



Issue Date	June 21, 1996
Audit Case Number	96-NY-201-1002

TO: Harry A. Reese, Director, Office of Public Housing  
Buffalo Area Office

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

SUBJECT: Buffalo Municipal Housing Authority  
Low-Rent Housing Programs  
Buffalo, New York

We conducted an audit of the Buffalo Municipal Housing Authority of the City of Buffalo, New York (hereafter referred to as the BMHA) pertaining to its Low-Rent Housing programs. The purpose of the audit was to determine whether the BMHA is:

- providing tenants with decent, safe and sanitary units that meet mandatory minimum Housing Quality Standards (HQS) prescribed by the U.S. Department of Housing and Urban Development (HUD);
- complying with the terms and conditions of its Annual Contributions Contract (ACC), applicable laws, HUD regulations, and other applicable directives; and
- managing its programs and operations effectively, efficiently, and economically.

Our audit disclosed that the BMHA is generally providing tenants with decent, safe and sanitary units; and is generally complying with the terms and conditions of its ACC. However, the review also disclosed that various improvements are needed in its operations to enhance effectiveness, increase efficiency, and promote better economy. Specifically, our audit results disclosed that the BMHA should improve its: management information systems, maintenance operations, controls over inventories, unit vacancy rate, cash management procedures and investment practices, controls over staffing levels, travel and personnel practices, and the system used to process purchase orders. Also, the BMHA should improve the accuracy of its Public Housing Management Assessment Program (PHMAP) Certification, and execute an employment contract with each employee appointed by the Board of Commissioners to reduce the possibility of litigation if termination occurs.

Within 60 days, please give us for each recommendation made in the report, a status report on:

## Management Memorandum

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(1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to the audit.

Should you or your staff have any questions, please contact Alexander C. Malloy, Assistant District Inspector General for Audit at (212) 264-8000, extension 3976.

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# Executive Summary

We conducted an audit of the Buffalo Municipal Housing Authority (herein referred to as the BMHA) pertaining to its Low-Rent Housing programs. The objective of the audit was to determine whether the BMHA is:

- providing tenants with decent, safe and sanitary units that meet HUD's mandatory minimum HQS;
- complying with the terms and conditions of its Annual Contributions Contract (ACC), applicable laws, HUD regulations, and other applicable directives; and
- managing its programs and operations effectively, efficiently, and economically.

Our review disclosed that the BMHA is generally providing tenants with decent, safe, and sanitary units; and is generally complying with the conditions of its ACC, applicable laws, HUD regulations, and other directives. However, the audit also disclosed that improvements are needed in the BMHA's operations to enhance effectiveness, increase efficiency, and promote better economy. In order to accomplish this, the BMHA needs to take the necessary actions to correct the deficiencies noted during our audit, which are summarized below and described in the findings of this report.

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BMHA's management information systems do not provide accurate, reliable and timely information

The BMHA's management information systems do not provide accurate, reliable and timely information. We attribute this weakness to the lack of a centralized computer system, as well as, the absence of adequate expertise to properly manage its current information systems. As a result, BMHA employees, including top management, do not have accurate and current information readily available to assist in making sound decision on how and where scarce resources are to be used.

BMHA's maintenance structure does not adequately provide for proper staff accountability and productivity

The BMHA's maintenance operations lack: (a) a reliable and effective maintenance information system; (b) maintenance performance standards for its maintenance employees; and (c) adequate management oversight. As a result, the current maintenance structure does not adequately provide for proper staff accountability and productivity.

BMHA's controls over inventories are not adequate

The BMHA's controls over inventories are not adequate enough to properly safeguard its materials, supplies, and equipment. We found that inventory records were not accurate and that inventory policies were not applied consistently or in compliance with HUD guidelines. Also, we noted that items were missing, stolen, and/or used for unauthorized purposes and that the supply inventory was not valued consistent with HUD guidelines. As a consequence, the BMHA does not have adequate assurance that items in its inventories are properly accounted for and correctly valued; or that adequate internal controls are in place to promptly detect theft or misuse. We attribute these weaknesses to a lack of: (a) managerial oversight, (b) an authority-wide inventory policy, and (c) a reliable inventory costing system.

BMHA's unit vacancy rate has consistently exceeded 20 percent

The BMHA's unit vacancy rate has consistently exceeded 20 percent. The high rate is attributable to the BMHA's failure to perform unit turnaround activities timely, which includes: (a) offering vacant units to applicants, (b) preparing vacant units for reoccupancy, and (c) executing leases with prospective tenants. Additionally, we believe that the number of units designated for the elderly or disabled may be greater than the actual need; and is therefore having a negative impact on the BMHA's vacancy rate. As a result, the housing needs of certain low-income applicants are not being met promptly.

BMHA did not invest its excess funds

The BMHA's controls over cash management practices are not adequate. Specifically, we noted that the BMHA did not invest its excess funds; failed to periodically solicit or evaluate its banking services; and improperly advanced operating funds of Federal programs to pay costs incurred under non-Federal programs. As a result, no investment income was earned, banking services may not be adequate, and Federal funds were improperly advanced to pay costs incurred under non-Federal programs. We believe that these conditions occurred because the BMHA procedures in the areas of investing, banking, and requesting funds from the City of Buffalo were not adequate.

BMHA's staff levels exceed HUD's suggested levels

The BMHA's staffing levels exceed HUD's suggested levels; some of its staff is not being adequately utilized; and its controls over overtime and travel are not adequate.

Additionally, the BMHA's Commissioners are receiving compensation in breach of the ACC. We attributed these deficiencies to management's failure to evaluate staffing levels, the lack of a formal written personnel policy, inadequate controls over certain aspects of travel and overtime, and insufficient oversight by management. As a result, the BMHA cannot assure HUD that all staffing, overtime, and travel costs are necessary and reasonable to the operations of the projects. Regarding the unauthorized payments of compensation to the Commissioners, this resulted in ineligible expenses of \$32,825.

BMHA's purchase order system is cumbersome and time consuming

The BMHA's current purchase order system is cumbersome and time consuming. As a result, more staff time than should be required is used to process purchase orders. This deficiency occurred because the BMHA does not have a uniform purchase order system in place to process purchase orders timely.

BMHA's PHMAP Certification contain conclusions that were based on inaccurate information and data

The BMHA's Public Housing Management Assessment Program (PHMAP) Certification; as submitted to HUD, for Fiscal Year Ending June 30, 1994, contains various conclusions that were based on inaccurate information and data. The erroneous conclusions resulted from incorrect calculations of some indicators; the use of improper procedures in computing the scores of indicators; and the BMHA's failure to assure that computer generated data was accurate.

BMHA charged the Federal program the entire amount paid to terminated employees

The BMHA charged the entire cost associated with settlement payments to terminated employees, whose responsibilities included oversight duties over all BMHA programs, to the Federal program. It is the BMHA's position that the settlement payments were made to avoid litigation, which we attribute to the lack of employment contracts containing termination terms. Consequently, the BMHA incurred and charged a total of \$92,214 to the Federal program in connection with the termination of three employees. Since the employees duties also included management oversight over State funded programs, we believe that the \$92,214 should have been allocated among all programs administered by the BMHA.

Recommendations

As part of each finding, we recommended certain improvements that will assist in eliminating the deficiencies discussed in the finding and will strengthen BMHA's administration of its Low-Rent Housing programs.

Exit Conference

The results of the audit were discussed with BMHA officials during the course of the audit and at an exit conference held on April 9, 1996, attended by:

Buffalo Municipal Housing Authority

Sharon West, Executive Director  
Modesto Candelario, Chairperson,  
Board of Commissioners  
James F. Lagona, Assistant Legal Counsel

Buffalo Area Office - Office of Public Housing (OPH)

Harry Reese, Director, OPH  
Joan Spilman, Director, Management, OPH  
John E. Lollis, Director, Financial Management, OPH  
Ken O'Connor, Engineer, OPH  
Joe Raimond, Engineer, OPH  
Ron Cianciosi, Financial Analyst, OPH

Office of Inspector General (OIG)

Alexander C. Malloy, Assistant District  
Inspector General for Audit  
Garry D. Clugston, Senior Auditor  
Theresa Semanek, Auditor  
Patrick Anthony, Auditor

The BMHA agreed with some of the deficiencies mentioned in the findings and disagreed with others. We summarized the BMHA's response, and provided appropriate portions of our summarization after each finding. Where appropriate, we have prepared an evaluation of the BMHA's comments.

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## Abbreviations

ACC	Annual Contributions Contract
AIT	Advanced Integrated Technology
BMHA	Buffalo Municipal Housing Authority
HUD	U.S. Department of Housing and Urban Development
HQS	Housing Quality Standards
MCS	Maintenance Costing System
MIS	Management Information System
MOA	Memorandum of Agreement
OIG	Office of Inspector General
OPH	Office of Public Housing
PHMAP	Public Housing Management Assessment Program
RFP	Request for Proposal
VAPC	Vacant Apartment Preparation Crew

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# Introduction

The Buffalo Municipal Housing Authority (BMHA) was established in 1934 to provide decent, safe and sanitary housing for eligible low and moderate income families in the City of Buffalo. The BMHA administers 25 federally funded projects, with 5,042 public housing units and 2 active state funded projects, containing 973 units .

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## Governing body

The BMHA is governed by a Board of Commissioners (the Board) composed of seven members; five are appointed by the Mayor and two are elected by the tenant population. The Chairperson of the Board is Modesto Candelario. At the start of our audit the Executive Director of the BMHA was Michael Clarke. On July 31, 1995, Sharon West was appointed Executive Director by the Board. The Executive Director, whose office is located at 300 Perry Street, Buffalo, New York, is responsible for the day to day operations of the BMHA. The BMHA's financial records and books are maintained primarily at its central office located at 300 Perry Street.

## A MOA between HUD and the BMHA was executed

For the Fiscal Year Ended June 30, 1991, the BMHA's PHMAP score was 48.8 percent, resulting in the BMHA being designated a troubled public housing authority by HUD. Because of the low PHMAP score, a Memorandum of Agreement (MOA) between HUD and the BMHA was executed in July, 1992, which resulted in the establishment of baseline data in key performance areas and annual performance standards. After the completion of the MOA, in March 1993, the BMHA submitted an Improvement Plan to HUD in response to its June 1992 PHMAP evaluation. The Improvement Plan contained tasks and performance targets for the PHMAP indicators with scores below a grade C. The BMHA's PHMAP score increased from 48 percent in 1991 to 70 percent in 1994, which was high enough for HUD to remove the BMHA from its list of troubled public housing authorities.

## Occupancy problems

In April 1989, HUD found that the BMHA's tenant assignment practices violated regulations of Title VI of the Civil Rights Act of 1964, as amended. On December 4, 1989, the BMHA and HUD were named in a lawsuit concerning the Title VI requirements. In 1992 HUD and

the BMHA signed a Voluntary Compliance Agreement designed to bring the BMHA into compliance with the Title VI regulations. Our review disclosed that the BMHA is generally complying with terms of the agreement.

Operating subsidies received from HUD

The BMHA received operating subsidies during our audit period from HUD, as follows:

Fiscal Year	HUD Operating Subsidies
1993	\$12,942,801
1994	13,626,480

Audit Objectives

The primary objectives of the audit were to determine whether the BMHA is:

- providing tenants with decent, safe and sanitary units that meet HUD's mandatory minimum HQS;
- complying with terms and conditions of its ACC, applicable laws, HUD regulations and other applicable directives that were in effect during our audit period; and
- managing its programs and operations effectively, efficiently, and economically.

Audit Period

Our audit field work was performed between January 1995 and September 1995 and covered the period from July 1, 1993 to December 31, 1994. However, activity prior and subsequent to this period was reviewed when appropriate.

Scope

Audit procedures included an examination of the books, records and files of the BMHA, files maintained by HUD, interviews with members of the BMHA and HUD staffs, and project site visits. Furthermore, we reviewed, the BMHA's organizational structure, policies, and procedures for managing its operations. Performed detailed audit testing, which was based primarily on judgementally selected samples of the transactions in the areas reviewed.

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

A copy of this audit report was provided to the BMHA.

# The BMHA Needs a Reliable Comprehensive Management Information System

The BMHA's management information systems is fragmented among various departments and is not providing top management with current and accurate information to assist in making sound decisions on how and where scarce resources should be used. As a result, we found that the BMHA is unable to: (a) measure the productivity levels of its staff in a timely manner; (b) readily determine whether its various components are operating in a efficient and economical manner; or (c) properly safeguard and protect resources, such as equipment, material and supplies from theft or improper use. We attribute this deficiency to the absence of a reliable centralized management information system that consolidates departmental information into a form usable by employees and management for operational as well as decision making purposes.

## Criteria

The Annual Contributions Contract (ACC) requires PHAs to adopt necessary procedures to ensure that operations are run economically and efficiently. In order to accomplish this, PHAs should have a efficient management information system to record, track and consolidate data in a form usable by management.

## Scope

Our review of the PHA's management information systems was an ongoing process during the audit. The review included examinations and observations of the systems used by the BMHA to record financial transactions, track work orders, work performed by the maintenance staff, nonexpendable equipment, and inventories of materials and supplies.

## The BMHA does not have a reliable computer system

Our review disclosed that the BMHA does not have a reliable centralized computer system. Instead, each department developed its own computerized system, which in most cases, are not being adequately maintained. For example, the maintenance work order database system contains a substantial amount of inaccurate, unreliable, and unnecessary data. Also, the system lacks adequate security, and in many cases can not produce information in a form

usable by employees and top management (See Finding 2). Furthermore, we found that inventory records are maintained on several different computer systems, and have not been reconciled. The data contains errors, misclassifications, and improper cost valuations. Moreover, the systems are not capable of providing a total inventory listing or usage reports. (Finding 3).

BMHA is using computer programs that are outdated and very time consuming

Regarding the BMHA's computerized accounting system, we found that the system listed charges from prior years to purchasing contract accounts when no charges had been put into the systems. Also, we noted that accounting functions, such as payroll require information to be manually transferred from one computer system to another. To accomplish the transfers, some accounting staff members have two different computer work stations on their desk. Overall, our review disclosed that the BMHA is using computer programs that are outdated and very time consuming; and that many staff members lack adequate expertise in computer operations and programming.

BMHA needs to implement a reliable comprehensive management information system

In our opinion, the lack of a reliable comprehensive management information system precluded top management officials from having accurate, complete, and timely data on the BMHA's various operations, especially its maintenance and related components. Consequently, the BMHA lacks evidential assurance that its personnel was effectively and fully utilized; that its equipment, materials and supplies were adequately protected and properly used; and that its activities were carried out in an effective, efficient and economical manner. In this regard, the BMHA needs to implement a reliable comprehensive management information system and ensure that its staff has the ability to manage and use the system.

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### Auditee Comments

The BMHA response provides that the BMHA is utilizing a Data General and AS400 hardware system. The software system is Advanced Integrated Technology (AIT). The current computer system is insufficient to manage and monitor the comprehensive operation of the Authority and has caused tremendous difficulties in operating the programs in several departments of the BMHA.

In December, 1995, as part of the BMHA reorganization, a Management Information System (MIS) Division was established with a new MIS Director and Computer Programmer positions. Top management of the BMHA believes that the addition of these positions will have direct and immediate impact upon the capacity of the Authority to address many of the problems found with the current computer system. Moreover, BMHA officials will evaluate and install new software to assist in overcoming current problems. BMHA officials are currently working with the Buffalo Civil Service Commission to fill these positions. It is the BMHA's goal to solve the MIS problems within the next two years.

The BMHA will enter into a contract in May 1996 with Erie Community College to train its personnel on effective PC use in a Windows environment.

Moreover, once the MIS Director and computer programmer are on board, the BMHA will develop the in-house capacity to train on the AIT and other software.

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## Recommendations

We recommend that your office ensure that the BMHA:

- 1A. Perform a full evaluation of its computer hardware, software, and programming needs; and implement a comprehensive management information system that meets the needs of the BMHA.
- 1B. Evaluate and train personnel to ensure that they have the necessary skills to use and maintain a reliable management information system.

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## The BMHA Needs to Ensure That Its Maintenance Operations are Efficient and Economical

The maintenance operations at the BMHA are not being carried out in a manner that adequately promotes efficiency and economy. This is occurring because the BMHA's maintenance operations lack: (a) a reliable and effective maintenance information system that accounts for work performed by the maintenance staff; (b) performance standards and productivity levels for its maintenance employees; and (c) adequate management oversight. Consequently, we found strong indications which show that staff resources are not properly accounted for nor fully utilized.

### Criteria

The National Housing Act of 1937, as amended, requires each authority to establish sound management practices in the operations of its projects, including the formulation and implementation of satisfactory project maintenance standards. In addition, Section 201 of the ACC requires that the local authority at all times operate each project for the purpose of providing safe and sanitary dwellings in such a manner as to promote efficiency and economy.

#### a) Maintenance information system is not reliable

The Accuracy and reliability of the work order database is questionable

To evaluate the reliability of BMHA's maintenance information system, we obtained data for the two week period ended July 30, 1994, which consisted of 11,179 work order records. Those records disclosed significant problems with the BMHA's computerized work order system. First, from the sample of 11,179 records, we determined that 7,002 of the records reflected either employee numbers that do not exist or data unrelated to work performed by the maintenance staff. Also, the system generated information concerning time and cost that was not consistent with the data on individual work order records. BMHA maintenance personnel were unable to explain how the information got into the system or why the data did not agree with the individual records. Thus, the

Inquiries are very difficult and time consuming

accuracy and reliability of the work order database is questionable.

We were informed that the work order database system generated more than 500,000 records in just over two years of operation. The large number of records can be partly attributed to records that do not represent actual work performed. Moreover, we found that a lot of the records pertain to work orders that were not related to maintenance assignments. They included work orders for material ordered for the inventory, inspections, and maintenance of the general grounds. Since the system has to examine all available records to find requested data, it is difficult and very time consuming to perform inquiries.

b) Maintenance performance standards and productivity levels have not been established

No uniform method to monitor and evaluate maintenance staff productivity

The BMHA lacks performance standards to measure the performance of its maintenance staff. These standards would consist of a description of the various maintenance and repair items performed by the maintenance staff with expected completion times. Additionally, the BMHA does not have an adequate process to measure the productivity levels of its maintenance staff. As a result, the BMHA does not have adequate assurance that its maintenance staff is productive and its maintenance operating costs are economical.

Maintenance staff exceeds national average

As discussed in Finding 6, the BMHA exceeds the guidance provided by HUD of one maintenance employee for every forty units. Currently, the BMHA has one maintenance employee for every twenty-two available units. Using HUD's staffing guidelines, we determined that the BMHA has 103 more maintenance employees than suggested by HUD guidelines. To evaluate the efficiency of the BMHA's maintenance staff, we judgmentally selected and analyzed various completed work orders.

Average work orders completed daily ranged from .95 to 7.17

First, we selected the months of July 1994 and March 1995 to determine the average number of work orders completed daily. We focussed on the mechanics, laborers, and tradesmen in Technical Operations since they performed

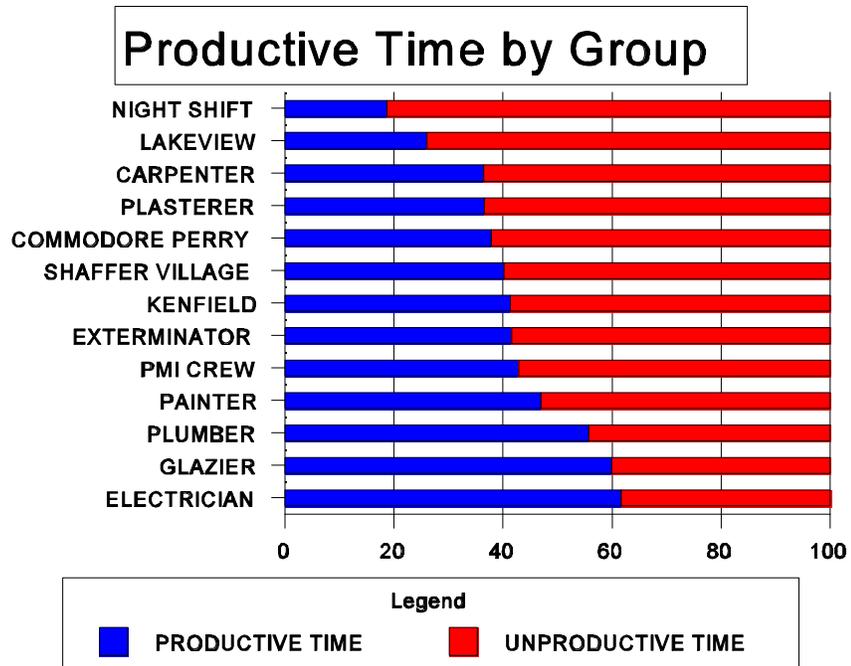
most of the maintenance work tracked by work orders. From available data, we determined that the average number of work orders completed daily for the selected two months ranged from .95 for plasterers to 7.17 for the mechanics/laborers. The following table shows the average number of work orders completed daily by job classification during the two months selected:

<i>Job Classification by Group</i>	<i>Average Numbers of Work Orders Completed Daily</i>
<i>PLASTERERS</i>	<i>0.95</i>
<i>PAINTERS</i>	<i>1.82</i>
<i>CARPENTERS</i>	<i>1.93</i>
<i>NIGHT SHIFT</i>	<i>2.09</i>
<i>PLUMBERS</i>	<i>2.55</i>
<i>ELECTRICIANS</i>	<i>2.62</i>
<i>EXTERMINATORS</i>	<i>3.14</i>
<i>GLAZIERS</i>	<i>3.14</i>
<i>PMI CREW</i>	<i>3.51</i>
<i>MECHANICS/LABORER S - LAKEVIEW</i>	<i>4.28</i>
<i>MECHANICS/LABORER S - SHAFFER VILLAGE</i>	<i>5.65</i>
<i>MECHANICS/LABORER S -COMMODORE PERRY</i>	<i>6.03</i>
<i>MECHANICS/LABORER S -KENFIELD</i>	<i>7.17</i>

Only 3 of the job classifications had 50 percent or more of its time charged to work orders

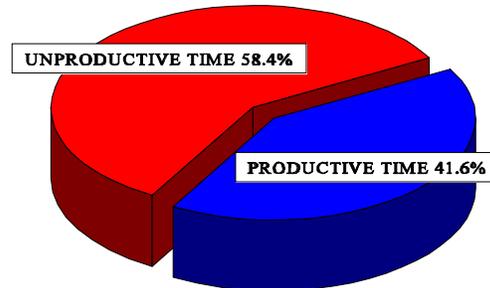
Second, we determined the amount of hours charged on completed work orders for each group for the period from July 17, 1994, through July 30, 1994 and classified that time as productive time. The time that was not accounted for on a work order was classified as unproductive. In this regard, we determined each group's percentage of productive time by taking the amount of hours charged on

completed work orders and dividing them by total hours worked during the period. As such, we determined that only 3 of the 13 groups had 50 percent or more of their time charged on work orders. The following graph shows the amount of productive time for each group:



Additionally, we combined the amount of productive time for all groups. For the sample period, 3,728 hours were charged as worked; however, only 1,551 hours were reflected on work orders. Thus, 2,177 hours representing over 58 percent of the maintenance hours worked can not be accounted for and is being classified as unproductive time. The following graph compares the productive time to the unproductive time:

Percentage of Productive Time



BMHA needs to develop performance and productivity standards

The low number of completed work orders and the amount of unproductive time indicates that the BMHA's maintenance operation is not efficient. The BMHA needs to account for the total time each maintenance employee is on duty. In doing so, the BMHA should develop and implement performance standards for common work tasks and routine repairs. This will allow the BMHA to: 1) account for the on duty hours of each maintenance staff, and 2) evaluate the productivity of individual maintenance employees. Furthermore, performance standards will provide the maintenance staff with the measurable level of productivity expected of them.

c) Management oversight is inadequate

BMHA's management oversight is weak

The lack of a reliable and effective maintenance information system, which would include performance standards and productivity levels for its maintenance staff, has significantly weakened the BMHA's ability to adequately perform oversight duties and evaluations of its maintenance operations. Without such a system, management is unable to determine and document whether its maintenance staff is productive or whether its maintenance functions are being performed in an efficient

and economical manner. To accomplish this, we believe that management may need to obtain consultant services to assist in: (1) implementing a reliable maintenance information system; (2) determining whether its maintenance functions are being performed in an efficient and economical manner; and (3) evaluating staffing needs and determining whether it would be more cost beneficial to privatize some of the maintenance functions.

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Auditee Comments

The BMHA's response states "We are aware of many of the problems that the reviewer indicated. At the time of the review, it was explained, that this was the first full year on the system. Many problems occurred in: 1. training the staff, and 2. getting the staff to accept and work with the system because of the many human errors that occurred. There are also problems in locking out staff so that they could only view and not change anything in the system. Now only supervisors have this ability. Many of the problems that were indicated were part of our \$100,000 contract with AIT which was entered into on September 30, 1994. Since that time the company went out of business leaving us without corrections to our problems. Since then SSC, a consortium of Housing Authorities using the same system has been formed in an attempt to rectify the problems. We have also made arrangements with Ms. Judy Lewis of the Syracuse Housing Authority, who was one of the original developers of the system, who will visit the BMHA in April 1996 to assist us in solving our computer problems."

The BMHA's response also provides that the main issue in this finding is that the BMHA does not have established Performance Standards and Productivity levels. Management of the BMHA agrees with the reviewer on this issue. In order to establish these standards and levels, the BMHA has allocated monies in the 96 CGP for outside assistance by 12/97 in establishing these performance standards and productivity levels. Once these are established, the BMHA will be able to determine if staffing should remain the same, be reallocated and/or reduced. The results of this could also supply the BMHA with a basis for making any decisions concerning privatization. Any work

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done on establishing standards, levels or privatization will have to be fully discussed and receive support from the Unions.

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## Recommendations

We recommend that your office ensure that the BMHA:

- 2A. Take steps to evaluate and correct the current computerized maintenance information system, so that:
  - The system can be relied upon to provide accurate and reliable information.
  - Data can be extracted timely from the system to aide in management decisions.
  - Obtain adequate technical assistance for the system either in house or from outside consultants.
- 2B. Establish performance standards for maintenance tasks so that the maintenance staff is knowledgeable of the productivity levels that are expected of them by management.
- 2C. Evaluate, after performance standards, are in place, the productivity of the maintenance staff to determine whether staffing needs to remain the same, be reallocated and/or reduced.
- 2D. Determine whether any maintenance functions should be privatized.

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# The Controls Over Inventories Need Strengthening

Our review disclosed that the BMHA's inventory controls are not adequate enough to properly account for and safeguard its inventory of equipment, materials and supplies. Specifically, our review of nonexpendable equipment inventories disclosed that: a) inventory records are not maintained properly; b) capitalization and other inventory policies are not in compliance with HUD guidelines; c) stolen or missing equipment was not written off properly; and d) equipment belonging to the Federal program is being used at a State project. Regarding the inventory of materials and supplies, our review disclosed that: a) the inventory level is excessive; b) reconciliations of differences between the physical inventory and accounting records are not done properly; and c) items in the inventory were not valued in accordance with HUD guidelines. As a result, the BMHA does not have adequate assurance that inventories are accurate, accounted for and properly valued; that inventory levels of materials and supplies on-hand are necessary; and that internal controls are adequate to promptly detect theft and misuse. We attribute these weaknesses to the BMHA's lack of adequate controls over inventories and managerial oversight; to inconsistent authority-wide policies; and to a lack of a reliable inventory costing system. Specific weaknesses in the BMHA's inventory system are discussed in the following subsections:

## (1) NONEXPENDABLE EQUIPMENT INVENTORY

### a. Inventory records are not properly maintained

Inventory records are not maintained in compliance with HUD requirements

The BMHA's inventory records are not maintained in accordance with HUD requirements. HUD Handbook 7510.1, Chapter 7 provides that PHAs shall establish and maintain complete and accurate records of all real and personal property. Our audit testing disclosed that: equipment purchases were not properly recorded; capitalization of equipment was not done in accordance with HUD requirements; inventory records did not contain sufficient documentation for equipment identification; asset identification numbers were not listed on equipment or the inventory records; and the equipment location, as stated on the inventory card did not correspond with the actual location of the equipment. As a result, we could not verify the existence of various pieces of equipment. We attribute

Inventories are not consistently tracked

these problems to record keeping weaknesses in the BMHA's current inventory system.

Additionally, we found that inventories in the various departments of the BMHA are not consistently tracked. Specifically, we noted that the Accounting Department maintains the authority-wide or master inventory records, which tracks equipment by budget authority. However, each department tracks its own inventory by either office, location, or individual item. Consequently, it is very difficult, if not impossible, to reconcile the departmental inventory to the BMHA's master inventory.

Items misclassified

Furthermore, we found approximately \$200,000 in misclassified items. Items pertaining to the general operation and site improvements were classified as nonexpendable equipment. Examples include: security systems, software contract services, computer data conversion services, security consultant services, carpentry work, door locks, carpeting, and window blinds. Such misclassifications cause the amount of the inventory to be grossly overstated which can be misleading if used to project future inventory needs.

b. Capitalization Policy is not in compliance with HUD guidelines

Capitalization policy does not comply with HUD guidelines

The BMHA's inventory capitalization policy does not comply with the HUD guidelines provided in Handbook 7510.1, Chapter 7. At a minimum, the PHA is required to classify ranges, refrigerators, motor vehicles, power equipment, office furniture, office equipment and similar items of durable nature as nonexpendable equipment. Nonexpendable equipment is defined as items of equipment having a useful life of more than one year. According to members of the BMHA staff, only equipment with a value greater than \$300.00 is considered nonexpendable equipment and is capitalized. All equipment, except for ranges and refrigerators with a value less than \$300.00 is considered expendable and is expended when purchased. The BMHA capitalization policy does not consider the useful life of equipment. For example, we found that the BMHA only capitalized one out of two identical gas powered line trimmer costing \$297.97 for one and \$300.00

for the other. Although the equipment was identical, only the line trimmer costing \$300.00 was capitalized. A BMHA staff member told us that because the cost of one line trimmer was under \$300.00, it was not necessary to capitalize that equipment. To avoid such inconsistencies in its capitalization practice, we believe the BMHA should consider useful life as part of its capitalization policy, as required by HUD guidelines.

c. Department inventories were not performed or reconciled with the accounting records

Equipment inventory not reconciled properly

HUD Handbook 7510.1, Chapter 7, Paragraph (5) requires the PHA to take a physical inventory of all items of nonexpendable equipment annually. The differences between the physical inventory and the accounting records should be reconciled and all necessary adjustments should be made. Differences or adjustments must be documented, reviewed, evaluated, and approved. According to members of the BMHA staff, each department took an annual physical inventory of nonexpendable equipment. However, the physical inventory records have not been reconciled with the accounting records for our audit period. In addition, the departmental inventory records were not reconciled with the master inventory list. Without proper reconciliations, accounting errors or equipment losses can not be accurately identified. The physical inventory and reconciliations are necessary to determine the cause of inventory losses and reductions, and to provide management with information necessary to reduce future losses or errors.

d. Stolen or missing equipment was not written-off properly

Stolen or missing equipment was not written-off properly

The BMHA has not properly written-off missing and/or stolen equipment. For our audit period, the BMHA deleted or wrote-off \$1,298,000 worth of nonexpendable equipment, which was approximately 23% of the total equipment inventory of \$5,690,000. Regarding the write-off, a member of the BMHA staff told us that the housing authority inventory records had not been updated since 1984; therefore, the BMHA decided to purge and remove items that were reported missing, stolen, obsolete, or

scrapped from its inventory records. Also, the BMHA decided to remove the amount of all items costing less than \$300.00. Many of those items were listed as whereabouts unknown, missing, or stolen.

The BMHA's disposition policy requires that missing, stolen, or sold inventory be approved by the inventory survey committee and then removed from the inventory ledger and accounting records. This policy is not consistently followed by all departments. Although we found equipment that was reported stolen in 1990, deletion memorandums were never approved by the inventory survey committee. In certain cases, equipment was deleted from the departmental records, but not removed from the property ledgers or the master inventory. Consequently, the departmental records and master inventory are not in agreement.

- e. Equipment belonging to the Federal program is being used at a State project

Equipment belonging to the Federal program is being used at a State project

The BMHA has not implemented procedures to control and monitor the use of all equipment. The results of our audit testing disclosed that \$39,450 of equipment belonging to the Federal program was assigned to a New York State project. BMHA staff indicated that equipment is often transferred between projects, on a as needed basis; and if equipment is permanently transferred to a state project, a transfer memorandum is sent to the accounting department so that the state program can be charged for the equipment. However, we found that although the previous mentioned equipment has been assigned to a State project; it is still shown in the Federal program's inventory. In this regard, the BMHA needs to either justify assigning the equipment to the State project or execute a transfer memorandum so that the State project can be charged for using the equipment in accordance with its procedures.

## (2) INVENTORY OF MATERIALS AND SUPPLIES

The BMHA has not managed its inventory of materials and supplies effectively

According to requirements provided in the ACC, PHAs must manage and operate their projects with maximum efficiency and economy. Our audit disclosed that the BMHA is not in compliance with this requirement as it

relates to properly managing its inventory of materials and supplies. Specifically, the audit disclosed that: (a) the inventory level of materials and supplies is excessive; (b) the annual physical inventory is not reconciled with the general ledger; and (c) the computerized Maintenance Costing System does not properly value the inventory. Deficiencies noted during our review are as follows:

a. Inventory level is excessive.

Inventory level is excessive

A review of available records disclosed that during Fiscal Year 1993, the BMHA had \$1,652,825 of materials and supplies in its inventory; but only used materials and supplies valued at \$820,309. The review further disclosed that the same inventory during FY 1994 was \$1,722,339, while usage was valued at \$878,720. Based on this information, the BMHA maintains enough materials and supplies in its inventory for two years. We believe that such an inventory level is excessive and expensive to maintain; and that the material and supply inventory should be reduced to a level considered reasonable by the BMHA and HUD management. BMHA officials attributed the excessive level to obsolete items remaining in the inventory. However, the officials were unable to provide evidence that evaluations were performed to determine which items are obsolete.

b. Annual reconciliations of inventories of materials and supplies were not supported.

Physical inventories of Materials and supplies were not properly reconciled

The BMHA performs an annual physical inventory of materials and supplies, as required by HUD Handbook 7510.1. However, the physical inventory is not reconciled properly with the accounting records. Chapter 7 of the Handbook provides that the differences between the physical inventory and the accounting records should be reconciled and any necessary adjustments should be made. The 1993 physical inventory amounted to \$1,652,824, whereas, the general ledger balance was \$1,904,728. The 1994 physical inventory totaled \$1,722,339, while the general ledger balance was \$2,057,389. Rather than reconciling these differences, the BMHA wrote down the general ledger balances by \$251,904 and \$335,050, respectively, to match the physical count. Without proper reconciliations, the BMHA can not identify the causes of the differences to prevent them from recurring in the future.

Inventory not valued correctly

c. The BMHA does not properly value its inventory

Our audit disclosed several problems with the BMHA's Maintenance Costing System (MCS). The MCS does not record inventory values consistent with HUD Handbook 7510.1. Chapter 7, Paragraph (3) of the Handbook provides that when items of materials are acquired at different dates and at different prices, such items should be priced on the "first-in, first-out, average price," or other acceptable pricing method. The MCS values the inventory at the most recent or last purchase price, which, in our opinion, is not an acceptable pricing method because it often artificially inflates the price of the aged items in the inventory. Consequently, aged material and supplies are expended at an inflated price.

In addition, the BMHA's inventory system consists of numerous warehouses located throughout the BMHA. The MCS is not programmed to generate an all-inclusive inventory list. The MCS is limited to an inventory list per warehouse. Without extensive manually computations, the BMHA can not easily determine total inventory on-hand. As a result, additional items may be purchased while in stock. Also, the MCS does not generate a usage report that provides the beginning balance, the number of items purchased, the number of items consumed, and the ending balance. As a result, the BMHA can not determine which items are used frequently and which are obsolete.

Significant weaknesses in inventory controls

We consider the weaknesses in the BMHA's controls over inventories for equipment, materials and supplies to be significant. Corrective actions must be taken to implement controls that will ensure that equipment, materials and supplies are properly accounted for and safeguarded; and that purchases of nonexpendable equipment, materials, and supplies are necessary and reasonable.

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Auditee Comments

The BMHA's response provides that in the BMHA reorganization, an independent Inventory Division was created in the Administrative Department. All inventory functions from all other departments were integrated within

this division. The director of this division is currently evaluating various software which will address the deficiency in the BMHA's current program and include an inventory tracking program. The BMHA is revising the purchasing system so that before a purchase order can be assigned, the inventory department must verify that the BMHA does not have a sufficient quantity in an effort to get the inventory levels down.

The BMHA has scheduled an annual physical count of all equipment to be done concurrent with the annual count of the materials and supplies inventory by June 30, 1996. In addition, the new Division of Inventory Control (a division of Administrative Services) has been formed in order to facilitate addressing the issues of expendable and non-expendable inventory. This Division of Inventory, along with the Audit Division, the Department of Finance and Budgets as well as the newly created Division of Purchase will work together to rectify the problems in the area of inventory and to insure that these problems do not re-occur in the future.

The Department of Finance and Budgets is working toward establishing a computerized data base for all non-expendable inventory items which will replace the manual card system and which will serve as a basis for proper inventory classification and reconciliation. Our target date to complete this task is June 30, 1997.

Since September, 1995, the BMHA is now considering the useful life of an item in addition to its cost when determining whether to classify it as expendable or non-expendable. Additionally, the BMHA will review its Capitalization Policy and rewrite it as necessary in order to establish guidelines for the proper classification of inventory items.

By December 31, 1996, the BMHA's Disposition Policy will also be reviewed and rewritten in order to establish a systematic program for the identification and subsequent removal of obsolete items from the materials and supplies and the non-expendable equipment inventories. This process should allow the BMHA to attain an accurate assessment of its "useable" inventory by creating a uniform

approach to writing-off obsolete and missing and/or stolen items.

The software which the BMHA currently uses for inventory valuation has not lived up to its expectations and therefore does not provide the necessary tools to properly value the BMHA's inventory. The BMHA is currently in the process of evaluating new software in many different areas, including inventory. Officials of the BMHA anticipate selecting new software by July 1, 1997. Hopefully, this will result in the procurement of software which will adequately address the issues of inventory valuation and the subsequent expensing of the same. To date the BMHA has identified and removed \$27,589 of obsolete items out of its inventory. The BMHA is planning to remove items on a semi-annual basis.

Finally, the finding addressed the issue of equipment belonging to the Federal program being used by the State program. It is true that federally purchased equipment is used by the State program on an as needed basis, however, it is also true that equipment purchased by the state program is used by the Federal program on an as needed basis. However, the BMHA does recognize that equipment permanently transferred from one program to the other should be transferred to the appropriate property ledger and charged to that program. This should be addressed in the procedures manual currently being designed authority-wide. A cohesive effort between Finance, Purchasing, Audit and Inventory Control will provide effective procedures with appropriate controls.

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## Recommendations

We recommend that you ensure that the BMHA:

- 3A. Perform physical inventories of all equipment, materials and supplies, and reconcile the results with appropriate accounting records.
- 3B . Consider the useful life of an item in its decision to capitalize its cost.
- 3C. Identify and remove all obsolete items from the inventory; and develop and submit a plan to HUD

outlining steps that will be taken to reduce the materials and supplies inventory to a reasonable level.

- 3D. Use a Maintenance Costing System that values items in the inventory using an acceptable pricing method and produces useful inventory reports.

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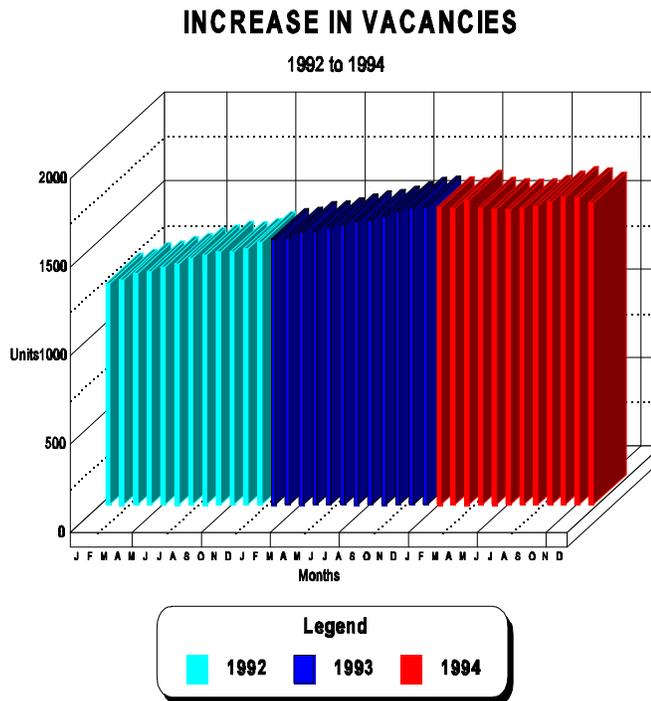
# The BMHA's Unit Vacancy Rate Needs to be Reduced

The vacancy rate at the BMHA increased to the extent that at December 31, 1994, it had exceeded 20 percent. The high rate is attributable to the BMHA's failure to perform unit turnaround activities timely, which includes: (a) offering vacant units to applicants, (b) preparing vacant units for reoccupancy, and (c) executing leases with prospective tenants. Additionally, we believe that the number of units designated for the elderly or disabled may be greater than the actual need; and is therefore having a negative impact on the BMHA's vacancy rate. As a result, the housing needs of certain low-income applicants are not being met promptly.

## Background

During the past

three years the vacancy rate at the BMHA increased from 25 percent to 34 percent. Specifically, the number of vacant units escalated from 1,249 in 1992, to 1,705 at December 31, 1994, as shown in the graph below:



PHAs are to complete vacant unit turnaround activities on the average of 30 days

Unit Turnaround time is extremely excessive

It took an average of 235 days for a unit to become accepted by an applicant

Unit turnaround activities are not performed timely

Section 201 of the BMHA's Annual Contribution Contract (ACC) specifies that the Authority must operate the projects solely for the purpose of providing decent, safe and sanitary dwellings. In connection with accomplishing this objective, Paragraph 5.2.c. of HUD Handbook 7460.7 REV-1, Field Office Monitoring of Public Housing Agencies requires PHAs to complete vacant unit turnaround activities on an average of no more than 30 calendar days.

For Fiscal Year Ended June 30, 1994, BMHA's records show that its unit turnaround time averaged 317 days, which is extremely excessive when compared to the 30 day requirement by HUD. Additionally, the results of our review, which consisted of a sample of 22 units, showed that it took the BMHA an average of 386 days to turnaround a unit during our audit period. A breakdown of the 386 days showed that from move-out to the time a unit was assigned to the Vacant Apartment Preparation Crew (VAPC) it took an average of 235 days. Also, it showed that the VAPC took an average of 45 days to prepare the units for reoccupancy. Additionally, the results showed that it took an average of 106 days from the date a unit was ready for occupancy to the date it was leased. In our opinion, the above mentioned averages are excessive and have caused units to remain vacant for extensive periods of time, while unit turnaround activities are slowly completed. Specific unit turnaround activities that are not being completed timely are having a negative impact on the BMHA's vacancy rate, as discussed in the subsections below.

- a) The HUD prescribed system for offering units is having a negative impact on the vacancy rate

Under the BMHA's tenant selection process, a unit is offered and accepted by an applicant before it is turned over

to the VAPC to perform all necessary repairs. As previously stated, the results of our sample showed that it took an average of 235 days for a unit to become accepted by an applicant and turned over to VAPC. We attribute the extremely long period between a unit becoming vacant and being turned over to the VAPC to the plan (HUD's Plan B) used by the BMHA to offer units to applicants.

An applicant is offered a unit at the three projects with the highest number of vacant units

Under HUD's Plan B, which is outlined in Public Housing Occupancy Handbook 7465.1, an applicant is offered a unit at the three projects with the highest number of vacant units. Additionally, under a Voluntary Compliance Agreement, which resulted from a Title VI lawsuit, an applicant is also offered a unit where his/her race is not predominant. Furthermore, the Voluntary Compliance Agreement requires that all applicants for a Section 8 Housing Certificate be cross listed on the BMHA waiting list. The waiting list for a Section 8 Housing Certificate is maintained by the Rental Assistant Corporation of Buffalo.

90 percent of offers were rejected

An evaluation of BMHA's use of HUD's Plan B to offer units to applicants disclosed that 90 percent of the offers were rejected. Based on available information, the crime rate and location of the projects is the major cause of the 90 percent rejection rate. According to officials of the BMHA, the projects with the highest number of vacant units are the projects that are perceived to be the most undesirable; therefore, it is difficult to persuade applicants to accept units in those projects. In this regard, we noted that the BMHA has instituted measures to reduce the crime rate at targeted projects by participating in HUD's Safe Homes program. Among other initiatives, we noted that the BMHA has placed police substations in certain projects, instituted a drug intervention project, and started a police walking patrol program.

Some applicants were not interested in a public housing unit

During our audit, we conducted a survey of offers made by the BMHA in March, 1995 by sending letters to 422 applicants. At the completion of our audit field work, we had received 100 responses. The results of the survey showed that some applicants had no interest in a public housing unit, but were interested in obtaining a Section 8 Housing Certificate. These applicants were only put on the BMHA waiting list to comply with the requirement for cross listing the applicants with those on the list for a Section 8 Housing Certificate.

Results of Survey

Other applicants declined offers because they were only interested in units in particular BMHA projects that could not be offered under Plan B. The results of our survey are provided below:

Number	Reason why applicant did not accept the units offered
13	The applicant was only interested in housing from the Rental Assistance Corporation.
55	The applicant was not interested in the particular unit offered, but were interested in other units at the housing authority.
32	Other reasons

Units in certain projects are generally precluded from being offered

Apart from the above, we found that the units in certain projects are generally precluded from being offered because they do not qualify as one of the locations with the largest number of vacancies. As a result, units in those project will remain vacant for a very long period of time or until revisions are made to the BMHA's offering plan (HUD's plan B) to allow units in those projects to be offered.

(b) Units are not prepared for reoccupancy timely

VAPC employees level of production was very low

After units were accepted by prospective tenants and turned over to the VAPC, we determined that VAPC took an average of 45 days to prepare them for reoccupancy. Also, we determined that the VAPC's level of production was very low. We noted that in 1994, the average number of units prepared for reoccupancy by the VAPC, which consist of 39 employees, was 68 units per month, which is approximately 1.7 units per employee per month. The low number of units completed per month is even more significant when one takes into consideration that painting, flooring and some plastering of vacant units were contracted out.

Vacant units should take only 1 to 2 days to prepare for reoccupancy

In order to evaluate the condition of the vacant units and to estimate the amount of time needed to prepare a unit for reoccupancy, we inspected 25 of the 417 units that had been vacant for more than 6 months. All of the units inspected were in fairly good condition and could be ready for

occupancy within two days, and in some cases within one working day. Considering the above, the VAPC average of 45 days to prepare a unit for reoccupancy appears excessive.

In addition, we noted that the VAPC is not following BMHA established procedure on trash removal from vacant units. BMHA personnel informed us that trash containing perishable items is removed immediately upon move out. However, during our inspections of the 25 vacant units for six months or longer we noted that raw trash, food stuff and personal possessions were still in many units. Such debris can attract and provide vermin with a place to live and become a health hazard to other tenants.

(c) Leases are not executed timely with prospective tenants

An average of 106 days for tenants to execute leases

The results of our sample of 22 units showed that after vacant units were prepared for reoccupancy it took an average of 106 days for tenants to execute leases and take possession. BMHA staff indicated that they are not able to give applicants a move-in date sooner because of the unpredictability of when a unit will be ready. Because of this, the BMHA advises applicants not to give notice to their current landlord until they are notified that their unit are ready. In this regard, the BMHA needs to develop a system to estimate the date a unit will be ready and establish a move-in date that will reduce the time between when a unit is ready and when the selected tenant takes possession.

Number of units designated for the elderly and disabled is having a negative impact on vacancy rate

Number of units designated for the elderly may exceed the need

At January 1, 1995, the BMHA had 370 vacant units for elderly and disabled and only 303 applicants on its waiting list. Even if all the elderly applicants accepted a unit, the BMHA would still have 67 vacant units designated for the elderly or disabled. This is an indication that the total number of units designated for the elderly or disabled may be greater than the actual need. For example, our review disclosed that at December 31, 1994, there were 39 vacant units designated for families, and 75 for the elderly and disabled at the Lakeview project. The review also disclosed that Lakeview is the project of choice for many family applicants; however, most of the vacant units are for the

elderly or disabled despite the fact that sixty two percent of the vacancies in the project are third floor walk-up units. Additionally, because many of the units have 3 bedrooms, we question whether they are appropriately designated since very few elderly applicants need or qualify for a 3 bedroom unit. Thus, we believe that the BMHA should consider converting some of the elderly walk-up buildings to family use. This would allow more units to become available to family applicants and also reduce the overall vacancy rate.

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#### Auditee Comments

The BMHA's response provides that "the vacancy rate as of 12/31/95 was 26% - a reduction of 5.7% as compared to 12/31/94 (31.7%). The BMHA has established a Vacancy Reduction Task Force which has one of it's goals a 10% reduction target for 1996."

According to the BMHA's response, proposals to expand the offer system, include tenant involvement in the screening process, revise systems to speed up offers (eliminate Crosslisting) and streamline other administrative procedures are included in the Tenant Selection and Assignment Plan proposals sent to HUD for approval on 7/18/95 and 12/1/95 (revised version). Officials of the BMHA believe that further delays in the approval of that plan continues to burden the BMHA in offering it's most attractive housing stock. BMHA has been pursuing an open choice offer system for minority applicants and five choices based on the developments with the greatest percentage of vacant for majority applicants.

The BMHA's Management Department is receiving projections of turnovers from VAPC in a more timely fashion. The projections are accurate and some turnovers have been prepared before the projected date.

The newly created Vacancy Reduction Task Force is successfully working toward reducing lease-up time for applicants. The list of certified applicants waiting for apartments to be completed is being reduced as VAPC production increases (up to an average of 106 per months and rising). However, applications are now being certified in fewer days during recent months due to procedural changes.

Projected move-in dates are now identified for transfers, certified applications, and applicants in the process of certification. They are sent to the Managers for leasing about two weeks before the anticipated apartment completion date (for lease-up activity to begin), and the Task Force is examining methods to send out applications at least 30 days ahead of apartment preparation. When the system has been tested and estimated completion dates can be locked in, the pre-leasing of many units can occur. Currently, most apartments are completed about one month to one month and one-half after the applicant is certified. As production increases, this time will be reduced significantly. This also means that in the future, a unit will be scheduled for completion in anticipation of an applicant accepting it.

Trash removal has been a problem for years. The existence of raw trash in apartments may not be as extensive as indicated in the finding. Record keeping was poor. A database was being set up to resolve this and would be the source to track what trash was removed and where work/inspections are needed. Managers, upon completing move-out inspections were to call in all work for raw trash removal.

The BMHA is continuing to increase efforts under HUD's Operation Safe Home through increase visibility at several BMHA projects.

For Recommendation 4C, the Tenant Selection and Assignment Plan submitted to HUD in December 1995 proposes to eliminate the crosslisting procedure.

The Vacancy Reduction Task Force was formed in September 1995 to develop strategies and an action plan to reduce vacancies by 10% each year over the next three years.

BMHA is addressing the problem of designating elderly, disabled, and family units. The BMHA is considering a conversion of Lakeview walk-ups to families (4 buildings, approved in CGP funding), and the demolition at A.D. Price. In May 1996, the Board of Commissioners will be asked to approve a change in the designation, from elderly

to single, of four buildings at Commodore Perry (100 units), which will allow more units to become available to single applicant and reduce the overall vacancy rate. We currently have 2000 people on the singles waiting list.

OIG Evaluation of  
Auditee Comments

The figures used in our graph and in our narrative came directly from the BMHA's "Occupancy & Marketing Department 1994 Report". Furthermore, our graph indicates the time period that is depicted by the graph.

Regarding vacant units, our sample was selected from units that had been vacant for more than six months. The results of our inspections of vacant units disclosed that many units were ready to be leased while others contained trash. In this regard, we noted that units at four different projects contained trash and that at least 11 were ready for occupancy.

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Recommendations

We recommend that you insure that the BMHA implement procedures that will reduce the untimely completion of unit turnaround activities to the extent that units are turned around within 30 days from the date they become vacant. Specifically, the BMHA should be instructed to:

- 4A. Pursue revisions to the plan used to offer units to applicants that will allow vacancies in all projects to be filled timely, while maintaining a racially neutral application process. For example, the BMHA could change its offer system to allow units to be offered in a project when its vacancy rate exceeds a predetermined threshold vacancy rate of 3 percent.
- 4B. Continue its positive efforts under HUD's Safe Home Program to reduce the crime rate at targeted projects.
- 4C. Evaluate the current procedure of cross listing applicants and pursue changes that would eliminate the negative impacts on the vacancy rate. In this regard, only those applicants who are interested in obtaining either a Section 8 Housing Certificate or a unit in public housing should be cross listed.

- 4D. Initiate procedures to increase the productivity of the VAPC and/or consider contracting out the functions performed by that unit.
- 4E. Consider redesignating units to meet the needs of the population; such as, converting one or more of the under utilized buildings for the elderly into buildings for tenants with families.

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## The BMHA Needs to Improve Cash Management Procedures

Our review disclosed that the BMHA: (a) did not invest its excess funds, (b) failed to periodically solicit and evaluate its banking services, and (c) improperly used operating funds of the Federal program to pay costs incurred by State projects. As a result, no investment income was earned, banking services may not have been adequate, and funds for Federal projects were temporarily used improperly. We believe that these conditions occurred because the BMHA's cash management procedures in the areas of investing, banking, and requesting City funds were not adequate.

### Criteria

Section 401(E) of the Annual Contributions Contract (ACC) requires that excess funds on deposit in the General fund shall be invested in HUD-approved investment securities. HUD Handbook 7475.1 Financial Management Handbook assigns specific responsibilities to PHAs which include operating projects with maximum efficiency and economy.

BMHA does not have adequate cash management procedures in certain areas

The primary goals of cash management procedures are to assure the availability of cash for transactions, preserve the value of cash resources, and earn maximum investment returns on excess funds until they are disbursed. We reviewed the process of managing cash flow at the BMHA and found that it does not have adequate cash management procedures in certain areas. Specifically, we found that the BMHA: (1) has no investment policy and did not invest its excess funds, (2) did not perform periodic evaluations or solicitations for banking services, and (3) improperly used operating funds of the Federal program to pay costs incurred by State projects.

BMHA did not invest excess fund

Our review disclosed that during the audit period the BMHA did not invest its temporary excess funds. To determine the approximate amount of interest income that could have been earned if excess funds had been invested, we obtained the average monthly investable balance from the Analysis Summary Reports provided to us by the Bank.

We determined that, from July 1, 1993 to December 31, 1994, the monthly average investable balance was \$2,435,706.11. Using 30 day Treasury bill rates, approximately \$146,551 of investment income would have been earned if excess funds had been invested. Since investment income reduces the amount of operating subsidies provided to PHAs, the BMHA's failure to realize such income may have caused HUD to approve and provide more operating subsidies for 1994 than should have been necessary.

The BMHA does not have an investment policy

We believe surplus funds were not invested because the BMHA does not have an investment policy. Such a policy would allow for eligible investments, ensure that all excess funds are properly invested, and designate who is responsible for the supervision and management of the funds invested.

Lack of adequate knowledge of banking services

Our review of current banking services disclosed that the BMHA has not maintained adequate knowledge of its banking services. Our review disclosed that the BMHA staff did not know exactly what services were provided to the BMHA by the Bank, the cost of the services, or the amount of temporary surplus funds available for investments. According to HUD Handbook 7475.1 REV CHG-1, 4-2 (C), "a PHA should know what bank services it uses and the cost of the services to the PHA".

BMHA did not periodically perform solicitation for banking services

Additionally, we found that the BMHA did not periodically perform solicitations for banking services. According to HUD Handbook 7475.1 REV CHG-1, 4-2(e)(1), banking services should be periodically solicited through competitive solicitation...in the form of a Request for Proposals (RFP)." In this regard, we noted that the BMHA has had its accounts with the same Bank since 1956 and could not find any evidence that banking services had ever been reviewed or that a competitive solicitation for banking services had been performed. Therefore, the BMHA does not have adequate assurance that bank services being provided are adequate and their cost are reasonable.

Funds for Federal projects were used to pay costs of State projects

A review of the BMHA's revolving fund disclosed that Federal funds were routinely used to pay costs incurred under State housing projects. This resulted from the

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BMHA's failure to timely bill the City for its share of costs incurred by State projects. Because of untimely billing, at August 28, 1995, the City owed the BMHA \$1,270,265 for costs incurred by State projects for the six month period ended March 31, 1995. Consequently, Federal funds are being advanced through the revolving fund account to pay costs incurred by State projects. In our opinion, the use of operating funds of the Federal program to pay costs incurred by State projects violates Section 406 of the ACC, which states that PHA's will use operating receipts for costs which are necessary for project operations. In addition, funds advanced to pay costs of non-Federal activities are not available as surplus funds to be properly invested.

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#### Auditee Comments

The BMHA has implemented an investment plan and has earned over \$19,000 in interest from August 1995 to December 1995. An RFP for banking services was issued and as a result banking is now done at M & T. All of the BMHA's accounts are now interest bearing and all banking fees have been waived by the bank. The BMHA hopes that when they get a new financial software package it will be more conducive to timely closing of the books and thereby allow for more timely reimbursement requests from the City of Buffalo.

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#### Recommendations

We recommend that you ensure that the BMHA has:

- 5A. Developed and adopted an adequate Investment Policy for investing excess cash.
- 5B. Procedures in place to continuously evaluate its banking services and obtain future services by competitive solicitation in the form of request for proposals.
- 5C. Developed and implemented requisition procedures to obtain timely payments from the City for its share of costs incurred by State projects. The implementation of the procedures should eliminate the need for the BMHA to advance operating funds of the Federal program to State projects to pay their operating costs.

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## The BMHA Needs to Improve Personnel Practices

Our review disclosed various deficiencies in BMHA's administrative practices and controls. Specifically, we found that: (1) staffing levels exceed HUD's suggested levels; (2) overtime costs appear excessive; (3) controls over aspects of personnel and travel practices are not adequate; and (4) Commissioners are receiving compensation in breach of the ACC. We attribute these deficiencies to management's failure to: evaluate staffing levels; control the approval of overtime; issue a written personnel policy; exercise management controls over travel practices; and comply with the provision of its ACC that prohibit the use of Federal funds to pay compensation to Commissioners. Consequently, the BMHA cannot assure HUD that its staffing levels are necessary, that staffing costs, including overtime costs, are reasonable; or that travel reimbursement claims were for needed and authorized activities. Furthermore, the unauthorized compensation to the Commissioners has result in \$32,825 of operating funds being used for ineligible expenses.

### a. BMHA's staffing levels exceed HUD's suggested levels

#### Criteria

HUD Handbook 7460.7 REV-1, paragraph 2-3 provides guidance on evaluating the performance of a PHA. The guidance includes recommended staffing levels for housing authorities with more than 1,250 units. The recommended staffing levels for such PHAs provide for one maintenance employee for every forty units (1:40) and one administrative employee for every sixty five units (1:65).

In February 1995, the BMHA had a total of 470 employees, of which 425 were paid from project funds of the Federal programs. Of the 425 employees charged to the Federal program, 387 were maintenance and administrative employees. When the BMHA's staffing levels are compared to HUD's recommended levels for PHA with more than 1,250 units, it discloses that the BMHA has as many as 187 more maintenance and administrative employees than HUD's guidance on staffing levels recommends, as shown below:

Number of Employees

	Actual Number of Employees	HUD Guidelines	Number in Excessive of Guidelines
Maintenance	227	124	+103
Administrative	160	76	+ 84
TOTAL	387	200	+187

The number of employees shown in the above column "HUD Guidelines" was determined by using the HUD recommended ratios of 1 maintenance employees to every 40 units and one administrative employee to every 65 units. In addition to determining that the current staffing levels are excessive, we also noted that the BMHA's ratio of employees to units has exceeded HUD's guidelines for the past five fiscal years, which was discussed in a "General Accounting Office (GAO) report, dated March 1, 1991. At the date of the GAO report, which provided statistics as of 1990, the BMHA had 383 employees under its Federal program. Since 1990, the BMHA has increased the number of employees under its Federal program by 42. In our opinion, the staffing levels at the BMHA needs to be evaluated to determine whether they are excessive.

Under utilized staffing levels in some departments

In conjunction with the above, we noted that the staffing size of some departments may not be justified by the amount of work being performed. For example, the staffing size of the Management Department is not supported by the amount of duties performed by that Department. For instance, we noted that there are a total of 61 employees in the Management Department, and that an average of 4 of these employees is assigned to each of the BMHA's 11 management offices. Under the BMHA's organizational structure, the Housing Managers at project sites are not responsible for rent collections, Housing Quality Standards inspections, tenant admission, or maintenance. They appear to be only responsible for conducting tenant recertification and being a contact point for the tenants. In our opinion, a staff of 4 employees at each site appears excessive for the duties assigned to Housing Managers. Moreover, in two cases, we noted that the site offices for two projects are either across the street or a courtyard from each other. To

have 4 employees in each of those offices may not be necessary or a practical use of staff resources.

Number of supervisory positions in accounting department may be unreasonable

Additionally, the ratio of supervisory personnel to non-supervisory personnel in the BMHA's Accounting Department appears unreasonable. There is a supervisory employee for every non-supervisory employee (1:1). Further, we found two supervisory positions that do not have nonsupervisory employees assigned to them. Consequently, we believe that the number of supervisory positions in the Accounting Department may be unnecessary and unreasonable.

b. Controls over overtime costs are inadequate

Overtime costs is very high

In addition to high staff levels, the overtime costs at the BMHA is also very high. During our audit period, July 1, 1993 to December 31, 1994, the BMHA paid \$2,102,137 in reported overtime, which was approximately 12% of the total salary costs of \$18,041,164. Our review disclosed that there is a lack of adequate controls over the authorization of overtime, and that the BMHA does not have any formal policy governing the approval of overtime. In some cases, we found that overtime was not authorized in advance; that overtime work was not supervised; and that there is inadequate documentation showing that overtime work was necessary. In our opinion, these deficiencies have contributed to the BMHA's high overtime cost. In order to reduce and prevent unnecessary overtime costs, we believe that the BMHA should develop and implement a formal policy governing the use and approval of overtime.

BMHA does not have a written Personnel Policy

According to HUD Handbook 7401.1, Chapter 5, the local agency must formally adopt a personnel policy comparable to local public practice. At the time of our audit, the BMHA did not have a written Personnel Policy. Consequently, the BMHA does not have written procedures to periodically evaluate the performance of all employees. Permanent employees are not routinely given an annual performance evaluation. The lack of evaluations adversely impacts both the employees and the BMHA. In our opinion, performance evaluations are needed to reward good performers and to provide substandard performers with feedback on areas where improvements are needed.

During the audit, we were told by the Administrator of Personnel that her staff is currently writing a Personnel Policy.

Travel costs lack adequate supporting documentation

For our audit period, total travel cost contained expenses of \$179,405 that represent reimbursements to employees for local travel. The BMHA's travel policy allows for a \$9.00 per day flat rate for local travel, which is consistent with the local government travel policy. However, HUD Handbook 7401.1 Chapter 5, states that if the local government has officially adopted a policy for reimbursement for the use of privately owned vehicles, the PHA may adopt the policy subject to the PHA reimbursing based on: (1) mileage or (2) a flat monthly allowance. Since the PHA is not reimbursing employees for local travel based on mileage or a flat monthly allowance, its policy of allowing a \$9.00 per day for local travel does not meet HUD's requirements. Therefore, the BMHA's local travel policy of reimbursing employees at an unsupported flat rate of \$9.00 a day is questionable. Accordingly, we believe that the BMHA should revise its travel policy to require reimbursement for local travel based on mileage.

Commissioner's local travel reimbursements appear unreasonable

Additionally, our review noted that various Commissioners were reimbursed for local travel costs totaling \$7,204. These costs not only lacked supporting documentation, but in some cases appeared unreasonable. During our 18 months audit period, one commissioner claimed \$9.00 for local travel for 305 days while another put in claims for 274 days. Such reimbursements appear excessive and unreasonable. Thus, we believe that the BMHA should require the Commissioners to provide documentary support with claims for reimbursement for local travel.

BMHA Commissioners received compensation

Section 307(D) of the ACC provides that no funds of any project shall be used to pay compensation for services of Board members of the local authority. During our audit period, the BMHA paid members of its Board of Commissioners, a total of \$21,136. The BMHA also paid health insurance and workmen's compensation coverage for the Commissioners, which totalled \$30,539. BMHA staff indicated that those costs were paid with non-Federal funds. However, our review disclosed that the total disbursement of \$51,675 were made from the revolving fund and that

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only \$18,850 of the total amount was reimbursed from non-Federal funds. Therefore, the remaining amount of \$32,825 were made from the Federal program's operating fund. Since the ACC and HUD Handbook requirements prohibit any compensation for services rendered by Board members, the BMHA should reimburse the Federal program's operating fund \$32,825, from non-Federal funds.

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## Auditee Comments

The BMHA response states that the ratios of average number of administrative employees to units are intended as guidance for purposes of assessing PHA staffing. BMHA officials believe that the data is to be used as indicators rather than standards; and that the geographic locations (northwest vs. southeast), type of heating plans (high pressure steamboilers vs. individual furnaces), types of buildings (highrise vs. low rise) and type of construction (brick vs. frame) should be considered in determining the size of a PHA's staff. Officials advised that because of Union agreements over the years, many of our maintenance staff positions are so specialized that additional staff is required to complete the work. Currently, the BMHA is in negotiations with the Union in an attempt to combine some maintenance titles or create new titles that would allow one worker to do more than one trade.

The BMHA response provides that past HUD reviews did not cite staffing as a problem. The Executive Director contends that to the best of her knowledge, all previous budgets and revisions were approved by HUD. Therefore, HUD granted the approval and funding to operate at the staffing level it did during the audit period.

The BMHA's response provides that the Housing Managers do more than "conduct tenant recertification, and serves as a contact point for the tenants..." They are charged with enormous responsibilities and work diligently to provide a variety of services for residents, employees, and the general public. Not only do they proceed with the efficient dispatch of those functions described in the response, and other duties too numerous to set forth, they are expected to continue to provide them with a shrinking staff.

The finding also points out that the Finance department has

a high number of supervisory positions yet fails to point out that supervision is a minor portion of 70% of those titles' responsibilities. The BMHA further points out that it is required to follow Civil Service law and must therefore assign work according to Civil Service specifications. The Specifications on an Assistant Accountant limit the type of independent work and require a larger degree of supervision. The Senior Accountant specifications do not limit independent work and allows them to direct others that are engaged in the same type of work (Assistant Accountants and clerical staff). Also, the Senior specifications demand that they be supervised by someone else who can make a decision and a recommendation to another supervisor. Therefore, the BMHA also has the Principal Accountant (overseeing 7) and an Assistant Director (overseeing 5 and assisting the Director on confidential matters). In reality, the Seniors' job specifications do not allow for analytical work either, it is a point which could be argued by the Unions.

The BMHA response provides that it has establish procedures to ensure that overtime work is necessary and properly authorized. In August 1995 the BMHA established a "health and safety" priority for all overtime work, as well as a requirement of the approval of the Executive Director or the Assistant Executive Director. All Department heads must also sign off on all requests for overtime so as to ensure accountability.

The BMHA has completed a draft personnel policy manual and it includes an implementation of performance evaluation standards for all staff members. An outline of the table of contents and performance evaluation section are included in the BMHA comment. Moreover, currently all supervisory personnel are being given supervisory training by ECC, which includes performance evaluations. The evaluation process will begin July 1st and will be based on employee's anniversary date.

The BMHA plan to revise its reimbursement travel policy on local travel to require documentary support and a basis for reimbursement that comply with HUD requirements.

The BMHA has reimbursed the Revolving fund the entire

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amount of funds on the books which were related to "Commissioner's costs" from the NYS grant in aid. The Commissioners have been requested to revise their current benefit package by July 1, 1996.

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## Recommendations

We recommend that you ensure that the BMHA:

- 6A. Evaluate and reduce staffing to the level needed to administer its programs.
- 6B. Establish procedures to ensure that overtime work is necessary and properly authorized.
- 6C. Develop a written personal policy that includes the implementation of a annual performance evaluations for all staff members.
- 6D. Revise its reimbursement travel policy on local travel to require documentary support and a basis for reimbursement that comply with HUD requirements.
- 6E. Reimburse the Federal program's operating fund the \$32,825 that were paid to or on behalf of Commissioners, from non-Federal funds.

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## The BMHA Needs to Implement a Uniform System to Process Purchase Orders

The BMHA's system for processing purchase orders is cumbersome and time consuming. This deficiency occurred because the BMHA does not have a uniform system to process purchase orders. As a result, unnecessary staff time is spent on a departmental basis performing purchasing procedures and processing purchase orders, which have been so cumbersome and time consuming that the BMHA has lost available discounts from vendors.

### Criteria

Section 201 of the ACC provides that the Authority at all times will operate each Project in such a manner as to promote efficiency and economy. HUD Handbook 7460.8 Chapter 3, Paragraph 3.2, provides that to assure that all staff are operating from a common system of procedures the Housing Authority should have a set of operational purchasing procedures designed for the working level, such as a handbook or standard operating procedures.

BMHA has not established written procedures for processing purchase orders

Our review disclosed that the BMHA's procurement policy only provides information pertaining to the method of procurement and does not address standard operating procedures for processing purchase orders. As a result, each department has created its own purchasing procedures. Top management of the BMHA has not examined these procedures to determine if they are working effectively for the individual departments or for the BMHA as a whole. Furthermore, the BMHA's Accounting Department has not established clear and concise written procedures outlining the payment process for purchases made using purchase orders. An examination of 30 executed purchase orders disclosed that they were all initiated after the BMHA received the item and paid the invoice.

The system for processing purchase orders is cumbersome

In addition, we found that the system for processing purchase orders is cumbersome due to unnecessary steps that have been added to the process over time. For example, the procedures require numerous signatures from low level

management officials to the Executive Director. Most of the signatures do not provide any additional control within the process, but have increased the time it takes to process a purchase order. Our review disclosed that it took an average of 31 days to process a payment after the invoice was received. In addition, under the current process the purchase order is not typed until the requesting department receives a copy of the payment invoice from Accounting. We found that it took an average of 9 days for a purchase order to be typed, approved, and sent to Accounting. Afterward, it took an average of 22 days to be processed in Accounting. As a result of the lengthy process, we found instances where the BMHA was unable to take advantage of available discounts from vendors.

The BMHA staff is being under utilized

In our opinion, the lack of a uniform system for processing purchase orders has resulted in the unnecessary use of staff resources. Since each department has to procure its own goods, various employees in each department are used to perform the purchasing functions. Moreover, we found that personnel in one department are duplicating the tasks performed in another department. For example, Technical Operations performs a match of the purchase orders, receiving copies, and invoices. Likewise, the Accounting Department performs the same type of match. This duplication can be attributed to the individually established systems used to process purchase orders and a lack of communication between the departments.

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Auditee Comments

The BMHA's response provides that action was approved on March 25, 1996, that will allow for the elimination of the cumbersome signature process referred to in the finding. The BMHA has decided to adopt the changes recommended in Finding #7 and is in the process of implementing those changes.

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Recommendations

We recommend that you ensure that the BMHA:

7A. Establish and implement written purchase order procedures for the whole BMHA. These would include procedures for:

1. requesting items;
2. procuring items;
3. receiving items; and
4. accounting for purchase orders.

The procedures must clearly define the responsibilities of the personnel administering the system.

- 7B . Establish and implement methods to periodically evaluate the purchase order system to ensure that it is meeting its designed objectives.

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## The Accuracy of the PHMAP Certification is Questionable

The BMHA's Public Housing Management Assessment Program (PHMAP) Certification submitted to HUD for the Fiscal Year Ended June 30, 1994 contained various conclusions that were based on inaccurate information and data. The erroneous conclusions resulted from incorrect calculations and improper procedures in computing the scores of some indicators and the BMHA's failure to assure that computer generated data was accurate. As a result, the PHMAP certification was assigned a higher score than it should have received, which resulted in an inaccurate performer status for the BMHA. In our opinion, the inaccurate status prevented the BMHA from being designated as troubled; thus, relieving it from having to execute a formal Memorandum of Agreement with HUD to correct performance problems, and from HUD's oversight and reporting requirements.

### Criteria

HUD Regulations, 24 CFR 901.100, and Handbook 7460.5 require PHAs to submit responses and a PHMAP certification within 90 days after their fiscal year begins for six indicators. Also, the regulations and Handbook instructions provide that the certification shall be for the information pertaining to the immediate past fiscal year and shall be based on actual data for each indicator. On September 29, 1994, the BMHA submitted its PHMAP certifications for the Fiscal Year Ended June 30, 1994. The certifications showed that the BMHA received a PHMAP score of 70 percent and was assigned a standard performer status by the HUD Buffalo Area Office. However, our review disclosed inaccuracies in the data used to score several indicators certified to by the BMHA. The results of our review are as follows:

#### Indicator 1: Vacancy Number and Percentage.

### Reduction in vacancy percentage overstated

The BMHA certified to a .9 percent reduction of the actual vacancies over the prior three years, which resulted in a PHMAP grade of E and 9 points for this indicator. Our review disclosed that there had not been a reduction in the percentage of vacant units. In fact, there was a 5.5 percent

increase in the actual number of vacancies which would have resulted in a F grade and 0 points. In computing the actual vacancy rate, the BMHA deducted the number of vacant units proposed, scheduled and under modernization from the total number of units vacant. This is not correct according to Appendix 5 of HUD Handbook 7460.5, which provides the HUD prescribed method for computing the actual vacancy rate. The HUD prescribed way only excludes those units funded and on-schedule under modernization.

Indicator 6: Outstanding Work Orders

Work order data not reliable or adequately supported

On the HUD-50072, PHMAP Certification form, the BMHA certified that 100% of emergency items were corrected or abated in 24 hours; that the percent of outstanding work orders was 3%; and that progress had been demonstrated in reducing the time required to complete work orders. Our review disclosed serious problems with the computerized work order tracking system to the extent that the validity and veracity of the system is highly questionable. We determined that maintenance employees have access to the system to the degree that they could go into the system and change categories, the amount of materials used, the time, and other data items after work orders have been completed and inputted into the system. Also, the data used for the PHMAP scores did not agree with the actual data in the system. For example, under PHMAP, the BMHA indicated that there were 8 emergency work orders in 1994 and all were completed in 24 hours. Our review of the computer system indicated that there were 30 emergency work orders in 1994. In addition, included in the BMHA's system as work orders were numerous non-maintenance items such as orders for material, inspections, and cancelled work orders. As a result, the number of total work orders in the system were significantly higher than the actual number of maintenance work orders. The artificially created high number of total work orders caused the percentage of outstanding work orders to be lower than it is in reality. Consequently, the maximum score the BMHA received under this indicator was not supported by the actual data.

Indicator 7: Annual Inspections

HQS inspections not performed on all units

This indicator has four components. Under this indicator, the BMHA certified on form HUD-50072, for FY 1994, that it has a system in place to track inspections and repairs (component 1); that 100% of units had been inspected and met Housing Quality Standards (HQS) (component 2); that deficiencies in units were corrected in an average of 9.4 days (component 3); and that the major systems were inspected annually (component 4). Consequently, the BMHA's PHMAP score was the maximum of 30 points. Our review disclosed that the BMHA did not perform full HQS inspections of vacant units because BMHA officials believed that vacant units were not required to have full HQS inspections. We disagree, inasmuch as HUD Handbook 7460.5 provides that in computing the number of units to be inspected, only units in a modernization program or approved for demolition should be excluded. Since the BMHA had over 1000 vacant units that had not been inspected it should have received a grade of F under component 2. Furthermore, of the 25 vacant units we inspected, ten did not meet HQS due to existing deficiencies. Therefore, the BMHA should not have received a grade of A under component 3, which indicates that all deficiencies in a unit had been corrected, and done in 25 days or less. In our opinion, the BMHA should have received a grade of F and 0 points under this component.

BMHA's PHMAP score overstated

We believe that the accuracy of the BMHA's PHMAP certification is questionable and that the BMHA may have scored itself higher than it should have to avoid being designated as a troubled authority. In our opinion, if the PHMAP score for the above indicators had been properly computed, the BMHA most likely would have received a score of 60 or less and been designated as a troubled authority.

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**Auditee Comments**

The BMHA does not agree with the finding as follows:

Vacancy Number and Percentage

The BMHA's response provides that the BMHA calculated its vacancy statistics using the 103 Annual Summary. It further provides that our finding may have only taken into account the Vacancy percentage as reported on the HUD form 51234, which has no units deducted at all for modernization.

Outstanding Work Orders

The BMHA's response provides that 30 Emergency work orders from the computer needs to be adjusted for work orders at State projects and for items that were not emergencies. Also, BMHA officials do not feel that the number of work orders is artificially high or that the number of cancelled work orders is minimal.

Annual Inspections

BMHA officials believe that the statement that "BMHA Officials believe that vacant units were not required to have full HQS inspection" is not entirely accurate. Vacant units were considered excused from inspections as compliance with HQS would be insured prior to reoccupancy. They further indicated that starting with 1992, the BMHA has consistently inspected more than 100 percent of the units required by PHMAP criteria.

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OIG Evaluation of  
Auditee Comments

Vacancy Number and Percentage

Our calculations of the Vacancy rate and percentage were done in accordance with PHMAP requirements. In addition, we reviewed a BMHA memorandum showing vacancy data from Fiscal Year 1989 to Fiscal Year 1994. The memorandum took into account units under modernization and showed a increase in the number of vacant units available as of December 31 from 1990 to 1993 along with a decrease in the occupancy percentage.

Outstanding Work Orders

As noted in Finding 2, the BMHA's work order system is unreliable, inefficient and unsecured. As a result, the

PHMAP score for outstanding work orders was based on unreliable information.

Annual Inspections

Our review indicated that all modernization vacant units did not receive a complete HQS inspection. Also, our inspection of 25 vacant units indicated that some vacant units had uncorrected HQS deficiencies for over a year. As a result, the certification that 100 percent of the units had been inspected and meet HQS is questionable.

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Recommendations

We recommend that appropriate staff of your office:

- 8A. Work closely with the BMHA to ensure that its staff is fully aware of the PHMAP criteria and the extent and type of data required to support its PHMAP certifications
- 8B. Perform an on site confirmation review of the BMHA's Fiscal Year 1995 PHMAP submission.

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## Settlement Cost Should Have Been Allocated Among all Programs

The BMHA made all settlement payments to terminated employees from the Federal program's operating fund. As a result, the Federal program was charged the entire amount of the settlement payments instead of an allocated share in accordance with requirements of the Office of Management and Budget, Circular A-87. According to PHA officials, the settlement payments, which totalled \$92,214 were made to avoid potential litigation, and at the time the decision was made, consideration was not given to allocating the associated cost among all program administered by the BMHA.

### Criteria

The Office of Management and Budget Circular A-87, Cost Principles for State and Local Governments, provides that a cost is allocable to a particular cost object to the extent of the benefits received by the objective. Since settlement payments were made to employees connected with the overall administration of the BMHA, the associated cost should have been allocated among all the programs administered by the BMHA.

### Settlement payments charged to Federal program

Our audit disclosed that on July 28, 1995, the BMHA executed settlement agreements with three former top level employees, which provided for payments totalling \$92,214. Since the BMHA did not execute employment agreements with those employees, conditions pertaining to employment termination were not in writing. According to a PHA official, settlement payments were made to avoid litigation with the employees concerning their employment termination. The official also informed us that at the time the decision was made to make the settlement payments, allocating the associated cost among all programs was not considered.

In a letter dated July 28, 1995, the local HUD Office informed the PHA that they had no objections to the settlement payments; and that "The payments should be made from non-Federal funding sources, e.g., rent receipts

or administrative fees earned from Section 8 properties". Inasmuch as the settlement payments were made from the Federal program's operating fund through the revolving fund, we question whether non-Federal funds were used. Also, we question the BMHA's decision to charge the entire amount of the cost to the Federal program since the terminated employees served all programs administered by the BMHA, including the State program. Therefore, we believe that the employee termination costs of \$92,214 should be equitably allocated among all programs.

Written employment  
Agreements are needed

In reference to the above issue, we believe that the BMHA should have written employment agreements with employees appointed by the Board of Commissioners. Such Agreements should contain termination provisions setting forth the conditions, reasons and procedures for termination. Thus, reducing the possibility of potential litigation due to employment termination, and the need to make settlement payments to avoid potential litigation.

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Auditee Comments

BMHA officials agreed that the finding is technically correct; however they feel it would not be fair to require the Authority to reimburse the appropriate portion of the settlement costs from operating reserves. Also, the BMHA indicated that current appointees will be requesting employment agreements from the Board of Commissioners.

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OIG Evaluation of  
Auditee Comments

The crucial aspect of this finding is to recommend actions that will assist in preventing the need to make settlement payments to terminating employees in the future. Therefore, we have revised our recommendations to require the BMHA to execute employment agreements with certain employees; and to allocate future settlement cost among all programs administered by the BMHA, if appropriate.

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Recommendations

We recommend that your office:

- 9A. Ensure that all employees appointed by the Board of Commissioners are covered by employment agreements that contain termination provisions

setting forth the conditions, reasons and procedures for termination.

- 9B. Instruct the BMHA to properly allocate all future settlement cost among all programs administered by the BMHA, if appropriate.

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# Other Matters

## Project Based Accounting

HUD Regulations 24 CFR 990.320 require PHA's to certify that it is aware of and is taking steps to implement project-based accounting and will produce the fiscal year-end reports required under CFR 990.315. The BMHA made the required project based accounting certification for its fiscal year beginning July 1, 1993 . However, the BMHA has not implemented a project-based accounting system or produced the fiscal reports required under 24 CFR 990.315.

In addition to meeting the HUD requirements, a project based/cost center accounting system would allow the BMHA to more readily identify problem projects so that corrective actions can be taken promptly. Therefore, BMHA should contact the Buffalo Area Office to obtain more information concerning the project based accounting requirements.

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# Internal Controls

In planning and performing our audit, we considered internal controls of the BMHA in order to determine our auditing procedures and not provide assurance on internal controls. Internal controls consist of a plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports.

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## Internal Controls Assessed

We determined that the following internal controls related to the categories listed below were relevant to our audit objectives.

- Management Information Systems
- Maintenance
- Inventory Controls
- Nonexpendable Equipment
- Admission & Occupancy
- Travel
- Cash Management
- Procurement

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

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

## BMHA has significant weaknesses in internal controls

Based on our review, there are significant weaknesses in the internal control areas cited in the Findings.

- Management Information Systems (Findings 1 thru 3)
- Maintenance (Finding 2)
- Inventory Controls (Finding 3)
- Nonexpendable Equipment (Finding 3)
- Admission & Occupancy (Finding 4)
- Cash Management (Finding 5)

- Travel (Finding 6)
- Procurement (Finding 7)

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# Follow Up On Prior Audits

The latest audit performed by an Independent Public Accountant (IPA) was for the period ending June 30, 1994. The report did not contain any audit findings and there were no unresolved findings from prior years.

In March 1991, GAO issued a report entitled Management Issues Pertaining to the Buffalo Municipal Housing Authority. The report addressed issues concerning the potential effectiveness of the voluntary compliance agreement, the BMHA's high vacancy rate, and the BMHA's staffing levels exceeding HUD's guidelines. These issues are discussed in this report as part of Finding 3 and 5.

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