Audit Report

District Inspector General for Audit
Southeast/Caribbean District

Report: 98-AT-201-1001 *Issued: January 20, 1998*

TO: Harold Saether, Director, Public Housing Division, 4 APH

FROM: Nancy H. Cooper
District Inspector General for Audit - Southeast/Caribbean, 4AGA

SUBJECT: Review of the Housing Authority of the City of Alma
Alma, Georgia

We conducted a review of the Low Rent Public Housing, Comprehensive Grant, and Drug Elimination Grant programs administered by the Housing Authority of the City of Alma, Georgia (AHA). We also performed a limited review of the Tenant Opportunity Program (TOP) administered by the Alma Resident Council Inc. (ARC). You requested the audit because AHA is designated as a Troubled Public Housing Authority, and because your staff observed violations during an on site-management review of AHA's operations.

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 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.

If you have any questions, please contact James D. McKay, Assistant District Inspector General for Audit, or Narcell Stamps, Senior Auditor, at (404 331-3369). We are providing a copy of this report to AHA.

Executive Summary

We examined AHA and/or ARC's operations related to the Comprehensive Grant, Drug Elimination Grant, Tenant Opportunity Program, and Public Housing administration. We also reviewed AHA's controls over cash and tenant accounts receivable. The primary objective of the review was to determine if AHA and ARC administered the programs according to HUD requirements. We also reviewed selected expenditures to determine whether they were reasonable and necessary. We recognize that ARC is a separate organization with responsibility for administering the Tenant Opportunity Program. However, we included information about ARC in this report because ARC in essence abdicated that responsibility to AHA. AHA and ARC violated HUD requirements for each area covered by the audit objectives.

AHA's prior Executive Director (ED), Board, and ARC mismanaged HUD programs. The mismanagement adversely affected program operations and resulted in wasted funds. Specifically, the ED, Board and ARC ignored program budgets, and did not implement several major components of the Comprehensive Grant, Drug Elimination Grant, and Tenant Opportunity Programs. As a result the programs did not meet their intended objectives. Also, tenants were not provided improved living conditions and/or services that AHA and ARC represented to HUD that they would provide. Instead, AHA spent the funds for other activities which were either not in the budgets or the amounts spent substantially exceeded the budgets. These issues are discussed in the findings along with other violations that include instances where AHA and/or ARC:

- Incurred $119,929 for costs that are not allowable.
- Incurred $592,732 in unsupported costs and diverted $28,198 in insurance proceeds from fire losses to pay other program costs.
- Obtained or made $150,976 in unauthorized loans.
- Failed to maintain proper accounting records for the Drug Elimination Grant and Tenant Opportunity Program.

We recommend HUD require AHA and or ARC to seek recovery of wasted funds. We also recommend AHA and ARC improve controls needed to safeguard program assets.

We provided the draft report to AHA's Board of Commissioners on October 10, 1997. We met with it and ARC's President to discuss the findings at an exit conference held on October 30, 1997. The Board did not dispute the accuracy of the findings. We received the Board's written response to the findings on November 17, 1997. The Board stated that it was not aware of the significant issues discussed in the report and that it will initiate actions to correct the violations and to prevent similar occurrences in the future. ARC did not provide a written response.

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Abbreviations:

ACC	Annual Contributions Contract
AHA	Alma Housing Authority
ARC	Alma Resident Council, Inc.
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
ED	Executive Director
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget
PHMAP	Public Housing Management Assessment Program
PIH	Public and Indian Housing
TOP	Tenant Opportunity Program
TAR	Tenant Accounts Receivable
YMCA	Young Men's Christian Association

Introduction

BACKGROUND

Alma Housing Authority

AHA acts as the area's housing authority under the authority of the revised Annual Contributions Contract (ACC) number A-2736 with HUD dated June 10, 1996. AHA administered 8 public housing projects consisting of 321 dwelling units.

Organization AHA is governed by a five member Board of Commissioners chaired by Margaret Christmas. The Board is appointed by the Mayor of Alma, Georgia. During the period covered by the audit, John L. Miles, ED, was responsible for the administration of AHA's HUD funded programs and maintenance of program accounting records. Mr. Miles resigned in June 1997. AHA hired another ED in October 1997. The books and records are located at 410 East Twelfth Street, Alma, Georgia.

Funding During 1995 and 1996 HUD approved $714,174 for operating subsidies, and $986,821 for its Comprehensive Grant and Drug Elimination Grant programs. HUD suspended grant funds in 1997 due to AHA's ineffective program administration. The suspension remained in effect through the completion of our site work in October 1997.

Management Performance HUD declared AHA to be a troubled agency on August 8, 1996, because of its low Public Housing Management Assessment Program (PHMAP) scores and the following other concerns:

- Questionable and ineligible Comprehensive Grant costs.
- Failure of PHMAP indicators such as modernization, energy consumption, slow unit turn around, and annual inspections.
- Poor management.
- Lack of proper maintenance.
- Commingling of funds.
- Inadequate file documentation.
- Failure to request wage determinations.
- Failure to comply with federal procurement regulations, condition of units, and high tenant accounts receivable .

Independent Assessment During the audit, The Nelrod Company conducted an independent assessment of AHA's performance under HUD's PHMAP. Its report, issued April 16, 1997, cited numerous issues which required corrective action. The report cited deficiencies concerning the following issues which were more extensively covered by our audit:

- Administrative problems with the Comprehensive Grant program.
- HUD approval not obtained for use of force account labor.
- High tenant accounts receivable.
- Inadequate distribution of salaries among benefiting programs.
- Inadequate tracking of insurance settlements for fire damage claims.

Alma Resident Council

ARC was responsible for administering a $100,000 TOP grant funded by HUD on October 18, 1995. ARC is a separate tenant organization incorporated on April 20, 1994. We included ARC in the scope of our audit because the organization allowed AHA's prior ED to make or influence financial decisions regarding ARC's use of grant funds. Those decisions resulted in inappropriate and/or unsupported expenditures which prevented the grant from achieving its objectives (Finding 2). ARC was governed by a six member Board of Directors that included four officers (President, Vice President, Secretary, and Treasurer). The President, Mary L. Fedrick, was responsible for supervising the administration of the grant. ARC occupied office space within AHA's administrative building located at 410 East Twelfth Street, Alma, Georgia.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

The primary objective of the audit was to determine whether AHA and ARC administered the Comprehensive Grant, Drug Elimination Grant, Tenant Opportunity Program, and Public Housing administration in an efficient, and economical manner. This included a determination as to whether they administered the programs in compliance with applicable terms and conditions of the ACC, grant agreements, laws, regulations, and other directives.

To accomplish the objectives we reviewed records at HUD's Atlanta Office and at AHA and ARC offices in Alma, Georgia. We also interviewed officials at HUD's Atlanta Office, AHA and ARC, tenants, and selected contractors. We conducted a limited inspection of the project grounds and dwelling units. We used judgmental sampling methods during the audit which covered the period January 1, 1995 through December 31, 1996. We provided some coverage for periods prior to and after those dates to more fully develop certain issues. We conducted the review between January and October 1997.

We performed the work in accordance with generally accepted government auditing standards.

Findings

Finding 1

AHA Mismanaged its Housing and Other HUD Funded Programs

AHA’s prior ED and Board mismanaged the authority's Low-Rent Housing, Comprehensive Grant, and Drug Elimination Grant programs. The ED also exerted inappropriate influence over the TOP program which resulted in misuse of grant funds (Finding 2). Specifically, AHA:

- Did not complete much of the work required by its Comprehensive Grant program and performed some work with poor quality.
- Did not fully implement its Drug Elimination Grant program.
- Did not adhere to program budgets.
- Incurred $79,290 for unallowed costs.
- Incurred $568,338 for unsupported costs.
- Obtained $150,976 in unauthorized loans.
- Had high tenant accounts receivables and write-offs.
- Misused insurance proceeds of $28,198 for fire losses.

These conditions occurred because the ED and the Board mismanaged the authority's operations. AHA does not have nongovernment funds nor the means to raise such funds to compensate HUD for the adverse financial impact its mismanagement has had on the project and tenants. As a result, tenants were deprived of better living conditions and needed services. HUD money will be needed to duplicate funding for work or services AHA should have already completed or provided. AHA's non-compliance with program budgets was a substantial breach of its ACC and grant agreements with HUD.

PHYSCIAL IMPROVEMENTS NOT DONE AND REPAIRS POORLY DONE

AHA drew down and spent $1.3 million in Comprehensive Grant funds but did not complete many of the physical improvements for which they drew the funds. The expenditures include the total budgets for the 1993, 1994 and 1995 grants. We inspected 49 of 287 occupied units (17 percent) and found that AHA made substantial progress towards completing only one major repair-handicapped accessibility. We found only sporadic instances where AHA performed other major work items, such as replacement of stoves and refrigerators. We identified $326,452 of budgeted repairs which AHA did not complete even though it had spent the funds budgeted for them. AHA also did not complete certain other work but we could not readily quantify the amounts without a full inspection of the projects. AHA diverted funds budgeted and drawn down for physical improvements to cover administrative cost overruns and routine maintenance. For some work items performed, we noted instances of poor quality work. Appendix B provides additional details of physical improvements not performed and repairs completed with poor quality workmanship.

PROGRAM BUDGETS IGNORED

24 Code of Federal Regulations (CFR) 85.30 requires the grantee to obtain HUD approval for changes to the approved budget.

Section 407 (H) of AHA's ACC with HUD provides that during any fiscal year or other budget period the authority shall not incur operating expenditures in excess of the amounts included in the approved Operating Budget. Section 507 (2) states that a substantial breach occurs if the local authority, in violation of Section 407, incurred total operating expenditures in excess of the amount budgeted.

The Comprehensive Grant Handbook 7485.3, Chapter 8, Section 9, requires the PHA to submit, for prior approval, amendments to the approved Annual Statement where there are major changes to the Annual Statement.

The ED generally disregarded program budgets. For example, AHA did not fill three key positions budgeted at $38,944 for its Drug Elimination Program: two part-time Young Men's Christian Association (YMCA) youth counselors and a youth program coordinator. In its grant application, AHA described these positions as key to the success of the drug program. The application presented youth programs as having the greatest impact on breaking the cycle of poverty, crime, and neglect. The cut back in scope prevented AHA from realizing the full benefit claimed in the application. If AHA's application had included the reduced scope, HUD may have reached a different decision about funding the program. The ED could not provide a plausible explanation for not funding the positions.

For certain accounts selected for analysis, AHA overran the budgets by $228,310:

> **Housing Programs** - The ED spent $30,912 for personnel not included in the budget and $28,868 for salaries paid in excess of budgeted rates.
>
> **Comprehensive Grant Program** - The ED used $122,910 budgeted for repairs to pay administrative cost overruns.

Drug Elimination Grant Program - AHA exceeded its 1995 budget for certain line items by $45,620. The overrun included overpayments to consultants and fringe costs which exceeded the budget. The ED said he did not know about the overrun until we brought it to his attention.

The overruns contributed to unallowed and questioned costs.

UNALLOWED COSTS

To be allowable under a grant program, costs must be necessary and reasonable for the efficient administration of the grant program. Costs are allocable to a particular cost objective to the extent of benefit received by such objective (Office of Management and Budget (OMB) Circular A-87, Attachment A, Sections C(1) (a) and C(2)(a)). OMB Circular A-87 also provides that costs of amusements, social activities and incidental costs related thereto, such as meals, beverages, etc., are unallowable.

Title 24 CFR Part 968.112 provides that routine maintenance costs are not allowable Comprehensive Grant expenditures.

AHA incurred $79,290 for the following unallowed costs:

Description	Total	Housing	Comp. Grant	Drug Grant
Consultant A	$ 28,282		$ 3,501	$ 24,781
CFO	32,551	$ 32,551		
Other	18,457	710	17,747	
Totals	$ 79,290	$ 33,261	$ 21,248	$ 24,781

Consultant A - The consultant received payments in excess of the contract price and payment for telephone and supplies which were not provided in the contact terms.

Chief Financial Officer's (CFO) Employment Contract - AHA paid the balance of the CFO employment contract salary and travel allowance after AHA terminated the contract. AHA had grounds to avoid the settlement payments, however the ED did not fully inform the Board about the performance issues to prevent the payments. The CFO was related to the ED. Also, during the course of the contract AHA paid $4,061 in excess of the contract rate.

Other - AHA charged routine maintenance costs to the Comprehensive Grant program and costs for gifts, meals and advertisements to the Comprehensive Grant and housing programs.

UNSUPPORTED COSTS

We identified the following unsupported costs:

Description	Amount	Comp. Grant	Housing	Drug Grant
Force Account labor	$ 267,244	$ 267,244		
Salaries	99,589	39,809	59,780	
Consultant A	68,943	42,943		26,000
Consultant B	15,202	15,202		
Travel	44,275	37,850	6,425	
Other	73,135	24,687	24,789	23,659
Totals	$ 568,388	$ 427,735	$ 90,994	$ 49,659

Force Account Labor - AHA used force account labor to perform Comprehensive Grant improvement and routine maintenance repairs. However, AHA charged the total cost to the Comprehensive Grant program.

Furthermore, AHA did not obtain HUD approval to use force account labor. HUD approval was required because AHA was not both an overall high performer and a modernization high performer under PHMAP. Accordingly, we questioned the total costs charged to the Comprehensive Grant program.

Salaries - AHA improperly charged the Comprehensive Grant program for salaries for non-program staff and miscellaneous expenses. AHA charged the housing program for the salaries of six kitchen workers who were not included in the budget and for the salaries of three workers who were paid more than the budgeted rates. Further, AHA did not properly allocate salaries among benefiting programs. For instance, AHA charged 100 percent of the salaries for the coordinators of its Drug Elimination Grant and Comprehensive Grant programs to the respective programs. However, according to the two coordinators they spent most of their time performing AHA housing duties. AHA did not require the coordinators or the other staff to maintain time and attendance records to support how they actually spent their time.

Consultant A The consultant was paid for Comprehensive Grant services which he did not perform. The ED could not explain why he paid the consultant to: (1) monitor the effectiveness of the program, (2) report on program improvement opportunities, and (3) establish program benchmark and performance indicators, even though he knew the consultant did not perform this work. The consultant was also paid for Drug Elimination Grant services which were not clearly defined in the contract (See Finding 3).

Consultant B - Payments to the consultant were not supported by invoices.

Travel Costs - We questioned all travel charged to the Comprehensive Grant program. The program budget did not contain funds for travel. We examined $27,104 and determined that $17,662 of the amount was not necessary and reasonable and $8,712 was not supported by proper source documents. The $17,662 consisted of $7,776 for a weekend Board retreat at St. Simon's Island; $8,774 for two trips to Washington D.C.; and $1,112 for a trip to Pine Mountain, Georgia.

Other - Other unsupported amounts included:

$31,398 transferred by an inadequately supported journal voucher between accounts.

$15,104 for payments to the local police department for budgeted services which were not covered by an executed contract.

$16,350 paid to Consultant A for the preparation of various applications for funding. AHA did not document the procurement process followed (Finding 3) and we could not readily determine if the amounts paid were reasonable.

$8,339 for fringe benefits in excess of the approved budget.

$1,644 paid for travel which was not supported by expense vouchers or source documents.

$300 for cellular phone services charged to the wrong grant.

UNAUTHORIZED LOANS

Article IV, Section 422, of the ACC states that the local authority shall not, without the approval of the Government, obtain, from any source whatsoever, any loan in connection with the projects other than those specifically provided for under the contract. 24 CFR Part 85.20 states that recipients shall maintain effective control and accountability for all grant cash and assure that it is used solely for authorized purposes.

AHA obtained unauthorized loans as follows:

	Original	Outstanding at June 30, 1997
Bank Loans	$ 77,000	30,217
Alma Resident Council	38,692	38,692
Unfunded Security deposits	25,680	25,680
Tenant Escrow Funds	9,604	0
Total	$ 150,976	$ 94,589

Bank Loans - AHA obtained two loans at a local bank to supplement its operations. The first loan, made on April 15, 1996, was for $32,000. The second loan, made on October 22, 1996, was for $45,000. AHA did not request and receive HUD approval to obtain the loans.

Alma Resident Council - The ED inappropriately directed the president of ARC to disburse $38,692 directly to or on behalf of AHA. AHA used the funds for expenses such as force account payroll and to rent a facility used by its Step-Through Resident Training Program. AHA only recognized $6,650 of the $38,692 as an account payable to ARC.

Security Deposits - AHA did not maintain a separate cash account or maintain cash sufficient to fund the liability for tenant security deposits. As of June 30, 1997, the general ledger showed a $25,680 liability for security deposits and a general fund cash balance of only $5,415.

Tenant escrow funds - AHA inappropriately borrowed $9,604 withheld from workers' salaries which should have been deposited to escrow accounts. The escrow accounts were for participants in AHA's work/training program. AHA withheld the funds from the workers' salaries so that the workers could accumulate cash for major purchases such as a down payment to purchase a home or vehicles. However, AHA did not make the deposit to the individuals' escrow account. Instead, it used the funds for current operations. AHA made some interim deposits but did not fully fund the liability until the individuals requested their money. AHA liquidated the liability by the time we completed our on site work.

ACCOUNTS RECEIVABLE AND COLLECTION LOSSES

AHA needed to improve management of its tenant accounts receivable (TAR). AHA had not established and implemented an effective collection policy for tenant transactions. As of May 31, 1997, accounts receivable amounted to $24,592 despite $37,120 in write-offs during the 19 months from October 1995 through May 1997. To illustrate:

High TAR balance - AHA had a high TAR balance of $24,592 at May 31, 1997. The balance consisted of $7,522 for tenants in possession and $17,070 for former tenants which AHA also needed to analyze for collectability. We examined $17,288 or 70 percent of the TAR and determined that:

The receivables for tenants in possession primarily resulted from non aggressive action to collect rents (57 percent of sample) and large lump sum charges (e.g., damages) to tenant accounts (43 percent of sample). AHA had recently executed repayment agreements with tenants with high account balances and the tenants were generally current with their payments under the agreements.

The balances for former tenants primarily resulted from large lump sum charges for items such as retroactive rents and damages noted prior to and at move-out (73 percent of sample) coupled with non aggressive action to collect rents when due (27 percent).

One AHA official stated that prior to the ED's resignation in June 1997 the authority did not attempt to collect rents due from former tenants. Since June, AHA began sending letters in an effort to collect rents due from tenants who moved from the project since January 1996. However, AHA still needs to establish and implement a formal collection policy.

High Collection Losses - Between October 1995 and May 1996 AHA wrote off $37,120 to collection losses without documentation of Board approval.

Month and Year	Amount
October 1995	$ 1,538
December 1995	16,775
January 1996	10,499
February 1996	479
March 199	451
April 1996	2,603
May 1996	4,775
Total	$37,120

We found no write-offs after May 1996.

INAPPROPRIATE USE OF INSURANCE PROCEEDS

Section 13, Paragraph B, of the ACC states that the Housing Authority shall, to the extent that insurance proceeds permit, promptly restore, reconstruct, and/or repair any damaged or destroyed property of a project, except with the written approval of HUD to the contrary.

AHA maintained no records to show what it did with $28,198 insurance proceeds. AHA should have used the proceeds to repair the two fire damaged units (522 S. Bead Street and 507 Pope Drive). However, AHA used Comprehensive Grant funds to repair the fire damaged roofs at the two units. The use of Comprehensive Grant funds for the roof work further diminished the availability of grant funds to accomplish program objectives (Appendix B).

AUDITEE COMMENTS

The Board of Commissioners did not dispute the finding. The Board said it was not aware of the multitude of problems and the degree to which the Authority was being inadequately administered. The Board said it was committed to correct the finding and ensure that similar situations do not occur in the future. The Board identified several actions (some of which were underway) to resolve the violations.

RECOMMENDATIONS

In its written response, AHA recognized the need to improve operations and indicated that it has initiated efforts to address the issues raised in this report. To ensure completion of those efforts and resolution of the reported problems, we recommend that you:

1A. Determine whether any of the ineligible and unsupported costs should be reclassified to other programs, obtain supporting documents or explanations for all unsupported costs, and require repayment of any ineligible activities or document why recovery is not possible.

1B. Consult with HUD Legal Division on the feasibility of filing a claim under AHA's employee liability policy for all disallowed costs.

1C. Require AHA to modify, where necessary, the existing memorandum of agreement with HUD to include actions planned to correct the reported violations related to (a) program implementation; (b) compliance with budgets; (c) unsupported and unallowed program expenditures; (d) management of tenant accounts receivable and collection losses; (e) secondary loans for operating costs; and (f) management of insurance proceeds.

1D. Require AHA to submit monthly project financial status reports to HUD and the Board until you are satisfied that AHA has satisfactorily corrected the reported violations .

1E. Continue to impose restrictions on AHA's ability to draw program funds until it has demonstrated compliance with HUD requirements.

Finding 2

MISMANAGEMENT OF THE TENANT OPPORTUNITY PROGRAM

ARC mismanaged its TOP grant and used TOP grant funds for unauthorized purposes. ARC had drawn down and spent $53,098 of its $100,000 grant and it owed an additional $26,624 recorded as an accounts receivable in AHA's general ledger. Specifically, ARC:

- Disbursed $38,692 in TOP grant funds to AHA to subsidize AHA and/or other HUD grants. The disbursements were in effect unauthorized loans.

- Disbursed $21,434 for questionable consultant fees, and $4,857 for other unallowable and unsupported costs.

- Had not implemented several budgeted activities.

- Had not established formal accounting records to track grant revenues and expenditures.

These deficiencies resulted from ineffective ARC leadership and undue influence from the ED. As a result, the TOP grant failed to achieve its purpose.

Title 24 CFR Part 85.40(d), provides that the grantee must immediately inform the Federal agency of significant problems, delays, or adverse conditions which will materially impair the ability to meet the objective of the award. The disclosure must include a statement of the action taken, or condition contemplated, and any assistance needed to resolve the situation.

The president of ARC allowed AHA's ED to make decisions which inappropriately influenced the administration and expenditure of TOP grant funds. We observed the following:

QUESTIONABLE LOANS AND PROGRAM EXPENDITURES

ARC had drawn down, spent, or obligated $79,772 of its TOP grant ($53,098 drawn down plus $26,624 owed to AHA). We examined $69,439 of this amount. The results show that ARC made payments of:

- $38,692 in unallowed payments directly to or on behalf of AHA. The payments were for AHA's Step Through Resident Training Program and they represented unauthorized loans to AHA (Finding 1). AHA had not reimbursed the amounts when we completed the on site review. As of May 31, 1997, AHA's ledger only showed $6,650 as an account payable to ARC.

- $21,434 (62 percent of the total contract) to Consultant A without support that the consultant earned the fees. For instance, ARC could not provide documentation to show that the consultant performed any of the following major contract services:

  Training related to group techniques, volunteers, and public relations (Section III(a)).

  Leadership development training related to franchising, team building, and conflict resolution. ARC's president said they received some training related to conducting meetings and the organization of community based groups.

  General management training, managing human resources, supervision, decision making, problem solving, time management, and communication skill building.

  The consultant contract required the firm to submit bills based on the percentage of duties performed. Instead, the consultant invoiced ARC based on the number of hours worked multiplied by the contract rate. The invoices did not mention the contract duties performed.

- $1,947 for unallowed costs for utilities, an instructor's fee, and travel which were not provided for in the program work plan.

- $390 for unsupported costs for travel by the ED, ARC's president, and a student.

- $2,520 for the salary of ARC's President which was not included in the work plan.

ARC's President said the ED told her to write various checks to or on behalf of the authority because the authority did not have the funds needed to pay bills. The ED had no authority to direct ARC's use of the grant, especially for unauthorized purposes.

PROPOSED ACTIVITIES NOT IMPLEMENTED

Article IV of the grant agreement states that a request by the grantee to draw down grant funds under the Line of Credit Control System is representation by the grantee that it is complying with the terms of the grant agreement. To the contrary, ARC drew down, spent or obligated 80 percent of the grant but it had not implemented or made substantial progress toward implementing the following activities for which it drew the funds:

Task	Budget	Spent	Activity Status
1. Organize Community and operating procedures	$ 2,800	$ 2,800	Incomplete
2. Technical assistance	2,200	2,200	Incomplete
3. Consultants	50,000	45,098	Incomplete
4. Miscellaneous	33,000	3,000	Incomplete

Under task number 1 ARC did not develop the required program accounting procedures. For task 2, it did not develop a job description for the resident coordinator nor integrate and assign new members to committees. For task 3 ARC drew $45,098 for consultants and deposited the funds to its checking account. However, ARC only spent $5,913 of that amount for consultants (excluding $15,521 paid by AHA and recorded as accounts receivable on AHA's ledger). ARC spent the remaining $39,185 for other purposes which included payments to AHA (finding 1 - unauthorized loans). Thus, ARC provided HUD with misleading and/or false certifications to obtain the funds.

ARC's President said she was not aware of the program's work plan until HUD's June 1997 monitoring visit. By that time, ARC had spent the $53,068 drawn against the grant and AHA had recorded the $26,624 receivable.

FINANCIAL MANAGEMENT SYSTEM NOT IMPLEMENTED

Title 24 CFR Part 84.21 (b)(3) states that the recipient's financial management system shall provide for effective controls over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes. Article V of the Grant Agreement states that all records shall be kept in an orderly manner that permits examination at any time by a duly authorized representative of the Secretary of HUD.

ARC did not establish and maintain formal accounting records (e.g., general ledger, cash receipt journal, and cash disbursement journals) to track program revenues and expenditures. Instead, ARC used a checking account and a check register to track deposits and checks. The lack of formal records was significant considering that ARC had drawn down and spent $53,098 of its $100,000 grant and owed AHA an additional $26,624. ARC's records did not distinguish between checks which represented program expenditures and those which represented advances to AHA.

Furthermore, ARC misrepresented the adequacy of its financial management system to HUD. On April 27, 1996 ARC contracted with a certified public accountant (CPA) to provide monthly monitoring of program income and expenses and a final close-out audit for its TOP grant. On May 23, 1996, the CPA wrote HUD and made the following representations:

> "... the Alma Resident Council has established a financial management system that is in compliance with the financial and program management standards of OMB Circular A-110,"
>
> "... the Alma Resident Council is in compliance with HUD regulations concerning resident TOP/TAG grants which requires that a certified public accountant be engaged to perform professional accounting and auditing services."

The CPA never performed work under the contract and we found no evidence of the cited financial compliance. We interviewed the CPA who stated the firm wrote the letter anticipating that ARC would follow through on the contract in which case the CPA would have established the systems mentioned in the letter to HUD. However, ARC did not follow through with the contract and the systems were never established.

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AUDITEE COMMENTS

ARC did not provide formal comments.

RECOMMENDATIONS

We recommend that you:

2A. Determine whether any of the ineligible and unsupported costs should be reclassified to other programs, obtain supporting documents or explanations for all unsupported costs, and require repayment of any ineligible activities or document why recovery is not possible.

2B. Require ARC to cancel the contract with Consultant A on grounds of default and require the consultant to reimburse ARC for payments it received for services that it did not perform.

2C. Consult with HUD Legal Division on the feasibility of filing a claim under AHA's employee liability policy for disallowed costs.

2D. Require ARC to develop and submit for your approval a plan for correcting the reported violations and for spending the remaining grant funds. The plans should include specific actions ARC will implement to resolve its inadequate (a) controls over program expenditures, (b) implementation of approved activities; and (c) financial management.

2E. Require ARC to submit periodic financial status reports to HUD until you are satisfied that ARC has corrected the reported violations .

2F. Continue to impose restrictions on ARC's ability to draw program funds until it has demonstrated compliance with HUD requirements.

2G. Require ARC to obtain a competent program manager who has the ability to properly administer the program.

FINDING 3

AHA DID NOT FOLLOW PROPER PROCUREMENT PRACTICES IN THE PURCHASE OF PROFESSIONAL AND CONSTRUCTION SERVICES

AHA and ARC did not follow or document compliance with competitive procurement requirements in the purchase of contract services. They obligated or paid $165,700 for consulting and related services but did not:

- Document the competitive process followed (including cost or price analysis).
- Prohibit actions which provided or gave the appearance of an unfair competitive advantage.
- Include required provisions in contracts.
- Document the basis for using time and material compensation methods for consultant contracts.

As a result, we could not determine if AHA and ARC purchased the services at the most competitive rates.

COMPETITIVE PROCEDURES NOT FOLLOWED OR DOCUMENTED

All procurement transactions must be conducted in a manner to provide full and open competition (Title 24 CFR 85.36, paragraph (c)(1). Proposals must be solicited from an adequate number of qualified sources (Title 24 CFR 85.36, paragraph (d)(3)(ii)). Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action (Title 24 CFR 85.36, paragraph (f)(2)).

AHA and ARC purchased or obligated $165,700 for consulting and other professional services without following or documenting compliance with procurement regulations:

Firm	Date Executed	Program	Amount
	Consultant Services		
A	10/15/94	Comprehensive Grant	20,000
A	06/15/95	Comprehensive Grant	24,500
A	11/02/96	Comprehensive Grant	21,000
A	09/19/95	Drug Elimination Grant	10,000
A	02/06/96	Drug Elimination Grant	16,000
A	11/27/95	Alma Resident Council	35,000
B	12/15/95	Cross Program Services	21,600
Subtotal - Consulting Services			$148,100

Other services			
A	04/21/94	Comprehensive Grant update	$2,100
A	03/03/95	Application for Youth Sports	2,500
A	04/19/96	Application for Youth Build	6,000
A	07/08/96	Application for adult literacy	1,500
A	07/08/96	Application for children services	1,000
A	07/08/96	Proposal for job training program	1,500
A	09/03/96	Application for economic development	3,000
	Subtotal Other services		$ 17,600
Total			$165,700

AHA made repetitive awards to contractor A without maintaining any documentation to show how it identified and selected the firm**.**

We found no evidence that AHA or ARC followed competitive procedures prior to awarding contracts for the above services. We also found no evidence that AHA or ARC completed a price or cost analysis prior to the procurements. The absence of competition and a cost or price analysis prevented us from determining whether any of the services were purchased at competitive and reasonable rates. ARC could not locate records related to the procurement and said they selected contractor A based on a recommendation by AHA's ED. ARC's president did not know if contractor A was the low bidder.

UNFAIR COMPETITIVE ADVANTAGE

Title 24 CFR Part 85.36 states that all procurement transactions shall be conducted in a manner to provide to the maximum extent practical, open and free competition. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications and invitations for bids and/or requests for proposals shall be excluded from competing for such procurement.

ARC awarded the TOP grant consulting contract to Contractor A even though, according to ARC's president, the firm helped prepare the procurement proposal. The firm's inside information provided it with an unfair competitive advantage. We found no record of the competitive process followed.

FLAWED OR MISSING CONTRACT PROVISIONS

The two Drug Elimination Grant contracts with Contractor A contained basically the same scope of services and the contract periods overlapped. The first contract (for $10,000) covered the period September 15, 1995 through August 31, 1996. The second contract (for $16,000) covered the period February 1, 1996 through July 31, 1996.

The three Comprehensive Grant agreements with Contractor A omitted program monitoring which was a service called for in the five year plan. The contracts basically repeated the same scope of services. Also they lacked details about how and when the contractor would complete and present information concerning the development of macro training systems, guidelines for the Step-Through-Program, and resident organizations, businesses, and partnerships. We also noted that the three contracts did not specify time periods for contractor performance.

Furthermore, neither of the agreements with contractors A and B contained required provisions related to (a) grantor and grantee access to records; (b) termination for cause and for convenience (this provision was in ARC's agreement with contractor A); (c) record retention; (d) administrative procedures (e.g., legal remedies for violation or breach of contract, sanctions, penalties); and (e) reporting requirements.

INAPPROPRIATE CONTRACT TYPE

AHA inappropriately used time and material type contracts for the three agreements executed with contractor A for the Comprehensive Grant program totaling $65,500. We noticed the same problem for two other prior agreements (1993 and 1994) with the contractor for the same program.

Title 24 CFR 85.36 states that the grantee and subgrantee will use time and material type contracts only after a determination that no other contract is suitable. AHA did not document the basis for using this restricted type of contract.

****

We attribute the forgoing issues to mismanagement by AHA's ED and ARC's president. We also attribute these conditions to a failure by the authority's Board to properly monitor the ED's performance. In Finding 1 we questioned payments to contractors A and B due to concerns about (a) the reasonableness of the price, (b) whether contractor A earned the fees paid, and (d) missing invoices for payments to contractor B. Accordingly, we did not question the contract amounts in this finding.

AUDITEE COMMENTS

The Board of Commissioners did not dispute the finding. The Board said it was not aware of the multitude of problems, and the degree to which the Authority was being inadequately administered. The Board said it was committed to correct the finding and ensure that similar situations do not occur in the future. The Board identified several actions (some of which were underway) planned to resolve the violations cited in the audit.

RECOMMENDATION

We recommend that you require AHA and ARC to:

3A. Establish and implement procurement policies and procedures to achieve compliance with Federal and local requirements, including:

- Performing cost or price analysis for procurement actions.
- Properly documenting the basis for contract awards.
- Prohibiting actions which provide or give the appearance of unfair competitive advantage.
- Incorporating required provisions in contracts.

FINDING 4

AHA NEEDED TO IMPROVE INTERNAL CONTROLS AND ACCOUNTING RECORDS

AHA did not maintain adequate internal controls to safeguard revenues and did not maintain proper accounting records for its Drug Elimination Grant program. This increased the opportunity for undetected misappropriation. The improper accounting records also prevented AHA's ability to identify and monitor costs by budget line item. This was important considering that AHA failed to implement certain components of the program and overran certain budget line items (Finding 1). These weaknesses occurred because the ED did not properly manage the authority's financial affairs.

Title 24 CFR 85.21 states the recipient is required to: (1) maintain effective controls over and accountability for all funds, property, and other assets and (2) maintain a financial management system that shall provide accounting records that adequately discloses the source and application of funds. Section II of Accounting Guidebook 7510.1 also provides guidance on safeguarding cash and other assets.

POOR INTERNAL CONTROLS

Segregation of Duties - AHA did not adequately segregate duties among employees who handled cash, accounting records, and authorizations for accounting transactions. For instance, AHA had several employees, but each was allowed to collect rent, post collections to tenant accounts, and prepare bank deposits. AHA also allowed the hourly employee who prepared payroll to calculate her own payroll without any supervisory review and approval. AHA had sufficient staff to prevent any one employee from having too much control over the transaction process.

Cash Receipts - AHA did not maintain proper controls over cash transactions and we could not account for the deposit of collections totaling $1,085. In addition to its official prenumbered computerized receipts, AHA concurrently used three manual receipt books for collections. The manual records undermined the controls afforded by the computerized system. The computerized system automatically generated a prenumbered receipt for collections and posted the collection to tenant accounts. One of the three unofficial books contained pre-numbered receipts but the other two did not. From January 1995 to December 1996, the receipts issued from the three books totaled $16,842.

We reviewed $4,706 of that amount to determine if the collections were deposited. We determined that:

> $685 in deposits could not be accounted for. AHA staff provided various reasons, which we could not confirm, as to why we could not trace the $685 to bank deposits. For instance they said that on occasion they collected funds from prospective tenants prior to move-in and placed the funds in the safe. They said they either deposited the funds after the tenant moved in or returned them to the prospective tenants. AHA could not support whether or not this was the case for the $685.

AHA waited 46 days to deposit a $189 collection.

In addition, AHA could not account for the deposit of $400 withdrawn from tenant escrow accounts for redeposit to the authority's master account. Furthermore, we found that:

No one logged in checks received through the mail,

Different employees had access to the cash drawer and collected revenues, and

AHA allowed a person who had embezzled funds to open and distribute the mail (which contained checks), collect and post revenues, and write checks. AHA hired the individual immediately after being released from prison for embezzlement. AHA's blanket fidelity bond contained a provision which excluded coverage of individuals convicted of such a crime.

Adjustments to Tenant Accounts - AHA did not maintain proper control over adjustments to tenant accounts receivable. AHA allowed employees who collected rents, posted tenant accounts and made deposits to also initiate and post adjustments to the accounts. AHA did not require supervisory review and authorizations for the adjustments.

We judgmentally selected 11 adjustments for the period January 1, 1997 to July 31, 1997 and found that they:

Contained no evidence of supervisory review and approval.

Were generally prepared by individuals who also collected rents, posted tenant accounts, and made deposits.

These weaknesses inherently increased the opportunity for undetected error or fraud.

ACCOUNTING RECORDS

Account Classifications (Drug Elimination Grant) - AHA had not established the general ledger accounts needed to record and track Drug Elimination Grant costs by budget line item. AHA charged all program costs to two general accounts (account 9110 for law enforcement and account 9160 for drug prevention). We had to analyze the activity in the two accounts to identify expenditures by type in order to determine how the expenditures compared to budget. The absence of this information contributed to the budget overruns discussed in Finding 1.

Review and Approval of Payroll (All Programs) - AHA did not obtain or require supervisory approval of leave and time records prepared to support the payroll for hourly workers.

Documentation for Travel (All Programs) - AHA's travel policy required receipts for all lodging costs. Additionally, it required that actual expense reimbursement for all items be supported by receipts and other documentation of actual expense for all expenses over $25.00. Furthermore, it required a written authorization by the ED whenever automobile travel was involved.

AHA generally did not maintain credit card receipts to support travel expenses and it did not obtain or maintain the ED's written authorization for automobile travel. The ED said they did not keep copies of credit card receipts because they used the credit card statement as the receipt. Also, AHA staff were not consistent in their preparation of travel expense vouchers. We found only sporadic instances where AHA staff prepared travel expense vouchers.

AUDITEE COMMENTS

The Board of Commissioners did not dispute the finding. The Board said it was not aware of the multitude of problems, and the degree to which the Authority was being inadequately administered. The Board said it was committed to correct the finding and ensure that similar situations do not occur in the future. The Board identified several actions (some of which were underway) planned to resolve the violations cited in the audit.

RECOMMENDATIONS

We recommend that you require AHA to:

4A. Implement proper segregation of duties and other internal controls for cash, tenant accounts receivable, tenant escrow accounts, approval of payroll, and documentation for expenses.

4B. Establish appropriate accounting records and account classifications for the Drug Elimination Grant program.

Internal Controls

In planning and performing our audit, we considered the AHA's internal controls in order to determine auditing procedures and not to provide assurance on internal controls. Internal control is a process by which an entity obtains reasonable assurance as to achievement of specified 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.

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

- Grantee program management
- Procurement
- Cost allowability and reasonableness

We assessed these relevant controls. We also obtained an understanding of AHA procedures and HUD requirements and assessed control risk. Due to weak controls we did not rely on AHA's internal control procedures. Because of weak controls we performed extensive substantive testing to determine what effect the weak controls had on program operations.

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 is obtained, maintained, and fairly disclosed in reports.

Based on our review, significant weaknesses existed in the controls we tested as discussed in the findings.

Follow-up on Prior Audits

This was the first OIG audit of AHA and ARC's operations.

The last Independent Auditor (IA) audit report was completed by Donald G. Crews, Certified Public Accountant, for the year ended December 31, 1995. The report disclosed the following deficiencies in AHA's operations which are also discussed in the findings of this report**:**

- Failure to update its procurement procedures to conform with current requirements.
- Improper charging of costs to its modernization programs.
- Failure to properly allocate administrative salaries among benefiting activities.
- High tenant accounts receivables and collection losses.

Appendices

Appendix A

Schedule of Ineligible And Unsupported Costs

Recommendations	Amounts Ineligible[1]	Amounts Unsupported[2]
1A	$79,290	$568,388
		28,198
2A	38,692	21,434
	1,947	390
		2,520
Totals	$119,929	$620,930

[1] Ineligible amounts obviously violate law, contract, HUD or local agency policies or regulations.

[2] 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.

Appendix B

DEFICIENCIES IN THE ADMINISTRATION OF THE COMPREHENSIVE GRANT PROGRAM

SUMMARY

AHA wasted a substantial portion of its $1.3 million in Comprehensive Grant funds due to mismanagement. The ED, whose performance was not properly monitored by the Board, ignored the program's objective and budget. The ED (as discussed in Finding 1) used funds budgeted for physical improvements to pay force account workers who primarily performed unallowable routine maintenance work. The ED also diverted over $120,000 budgeted for physical improvements to fund unjustified administrative budget overruns. As a result, AHA spent over $800,000 budgeted for major physical improvements with virtually no progress toward completing many of the repairs.

REQUIREMENTS

PHAs are required to complete their Comprehensive Grant program in accordance with the five-year Action Plan approved by HUD. The approved Comprehensive Grant Plan (which incorporates the five-year Action Plan) is binding upon HUD and the PHA until such time the PHA submits, and HUD approves, an amendment **(Title 24 CFR 968.320 (c)**. PHAs are required to obtain prior HUD approval for any additional work categories which were not included in the approved five-year Action Plan. They are also required to advise HUD of program changes as part of their Annual Performance and Evaluation Report. **[(Title 24 CFR 968.325 (h)]**.

DETAILS

<u>Work Not Performed</u> - AHA, despite having spent all funds budgeted for its 1993, 1994, and 1995 grants, did not perform certain repairs budgeted at $326,452. We detected the omitted work from the inspection of 49 of 287 occupied units (17 percent). We also observed that AHA's 1993 program budget included $14,931 to renovate kitchens at project 133-4. AHA reported $14,355 of the work to be completed even though the project did not have kitchens. The omitted work ($326,452) was for the following items:

Work Category	Budget	Project Number
Energy conservation	$ 101,618	133-1, 4, and 7
Lead based paint	66,300	133-1
Interior Surfaces	56,913	133-4, 5, and 7
Renovate Bathrooms	51,932	133-4, 5, and 7
Interior doors	18,836	133-4, and 7
Playground equipment	17,815	133-1 and 7

Paint	4,938	133-5
Storm windows / gutters	3,500	133-5
Storm doors	2,500	133-5
Fluorescent lights	2,100	133-5
Total	$326,452	

The inspections revealed the following substandard conditions.

Substandard Conditions	Units Affected
Interior painting	38
Damaged floors/Tub tile	17
Damaged interior surfaces	15
Exterior Doors	13
Stoves (old/rusted units)	11
Refrigerators (old/rusted units)	11
Weather-stripping	10
Cracks in Foundation	17
Defective Base Board	07
Insects/Roaches and Termites	13
Screen Doors	04
Faucet/Water Leaks	06
Old/Leaking Roofs	07

We recognize that work related to some of the foregoing items were not budgeted in the 1993, 1994, and 1995 grants (e.g., stoves and refrigerators for some projects). However, we looked for the items because AHA did not complete much of the work included in the 1993, 1994, and 1995 budgets. We wanted to determine if AHA used the funds for other repairs included in its Five Year Plan. They did not.

The following pictures illustrates the substandard conditions some tenants had to contend with due to AHA's ineffective administration of the grant and its ineffective use of funds:

Picture #1 - Badly rusted refrigerator, 801 N. Wayne Street Queen City Heights Project (001)

Picture #2 - Badly rusted stove 808 E. 20th Street Washington Heights Project (003)

Picture #3 - Damaged interior surface 533 E. 12th Street Albert Pitts Homes Project (007)

Picture #4 - Peeling paint and possible termite damage,113 Mullis Drive, Wilfred B. Terrace (008)

Picture #5 - Old exterior door, 512 E. 14th Street, Albert Pitts, Homes Project (007)

Poor Quality Work - We also noted that some repairs made by AHA's force account labor crew were of poor quality and incomplete. For example, we found instances where the workers did a poor job patching holes in walls. We also found instances where AHA started painting a unit damaged by fire in 1994 but never finished the work . The wall still contained the residue from smoke. The following pictures illustrate the conditions found:

Picture #6 - Unfinished repair of hole in wall, 808 E. 20th Street, Washington Heights (003)

Picture #7 - Painting not finished from fire damage, 808 E. 20th Street, Washington Heights

Appendix C

Auditee Comments

Appendix D

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