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Audit Report Number 98-BO-209-1001

TO: John Carella, Director, Office of Public Housing,
Connecticut State Office, 1EPH

FROM: William D. Hartnett, District Inspector General, Office
of Audit, 1AGA

SUBJECT: City of New Haven Housing Authority
Public Housing Drug Elimination Program
New Haven, Connecticut

As requested, we audited the Housing Authority of the City of New Haven's (PHA) Public Housing Drug Elimination Program (PHDEP). The overall objective of our audit was to determine if the PHA had accountability over funds expended and to report on the eligibility and reasonableness of the PHA's reported expenditures.

On June 2, 1997, we issued an interim report (97-BO-101-0804) pertaining to the PHDEP's law enforcement activities. That report disclosed the PHA failed to establish fiscal accountability and effective managerial and internal controls in regards to the program's law enforcement expenditures totalling \$949,944. Since this time, the PHA has changed its management and is in the process of establishing accountability and controls over the PHDEP expenditures.

In view of the lack of controls disclosed in this report, it is imperative that the PHA take immediate corrective actions to assure that the remaining unexpended funds are controlled, properly accounted for and used in an economical and effective manner.

Within 60 days, please provide us 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 this audit.

If you have any questions, please contact our office at (617) 565-5259.

Executive Summary

We performed an audit of the Housing Authority of the City of New Haven's (PHA) management of its Public Housing Drug Elimination Program (PHDEP). The PHA was awarded \$3,376,100 in PHDEP funds for FYs 1993 through 1996. The purpose of our audit was to determine if the PHA established accountability for the PHDEP funds expended and if reported expenditures were reasonable and eligible.

Accountability for PHDEP funds was not established

The PHA failed to implement adequate accounting and managerial controls over the PHDEP program. Consequently, a determination as to whether reported expenditures were eligible and reasonable could not be made. The PHA's failure to implement adequate accounting and managerial controls resulted in the following conditions:

- \$935,868 in reported costs are not supported by an adequate audit trail;
- A \$55,315 difference exists in reported costs between the PHA's two sets of financial records maintained for the PHDEP;
- Unnecessary employment overhead costs were incurred;
- \$135,449 of reported cost are questionable; and
- Significant budget overruns have occurred.

Interim report disclosed problems with law enforcement activities

Our interim report (97-BO-101-0804), issued June 2, 1997, described deficiencies regarding costs charged for law enforcement activities. That report cited the PHA for not:

- Executing a contract for services with the police department;
- Establishing adequate management and accounting controls over enhanced police services expenditures; and
- Instituting budgetary controls to prevent overspending.

Actions taken to resolve conditions

On April 25, 1997, the Connecticut State Office's (CSO) Director of Public Housing advised the PHA that if a contract between the PHA and the New Haven CT Police

Department was not executed by May 12, 1997, PHDEP funds could not be used to pay for enhanced police costs. The letter further indicated that retroactive payments would not be permitted.

A contract with the New Haven, Connecticut police department was executed on June 9, 1997. However, the PHA has not established adequate management and accounting controls or instituted budgetary controls to prevent overspending on either the law enforcement activities or other aspects of the PHDEP.

On July 15, 1997 a meeting was held between the PHA's new management, the CSO and OIG. The PHA advised that some corrective actions have been taken and other corrective actions are in process. The PHA has replaced its Executive Director with a temporary consultant and is replacing and realigning its staff resources to assure that all expenditures will be approved by a Manager, controlled, supported and properly accounted for. On September 23, 1997, the CSO Director, Public Housing Division, determined that effective accounting and managerial controls were now in place. However, since the PHA is still undergoing reorganization, we believe that additional assurances are necessary to protect HUD's interests.

Recommendations

We recommend that the PHA be instructed to provide evidence that the financial management system implemented is effective in assuring only reasonable and eligible costs are charged to the PHDEP. In addition for open PHDEP grants, the PHA should assure that prior unsupported expenses are reconstructed and provide for an adequate audit trail. Finally, we recommend that you cause prior unsupported costs for open PHDEP grants to be reviewed for the eligibility and reasonableness and make a determination as to the acceptability of such costs.

Findings and recommendations discussed

We discussed the finding with PHA officials during the course of our audit. On September 10, 1997, the PHA provided a detailed response to each of the specific concerns discussed in the draft report. The PHA generally agreed with the deficiencies as cited in their report. We have included the PHA's pertinent comments in the Finding and recommendation section of this report. The PHA's full response is included in Appendix B.

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Abbreviations

A/R	Accounts Receivable
CFR	Code of Federal Regulations
CSO	Connecticut State Office
FY	Fiscal Year
GF	General Fund
JE	Journal Entry
LOCCS	Line of Credit Control System
NHPD	New Haven Police Department
NOFA	Notice of Funds Availability
PHA	Public Housing Authority
PHDEP	Public Housing Drug Elimination Program

Introduction

The Housing Authority of the City of New Haven (PHA) was created in 1938 by an ordinance of the Board of Aldermen of the City of New Haven. Currently, the PHA is administering 3,475 units in 32 developments. A five member Board of Commissioners, appointed by the Mayor of the City of New Haven, governs the PHA. The Chairman of the Board is Helen Bosley.

The Mayor of the City of New Haven has been concerned about the poor management at the PHA since late 1996 and sought the personal intervention from former HUD Secretary Cisneros. As a result, a task force from the Office of Assistant Secretary for Public and Indian Housing surveyed the PHA and in November 1996 contracted the consulting firm of Quadel Consulting Corporation (Quadel), to conduct an assessment of the PHA.

The findings of Quadel's assessment were presented in the "Final Report on Management Assessment of the Housing Authority of the City of New Haven" dated January 13, 1997. Subsequently, Quadel was requested under a separate contract to develop and monitor corrective action progress and provide limited technical assistance under a six month operational improvement plan.

Quadel's April 1997 status report on the PHA's progress indicated that they were increasingly concerned about the lack of energy and commitment to problem solving evidenced by the top leadership of the PHA. On June 10, 1997 the PHA's Executive Director resigned. Since that time, a representative from Quadel has become the PHA's acting Executive Director and is responsible for the day-to-day operations. This arrangement is expected to last for about four months. Since the new management was put into place, changes such as the termination of the PHA's Senior Accountant and Director of Maintenance have taken place.

The PHA was awarded \$3,376,100 in Public Housing Drug Elimination Program (PHDEP) funds for FYs 1993 through 1996. As of May 31, 1997, the PHA reported \$2,163,246 in PHDEP expenditures and had drawdown \$1,459,478 from HUD.

FY PHDEP Grant	Funds Awarded	Reported Costs	Funds Drawdown	Balance Available
1993	\$ 706,600	\$ 706,600	\$ 706,600	-0-
1994	\$ 879,250	\$ 879,250	\$ 752,878	\$ 126,372
1995	\$ 898,000	\$ 492,420	-0-	\$ 898,000
1996	\$ 892,250	\$ 84,976	-0-	\$ 892,250
Total	\$3,376,100	\$2,163,246	\$1,459,478	\$1,916,622

The PHA prepared a PHDEP grant application for the FY 1997 Notice of Funds Availability (NOFA) that was issued on May 23, 1997. The application was submitted to HUD on August 8, 1997.

Audit objectives

The overall audit objective was to determine if the PHA provided accountability for PHDEP funds expended and whether the PHDEP expenditures were reasonable and eligible. Specific audit objectives were to determine whether the PHA:

- Established an auditable system that provides adequate accountability for awarded PHDEP funds;
- Maintained records which adequately identify the source and application of PHDEP funds;
- Carried out its drug elimination activities as described in its HUD approved PHDEP application;
- Established an effective system of internal controls; and
- Established controls to assure that activities funded under the PHDEP were not also funded under other programs.

Audit scope and methodology

We reviewed PHDEP grant applications, grant agreements, and financial records at both the Connecticut State Office and the PHA. Audit tests included comparison of PHA financial records with HUD approved PHDEP grant budgets to determine if costs were in accordance with agreements. We also tested costs for eligibility and support.

We interviewed Connecticut State Office, Office of Public Housing program staff, former and current PHA staff, and representatives from outside consultant and CPA firms. We also interviewed staff at the New Haven, CT Police Department.

Our audit focused on costs charged to the FY 1993 and 1994 PHDEP grants, specifically for enhanced police services totaling \$949,944. An interim report (97-BO-101-0804) citing problems regarding costs for the enhanced police services was issued on June 2, 1997. We also reviewed \$442,606 of the \$524,341 in costs charged to the PHDEP grants for Drug Prevention. We performed our audit from February 1997 through May 1997.

The audit covered the period November 2, 1992 through

December 31, 1996. The audit period was expanded to cover other periods as necessary.

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

PHA Did Not Establish Accountability Over PHDEP Expenditures

The Housing Authority of the City of New Haven (PHA) failed to establish accountability over its Public Housing Drug Elimination Program (PHDEP) expenditures, which at May 31, 1997 totaled \$2,163,246. As a result, the PHA is unable to assure HUD that the charges to the PHDEP program were reasonable, eligible and an effective use of limited Federal Funds.

The PHA was awarded \$3,376,100 in PHDEP funding for fiscal years 1993 to 1996. Of this amount, \$1,212,854 remained unexpended at May 31, 1997. In view of the lack of controls described in this report, it is imperative that the PHA take corrective actions to assure that any future funds are controlled, properly accounted for, and used in an economical and effective manner. The PHA's new management has advised corrective actions are being taken to develop and implement adequate fiscal controls.

Control deficiencies

Review of reported expenditures as of December 31, 1996 disclosed that the PHA failed to:

- Establish effective managerial and internal control systems over these expenditures;
- Establish and maintain an auditable accounting system over its PHDEP funds; and
- Provide adequate documentation to support expenditures charged to its PHDEP.

The PHDEP grant agreements and regulations require proper accounting and internal controls over all grant activities. The deficiencies occurred as a result of the PHA's inability to effectively manage and account for federal funds.

Inadequate accounting records

Grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to the grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income (CFR 24, Section 85.20(b)(2); Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments).

The PHA did not maintain records which adequately

identified the source and application of its PHDEP funds. The PHA's PHDEP is accounted for through a General Fund (GF) Account Receivable (A/R) sub-account. This system does not provide a breakdown, by line item, for reported costs.

PHDEP costs are paid from the PHA's GF and accounted for in an A/R sub-account. Each FY's PHDEP grant has its own A/R sub-account. From time to time, the PHA will request Line of Credit Control System (LOCCS) drawdowns, which, when received, offset the receivable. However, the LOCCS drawdown request amounts are not based on total costs charged to the GF's A/R sub-account for a given period. There was no documentation supporting the basis for the LOCCS drawdowns.

Inadequate audit trail for
\$935,868

In July 1996, the PHA created a separate set of subsidiary records for the PHDEP. Although the PHDEP is still accounted for through the PHA's GF, PHDEP costs are recorded concurrently through both the GF's A/R sub-account and the PHDEP's subsidiary records. However, the subsidiary records created for the PHDEP do not provide an auditable trail to supporting documentation for costs incurred before July 1, 1996. These costs represent \$935,868 of the \$1,546,552 in reported expenditures as of December 31, 1996. Without an auditable trail, it is not possible to determine the reasonableness and eligibility of reported costs.

We were advised by the PHA's accounting consultant who created the subsidiary records, that there was no trail to the supporting documentation because he was under pressure to create the records. He indicated that:

"You would have to duplicate my exact train of thought at that time to identify the exact costs I used in each line item."

PHDEP's records disagree

The GF's A/R sub-account balances do not agree with the PHDEP's subsidiary records. Consequently, it is not possible to determine which, if either, of the two sets of financial records, represent the PHDEP's actual costs. As of December 31, 1996, the GF's A/R sub-account balances for the four grant years reflect a net amount of \$55,315 more in costs than the PHDEP's subsidiary records. When the specific FY PHDEP grant's reported incurred costs per the GF's A/R sub-accounts were compared to the reported incurred costs per PHDEP's subsidiary records, the reported costs per each were substantially different:

PHDEP FY Grant	December 31, 1996 Reported as Incurred Costs		Difference
	Per GF A/R Sub- Accounts	Per PHDEP Subsidiary Records	
1993	\$ 909,472	\$ 706,600	\$ 202,872
1994	\$ 452,672	\$ 825,820	\$(373,148)
1995	\$ 224,334	\$ -0-	\$ 224,334
1996	\$ 15,389	\$ 14,132	\$ 1,257
Totals	\$1,601,867	\$1,546,552	\$ 55,315

This concern was communicated to the PHA on April 18, 1997. As of May 31, 1997, the GF's sub-account and PHDEP's subsidiary records were still not in agreement.

Costs charged to incorrect grant year

During our review of costs incurred for Youth Services subsequent to July 1, 1996, we noted instances where the costs charged to a specific FY PHDEP grant, per the GF check register, were charged to a different FY PHDEP grant per the PHDEP's subsidiary records. In August 1996, per the PHDEP's subsidiary records, a total of \$10,946 was charged to the FY 1994 PHDEP grant for Youth Services. However, per the GF's check register, only \$750 was charged to the FY 1994 PHDEP grant. The entire \$10,946 that was charged to the FY 1994 PHDEP grant, per the PHDEP subsidiary records, was actually charged, per the GF's check register, to the FY 1993 PHDEP grant.

The above example may be part of the reason why the specific FY PHDEP grant's reported incurred costs per the GF's A/R sub-accounts versus the reported incurred costs

per PHDEP's subsidiary records, are substantially different. The two sets of financial records should both simultaneously reflect the PHDEP's reported incurred costs.

On the positive side, the PHDEP subsidiary records, unlike the GF's A/R sub-accounts, attempted to provide a breakout of costs by line item. Also, enhanced police service costs which were previously charged to a GF expense account; Security Contract Costs; Account No. 448000; and reallocated, via a Journal Entry, to the PHDEP's applicable GF A/R sub-account, as of October 1, 1996, are now being charged directly to the PHDEP A/R sub-account.

The breakout, by line item, of the \$1,546,552 is as follows:

Line Item	Total
Drug Prevention	
Salaries	\$181,227
PHDEP Planner	\$ 85,423
Safety Coordinator	\$ 14,132
Youth Services	\$161,824
Other	\$ 81,735
Subtotal	\$ 524,341
Law Enforcement	\$ 949,944
Physical Improvements	\$ 40,010
Security Guards	\$ 32,257
Total	\$1,546,552

Our review of the reported incurred costs showed the following accountability deficiencies:

Drug Prevention (\$ 524,341)

Salaries (\$181,227)

Inadequate audit trail for \$104,112

The PHA's financial records report \$181,227 in costs charged to the PHDEP for salaries. As previously indicated, we found that the subsidiary records created for the PHDEP did not provide an auditable trail to the supporting

documentation for costs incurred before July 1, 1996. Of the \$181,227, \$104,112 represent costs charged for salaries prior to July 1, 1996 and \$77,115 was charged subsequently.

Although the subsidiary records did not provide an adequate auditable trail to the supporting documentation for costs incurred before July 1, 1996, the majority of the salary costs were for individuals hired from temporary employment agencies. As a result, we were able to tie in salary costs charged to the PHDEP prior to July 1, 1996 with some degree of accuracy by looking at expenditures that were paid to the temporary employment agencies and charged to the PHDEP.

Unnecessary overhead costs incurred

The Connecticut State Office (CSO) did a review of the PHA's PHDEP for which a report was issued March 5, 1996. The report noted that:

"The PHA has contracted with temporary employment agencies for their temporary staff who have worked for the PHA for years, which add administrative costs that are unreasonable."

The CSO advised the PHA that temporary staff should be hired to work the term of the grant and that each grant term would require a new temporary employment contract.

In September 1996, the individuals specifically referred to in the CSO's March 5, 1996 report were hired directly by the PHA. However, while the PHA did comply with the CSO's directive to cease the practice of paying the individual's specifically referred to in the March 5, 1996 report, it did not cease the practice of hiring employees through temporary employment agencies. For example, the PHDEP Planner's secretary, among other employees hired after August 1996, was hired through a temporary employment agency.

The FY 1994 NOFA, dated April 1, 1994 provides that:

"All costs must be reasonable, necessary and justified with cost analysis."

The practice of hiring employees through temporary employment agencies adds administrative costs that are not reasonable, necessary nor justified.

Questionable salaries of \$53,600

In addition to the above, our audit identified \$53,600 in salary costs that are not proper PHDEP costs. The FY 1994

NOFA, dated April 1, 1994 provides the following:

"Grant funds must be used only for Drug Elimination Program purposes. Direct costs are those that can be identified specifically with a particular activity or function in this NOFA and cost objectives in OMB Circular A-87. Indirect costs are not permitted in this program."

"PHA staff employees shall be compensated with grant funds only for work performed directly for PHDEP grant-related activities and shall document the time and activity involved in accordance with CFR 85.20."

Of the \$53,600 in salary costs questioned, \$32,625 represents the salary costs of four individuals who did not work exclusively for the PHDEP. The PHA could not provide evidence to support that the individuals actually worked directly for PHDEP grant-related activities. Therefore, there are no assurances that even a portion of the salary costs, never mind the total salary costs, should be charged to the PHDEP.

The remaining \$20,975 in salary costs represents the salary costs of nine individuals who, according to the PHA's Director of Maintenance, did grounds maintenance work for the PHA. This is not a proper PHDEP charge. Furthermore, \$18,700 of the \$20,975 was charged to the PHDEP without the required signature of the PHDEP Planner during the period November 1996 to January 1997. The payment requests were made by the PHA's Director of Maintenance.

Internal controls poor

The CSO's March 5, 1996 report stated that:

"All program contract costs are to be approved by the Drug Elimination Planner prior to payment."

The PHA's response to the CSO on April 2, 1996 stated that:

"All contract costs will be pre-approved by the Drug Elimination Planner prior to payment. Check Registers for each PHDEP account based on line items for each grant will be prepared by the accountant and monitored on a weekly basis by the Drug Elimination Planner."

Despite the PHA's assertion, all costs were not pre-approved

by the Drug Elimination Planner prior to payment.

PHDEP Planner (\$85,423)

The FY 1994 NOFA, dated April 1, 1994, provides that grantees are required to use grant funds under this program in accordance with this NOFA, 24 CFR part 961; Drug Elimination Programs; CFR 24, Section 85; Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments; applicable statutes, HUD regulations, Notices, Handbooks, OMB circular, grant agreements/amendments, and the grantee's approved plan, budget (SF-424A), budget narratives and timetable.

Budget controls needed

The FY 1994 PHDEP grant application indicated that \$50,000 of the \$879,250 awarded amount was budgeted for the PHDEP's planner's salary. However, our review identified \$112,910 in salary costs pertaining to the PHDEP's Planner's salary that was charged to the FY 1994 PHDEP grant.

The PHA's financial records only report \$85,423 in costs charged to the PHDEP for the PHDEP Planner's salary. The difference (\$27,487) is due to the fact that in August 1996, the PHA began charging the PHDEP Planner's salary to the Salaries line item as opposed to the PHDEP Planner's salary line item. Consequently, \$27,487 of the \$181,227 in Salary costs charged to the PHDEP represents the PHDEP Planner's salary.

Safety Coordinator (\$14,132)

Unsupported costs of \$14,132

The FY 1994 NOFA, dated April 1, 1994, provided that the grantee must establish an auditable system to provide adequate accountability for the funds which is has been awarded. As indicated already, the PHA did not establish an auditable system that provided accountability for the PHDEP funds.

The \$14,132 charged for a safety coordinator is another example of lack of accountability. Although this cost was charged to the PHDEP subsequent to July 1, 1996, there was no way to determine what this cost represents because of the PHA's method of accounting.

The PHDEP's subsidiary records indicate that the \$14,132 is a FY 1996 PHDEP cost. However, when we attempted

to trace this cost from the PHDEP's subsidiary records to supporting documentation, the only support provided was a journal voucher (JE) entry. The information provided by the JE was that the \$14,132 was a cost taken from the FY 1993 PHDEP grant and reclassified to the FY 1996 PHDEP grant.

The JE did not provide any information that the cost is eligible and reasonable. Furthermore, it should be noted that at the time the JE was made in September 1996; the safety coordinator's position was vacant.

Youth Services (\$161,824)

No audit trail

The PHA's financial records report \$161,824 in costs charged to the PHDEP for Youth Services. Of the \$161,824 in reported Youth Services costs, \$135,451 represent costs charged to the PHDEP prior to July 1, 1996 and \$26,373 was subsequently charged. Because of the way the PHA accounted for costs before July 1, 1996, these costs could not be traced to supporting documentation.

Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc (CFR 24, Section 85.20(b)(6); Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments).

Questionable costs of \$67,717

Because costs could not be traced for Youth Services to supporting documentation, we conducted a limited review the GF's check register for other miscellaneous costs and selected \$67,717 in costs charged to the PHDEP to determine if the expenditures were adequately supported. The PHA could not provide any support for \$24,787 of the \$67,717 in costs and support provided for the remaining \$42,930 in costs was inadequate because of a lack of financial cost data and performance results.

Other (\$81,735)

No audit trail for \$45,711

The "Other" category is made up of nine separate line items whose costs as of December 31, 1996 range from \$300 for baby sitting; to \$23,468 for supplies. Of the \$81,735 in reported "Other" costs, \$45,711 represents costs charged to the PHDEP prior to July 1, 1996, when the audit trail was inadequate. We did not review the costs subsequent to July

1, 1996.

Law Enforcement (\$949,944)

Lack of adequate management, accounting, and budgetary controls

We issued an interim report (97-BO-101-0804), dated June 2, 1997, specifically pertaining to law enforcement. The report stated that the PHA had not: (1) executed a contract with the police department since 1993; (2) established adequate management and accounting controls over the enhanced police services expenditures; and (3) instituted budgetary controls to prevent overspending.

Subsequent to our interim report, on June 9, 1997 a contract was executed. However, the PHA has not yet established adequate management and accounting controls and instituted budgetary controls to prevent overspending.

Physical Improvements (\$40,010)

No audit trail for \$7,169

We noted that of the \$40,010 charged to the PHDEP for physical improvements, \$7,169 represents costs charged to the PHDEP prior to July 1, 1996.

Security Guards (\$32,257)

A limited review of this item disclosed costs were acceptable. The \$32,257 was all charged to the PHDEP between July 1, 1996 to December 31, 1996.

* * * * *

Control systems need to be established

The inadequate control and accountability systems are a direct manifestation of the PHA's inability to effectively manage and account for its funds. The PHA needs to provide evidence that control systems are in place and functioning effectively to account for current PHDEP expenditures and then reconstruct and support all PHDEP expenditures from inception to May 31, 1997 and determine which are eligible and can be charged to the PHDEP.

On April 25, 1997 the CSO's Director of Public Housing advised the PHA that if a contract between the PHA and the New Haven Police Department was not executed by May 12, 1997, PHDEP funds could not be used to pay for enhanced police costs. The letter further indicated that retroactive payments would not be permitted. Our interim

report recommended that this enforcement action remain in effect, for the entire PHDEP program, until appropriate corrective action occurred. As of June 30, 1997, the enforcement action still remains in effect. We believe it should not be lifted until the above concerns are resolved.

Corrective actions in process

On July 15, 1997 a meeting was held between the PHA, the CSO and OIG. The PHA advised that certain corrective actions have been taken and other corrective actions are in the process of being taken. The PHA has replaced its Executive Director with a temporary consultant and is in the process of replacing and realigning its staff resources to assure that starting July 1, 1997 all expenditures will be approved by a Manager, controlled, supported and properly accounted for.

PHA's response

In its September 10, 1997, response, the PHA's interim Executive Director noted the following:

"(The PHA) recognizes that the audit process was arduous and resulted in a wide variety of exceptions and differences and appreciates the vigor and diligence of IG staff in the process. Lack of proper controls and practices was the reason for the findings, and the Authority concurs with the IG as to these facts.

The Housing Authority feels that the recent overall management improvements and the many specific changes in accounting and internal controls will avoid reoccurrence of the audit findings noted in your report and assures that these new practices will be an integral part of PHDEP policies and procedures now and in the future."

The response further noted that effective July 1, 1997, various procedures to assure compliance with PHDEP requirements were instituted. Specific corrective procedures include the following:

- The PHDEP manager is now reviewing and approving all PHDEP expenditures to assure the expenditures are eligible;
- An accounting system was designed to record PHDEP expenditures directly to the budget line item assigned, as opposed to charging the expenditures to an A/R sub-account which was the PHA's practice; and

- The PHDEP manager and PHA finance department staff are meeting on a monthly basis to review transactions for the month to identify cost overruns, etc.

The PHA stated in summary that:

"Over the past several months, the Authority has undergone a transformation of major proportions. Throughout all operational areas significant improvements have occurred. The Authority has attempted to outline in this report and appropriate enclosures its numerous efforts to more adequately manage and control the PHDEP and program expenditures.

"Authority leadership and staff realize that although significant progress has been made, we have a long way to go. Increased accountability from existing staff, rigorous recruitment for additional qualified staff, and continued diligence in implementing adequate and appropriate policies and procedures will be a primary focus of the Authority's efforts during the fall of 1997."

Requested information was furnished

In its September 10, 1997 response, the PHA requested certain information of IG to assist them in their reconstruction of its records. The information requested was provided to the PHA on September 18, 1997. In addition, the attachments referred to in the PHA's response (Appendix B) have been furnished to the CSO.

CSO satisfied controls are now established

On September 23, 1997, the CSO Director, Public Housing Division, in response to our interim report on the expenditures for enhanced police services advised that:

"The Housing Authority finalized a contract with New Haven Police on June 9, 1997. The Authority has established financial procedures and controls for all PHDEP expenditures, programmatic oversight has been established by requiring the Program Coordinator to approve all police invoices, deployment schedule for police is closely monitored so that payments are according to deployment schedule only, training sessions for extra duty police were held, a new police liaison to the HA was appointed and better oversight of extra duty police is in place. As a result of these actions, we determined that effective accounting and managerial controls are in place. We approved LOCCS draw downs for law enforcement invoices incurred after July 1 and

will approve future law enforcement draw down requests.

"We advised the HA by letter dated September 19, 1997 that we will withhold LOCCS draw down approval for law enforcement voucher incurred prior to July 1, 1997 until an accountant reviews and certifies that services were performed, costs are reasonable, costs are properly charged to PHDEP and costs are eligible as provided under the scope of the PHDEP approved budget and action plan."

Additional assurances are needed

In view of the PHA's current reorganization efforts and its program of "... rigorous recruitment of additional qualified staff and continued diligence in implementing adequate and appropriate policies and procedures ...," we believe that additional assurances are necessary to assure that systems implemented remain effective to protect HUD's interests.

Recommendations

We recommend that you instruct the PHA to:

- 1A. Provide evidence that acceptable managerial and internal controls established are effective in assuring that PHDEP expenditures are documented, reasonable, eligible and in accordance with PHDEP grant and program requirements.
- 1B. Reconstruct adequate audit trails and documentation for all undocumented PHDEP expenditures from currently open grants.
- 1C. Cause the reconstructed expenses to be reviewed and assure that only costs which are eligible, reasonable and in accordance with the PHDEP grant requirements are accepted.

Internal Controls

In planning and performing our audit, we considered the internal controls of the Housing Authority of the City of New Haven (PHA), specifically as related to its Public Housing Drug Elimination Program (PHDEP), in order to determine our audit procedures and not to provide assurance on internal controls.

Internal controls consist of a plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports.

Internal controls assessed

We determined that administrative and accounting controls in the following areas were relevant to our audit objective:

- Financial Controls over Program Funds
- Management Review of Expenditures
- Payment Authorizations
- Cash Receipts and Disbursements
- Budget Oversight
- Allocation of Costs
- Procurement and Contracting

We assessed all relevant control areas identified above

Assessment results

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

Significant internal control weaknesses exists in all areas

Our review identified significant weaknesses over the PHA's ability to administer the PHDEP. Specific weaknesses were identified in the internal control areas over all the controls listed above. These weaknesses are described in the finding section of this report.

Schedule of Unsupported Costs

Finding	Unsupported ¹
1 - Inadequate audit trail	\$935,868
- Inadequate support for PHA employee salaries charged to PHDEP	\$ 53,600 ²
- Inadequate support for Safety Coordinator cost	\$ 14,132
- Inadequate support for miscellaneous costs	\$ 67,717 ³
<p>¹ Unsupported amounts do not obviously violate law, contract, policy, or regulation, but warrant being contested for various reasons, such as the lack of satisfactory documentation to support eligibility and HUD approval</p> <p>² \$10,249 included in \$935,868</p> <p>³ \$57,869 included in \$935,868</p>	

Auditee Comments

Distribution

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