



Audit Report

District Inspector General for Audit Pacific/Hawaii District

Report: 98-SF-201-1003

Issued: July 22, 1998

TO: Joyce L. Lee, Director, Office of Public Housing, 9APH

FROM: Glenn S. Warner, District Inspector General for Audit, 9AGA

SUBJECT: San Francisco Housing Authority
Drug Elimination Program
San Francisco, California

As part of the Inspector General's nationwide review of HUD's drug elimination program, we conducted an audit of that program at the San Francisco Housing Authority.

The report's six findings discuss excessive and unsupported costs; poor procurement practices; inadequate program monitoring, evaluation and reporting; and changes to implementation plans prior to HUD approval. Within 60 days, please furnish us a status report on the corrective action taken, the proposed corrective action and the date to be completed, or why action is not considered necessary for each recommendation in the report. Also, please furnish us with copies of any correspondence issued because of the audit.

If you or your staff have any questions, please contact senior auditor Mark Pierce at 436-8101.

Executive Summary

This audit of the drug elimination program at the San Francisco Housing Authority covered activities of the 1994, 1995, and 1996 grant awards through December 31, 1997. The objective was to review how the housing authority managed its drug elimination grants to obtain expected outcomes, and determine if grant funds were used in conformance with requirements. We concluded that the housing authority needs to improve management practices and evaluation methods to assure the program is properly implemented and the intended goals are accomplished. The housing authority should also return certain funds. Conditions needing correction are discussed in six findings.

Police Overpaid The San Francisco Housing Authority overpaid the San Francisco Police Department up to \$372,504 for police services from January 15, 1996 through June 13, 1997 under two separate contracts. These funds came from the drug elimination program grants and a HUD comprehensive rehabilitation grant. The police billed at hourly rates and for hours exceeding the level specified in the contracts, thus reducing amounts available for additional eligible activities. This occurred principally because police and housing authority officials responsible for preparing invoices and approving payments were not sufficiently familiar with the terms of the contracts. (See page 4.)

Improper and Unsupported Payroll Charges The program was charged \$28,951 for two employees performing jobs unrelated to drug elimination activities, and \$56,272 for the former director of neighborhood initiatives when he was providing no services. Also, the housing authority did not require employees to document time spent on grant-related activities. Consequently, the accounting records did not show that \$407,940 charged to the program was proper. The ineligible and unsupported charges occurred because department heads were not provided with payroll data for their review, and payroll was charged based on predetermined percentages. Excessive charges for payroll expenses reduce the amount of funds available for drug elimination activities. (See page 10.)

Unsupported Payments to Contractors Under three contracts with different community-based entities, the housing authority paid out \$20,500 for unsupported “start-up costs.” In addition, the housing authority paid out the balance of \$22,500 remaining under the contract with the third entity even though performance under the contract had hardly started. As a result, at the time of payment there was no assurance that the funds were used in accordance with federal requirements. This occurred because of poor

procurement procedures and as an expedient to use grant funds before the 1994 drug elimination grant expired. (See page 15.)

Poor Procurement Practices Procurement practices for the drug elimination program were inadequate. Documentation of the procurement process was generally unavailable. Evidence was lacking that adequate cost analyses were performed prior to entering into contracts. The housing authority sometimes improperly inserted fixed-price portions into contracts that should have been entirely cost-reimbursable. Sometimes written contracts were absent. This was due to decentralization of procurement operations making it difficult to control and monitor contracting activities. These weaknesses resulted in excessive and unsupported costs and potentially could lead to disputes with contractors as well as give the appearance of possible favoritism. (See page 18.)

Ineffective Program Monitoring & Evaluation The housing authority had not established a process to measure program effectiveness and to help assure the accomplishment of the program's objectives and goals. It had not established a systematic method of data collection and analysis to measure success in achieving goals. It had not adequately monitored its contractors. Consequently, the housing authority could not submit to HUD progress reports with sufficient information on program results. These conditions occurred because management lacked sufficient appreciation or awareness of sound monitoring and evaluation practices. While limited anecdotal evidence indicated a decrease in drug-related crime, overall conclusions could not be drawn. (See page 23.)

Program Changes Not Preapproved The housing authority made substantial changes to its 1994, 1995, and 1996 drug elimination programs. However, it did not seek or obtain HUD approval as required prior to implementing the changes. This occurred because officials did not appreciate the need to obtain HUD's advance approval. As a result, HUD was not given the opportunity to evaluate the revised plans before they were put into effect. Also, the housing authority put itself in possible fiscal jeopardy if HUD disapproved the changes. (See page 30.)

Our conclusions consider comments from the housing authority, including written remarks displayed in appendix 2 (starting on page 35), and a conference held on July 17, 1998 with the executive director and other housing authority officials. The housing authority generally concurred with the audit's conclusions.

Contents

Management Memorandum..... i

Executive Summary ii

Introduction 1

Findings

- 1. The housing authority overpaid the police for contracted services 4
- 2. Ineligible and unsupported payroll expenses were charged..... 10
- 3. Payments to three entities were not supported..... 15
- 4. Procurement practices need improvement 18
- 5. The housing authority did not adequately monitor or evaluate its program..... 23
- 6. Approval for program changes was requested after the fact..... 30

Management Control..... 33

Appendices

- 1. Schedule of Ineligible & Unsupported Amounts and Efficiencies 34
- 2. Auditee Comments 35
- 3. Distribution..... 47

Abbreviations

CFR	Code of Federal Regulations (a codification of federal requirements)
DEP	Drug Elimination Program (federal grant program for eliminating drug-rekated crime in public housing)
GASA	Girl's After School Academy (a community-based entity that received DEP funds)
HUD	U.S. Department of Housing and Urban Development (grantor for the drug elimination program)
NOFA	Notice of Funding Availability (provides procedures for applying for grants and identifies program requirements)
OCRI	Office of Community Relations and Involvement (a division of SFHA)
OIG	Office of Inspector General, U.S. Department of Housing and Urban Development (performed the subject audit)
OMB	Office of Management and Budget (an executive agency that establishes certain federal policies)
SFES	San Francisco Educational Services Academy (a community-based entity that received DEP funds)
SFHA	Housing Authority of the City and County of San Francisco, commonly known as the San Francisco Housing Authority (recipient of drug elimination grants and the subject of this audit)
SFPD	San Francisco Police Department (provided supplemental police services funded by SFHA's DEP)
TURF	Together United Recommitted Forever (an on-site patrol/intervention program funded by SFHA's DEP)

Introduction

BACKGROUND

The Program

Under the drug elimination program, HUD provides grants for the purpose of addressing drug-related crime and its associated problems in and around public housing developments. The San Francisco Housing Authority has received such grants from 1991 through 1996. It applied for a \$1,554,540 grant in 1997 but was turned down.

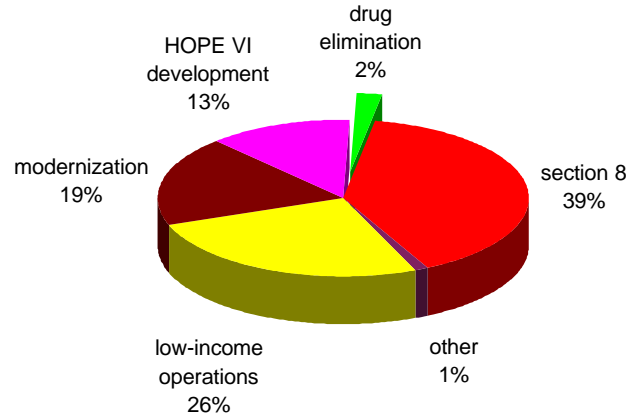
Year	Award Amount	Expended (as of 1/1/98)	Remaining Balance
91	\$1,012,898	\$1,012,898	\$0
92	1,013,550	1,013,550	0
93	973,550	973,536	0
94	1,681,750	1,681,750	0
95	1,669,250	1,484,856	184,394
96	1,689,250	102,647	1,586,603
Totals	\$8,040,248	\$6,269,237	\$1,770,997

The Housing Authority

The San Francisco board of supervisors established the Housing Authority of the City and County of San Francisco -- commonly known as the San Francisco Housing Authority -- in 1938. The city mayor appoints the members of the housing authority's governing body, a board of commissioners.

In 1940 the housing authority opened the city's first low-income housing development for 118 families. The housing authority has grown to include 43 developments with a total of nearly 6,000 housing units. Also, since the 1974 inception of the Section 8 program, the number of low-income families whose rents are subsidized for privately owned housing has risen to approximately 5,500.

For its fiscal year ended in 1997, the San Francisco Housing Authority expended \$128 million. As graphically presented on the following page, its largest programs consisted of Section 8 (\$51 million), low-income housing operations (\$33 million), modernization (\$24 million), HOPE VI new development (\$16 million), and drug elimination (\$2.8 million).



HUD's Temporary Control of the Housing Authority

The housing authority had been much criticized for its perceived lack of competent leadership, physical decay of its housing, poor performance in collecting rent, and the high level of crime existing at its housing developments. As a result, in March 1996 the city's newly-elected mayor, Willie Brown, announced the firing of the housing authority's commissioners and executive director. The mayor invited HUD to run, temporarily, the housing authority and reorganize it, recruit new management, and establish new policies and procedures.

As a result, HUD sent a recovery team (consisting of HUD officials, consultants, and employees from other housing agencies) in March 1996 to assess the housing authority's operations and develop strategies to deal with the problems. This phase was concluded in November 1996 by which time most of the initial team members had left. HUD filled several key management positions by contract to continue the recovery efforts.

As part of the recovery effort, the acting HUD assistant secretary for public and Indian housing functioned as the board of commissioners. In July 1997 the city mayor installed a new board of commissioners, and HUD turned over control of the housing authority to the board in September 1997. Ronnie Davis has been the housing authority's executive director since November 1996.

The OIG Audit

As part of a HUD Office of Inspector General (OIG) review of the drug elimination program, the subject audit is one of several covering different housing authorities' drug elimination programs. While OIG's San Francisco office performed the audit of the San Francisco Housing Authority, OIG's Boston, Massachusetts office is doing the overall review of the program.

AUDIT OBJECTIVE AND SCOPE

Purpose and Extent

The objective of the audit was to review how the housing authority managed its drug elimination grants to ob-

tain expected outcomes, and determine if grant funds were spent in conformance with requirements.

The audit examined activities of the three drug elimination grants¹ awarded from 1994 through 1996 through December 31, 1997. The primary methodologies for this work included:

- ✓ Consideration of the housing authority's management control structure and assessment of risk as described on page 33.
- ✓ Tests of selected financial activities and transactions.
- ✓ Analysis of the housing authority's grant applications and reports to HUD on the program's activities.
- ✓ Review of the city police department's records used to prepare billings submitted to the housing authority.
- ✓ Interviews of selected housing authority, city police and HUD officials, and housing authority residents.

This report reflects consideration of auditee comments.

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

¹ The 1994 grant was effective January 31, 1995 and expired July 30, 1997; the 1995 grant was effective October 4, 1995 and expired March 17, 1998; and the 1996 grant was effective December 10, 1996 and expires November 27, 1998.

Findings

Finding 1

The Housing Authority Overpaid the Police for Contracted Services.

The San Francisco Housing Authority (SFHA) overpaid the San Francisco Police Department up to \$372,504 for police services from January 15, 1996 through June 13, 1997 under two separate contracts. These funds came from the drug elimination program (DEP) grants and a HUD comprehensive rehabilitation grant. The police billed at excessive hourly rates and for hours exceeding the level specified in the contracts, thus reducing amounts available for additional eligible activities. This occurred principally because police and housing authority officials responsible for preparing invoices and approving payments were not sufficiently familiar with the terms of the contracts.

Payments to local law enforcement agencies for additional security and protective services that are over and above baseline services are allowable expenses under the drug elimination program. However, grant funds must be used only for allowable costs that are reasonable and necessary as prescribed by OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. Therefore, any payments in excess of that required under the terms of contracts for such services would be unnecessary, and thus, unallowable.

This finding involves two intergovernmental agreements (contracts) between the housing authority and the city police.

- ⇒ The **housing task force contract** was entered into on August 21, 1996 for a term of one year. The contract called for the police to provide 14 officers full-time to perform supplemental police patrols within and in the vicinity of the housing developments. The \$1,140,000 contract required the housing authority to reimburse the police for the officers' actual *compensation plus benefits*, and the police were to supervise the officers at *no additional cost*. Of the total \$1,111,542 paid on the contract, \$800,000 was funded by the 1995 drug elimination grant, \$189,577 by the 1994 drug elimination grant, and \$121,965 by the 1996 comprehensive grant.

⇒ The **resource center contract** was entered into on February 7, 1996 for a term of six months. The police were to provide community policing services at three resource centers. The \$800,000 contract called for one Q-50 sergeant at the *fixed* rate of \$42.43 per hour and six Q-2 officers at the *fixed* rate of \$36.5625 per hour to patrol the target sites a minimum of eight hours per day, five days per week. The 1994 drug elimination grant paid for all billings under this contract.

Housing Task Force Contract

The housing authority overpaid the police up to \$366,988 on the housing task force contract from August 24, 1996 through June 13, 1997. The housing authority fully-paid invoices submitted by the police that included:

- hourly billing rates exceeding actual compensation and benefit costs of police officers,
- hours spent in excess of the level of effort contracted for, consisting principally of the time of supervisors which was to have been provided without charge, but also overtime hours unrelated to the subject contract.

Hours Billed at Higher Rates Than Specified

The police billed a total of \$1,111,542 (all but \$28,458 of the total contract amount) for 29,561.5 hours worked during the 21 pay periods from August 24, 1996 through June 13, 1997 at the rates of \$37.2900 an hour through December 1996 and \$37.8563 an hour from January 1997. The housing authority paid the amounts as invoiced. These rates were the overtime rates for officers in effect at the time, which were greater than the actual cost of compensation and benefits for officers as provided for in the contract.

According to the City and County of San Francisco, which maintains cost and hourly wage data for city workers, the cost of a police officer for compensation plus benefits was \$28.7808 per hour through December 1996 and \$29.1644 per hour from January 1997 for regular time. Thus, the housing authority overpaid an average of \$8.61 per hour billed (not considering a night differential of approximately \$1.56 per hour).

Excess Level of Effort Charged

The contract called for the services of 14 full-time officers. Full-time officers work 80 hours each pay period (every two weeks). Thus, fourteen full-time officers equals 1120 hours per pay period, or 23,520 hours for 21 pay periods. However, the police charged 29,561.5 hours for 21 pay periods. That level of effort equals 17.6 full-time officers through June 13, 1997.

Most of this excess was due to billing the time of police supervisors (billed at officer overtime rates), which was to have been provided without charge. The director

of HUD's Office of Crime Prevention and Security, who helped negotiate the contract, stated, "The contract disallowed the billing for supervisory hours, whether performed in the office or on the beat." It is generally accepted that sergeants, lieutenants, and higher ranks are supervisors.

The police also included in billings overtime hours of various descriptions. While some of the overtime hours may have been related to public housing, some were clearly unrelated. For instance, during the period February through June 1997, the police billed the housing authority for about 400 hours, duplicating what was also billed directly to HUD for Operation Safe Home activities

Police Recalculation of Contract Billings

The police stopped billing the housing authority after the July 25, 1997 invoice (covering services through June 13) when we brought these issues to their attention. The police subsequently recalculated what they thought the billings should be. The recalculation was based on actual compensation costs for 14 full-time officers (with no time of supervisors). It also included 1,984 hours of "court" and "regular" overtime. The recalculation covering the entire period of the contract (through August 20, 1997) showed total costs of \$946,680, \$164,862 less than the amounts previously billed and paid of \$1,111,542.

We reviewed the recalculation and took no material exception with it except for the billing of certain overtime hours. We accepted 1,111 "court" overtime hours since this work would be the result of the contracted level of effort. We interpreted the contract terms to call for the presence of 14 full-time officers for each pay period. Since arrests made during such time would require court appearances, it appears appropriate that such time be compensated by the housing authority.

An unquantified portion of the 873 "regular" overtime totaling \$33,038, however, was for such activities as investigations and undercover operations. Such activities would appear to be those covered by the 14-officer level of effort called for in the contract and would be effort in excess of the quantity of services contracted for. Nevertheless, an unquantified portion also included overtime resulting from arrests. We would consider this overtime reimbursable for the same reason given for the "court" overtime.

Thus, subject to the resolution of "regular" overtime, we consider allowable costs under the task force contract to be \$744,554 through June 13, 1997, \$366,988 less than that billed; and \$913,642 through August 20, 1997, \$197,900 less than billed.

Resource Center Contract

The police billed the housing authority \$404,615 for service performed at the three resource centers from January 15, 1996 through June 14, 1996. The first two invoices billed hours at the contract rates. Three subsequent invoices billed for night hours at a higher rate than the hourly rates specified in the contract. A total of 766 sergeant

night hours were billed at \$44.20 (compared to the contract rate of \$42.43) and a total of 2,742 officer night hours were billed at \$38.08 (compared to the contract rate of \$36.5625), causing an overbilling of \$5,516. The housing authority paid the amounts as invoiced.

Causes We believe the excessive billings occurred because the police officials responsible for the billings were not sufficiently familiar with the terms of the contracts. For example, the police used billing rates (often overtime rates) that were commonly used under similar contracts with the SFHA and others instead of those specified in the two contracts. Prior to July 1996, overtime rates approximated the hourly rate needed to cover an officer's regular compensation plus benefits, which may be why overtime rates were commonly used in past contracts. However, SFPD's retirement fund became fully funded in July 1996, causing the actual cost of officers to drop since payments to the fund were suspended.

Also, the police had not established sufficient procedures for identifying time spent by task force officials on non-contract activities and for making the appropriate billing adjustments. Generally, the task force submitted all hours worked by its officers to the SFPD fiscal department which prepared the invoices to the housing authority. The task force's intent was to point out to the housing authority that more hours were worked than were billed. However, the task force did not provide a breakdown of hours to the police fiscal department to indicate which hours were to be billed or not billed. Therefore, the fiscal department used the totals to formulate the invoices. In so doing, the Operation Safe Home and other noncontract-related hours were included in the bills to the housing authority.

Similarly, housing authority officials were also not sufficiently familiar with the contract terms. Although department heads responsible for administration of the contracts reviewed the billings prior to payment, their review was generally limited to checking mathematical accuracy. Billing rates and composition of services billed (supervisory versus non-supervisory) were not compared to those specified in the contracts, and the reviewing officials were not aware of the bases for the rates used.

The housing authority's inadequate review of the billings may be due to its lack of written procedures or other instructions for directors and other contract monitors to follow when reviewing contract-related invoices for payment.

AUDITEE COMMENTS & OIG EVALUATION

The SFHA concurred with this finding and indicated it had implemented or was in the process of implementing the following actions.

- Gained SFPD agreement to offset the total amount of overpayments, \$203,415, against current and future SFPD billings. The accounting records and reports to HUD would be revised to reflect this.
- Obtained SFPD agreement to provide more detailed invoices to permit effective reviews.
- Developed written procedures for processing invoices including a review checklist. The SFHA was in the process of training staff and implementing the new procedures.

The SFHA was generally responsive to the audit recommendations. SFHA's new checklist should help assure that payments conform to contract terms. Still, a revision should be made to assure that billing rates, when applicable, match rates specified in the contracts. The current checklist requires that billed rates match contract rates only when they are indicated on the invoice. The reviewing official should always determine whether the billing rates agree with contract terms, and if the rates are not shown on the invoice, a revised invoice should be obtained. SFHA officials said they would revise the checklist.

RECOMMENDATIONS

We recommend that you require the housing authority to:

- A. Reimburse the program for the excessive payments to the police, including (1) \$164,862 (\$121,965 to the comprehensive grant and the remainder to the 1995 DEP grant) under the task force contract, plus all or part of \$33,038 of "regular" overtime as you deem appropriate (to the 1995 DEP grant), and (2) \$5,516 (to the 1994 DEP grant) under the resource center contract. If you want to consider SFHA's proposal to reimburse the program by offsetting police billings under subsequent contracts, you should determine whether reprogramming of federal funds is necessary and appropriate.
- B. Require the police to establish sufficient procedures for identifying time spent by task force officers on contract activities and assuring that correct billing rates are used.
- C. Adjust its accounting records and submit revised financial reports to HUD to eliminate the effects of the over payments.
- D. Provide proper training and written instructions for its officials to assure contract payments are correct and proper. The training and instructions should include billing review procedures as well as for the monitoring of

contractors to assure that their billing procedures are sufficient and that contractor officials are aware of the terms and conditions of the contracts.

Finding 2

Ineligible and Unsupported Payroll Expenses Were Charged.

The SFHA charged \$28,951 to the DEP for two employees performing jobs unrelated to DEP activities, and \$56,272 for the former director of neighborhood initiatives when he was providing no services. Also, the SFHA did not require DEP-funded employees to document time spent on grant-related activities; consequently, the accounting records did not show that \$407,940 charged to the program was proper. The ineligible and unsupported charges occurred because department heads were not provided with payroll data for their review, and payroll was charged based on predetermined percentages. Excessive charges to the DEP for payroll expenses reduce the amount of funds available for drug elimination activities.

The notices of funding availability (NOFAs) for the drug elimination program require all grant personnel to be necessary, reasonable and justified. Excessive staffing is not permitted. PHA employees shall be compensated with grant funds only for work performed directly for grant-related activities and shall document the time and activity involved in accordance with part 85 of Title 24 of the Code of Federal Regulations (CFR), *administrative requirements for grants and cooperative agreements to state, local and federally recognized Indian tribal governments*. Subpart 85.20 requires accounting records to be supported by source documentation such as time and attendance records.

The NOFAs also require compliance with Circular A-87, *Cost Principles for State and Local Governments*. It requires that payroll costs be distributed on the basis of activity reports which reflect an after-the-fact distribution of the actual activity of each employee. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards. Where employees work solely on a single federal award, charges for their salaries must be supported by periodic certifications that the employees worked solely on the program.

Also, program requirements permit only direct costs under this program, and prohibit indirect costs. Circular A-87 defines direct costs as those that can be identified specifically with a particular final cost objective; and indirect costs as those incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefited. Therefore, costs charged must be incurred specifically to accomplish DEP objectives.

Two Employees Charged to Wrong Program

Payroll expenses of \$28,951 for two employees performing jobs unrelated to DEP activities were improperly charged to the program. The DEP program was funding 100% of the employees' salaries at a projected cost of \$86,399 per year. One employee transferred during February 1997 from the Office of Community Relations and Involvement (OCRI) as a resident coordinator to the maintenance department as a resident custodian performing non-DEP activities. The SFHA continued to charge the DEP program after the transfer for about eight months until we brought this matter to the housing authority's attention. The other employee was hired in June 1997 as a rent collection analyst performing non-DEP functions. Personnel records showed the SFHA intended to charge his salary to its general fund, but payroll records showed that all of his salary was charged to the DEP for about three months until we brought this to SFHA's attention.

The SFHA budget analyst said charging these employees to the DEP was an oversight of the finance department. Department heads, who would be familiar with their employees and what jobs they perform, were not provided payroll data to review to ensure payroll expenses were charged to the appropriate funding source. Therefore, no mechanism was in place to readily identify such mistakes.

Administrative Leave of Former Director

In addition, payroll expenses totaling \$56,272 over a 16-month period for the former director of neighborhood initiatives were charged to the DEP. The former director was on administrative leave pending a termination hearing, and was providing no services to SFHA. The DEP was funding 60% of the former director's salary at a cost of \$42,204 per year. Such charges are ineligible under the drug elimination program since they provide no direct benefit. Further, the SFHA has not demonstrated the reasonableness for the long period of leave.

HUD recovery team officials made the initial decision to place the former director on administrative leave and to start a termination hearing. However, legal counsel advised that a proper hearing could not be held until an executive director was appointed. In November 1996, six months into the paid leave period, Ronnie Davis became the executive director. We requested his reasons why it took another ten months before a hearing was held to resolve the issue, but have not received an explanation. According to the SFHA budget analyst, the former director's salary continued to be charged to the DEP because it was in the grant budget. The monies used to pay the administrative leave came from the housing authority's general funds, whose sources include tenant rents and HUD operational subsidies. The housing authority subsequently drew down DEP funds to reimburse the general fund.

The SFHA has since reduced draw downs of DEP funds for the \$56,272 ineligible payroll charges for the former director and the \$28,951 payroll charged for the two employees unrelated to the DEP. This removed all the ineligible payroll charged for the former director from May 1996 through August 1997 (the entire period he was paid while on leave) and also the ineligible payroll charged for the two employees from February 1997 through September 1997. No subsequent charges were made after September 1997 for these employees.

Unsupported Payroll Expense

The SFHA charged a total of \$407,940 for payroll of regular SFHA employees to the 1994 and 1995 DEP that was not supported by time records. Payroll charges to the DEP were based on predetermined percentages. SFHA employees were not required to document the actual time spent on DEP activities so that a proper assignment of costs could be made. The SFHA charged \$314,881 of payroll expenses to the 1994 grant for the period October 1995 through January 1997 (excluding the \$85,223 ineligible amount for the former director and two non-DEP employees as discussed above), and \$93,059 to the 1995 grant for the period February 1997 through July 1997, (excluding \$56,480 paid to Together United Re-committed Together (TURF) employees who spent their time solely on DEP activities).

In 1996, the HUD recovery team found that payroll charges to the DEP were excessive and thus it revised the percentages used to allocate salaries of individual employees to the DEP. The HUD team determined that percentages of payroll the SFHA was charging for some positions were too high in relation to DEP activities actually performed, and disallowed \$90,322 of payroll expense charged to the 1994 DEP for the period October 1995 through March 1996. The SFHA reversed the excess charges in April 1996 and started using the HUD-recommended percentages.

Subsequently, the SFHA significantly increased the percentages for three positions. The SFHA increased the allocation to the DEP of resident management officers' salaries from the HUD-recommended 40% to 73% percent in October 1996. The SFHA increased the assistant director's salary allocation from 20% to 55% in January 1997. The SFHA increased the security specialist's salary allocation from 20% to 70% in February 1997. The current director of the OCRI indicated that the increases for the resident management officers were due to an increased amount of responsibility given to them, but he did not equate this to increased DEP activities. The SFHA budget analyst said DEP allocations are determined at the time SFHA budgets are approved and (after the adjustment made pursuant to HUD recommendations in April 1996) have been based according to availability of funding, whether or not the allocation fits with the reality of employee activities. However, this practice is contrary to federal rules requiring that payroll expense be supported by time records showing actual time performed, and prohibiting budget estimates or other arbitrary percentages.

Also, the SFHA made arbitrary allocations of payroll charges (and some other expenses) among three DEP budget categories. The payroll expense of most DEP-funded staff was further allocated 10% to law enforcement, 70% to drug prevention, and 20% to tenant patrol. SFHA and HUD team officials said the expense allocation to the three categories was based primarily on the reasoning that some time is spent by DEP-funded staff coordinating the three functions. We maintain that these allocations are arbitrary and unsupported. For instance, no payroll or other costs should have been charged to tenant patrol after July 1996 when activity ceased. Instructions should have been provided to employees identifying specific DEP-eligible activities so that they could identify how much of their time was spent on such activities.

Not only were these percentages arbitrary, but whether individuals were charged at all to the DEP was also arbitrary. Two resident management officers were 73% charged to the grant, while a third was not charged at all even though all three had similar responsibilities. Similarly, one resident coordinator was charged 50% while another was charged 100%. Also, the former director was partially charged to the grant while the current one was not. The HUD team recommended that 60% of the director's salary could appropriately be charged to the DEP. While this percentage of payroll expense was charged for the former director while he was providing no service, none of the current director's salary was charged. According to the SFHA budget analyst, the DEP budget would not support the salaries of two directors.

The SFHA did not (nor did the HUD team) instruct DEP-funded employees to use time logs to differentiate between DEP versus other activities, or assure that employees were adequately instructed on what tasks were to be funded by the DEP. DEP-funded staff at OCRI who worked with resident groups coordinating outside services and developing resources for public housing residents generally believed they spent the majority of their time on DEP-related activities. The staff believed drug issues were interwoven into all their work with resident groups, and inseparable from every effort to improve the health, education, and economic status of residents. Others, including DEP-funded resident organizers and resident coordinators, were unaware of the source of monies for their salaries. Thus, the staff did not know how to differentiate between DEP and non-DEP-related activities.

The \$407,940 did not appear to be unreasonable considering the HUD recovery team's analysis and our interviews with employees indicating that they were performing DEP-related activities. Nevertheless, SFHA needs to establish a proper payroll distribution system to assure that costs charged to federal programs are allowable.

AUDITEE COMMENTS & OIG EVALUATION

The SFHA indicated its intention to implement a cost allocation system. SFHA officials told us that this would include a proper payroll distribution system

While the SFHA's written response indicated disagreement with the issue on the eligibility of the former OCRI director's leave, the executive director agreed this cost was ineligible under the DEP. Still, he maintained that the 10-month period between his appointment and his decision to terminate the administrative leave paid to the former director was reasonable. In our opinion, however, the SFHA has not justified such a long period.

RECOMMENDATIONS

We recommend that you:

- A. Assure that the housing authority establishes a proper payroll distribution system which includes (1) requiring grant-funded employees to use time logs to document time spent on grant activities to ensure that only eligible activities are charged; (2) providing staff with instructions to identify which tasks are eligible program activities; and (3) requiring department heads to certify to the propriety of the payroll amounts and distribution for each payroll as they occur.
- B. Determine the propriety of using general operating funds of the housing authority to pay for the extensive administrative leave of the former director of neighborhood initiatives, and take any necessary action.

Finding 3

Payments to Three Entities Were Not Supported.

Under three contracts with different community-based entities, the housing authority paid out \$20,500 for unsupported “start-up costs.” In addition, the housing authority paid out the balance of \$22,500 remaining under the contract with the third entity even though performance under the contract had hardly started. As a result, at the time of payment here was no assurance that the funds were used in accordance with federal requirements. This occurred because of poor procurement procedures and as an expedient to use DEP funds before the 1994 grant expired.

The notices of funding availability for the DEP program require that all costs must be reasonable, necessary, and justified with cost analysis. The notices also cite Circular A-87, *Cost Principles for State and Local Governments*, and Circular A-128, *Uniform Administrative Requirements for State and Local Governments*. Some of the factors A-87 cites as affecting allowability of costs are that they be necessary, reasonable, and allocable for the administration of the programs and conform to any limitations or exclusions. The standards for grantee financial management systems contained in A-128 state that grantees must maintain adequate records of expenditures and safeguard federal funds to assure they are used solely for authorized purposes.

Unsupported Initial Advances At the time of payment, the housing authority’s records did not support the allowability of initial advances made under three contracts to community-based organizations.

- ⇒ \$8,000 (61 percent) for a \$13,005 contract with Hunter’s Point Boys and Girls Club issued in January 1996.
- ⇒ \$10,000 (25 percent) for a \$40,000 contract with BRAVA! for Women in the Arts issued in February 1996. This organization subsequently provided a full accounting of the \$40,000 after we brought this matter to the SFHA’s attention.
- ⇒ \$2,500 (10 percent) for a \$25,000 contract with Chinatown Resource Center and the Ping Yuen Resident Improvement Association issued in May 1997.

All three contracts provided for the initial advances of fixed dollar amounts to cover start-up costs and initial program implementation. The remainder of the

compensation was to be made on a cost-reimbursement basis. As discussed in more detail in the procurement finding (page 18), the housing authority did not obtain competitive bids or do any price or cost analysis to determine the reasonableness of the advance amounts; nor did it justify the need to make the advances fixed dollar amounts that the entities were not required to account for.

Subsequent Unsupported Payment

In July 1997, about one month after making the initial \$2,500 advance to the Chinatown Resource Center, the housing authority paid out \$22,500, the remaining balance of the contract, based on an invoice from the center. Under the contract terms, payments subsequent to the initial advance were to be made on a cost-reimbursable basis. However, contract performance was to cover the period from May to November 1997, and it is apparent from the invoice that the second payment was also an advance. After we advised the housing authority of this matter, it obtained an expense report showing actual costs through February 1998 for \$16,111 of the \$25,000 contract.

The second payment was due to an inappropriate management decision made to disburse all monies in the 1994 grant before it expired in July 1997. (Funding for this contract was programmed for the 1994 drug elimination grant.) Regulations require that the services be provided by the grant expiration date to be eligible: funds cannot be merely paid out or committed to be eligible. Thus, the appropriate action would have been not to issue the contract, find an alternative source of funding or, with HUD approval, reprogram funds among the drug elimination grants. Since it was apparent at the time of contract award that performance would not be completed before the expiration of the 1994 grant, the housing authority should have addressed this issue before executing the contract.

AUDITEE COMMENTS & OIG EVALUATION

The SFHA generally agreed with this finding. Although its written response implies that support has been obtained for all payments in question, SFHA officials acknowledged to us that support still needs to be obtained for the \$8,000 advance to the Hunter's Point Boys and Girls Club and the remaining \$8,889 portion of the Chinatown Resource Center contract.

RECOMMENDATION

We recommend that you require that the housing authority return the remaining unsupported amounts totaling \$16,889 (\$8,889 of the Chinatown Resource Center and \$8,000 of the Hunter's Point Boys and Girls Club contracts) unless it provides documentation showing that the funds were spent for allowable costs and, for the Chinatown Resource Center contract, if reprogramming funds among the grants is approved.

The audit findings on monitoring (page 23) and procurement (page 18) contain recommendations on how to avoid future instances.

Finding 4

Procurement Practices Need Improvement.

The SFHA's procurement practices for the DEP were inadequate. Documentation of the procurement process was generally unavailable. Evidence was lacking that the SFHA performed adequate cost analyses prior to entering into contracts. The SFHA sometimes improperly inserted fixed-price portions into contracts that should have been entirely cost-reimbursable. Sometimes written contracts were absent. This was due to decentralization of procurement operations making it difficult for the SFHA to control and monitor its contracting activities. These weaknesses resulted in excessive and unsupported costs and potentially could lead to disputes with contractors as well as give the appearance of possible favoritism.

The notices of funding availability for the DEP require compliance with 24 CFR part 85, *administrative requirements for grants and cooperative agreements to state and local governments*. Subpart 85.36 requires grantees to maintain records sufficient to detail the significant history of a procurement, including, but not limited to, rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. In addition, the SFHA's policy requires documentation for all procurements.

Subpart 85.36 also requires grantees to perform a cost or price analysis for every procurement. Cost analysis involves obtaining a cost breakdown from the proposed contractor(s), analyzing the labor, material, indirect costs, and profit proposed, and identifying areas of questioned costs, unallowable costs, or items which appear to be inflated or unnecessary. A cost analysis serves to assist the housing authority in preparing for negotiations with the contractor to obtain a reasonable price.

Procurement Process Poorly Documented The SFHA did not maintain documentation of the procurement process for most DEP-related contracts. We reviewed available records for nine drug prevention contracts totaling \$288,172 from the 1994 DEP grant that were monitored by OCRI. Procurement information, such as rationale for the method of procurement, evidence of competitive award, reasons for contractor selection or rejection, and the basis for the contract price was not available for seven of the nine contracts. The seven contracts were issued under the supervision of the former director of OCRI. The two contracts for which we located adequate procurement information were made by the HUD recovery team.

After the recovery team's departure, however, the documentation problems continued under subsequent SFHA management. In March 1997, the SFHA solicited service organizations to compete for 1995 DEP funds, but no official procurement files to document the process were created. Some information on the process resided on the electronic files of one of the OCRI panelists who evaluated the proposals. The information showed 21 applicants submitted proposals and 14 were selected initially for funding. This documentation should have been retained in official records so that it could be readily retrieved. We noted the score sheet for the proposals showed that one organization was not selected while three with lower scores were. The reasons for selecting the proposals with lower scores over the one with the higher score were not recorded. Management appeared to be unaware of the need to justify this procurement action or to instruct its staff to formally document the solicitation process. If the SFHA were to receive a protest, it would be difficult to justify its decisions without proper documentation, thus giving the appearance the selection was not impartial. (Due to changes in management priorities, only two of the 14 proposals were actually funded.)

Also, a separate request for proposals for a youth and young adult employment and training agency was issued by OCRI in June 1997. Again, no files documenting the process were maintained, although we located evidence in the accounting records (not procurement records) that the SFHA did advertise in a newspaper for proposals.

Absent Written Contracts We found instances where the housing authority permitted contractors to perform without first entering into written contracts. Two service providers, approved to receive 1994 DEP funding in the grant plans, experienced difficulty receiving payment for services rendered due to lack of contracts.

The San Francisco Educational Services (SFES) had provided after-school educational services at Hunter's View under contracts for two years funded from the 1992 and 1993 DEP grants in the amounts of \$36,000 and \$54,000, respectively. SFES was budgeted to receive \$35,000 for Hunter's View in the 1994 DEP approved plans. In good faith, SFES continued its operations for four months (September-December 1995) believing the SFHA wished them to continue. However, the SFHA informed them that they could not be paid for services for those months because there was no signed contract for the period in question. Payment was made in May 1996 upon a HUD recovery team recommendation for \$8,257 covering the four months. No subsequent contract was executed, and the contractor received no additional DEP funds.

The Girl's After School Academy (GASA), provided service for a year under an unexecuted contract. GASA had been previously funded from the 1992 and 1993 DEP grants in the amounts of \$36,000 and \$60,000, respectively. GASA was budgeted to receive \$60,000 in the 1994 DEP plan. GASA continued to provide

services for 1995 and expended funds, relying on SFHA staff representations that GASA would receive funding for services performed. The housing authority initially authorized the funding under resolution number 4440 dated March 23, 1995. However, it subsequently determined that this authorization was made without following required procurement procedures, and did not execute a contract. A subsequent resolution dated February 8, 1996 authorized the housing authority to execute a contract after the fact and pay a lump-sum settlement of \$60,000 to GASA for services performed in 1995.

These contractual problems occurred under the supervision of the former director of OCRI (prior to the arrival of the HUD recovery team). However, after the recovery team's departure, the SFHA disbursed \$41,200 from the 1996 DEP grant to the SFPD's wilderness program (a recipient selected in the March 1997 process discussed earlier) based on its proposed budget, without a contract in place. Current management said this was due to the service provider needing the money quickly for program execution, and that an after-the-fact contract would be made. Nevertheless, lack of a written contract could lead to disputes and increase risk that funds are used for ineligible activities.

Lack of Cost Analysis Even though some cost data was provided with many contract proposals, there was little evidence of an evaluation of the data. Failure to analyze contract cost proposals can cause excess billings or inefficiencies. For example, as noted in the finding on police contract billings (page 4), the contract for supplemental police services provided a maximum amount that was more than that required for the contracted level of service. (Those involved in contract negotiations could not explain how the contract price was arrived at.) Partly as a result, there were substantial excess billings.

Inappropriate Form of Contract The SFHA sometimes provided contractors fixed dollar amounts to cover unspecified start-up costs in contracts which otherwise provided compensation on a cost-reimbursable basis. Five of the nine drug prevention contracts we reviewed provided for initial advances to cover start-up costs under these terms; of these nine, four contractors actually received advances. The SFHA did not obtain competitive bids or do any price or cost analysis to determine the reasonableness of the advance amounts. No contractor that received an initial advance submitted cost data on start-up needs in their proposals for SFHA review. Further, the SFHA could not provide information on how the amounts were determined. As noted in another finding (page 15), three of the four did not provide support for their initial advances (totaling \$20,500). Consequently, the SFHA did not have assurance the initial advances were used in accordance with federal requirements.

Cause The decentralization of procurement operations made it difficult for the SFHA to control and monitor its contracting activities to assure proper procurement and contract negotiation procedures were followed. The primary

SFHA contracting function was split into two components: one for procurement of construction-related contracts and the other for procurement of commodities and professional services and for monitoring annual contracts. Compounding this, the various SFHA divisions often procured and contracted without the knowledge or oversight of either procurement division. (For the DEP, the OCRI and security divisions issued their own contracts.) Management outside the procurement divisions lacked procurement expertise, and did not assure that their staffs were properly carrying out federal and SFHA's procurement policies and requirements. In addition, the SFHA's procurement procedures lack written instructions for selecting contract type and performing cost analysis prior to contract negotiations.

At the request of the director of HUD's Office of Public Housing, California State Office, the Contracting Division of HUD's Administrative Service Center III performed an analysis of the SFHA's procurement and contracting operation in September 1996, while the SFHA was under the control of the HUD recovery team. HUD's Contracting Division found SFHA's disjointed procurement operations caused poor coordination between the procuring department, finance, and the board of directors, resulting in late payments to vendors, contracts never being executed or allowed to expire without new contracts in place, and cost inefficiencies due to prepayments for services without negotiated contracts.

Upon the recommendation of HUD's Contracting Division, the SFHA is in the process of centralizing procurement activities into one office. It is intended that all contracts will come through the new contracting office for review and assignment of a contract number. The contracting office intends to assure that a proper bid process is followed, all required information from bidders is received, a proper evaluation/selection process is followed and documented, and that contracts are in order before they are executed and contractors are allowed to start work.

AUDITEE COMMENTS & OIG EVALUATION

The SFHA did not disagree with this finding and indicated that it had implemented or was in the process of implementing the following actions.

- Established and filled the position of director, contracting division, to oversee all procurement activities.
- Begun procurement training for its staff which included guidance on performing cost analyses.
- Developed a review routing form for the solicitation and award process which includes the requirement for contracting division approval to assure compliance with contracting procedures.

The SFHA's indicated actions and plans are generally consistent with the audit recommendations except that the procedures need to specifically address the issues of selecting the appropriate contract type (that is, whether fixed priced, cost reimbursable, hourly rate, et cetera), performing costs analysis, and determining under what circumstances advances to contractors may be given. Housing authority officials advised us that the procedures would be appropriately revised.

RECOMMENDATIONS

We recommend that you require the housing authority to:

- A. Complete implementation of a centralized contracting unit, as recommended by HUD's Contracting Division. The contracting unit must assure that proper procurement procedures are followed, including establishing procurement files which document the selection process; contain the rationale for the method of procurement; and justify selection of contract type, contractor selection/rejection, and basis for the contract price.
- B. Revise written procurement procedures to include instructions on selecting contract type and performing cost analyses prior to contract negotiations.
- C. Discontinue use of contract terms that provide advances that the entity is not required to account for.

Finding 5

The Housing Authority Did Not Adequately Monitor or Evaluate Its Program.

The housing authority had not established a process to measure DEP effectiveness and to help assure the accomplishment of the program's objectives and goals. It had not established a systematic method of data collection and analysis to measure success in achieving goals. It had not adequately monitored its contractors. Consequently, the SFHA could not submit to HUD progress reports with sufficient information on program results. These conditions occurred because management lacked sufficient appreciation or awareness of sound monitoring and evaluation practices. While limited anecdotal evidence indicated a decrease in drug-related crime, overall conclusions could not be drawn

The objective of the drug elimination program is to get rid of drug-related crime in and around public housing. Applicants for grant funds must develop a comprehensive program to eliminate drug-related crime in their developments. To help achieve this desired outcome, sound management practices must be implemented. Management needs to develop and use a system to measure program effectiveness. The elements of such a system include the setting of performance standards. These standards are quantifiable expressions of program objectives. Such a system also requires monitoring progress in achieving these objectives. This involves the collection of data and evaluation of actual versus desired results.

HUD's regulations for the DEP are based on these principles. The NOFAs required applicants to develop performance measurements and describe evaluation methods, including types of data to be tracked. 24 CFR subpart 761.35, *drug elimination programs*, required grantees to monitor the day-to-day operations of each program, function, or activity of the grant to assure performance goals were achieved. This NOFA and CFR also required grantees to provide the local HUD office with a semi-annual performance report that compares the grantees' actual performance to their plans.

Evaluation Process Not Developed Good management practices necessitate the setting of quantifiable program objectives against which program results can be measured. In regards to the drug elimination program, the SFHA was required to develop quantifiable objectives that would demonstrate the reduction or elimination of drug-related crime. However, the SFHA's plans did not sufficiently quantify objectives in a way that would measure the reduction of drug-related crime.

The 1994 plan described the proposed tasks intended to reduce drug-related crime and included some goals in terms of levels of activity, but it did not set measurable objectives that would relate these activities to a reduction in drug-related crime or indicate a method for tracking the appropriate information to make this measurement.

The 1995 plan stated the intention to reduce drug-related arrests² and calls for police by 20%, and also quantified the expected numbers of prevention-type services and participants. Yet again, methods to track information to measure the plan's success were not identified. Consequently, the SFHA did not report on the 1995 (nor 1994 and 1996) program's results in relation to any decrease in drug-related crime or even report on the levels of activities as compared to the plan. This occurred because the SFHA did not establish a systematic method of data collection and analysis to measure its program's success in terms of decreasing drug-related crime. Thus, the SFHA could not correlate expenditure of DEP funds to success in achieving program goals.

² The NOFAs suggested tracking changes in crime statistics as one method to measure program success. The SFHA received crime statistics quarterly which were compiled by the police department's Housing Task Force. The Housing Task Force was funded primarily through the DEP to provide assigned officers for supplemental police patrols at targeted sites. An earlier contract funded through the DEP also provided Housing Task Force officers to staff resource centers at target sites. Crime statistics generated by the Housing Task Force included quarterly totals of felony, misdemeanor, and narcotics arrests, number of tenants arrested, weapons confiscated, moving and parking violations, calls for service, incident reports, vehicles towed, dogs removed, and community meetings. The SFHA has used some of these statistics for inclusion in DEP grant applications to indicate a crime problem, but did not track them on an on-going basis to analyze crime trends to measure the success of its DEP. Further, the statistics may only be good for measuring police activities rather than progress in reducing drug-related crime.

While grant rules call for tracking of crime and other statistics as a method to measure program success, the SFHA must take care to develop a system that can determine if changes in drug-related crime are a direct result of its DEP initiatives. Also, statistics collected must be appropriate for use in planning and formulating strategy. For example, a police lieutenant in the narcotics division told us that it is not possible to correlate arrest rates with drug-related crime rates. He believed the number of arrests is directly related to the extent of the police coverage, which depends on available funding. He did not believe an increase or decrease in the number of arrests was indicative of an increase or decrease in crime rates. Rather, an increase in arrests generally means more money was available to permit more time and effort to be expended, resulting in more arrests. Likewise, a decrease in arrests generally means that less work is done in the area, rather than a decrease in crime rate.

In addition, a knowledgeable HUD official indicated that a change in the number of arrests is not indicative of a change in drug-related crime rates, but that number of calls and types of calls to police can be used as indicators. The official said that some housing authorities are having success tracking drug-related crime by providing training to housing managers and resident councils on how to report the number of incidents.

Unused Evaluation Tools

The 1996 plan, submitted by the HUD recovery team, described proposed programs in detail and included some goals in terms of levels of activity, but again did not set measurable objectives that would relate program results to reduction in drug-related crime. However, the 1996 application described two tools for evaluation purposes intended to gather data to analyze and measure program success. Nevertheless, the SFHA did not use them when not under control of the HUD recovery team. The first evaluation tool was a resident opinion survey that assessed resident perceptions on the level and type of security needs at SFHA properties. Conducting surveys at periodic intervals would allow evaluation of programs implemented for the purpose of improving the identified problems. The second evaluation tool was a form to be filled out by each client using services at the resource centers, which would provide the SFHA statistics on the number of residents served, the types of services received, and the totals for each service type. This data would provide information useful in developing future plans for resource centers.

The resident opinion survey was taken at two developments during the summer of 1996 when the SFHA was under the control of the HUD recovery team. The survey collected resident opinions regarding security and crime on housing authority property. We obtained the results from the recovery team's report on SFHA's security and safety issues, entitled *An Assessment and Blueprint for Security and Safety for the San Francisco Housing Authority*. The results indicated that 40% and 33% of respondents, respectively at the two developments felt "very unsafe" inside their units, while 63% and 60% felt "very unsafe" outside their units. Also, 53% and 64%, respectively, felt crime was a major problem, with drug use as the biggest crime problem. However, the Office of Community Relations and Involvement (OCRI) did not make use (or even have possession) of the results of the survey or perform any other type of program evaluation.

Current management indicated that the form planned for tracking client use of resource center services was not being used. Management said resource centers did not yet have a good tracking system for recording use of the facilities.

Monitoring of Contractors

Sound management practices, codified in 24 CFR subpart 761.35, require managing the day to day operations of grant and subgrant-supported activities to assure compliance with applicable federal requirements so that performance goals are achieved. Information obtained from monitoring grant-funded activities allows the grantee to assess whether the activity is achieving the intended results.

However, SFHA monitoring of 1994 DEP contracts was minimal. Twelve contracts were funded by the 1994 grant: nine were for drug prevention services, two were for police services, and one was for a private security service. Evidence of substantive monitoring was lacking in all cases. Monitoring files were missing information necessary to assess the contractors' performance. For example, seven

drug prevention contracts required the contractor to submit quarterly reports that summarized the progress of the services performed, including type of service, number of residents served, and the personnel who performed the services. However, no quarterly reports were on file for four of the seven, and the three contractors that submitted one or more reports did not do so timely or consistently. The SFHA could not properly monitor contractor performance without such information. In fact, no contract file documented an assessment of the contractor's program to determine program effectiveness in accomplishing stated goals. Further, in at least five cases, monitoring files did not contain copies of the contracts.

The 1994 DEP drug prevention contracts were monitored principally under the direction of the former director of OCRI. The subsequent director received technical assistance from the HUD recovery team, including information on the overall requirements for managing DEP grants and developing a monitoring system. The HUD team provided the director a mock-up of a contract/grant file and a spreadsheet to track grant funds, and discussed database requirements to assist in developing management reports for monitoring of OCRI fiscal activities.

HUD Recovery Team Recommendations Not Followed

Nevertheless, the last of the 1994 DEP contracts administered under the subsequent director (a \$25,000 mini-grant to the Chinatown Resource Center) was inadequately monitored. No monitoring file was available at the time of our review. The SFHA paid the contractor the entire \$25,000 four months prior to the end of the contract term, without obtaining any cost-supporting documents or quarterly activity reports. (See finding on unsupported payments to community-based entities on page 15.)

Additionally, the SFHA inadequately monitored two police contracts and approved invoices which billed at improper rates and level of service. (See finding on overpayments to the police on page 4.)

Progress Reports

HUD required specific elements, described in CFR Title 24, subpart 761.35, to be included in semi-annual performance reports to measure the grantee's performance against its plan. These included:

- change or lack of change in crime statistics or other indicators, and an explanation of any difference,
- successful completion of any of the strategy components identified in the applicant's plan,
- a discussion of any problems encountered in implementing the plan and how they were addressed,
- an evaluation of whether the rate of progress meets expectations,
- a discussion of grantee's efforts in encouraging resident participation, and

- a description of any other programs that may have been initiated, expanded, or deleted as a result of the plan, with an identification of the resources and the number of people involved in the programs.

Incomplete Reports

The SFHA submitted performance reports semi-annually to HUD; however, the narratives generally lacked the required elements necessary to evaluate the SFHA's progress in reducing or eliminating drugs from their developments. Progress reports for the 1994, 1995, and 1996 DEP grants submitted under the HUD recovery team for the period January through June 1996 contained some elements, including descriptions of drug prevention services, levels of participation, and crime statistics for the period (although changes in crime statistics were not discussed). However, reports for the subsequent two reporting periods through June 30, 1997 submitted under subsequent management merely repeated some of the descriptions provided in the previous reports, adding little new information. These subsequent reports did not include explanations of changes in crime statistics or other indicators, explain any differences to the plan, describe problems in implementation and solutions, or evaluate rate of progress against expectations.

Further, performance reports for the period ending June 30, 1997 did not explain changes to the plans, including contracting for a private security service and implementing an on-site patrol/intervention program (TURF) with funds originally approved for drug prevention activities and a tenant patrol. Nor did the SFHA prepare and provide to HUD quantifiable objectives for revised plans in order to measure their success.

Outcome Reports Not Prepared

HUD developed the *Outcome Monitoring Form* to enable housing authorities to collect relevant data to measure the impact of DEP funds. The form required tracking of crime statistics specific to the housing developments targeted by the DEP grants; resident participation rates in DEP-funded activities; screening of applicants and lease enforcement; linkages the grantee has to external institutions also working on anti-drug and anti-crime issues in public housing; and overall resident and staff satisfaction with local safety. Although HUD required this information semi-annually, the SFHA never submitted the form.³

Causes

SFHA management lacked sufficient appreciation or awareness of sound program monitoring and evaluation practices. If sound practices were in effect, the SFHA would have established a system to measure the effec-

³ Notice PIH 94-83 (HA), *New Semi-Annual Form for Public Housing Drug Elimination Program Outcome Monitoring*, HUD-52356 required grantees to submit *Outcome Monitoring Forms* as a part of their semi-annual performance reports. The requirement was in effect from November 1994 through July 1997. HUD is reformulating a standardized semi-annual performance report for evaluation of housing authorities' drug elimination programs that is scheduled to be available by the end of FY 1998.

tiveness of its drug elimination program even if not specifically required by HUD's rules and regulations. SFHA officials overseeing DEP-funded programs seemed unaware of the need for an evaluation method: management apparently believed implementation of programs was sufficient. Further, management had not provided written procedures for staff monitors to follow for effective program oversight and evaluation of contractor activities. Also, the SFHA staff responsible for completing progress reports said they were unaware of the required elements for progress reports.

Limited Anecdotal Evidence Indicated Decrease in Drug-related Crime

We spoke with three SFPD officials, one SFHA official, and six residents, and all believed that drug-related crime has decreased in public housing developments in San Francisco. Residents believed the following initiatives contributed to the reduction of drug-related crime: (1) recent increases in provisions for security, including gated-communities, private security services, SFPD, and TURF (TURF had mixed reviews), (2) programs which employ residents as landscapers, painters, lead abators, TURF members, and so on as well as (3) on-going after-school tutoring, job training, recreational outings, computer training, and other improvement programs for residents. Of these initiatives named helpful by residents, those funded through DEP were SFPD, private security services, TURF, and to a much smaller extent, resident programs. (Resident programs comprised only 17% of the 1994 grant; 6% of the 1995 and 1996 grants.)

We spoke with three SFPD officials, one SFHA official, and six residents, and all believed that

Perceived Lack of Accomplishment Led to Disapproval of Additional Funding

Nevertheless, without adequate monitoring or evaluation of contractors and its DEP program in general, the SFHA could not show whether or not its use of grant funds resulted in the reduction of drug-related crime in public housing. Further, the SFHA could not evaluate its program to identify unsuccessful strategies or to justify modifications made to original plans. In addition, HUD did not receive the data it needed to evaluate SFHA's performance and assure compliance with grant objectives. Consequently, HUD perceived that the SFHA lacked an adequate evaluation system and had not implemented planned programs timely. That assessment played a role in HUD's decision to turn down SFHA's 1997 application for additional DEP funds.

Nevertheless, without adequate monitoring or evaluation of contractors and its DEP program in general, the SFHA could not show whether or not its use of grant funds resulted in the reduction of drug-related crime in public housing. Further, the SFHA could not evaluate its program to identify unsuccessful strategies or to justify modifications made to original plans. In addition, HUD did not receive the data it needed to evaluate SFHA's performance and assure compliance with grant objectives. Consequently, HUD perceived that the SFHA lacked an adequate evaluation system and had not implemented planned programs timely. That assessment played a role in HUD's decision to turn down SFHA's 1997 application for additional DEP funds.

AUDITEE COMMENTS

The SFHA indicated concurrence with this finding, stating that it recognizes the need to strengthen program evaluation and monitoring functions and that it is in the process of consolidating grant activities with the intent to formalize effective evaluation and monitoring processes.

RECOMMENDATIONS

We recommend that you assure that the housing authority:

- A. Establishes a method to measure the effectiveness of its DEP by adopting measurable and relevant performance goals that allow evaluation of program success. Evaluations should be sufficient to indicate if modification of activities is needed to make them more successful and to identify unsuccessful strategies. If needed, the SFHA should obtain support and advice under the public housing drug elimination technical assistance program.
- B. Provides written procedures for monitoring contractors that call for documenting oversight and evaluation of their activities. Implement HUD recovery team recommendations for monitoring contractors.
- C. Ensures that appropriate staff members are fully aware of the program's reporting requirements and includes the required information in performance reports.

Finding 6

Approval for Program Changes Was Requested After the Fact.

The SFHA made substantial changes to its 1994, 1995, and 1996 drug elimination programs. However, it did not seek or obtain HUD approval as required prior to implementing the changes. This occurred because SFHA officials did not appreciate the need to obtain HUD's advance approval. As a result, HUD was not given the opportunity to evaluate the revised plans before they were put into effect. Also, the SFHA put itself in possible fiscal jeopardy if HUD disapproved the changes.

NOFAs require compliance with 24 CFR part 761, *drug elimination programs*. Subpart 761.20 states that DEP-funded programs must be part of a comprehensive plan for addressing the problem of drug-related crime. Subpart 761.30 states that if the grant plan, approved budget, and timetable, as described in the approved application, are not operational within 60 days of the grant agreement date, the grantee must report the revised plan and timetable to HUD for approval. HUD may impose sanctions if the grantee proposes substantial changes that, if originally submitted, would have resulted in the application not being selected.

Changes to Plans The SFHA made substantial changes to plans approved upon issuance of the grants, principally by decreasing drug prevention activities and increasing security. These changes were the result of needs perceived by current management (who had not prepared the original plans) and because the strategy to use tenant patrols was considered to be unfeasible.

- ⇒ **1994 DEP.** Instead of forming a tenant patrol and using all funding planned for drug prevention, it used \$323,840 for private security services, \$78,930 for additional law enforcement, and \$44,426 for additional program administration. The reprogramming represented 27 percent of the total grant.
- ⇒ **1995 DEP.** Instead of forming a tenant patrol and funding 14 community organizations for various drug prevention activities, it funded only one community organization, and used \$439,392 for private security service, \$191,640 for additional law enforcement, and \$56,480 for TURF. The amount reprogrammed was 41 percent of the grant.
- ⇒ **1996 DEP.** Instead of forming a tenant patrol and funding five community organizations and a substance abuse counselor as planned, it funded only

two community organizations, and management has indicated plans to reprogram the remaining funds for the private security service and for TURF. (Ninety-four percent of grant funds remained to be spent at the time of our review.)

Revised Plans Submitted Late

The SFHA did not submit revised plans timely to HUD. Instead, the SFHA incurred expenses for the revised activities and subsequently requested HUD's approval. For example:

- The SFHA began solicitation for an on-site patrol/intervention program (TURF) in June 1997. Forty-two TURF members were put on SFHA payroll beginning July 1997. The SFHA did not request reprogramming of 1995 DEP funds for these new positions until October 1997, when HUD approved the changes. Therefore, the SFHA conceived these changes to its plans at least five months before alerting HUD, and was expending funds for the activity for about four months before HUD's approval of the change.
- The SFHA issued an emergency contract for security services beginning in March 1997. The SFHA alerted HUD of its need to reprogram 1994 DEP funds for this purpose in April 1997. HUD responded that it needed additional information from the SFHA before approving the reprogramming. HUD approval did not occur until July 24, 1997, only six days before the grant's expiration. Therefore, the SFHA was expending funds on this activity for the 1994 grant about four months before HUD's approval. Also, the security services continued into the 1995 grant. The SFHA did not request or obtain HUD permission to use 1995 grant funds until October 1997, seven months after it initiated the new plan (under the 1994 grant) and three months after security services were charged to the 1995 grant.

SFHA officials did not appreciate the need to obtain HUD's advance approval. They decided to wait until knowing what had been spent and therefore the actual amounts to reprogram. They were concerned that reprogramming at an earlier date could require another revision to have to be made later on. The SFHA did not formulate new budgets early on to reflect revisions to the plans and instead took a "wait and see" attitude.

Since the SFHA did not submit revised plans before their implementation, HUD had no opportunity in advance to determine their suitability. Although HUD approved the changes, the SFHA put itself in possible fiscal jeopardy if HUD had disapproved the changes after the SFHA had spent the money. In this regard, we note that HUD turned down the 1997 grant application. The 1997 plan budgeted almost half of the funds for program administrators, the next largest amount for TURF, and only six percent of the grant for prevention activities.

AUDITEE COMMENTS & OIG EVALUATION

The SFHA's written response indicated that it appreciated the need to obtain HUD approval in advance, yet it needed to take extraordinary steps in response to emergency conditions for resident safety and to avoid losing unspent DEP funds. The SFHA attributed the slow implementation of its program to the mismanagement that resulted in the 1996 HUD recovery effort. The executive director expressed his belief at the conference that verbal HUD approval was obtained prior to incurring expenses for activities outside the approved program, until we pointed to documents showing otherwise.

In our opinion, the program changes occurred largely because the perceptions and priorities of the SFHA's new management differed from previous management, rather than a significant change in crime environment at the housing authority's housing developments. Further, we maintain that proper coordination with HUD is necessary even under emergency conditions.

RECOMMENDATION

We recommend that you impose appropriate sanctions on the housing authority if, in the future, it does not obtain HUD approval prior to implementing revised plans.

Management Control

Controls Considered

In planning and performing the audit, we considered the management control systems used by the San Francisco Housing Authority to determine the audit procedures and not to provide assurance on management control. Management control is the process effected by an entity's board, management, and other personnel, designed to provide reasonable assurance for achieving objectives for program operations, validity and reliability of data, compliance with applicable laws and regulations, and safeguarding resources.

The following control systems were relevant to the audit objective.

- ⇒ Expenses and disbursements
- ⇒ Revenues and receipts
- ⇒ Personnel and payroll operations
- ⇒ Procurement
- ⇒ Contract monitoring
- ⇒ Program evaluation
- ⇒ Reporting to HUD

Audit Procedures Were Based on a Risk Assessment

To design audit procedures, we obtained an understanding of the control structure for the above systems and determined the risk exposure. We concluded that the audit would be performed more efficiently by doing substantive tests without reliance on management control. Therefore, we did not necessarily make a complete assessment of control design or determine whether policies and procedures had been placed in operation.

A significant weakness exists if management control does not give reasonable assurance that control objectives are met. Observed weaknesses with procurement, contract monitoring, program evaluation and reporting, and payroll allocation are discussed in the report's findings.

Appendices

Appendix 1

Schedule of Ineligible & Unsupported Amounts and Efficiencies

Issue	Ineligible Amounts	Unsupported Amounts	Efficiencies
Finding 1 – police contracts	\$339,466 ¹	\$33,038 ²	\$28,458 ³
Finding 2 – payroll	\$85,223 ⁴		\$86,399 ⁵
Finding 3 – community-based entities		\$16,889 ⁶	

Ineligible amounts obviously violate law, contract, HUD or local agency policies and regulations.

Unsupported amounts do not obviously violate law, contract, policy or regulation except for the absence of evidence to show that the amounts conform with requirements.

Efficiencies result from actions by management to prevent or avoid future improper or unnecessary obligations or expenditures.

¹ This consists of \$333,950 (total exception of \$366,988 less unsupported amount of \$33,038) for the housing task force contract and \$5,516 for the resource center contract.

² This represents regular overtime charged under the housing task force contract.

³ This represents the balance of the housing task force contract not billed after the police were advised of the overbilling.

⁴ This consists of \$28,951 for two employees erroneously charged to the DEP program and \$56,272 of administrative leave for the former director of neighborhood initiatives.

⁵ This represents the annual cost of the two employees erroneously charged to the program whose charges to the program were stopped after the housing authority was advised of the error.

⁶ This consists of \$8,889 of the amount paid to Chinatown Resource Center and \$8,000 paid to Hunter's Point Boys and Girls Club.

Appendix 2

Auditee Comments

[Note: Due to their volume, exhibits referenced in the written responses are not included here. The exhibits to the responses will be provided upon request.]

Appendix 3

Distribution

Director, Office of Public Housing, California State Office, HUD
 Secretary's Representative, California State Office, HUD
 Director, Accounting Division, California State Office, HUD
 Director, Administrative Service Center, Colorado State Office, HUD
 Director, Contracting Division, Administrative Services Center 3, Denver, HUD
 Office of Comptroller, Texas State Office, HUD
 Deputy Secretary, HUD
 General Deputy Assistant Secretary for Public and Indian Housing, HUD
 Director, Office of Troubled Agency Recovery, HUD
 Director, Office of Crime Prevention and Security, HUD
 Assistant Secretary for Congressional and Intergovernmental Relations, HUD
 Chief of Staff, HUD
 Assistant Secretary for Public Affairs, HUD
 Counselor to the Secretary, HUD
 General Counsel, HUD
 Senior Advisor to the Secretary for Communications and Policy, HUD
 Assistant to the Secretary for Labor Relations, HUD
 Office of Public and Indian Housing Comptroller, HUD
 Director, Office of Capital Improvements, HUD
 Assistant to the Deputy Secretary for Field Management, HUD
 Chief Financial Officer, HUD
 Deputy Chief Financial Officer, HUD
 Director, Office of Budget, HUD
 Acquisition Librarian, HUD
 U.S. Attorney, Northern District of California
 Committee on Governmental Affairs, U.S. Senate
 Government Reform and Oversight Committee, U.S. House of Representatives
 Subcommittee on General Oversight and Investigations, U.S. House of
 Representatives
 Director, Housing and Community Development Issue Area, U.S. General
 Accounting Office
 San Francisco Housing Authority
 San Francisco Police Department