs associated with a particular trip. When travel expense reports are not prepared, there is no assurance only eligible costs were paid.

Receipts

One Board member was reimbursed \$210 for airfare, however, no receipt was provided to support the trip or ticket price. The Executive Director stated he reimbursed the Board member the same amount he paid for airfare. Additional receipts were not provided for other items such as: car rentals, turnpike tolls, gasoline, and unknown expenses, totaling \$271. The Executive Director stated he was not familiar with specific requirements of the travel policy. As a result, the LCHA could not support \$481 incurred for travel.

Based on the LCHA's response \$240 is eligible. The balance of \$241 for a car rental and unknown expenses were not supported and ineligible.

2. Travel extended beyond scope of conferences attended.

There were five instances where Board members were reimbursed for travel costs beyond the scope of the conferences they attended at the expense of the LCHA.

For example, one Board member was reimbursed \$231 for two weeks of car rental while the conference he attended lasted only three days. A total of \$165 of the car rental expense is ineligible. The Executive Director stated he made a mistake when reimbursing the Board member for the car rental.

In another instance, a Board member was reimbursed for expenses subsequent to the last day of the conference. The LCHA paid for the Board member's stay at the hotel from January 24, 1995 to January 30, 1995, while the conference ran from January 25, 1995 to January 27, 1995. The following excessive costs were paid:

- Three extra nights lodging, \$599
- Duplicate security deposit reimbursement, \$400
- After conference costs, \$243

Altogether, the Board member was reimbursed excessive travel costs totalling \$1,242.

An additional \$2,301 for items including per diem, lodging, baggage handling, and telephone expenses was incurred after conferences ended and paid by the LCHA in other instances to Board members and the Executive Director.

The Executive Director stated, the day after conferences are usually considered travel days. He allowed extra nights stay to take advantage of lower airfares. No cost analysis was performed to document the savings for weekly car rentals or extended hotel stays. Nor did the LCHA pro-rate costs according to dates associated with conferences. As a result,

the total \$3,708 incurred for travel outside the scope of attended conferences is ineligible.

3. Funds advanced for travel costs for spouses attending conferences.

The LCHA paid airfare for spouses of Board members for a trip to a conference in Las Vegas, Nevada. The Authority purchased two airline tickets for \$566 each for Board members' spouses in April 1994. However, these amounts were not accounted for by the LCHA on a timely basis. One Board member's reimbursement for travel subtracted the \$566 in August 1994. The other Board member's travel reimbursement for the \$566 was not taken into account until February 1995, 10 months after the trip. Had the LCHA enforced submission of expense reports, prompt accountability and reimbursement of the airfare would have surfaced. It is questionable whether the LCHA should be using operating funds to advance travel expenses for Board members spouses.

Overall, LCHA Management did not adhere to its existing travel policy. As a result, the Executive Director and Board members were reimbursed for ineligible travel costs of \$3,949.

C. Miscellaneous Costs

The ACC, Section 4 - Mission of the HA, states:

"The HA shall at all times develop and operate each project solely for the purpose of providing decent, safe, and sanitary housing for eligible families in a manner that promotes serviceability, economy, efficiency, and stability of the projects, and the economic and social well-being of the tenants."

Guidelines issued by HUD under Handbook 7401.1 Chapter 5, Section 2, item 6 states:

"Project costs shall not include the cost of any...presents in any form or expenses incurred for the provision of entertainment, meals or incidental food and beverages...regardless of local public practices."

Staff beverage costs paid
by LCHA

The LCHA paid \$3,218 for coffee and milk for the LCHA staff, and \$77 for a sign for its non-Federal project. The Executive Director explained coffee and milk were purchased for the benefit of employees. The Comptroller stated the LCHA should not have paid for the sign with Federal funds.

In our opinion providing coffee and milk is not a program responsibility. Such expenses should be shared by staff.

The LCHA paid for the following expenditures:

- Office decorations, flowers and fruit, \$1,769
- Appliances and equipment, \$2,614

According to the Executive Director, the decorations and flowers were for the Office at Christmas, and appliances and equipment for tenant entertainment.

The appliances and equipment purchased by the LCHA included TVs, VCRs, radios, and a karaoke machine. These items were not listed on the LCHA's inventory and not readily available for inspection. Review of purchase orders and invoices, and through physical inspection some of the items were located. Some of the items were given away as door prizes, and according to the Executive Director, the remaining items were considered insignificant to track.

No documentation or explanation was provided to identify how the purchase of appliances, equipment, flowers, fruits, and decorations, furthered the LCHA's efforts to benefit the tenants subsidized by the program.

Based on the LCHA's response the \$2,614 paid for appliances and equipment are eligible costs. The remaining \$1,769 are not program costs and ineligible.

In summary, the LCHA used operating funds to pay ineligible costs of \$19,968 contrary to HUD and local policies.

Auditee Comments

A. Donations

The LCHA did not agree funds were unnecessarily expended and made the following statements: Donations made were served to cement partnerships, enhance their image, and serve their clients and residents. Fire protection where an elderly high-rise is located is not paid from local tax dollars, but reliant on donations from the community.

The LCHA did not concur in total with the recommendation to reimburse its public housing account for donations considered ineligible. However, the LCHA did agree to reimburse, from non-federal funds, \$4,135 of the \$10,955.

B. Travel1. Receipts and Reports

The LCHA did not concur that travel expense reports and receipts were not submitted. However, the LCHA agreed travel expense forms were not used as suggested in its travel policy.

The LCHA stated it had no problems identifying expenses associated with trips. Further that the Executive Director was totally familiar with its travel requirements, having authored the policy.

The Executive Director contends a statement that the LCHA Board members were uncooperative in submitting travel receipts or preparing travel reports was never made.

2. Travel Beyond Scope of Conference

The LCHA did not agree Board members were reimbursed beyond the scope of conferences attended except in three instances totalling \$604 which were reimbursed in error and would be repaid to the Public Housing Program. The LCHA disagreed with the remaining ineligible travel expenses listed by the OIG totalling \$3,104.

The LCHA contended the OIG was unnecessarily taking a position that weekly car rental should be reimbursed on a pro-rated basis to cover only days of conferences attended.

According to the LCHA, weekly car rental rates are more cost effective than daily rates and maintains documentation of the cost analysis in the LCHA files.

The LCHA stated the travel policy clearly allows an extra nights hotel stay if a savings can be recognized in airfare.

3. Advances For Travel Costs of Spouses

The LCHA stated that at no time were any expense amounts unaccounted for regarding travel made by Board spouses. The LCHA stated it will not advance travel expenses for Board member spouses future travel. The LCHA stated it will utilize the suggested form in the travel policy.

C. Miscellaneous Costs

1. Ineligible Costs

The LCHA concurred with ineligible costs for coffee, milk, and the sign and planned on reimbursing the Public Housing Account from non-federal funds the \$3,295.

2. Unsupported Costs

The LCHA disagreed with unsupported costs paid for appliances. The LCHA stated it utilized the equipment in conjunction with resident recreation programs. The flowers and decorations were purchased to beautify the LCHA for the holiday season. The fruit basket was sent to a family of a deceased former employee on behalf of the Board.

OIG Evaluation of
Auditee Comments

A. Donations

We do not question the LCHA's good intention of making the donations, but question the source of funds used to make them. The LCHA should be concerned for the safety and well-being of its residents, and does provide decent safe and sanitary housing to tenants residing in public housing. However, other sources of funding may be a more appropriate funding source for donations than public housing funds, when the donation can be clearly identified as housing related.

Although the LCHA agreed to reimburse the program \$4,135, our position remains intact that the \$6,820 balance is also ineligible.

B. Travel

1. Receipts and Reports

The LCHA's travel policy states the Employee Business Expense Report form must be completed, not that it is a suggested form. We concur written travel memos were prepared for travel reimbursements. However, to be consistent, timely, and ensure accuracy, the LCHA should follow its established travel policy. While the LCHA contends it had no problems identifying travel expenses, we found it very difficult and time-consuming to track travel expenses since the LCHA did not maintain detailed travel expense reports.

For the unsupported \$481 the LCHA stated receipts for \$240 were unavailable but provided sufficient explanation to resolve the costs. The LCHA contends the \$241 is supported but failed to provide the documentation.

2. Travel Beyond Scope of Conference

There is no problem with Board member's attending housing conferences, such as those in Florida and Las Vegas. However, each trip should be cost effective and should not be viewed as all expense paid vacations. Regarding the ineligible expenses noted, although the LCHA agreed to repay the Public Housing Program \$604, it is only a portion of the amount considered ineligible in those three instances.

The balance of \$3,104 remains ineligible but is subject to resolution. As requested during the audit, and not provided, the LCHA should provide a cost analysis to justify the costs incurred for the trips questioned.

When performing the cost analysis to justify longer stays due to cheaper rates, the LCHA must also consider any additional expense being incurred (hotel, per diem, misc.) during that time period.

C. Miscellaneous Costs

1. Ineligible Costs

Subject to receipt of documentation that the \$3,295 has been reimbursed to the program the costs remain ineligible.

2. Unsupported Costs

Community recreation equipment such as the appliances identified should be accounted for in the LCHA's inventory. The \$2,614 is considered eligible costs.

The purchase of flowers, decorations and fruit baskets provides no direct benefit to the program. These costs should be shared by the staff and Board members of the LCHA. We have reclassified the \$1,769 as ineligible.

Recommendations

We recommend the LCHA:

- 2A. For costs in dispute provide any additional documentation and cost analysis to support the costs. Subject to review repay the program, from non-Federal funds, the ineligible \$19,968, or the balance deemed ineligible.
- 2B. Enforce the travel policy and require all employees and Board members to submit detailed business expense travel reports for reporting and reconciliation.
- 2C. Ensure costs associated with travel are cost effective by preparing costs analyses to justify extended stays at conferences. Reimburse costs associated specifically with the scope of training or conference attended by travelers.
- 2D. Establish and implement a policy where all staff and Board members, if they choose to participate, will share in the cost to pay for items such as; donations, coffee, appliances, decorations, etc.

Various Components Of LCHA Internal Controls Require Improvement

The absence of management oversight and in some instances unfamiliarity with HUD requirements contributed to the following internal control deficiencies:

- Operating funds were used to pay for non-Federal project expenses.
- LCHA officials did not review monthly expenditures prior to submission for Board approval.
- No segregation of duties existed for the preparation, signing, and safeguarding of unissued checks and check signing plates.
- Record of all official Board member and business luncheons and dinners were not maintained.

As a result, the LCHA made improper disbursements of \$81,685, needs to improve internal controls to safeguard its monetary assets, and did not justify costs for Board member and business meetings.

A. Operating Funds Were Used To Pay For Non-Federal Project Expenses

Part A of the ACC, Section 9 (C) states:

"...The HA (Housing Authority) may withdraw funds from the General Fund only for: (1) the payment of the costs of development and operation of the projects under ACC with HUD..."

The LCHA paid \$81,685, for operating, relocation, and rehabilitation expenses associated with a housing project not covered under the ACC. The Comptroller was not aware public housing funds could not be used to pay costs associated with housing projects not under the ACC with HUD.

The LCHA purchased a 29 unit facility, from the U.S. Marshal Service. The facility, purchased in conjunction with the

County of Luzerne's, Office of Community Development, is not covered under the LCHA's ACC with HUD.

As a result, LCHA disbursed \$81,685 for a non-Federal project thus reducing available funds for its public housing projects. On July 16, 1996 the LCHA reimbursed the operating account, \$81,685, from sales proceeds of the 5(H) Homeownership Program. The Comptroller stated the LCHA would no longer use operating funds to pay for expenses associated with non-Federal projects.

B. Monthly Expenditures Not Reviewed Prior To Submission To The Board For Approval

HUD Handbook 7511.1, Chapter 3, Section 2, Paragraph 5, states:

"Internal control over disbursements should be provided to expedite the flow of work, to improve accuracy, and to ensure that disbursements are made only for legitimate purposes. ...there are certain internal controls described below that can be provided which will assure the Board of Commissioners that disbursements will be subjected to reasonably careful examination by two or more employees or representatives of the Local Authority."

We identified that monthly LCHA expenditures were not reviewed by the Comptroller or Executive Director prior to submission for Board of Director's approval. A list of monthly LCHA expenses is prepared by the accounting staff and provided to the Executive Director for review.

According to the Comptroller neither he nor the Executive Director reviewed the listing of monthly expenses. The Executive Director signs off on the listings without performing a review of expenses, then forwards the list to the Board of Directors for approval.

The possibility of inaccurate and improper disbursements exists due to LCHA management officials failure to perform reasonable and careful examinations of monthly disbursements. Finding 2 identifies examples of such conditions.

C. No Segregation Of Duties

HUD Handbook 7511.1, Chapter 3, Section 2, Paragraph 5.d. states:

"Within the limits imposed by the size of the Local Authority organization the duties of employees should be so segregated that no employee is in complete control of a disbursement transaction and that the work of one employee is checked by another."

The LCHA assigned the following duties and responsibilities to one Administrative Assistant: the preparation and signing of checks, the safeguarding of unissued checks, signature plates, and the check signing machine, and all voided checks. The Administrative Assistant had the ability to issue a check, even though all the LCHA checks required two signatures, due to the control and access to blank checks, the check signing machine, and signature plates.

The Executive Director and Administrative Assistant explained the above duties were the responsibility of the Administrative Assistant, but the bank accounts were reconciled by the Accountant or Comptroller. We observed that unissued checks were maintained by the Administrative Assistant.

The LCHA provided no assurance disbursements were made for only eligible purposes. Although the LCHA did not experience any problems, improved controls should be implemented to deter the possibility of misappropriation or diversion of program funds.

D. Record Of Official Meetings Not Maintained

In March 1971 HUD issued guidelines covering expenses for meetings and food costs. Under 7401.1 Chapter 5, Section 2, item 4, charges to project costs of expenses for holding regular or special business meetings may include food costs when local public practice permits payment for food at such meetings provided:

- Minutes of the meetings were recorded.

- Food costs are reasonable and in conformity with the policy of the Authority.

The LCHA paid for board meeting meals and business luncheons at local restaurants without providing documentation as to the scope of these meetings.

The Executive Director stated the luncheons were normal business expenses which were necessary when meeting with people from local organizations. The Executive Director also stated the LCHA did not keep minutes of Board meetings and business luncheons held at local restaurants. The LCHA provided a listing of general topics of items discussed at these meetings.

As a result, the LCHA provides no assurance Board and business meeting luncheons and dinners were held strictly for the purpose of housing related business. Maintaining minutes for each occurrence will show responsibility and accountability by management.

Two issues covering cashing of checks from operating receipts and investment of operating funds were removed from the finding based on the LCHA' response and documentation presented at the closing conference.

In summary, establishing or improving internal controls is a crucial area of sound management. Internal controls should provide reasonable assurance fraud and abuse are prevented or detected. Internal controls should not be viewed as a reflection upon the honesty of employees responsible for overseeing disbursements of funds, but as a protective measure for establishing responsibility and accountability. Internal controls include such matters as: documenting procedures, segregating duties, maintaining adequate records and hiring competent personnel.

Auditee Comments

A. Operating Funds Paid For Non-Federal Project Expenses

The LCHA concurred with the condition of the finding, however, stated a proper accounting of funds was maintained at all times.

B. Monthly Expenditures Not Reviewed Before Submission To Board For Approval

The LCHA did not agree with OIG's assessment of the monthly expenditure approval process. According to the LCHA, the Executive Director and Comptroller perform a careful review of monthly expenses before submission to the Board. The LCHA stated the OIG audit uncovered no evidence that disbursements were made for other than legitimate purposes.

C. Segregation Of Duties

The LCHA agreed with the recommendation to implement internal controls over the segregation of duties and safeguarding of assets.

D. Record Of Official Meetings Not Maintained

The LCHA stated that minutes were kept for every official Board meeting and that the OIG was provided a listing of general topics discussed at business luncheons. The LCHA stated it believed food costs were reasonable and in conformity with LCHA practices.

OIG Evaluation of
Auditee Comments

A. Operating Funds Paid For Non-Federal Project Expenses

The LCHA recordkeeping is not germane to this issue. What is germane, is that operating funds cannot be used to pay expenses for non-Federal projects or projects not covered under the ACC.

B. Monthly Expenditures Not Reviewed Before Submission To Board For Approval

The LCHA needs to have controls in place to ensure monthly expenditures are reviewed before Board submission. We again point out that conditions cited in Finding 2 identifies this control weakness.

D. Record Of Official Meetings Not Maintained

We are not contesting Board meeting luncheons where minutes were on record at the LCHA. But are pointing out charges for Board and business meetings and luncheons where no minutes were recorded, i.e... meetings held at local restaurants. The LCHA listing of topics discussed, did not address specific topics, dates, or attendees.

Recommendations

We recommend the LCHA:

- 3A. Refrain from the use of operating funds to pay development and operating expenses of projects not covered by the ACC.
- 3B. Perform a careful examination of all disbursements prior to submission for Board of Directors approval.
- 3C. Implement the internal controls covering segregation of duties for preparing and signing of checks, the safeguarding of unissued checks and check signing plates.
- 3D. Establish a policy, that minutes will be recorded for all Board meetings, business luncheons, dinners, and food costs will be in line with Authority practices.

The 1995 Public Housing Management Assessment Program Certification Was Not Supported

The LCHA was unable to support its 1995 Public Housing Management Assessment Program certification. The LCHA's inattention to detail and unfamiliarity with PHMAP requirements led to the following:

- The incorrect calculation of Indicator 1, Vacancy Rate and Percentage.
- Failure to submit the required data source to HUD in order to document PHMAP Indicator 1.
- Documentation did not support the LCHA's calculation of PHMAP Indicator 5, Vacant Unit Turnaround.
- Failure to maintain a required schedule of funded modernization units for PHMAP Indicator 5.

As a result of the identified discrepancies, the LCHA could not justify the 94.09% PHMAP score, its designation as a high performer, nor benefits derived from the high performer designation. OIG's recalculation of indicators 1 and 5 resulted in the reduction of the 1995 PHMAP score to 85.45% and a designation of standard performer.

HUD Handbook 7460.5, chapter 11, paragraph 11-3 general incentives for high performing PHAs states:

- D. "High-performing PHAs will be deemed to be a lower risk and, therefore, will be monitored less frequently on a risk analysis basis."
- F. "The Department will utilize a PHA's PHMAP assessment score as the management capabilities component in grant programs, such as modernization, drug elimination, child-care, etc. Where appropriate, extra points for high-performing PHAs may be awarded in the scoring of grant programs."
- A. Incorrect calculation of Indicator 1

HUD Handbook 7460.5, Chapter 6, Paragraph 6-2A4. states:

"Grade C: The PHA is in one of the following categories:

- b. An adjusted vacancy percentage of 3% or less after permitted adjusting for funded on-schedule modernization."

The LCHA incorrectly calculated Indicator 1, Vacancy Rate and Percentage, by deducting funded on-schedule modernization units from total vacant units and deducting excessive modernization units. Twenty vacant units were subtracted from the total vacant units to adjust for modernization units. This was incorrect because the adjustment for modernization units is made after the actual vacancy rate is determined. There were only 10 units identified as vacant due to modernization, not 20.

According to the LCHA's Comptroller and Housing Management Specialist each subtracted 10 units for funded on-schedule modernization and each made the adjustment prior to determining the actual vacancy rate.

Because twice as many modernization units were subtracted prior to determining the actual vacancy rate, the LCHA certified to 25.5 points for a grade of "B" for this indicator. However, HUD awarded the LCHA an "A" and 10 points for Indicator 1. There was no explanation for the discrepancy. Based on the above criteria and PHMAP review, the LCHA should have received 21 points and a grade of "C" for its 1995 PHMAP Indicator 1.

B. Failure to submit the required data source to HUD

According to HUD Handbook 7460.5, Chapter 6, Paragraph 6-2A9d. Indicator 1, vacancy number and percentage requirements states:

"Data source: a PHA shall certify to this indicator within 90 calendar days after its fiscal year begins...utilizing Form HUD-51234, Report On Occupancy..."

The LCHA did not prepare for submission to HUD, form HUD-51234, Report On Occupancy. PHA's are required to

certify to Indicator 1 using information from this form. The LCHA's Housing Management Specialist was not aware that form HUD-51234 was a document HUD required PHA's to submit. HUD's Housing Management Specialist stated HUD verbally requested the form but since the PHA certifies to this indicator and HUD usually takes the PHA's word, no additional follow-up was completed.

As a result, it was not possible to determine whether the LCHA accurately reported Indicator 1, Vacancy Rate and Percentage and the grade of A is questioned.

C. Documentation did not support the LCHA's calculation of PHMAP Indicator 5

HUD Handbook 7460.5, Chapter 6, Paragraph 6-2E9b. Indicator 5, unit turnaround requirements states:

Data source: a PHA shall certify to this indicator within 90 calendar days after its fiscal year begins.

(2) "Documentation verifying this indicator shall be maintained by the PHA for HUD post-review."

The LCHA certified to an average vacant unit turnaround rate of 39 days, the equivalent of a PHMAP grade of "D" and 10 points, during 1995. The PHMAP records disclosed the LCHA's files did not support the certified vacant unit turnaround rate.

The LCHA Comptroller initially calculated the 1995 average vacant unit turnaround rate at 40 days. However, after adjusting the January 1995 turnaround rate, an average score of 39 days was reported. The adjustment resulted in LCHA receiving a grade of "D" rather than "E", or 10 PHMAP points verses six. There were additional discrepancies found in the LCHA calculation.

For example, the calculation for February 1995 was not consistent. Discrepancies existed between the detail schedule and the summary vacant unit turnaround calculation. The

detail schedule showed a calculation of 49 days while the summary figure used was 41 days. There was no explanation for the difference. Furthermore, utilizing the detailed schedule and the LCHA Vacancy Detail List, the February 1995 vacant unit turnaround time was recalculated which resulted in an average turnaround time of 50 days.

LCHA officials could not explain the differences or the identified adjustments of PHMAP Indicator 5 calculations.

Due to the discrepancies disclosed, the 1995 average unit turnaround rate was recalculated. The LCHA's records supported an average unit turnaround time of 59 days, the equivalent of a PHMAP grade of "F", which would result in zero points being awarded for Indicator 5 in the overall PHMAP calculation. As a result, the LCHA should receive a grade of "F" and zero points for Indicator 5.

D. No schedule of funded modernization units for PHMAP Indicator 5

HUD Handbook 7460.5, Chapter 6, Paragraph 6-2-E1, Indicator 5 Unit turnaround states:

"Vacant units in the following categories should not be included in this calculation:

- a. Units in funded on-schedule CIAP (only) programs."

The LCHA did not maintain documentation to support funded on-schedule modernization units.

The LCHA excluded entire projects from the vacant unit turnaround calculation. The LCHA Vacancy Detail Lists documented numerous units as being reoccupied, however, instead of recording a tenant name the report stated "NO TENANT". In some instances the units marked "NO TENANT" were also excluded from the calculation.

According to the LCHA Comptroller, there was no list to identify units approved for funded on-schedule modernization. Five projects were identified for modernization and due to difficulties obtaining vacant units, scheduling tenant moves,

contractor scheduling, and other problems, the LCHA abandoned their modernization schedule and took whatever units were available. This resulted in the LCHA excluding entire projects from the calculation instead of specific units as required.

The Comptroller could not explain what "NO TENANT" represented or verify whether all units marked as such were excluded from the calculation of Indicator 5.

As a result, the LCHA could not ensure that units were excluded from the vacant unit turnaround calculation when scheduled. Nor could the LCHA ensure the vacant unit turnaround rate was properly stated.

In summary, the LCHA was unable to ensure and support the accuracy of data submitted to HUD on its 1995 PHMAP Certification. The LCHA incorrectly calculated and failed to submit required HUD forms for PHMAP Indicator 1. The documentation maintained for Indicator 5 did not support the score and a required schedule of funded modernization units was not maintained. This all resulted in an OIG recalculated 1995 PHMAP score of 85.45%. See Appendix A The lower score should result in a new PHMAP designation as a "standard" performer, and subject the LCHA to, among other things, increased oversight and a potential loss of funding for those programs where funding levels are determined, at least in part, by the PHMAP score.

Auditee Comments

The LCHA will recalculate PHMAP Indicators 1 and 5. Documentation to support the calculations and a listing of excluded units undergoing modernization will be maintained on file. A HUD-51234, Report on Occupancy for FYE 12/31/95 has already been submitted to HUD. The Housing Authority will work with its computer software vendor to ensure the accuracy of unit vacancy reports for utilization in preparing PHMAP certifications.

Recommendations

We recommend the LCHA:

- 4A. Recalculate Indicator 1, correctly accounting for modernization units. Maintain documentation on file to support the calculation.
- 4B. Prepare and submit to HUD the Form HUD-51234, Report On Occupancy for Public and Indian Housing for 1995 and all future PHMAP certifications.
- 4C. Recalculate Indicator 5. Maintain documentation to support the calculation including a list of all units excluded from the calculation.
- 4D. Establish a system to accurately track and support all vacant units, turnaround days, and modernization units, as required by HUD Handbook 7460.5

Internal Controls

In planning and performing our audit, we considered internal control systems of the management of the Luzerne County Housing Authority to determine our auditing procedures and not to provide assurance on internal controls. Internal control is the process by which an entity obtains reasonable assurance as to achievement of specified objectives. Internal control consists 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.

Internal controls assessed

We determined that the following internal control categories were relevant to our audit objectives:

- Administrative Costs
- Homeownership Program
- Inventory
- Monetary assets
- Non-tenant Account Receivables
- PHDEP
- PHMAP
- Procurement
- Section 8 HQS

We evaluated all of the relevant control categories identified above, by determining the risk exposure and assessing control design and implementation.

Significant weaknesses found

A significant weakness exists if internal control does not give reasonable assurance that the entity's goals and objectives are met; that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on our review, we believe the following items are significant weaknesses in the Authority's operations:

- Administrative Costs
- Monetary assets
- Non-tenant Account Receivables
- PHDEP
- PHMAP

These weaknesses are detailed in the findings in this report.

Follow Up On Prior Audits

There are no prior audit findings outstanding.

Schedule Of Ineligible and Unsupported Costs

<u>Finding Number</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1		\$214,032
2	\$19,968	

- 1/ Ineligible costs are not allowed by law, contract, HUD or local agency policies or regulations.
- 2/ Unsupported costs are not clearly eligible or ineligible but warrant being contested because of the lack of documentation supporting the need to incur such costs.

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