



Issue Date	July 16, 1996
Audit Case Number	96-PH-202-1018

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

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

SUBJECT: Housing Authority of the County of Chester
Public Housing Activities
West Chester, Pennsylvania

We audited the public housing activities of the Housing Authority of the County of Chester (Authority). The purpose of the audit was to determine if the Authority administered its public housing activities in an efficient, effective, and economical manner, and operated within applicable regulations and laws.

The Authority did not operate in an efficient, effective and economical manner. Improvements are needed in the overall management of the Authority's operations and in the maintenance of the Authority's projects.

Within 60 days, please give us, for each recommendation made in the report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and date to be completed; or (3) why action is considered unnecessary. Also, please furnish us with copies of any correspondence or directives issued because of the audit.

Should your staff have any questions, please have them contact J. Phillip Griffin, Assistant District Inspector General for Audit, at (215) 656-3401.

Executive Summary

The audit objectives were to determine if the Authority administered its public housing activities in an efficient, effective, and economical manner, and complied with the terms and conditions of HUD regulations and applicable laws.

Authority management has not been efficient, effective, and economical

The Authority did not administer its public housing activities in an efficient, effective, and economical manner, or in compliance with laws and regulations. Several key positions remained vacant for extended periods which led to the Authority's operations being without direction and accountability. Specifically, the Authority did not:

- Fill key vacancies in a timely manner;
- Adequately implement necessary policies and procedures for several areas (Tenants Accounts Receivable, Admissions and Occupancy, Procurement, Internal Controls Over Cash, and Travel);
- Properly check employee qualifications; and
- Correct deficiencies cited in HUD management reviews.

Because there were no policies and procedures governing travel by staff and Board members, the Authority paid \$15,791 in unsupported travel costs.

Maintenance operations need to be improved

Also, the Authority did not maintain its projects in good repair and condition. Vacant units are not rehabilitated in a timely manner and the work order system does not ensure repairs are completed in a timely manner. The maintenance department did not have written operating procedures, there was no preventive maintenance plan, and units were not inspected annually in ensure Housing Quality Standards were being met. Improvements are needed in tracking the materials and supplies inventory. Finally, the Authority needs to improve its supervision and evaluation of maintenance employees. As a result, residents are subject to deteriorating units and excessive time on the Authority waiting list.

We made recommendations designed to improve operations at the Authority. These recommendations include procedural changes and strengthened controls. Also, we recommended obtaining documentation for unsupported costs.

We discussed the findings with Authority and HUD staff during the audit, and with Authority staff at an exit conference. The Authority's written response to the draft findings was considered in preparing our report, and is included as Appendix A. Also, we considered the oral and written comments provided by HUD Pennsylvania State Office Public Housing staff.

Table of Contents

Management Memorandum	i
-----------------------	---

Executive Summary	iii
-------------------	-----

Introduction	1
--------------	---

Findings

1	Management of Authority Operations Should Be Improved	5
---	--	---

2	The Authority Did Not Maintain Its Projects In Good Repair and Condition	21
---	---	----

Internal Controls	27
-------------------	----

Follow Up On Prior Audits	29
---------------------------	----

Appendices

A	Auditee Comments	31
---	------------------	----

B	Schedule of Unsupported Costs	37
---	-------------------------------	----

C	Distribution	39
---	--------------	----

Abbreviations

ACC	Annual Contribution Contract
CDBG	Community Development Block Grant

Table of Contents

CFR	Code of Federal Regulations
CGP	Comprehensive Grant Program
CIAP	Comprehensive Improvement Assistance Program
FY	Fiscal Year
HUD	U.S. Department of Housing and Urban Development
HQS	Housing Quality Standards
OIG	Office of Inspector General
PHA	Public Housing Authority
TAR	Tenants Accounts Receivable

Introduction

The Housing Authority of the County of Chester was organized under Pennsylvania State law to develop and operate low-rent housing programs. The Authority administers 507 low-rent public housing units located in seven developments. Also, the Authority has a Section 8 program consisting of certificates, vouchers, and moderate rehabilitation units. The Authority recently hired a new Executive Director for its operations.

The Authority administers public housing by entering into an Annual Contribution Contract (ACC) with HUD. The Authority's ACC is dated June 5, 1964. Financial assistance from HUD to the Authority includes:

- annual operating subsidies to operate and maintain its housing developments,
- modernization/comprehensive grant funds to upgrade units, (CIAP/CGP)
- drug elimination grant funds,
- Hope 1 grant funds
- Youth Sports

Community Development Block Grant (CDBG) funds.

The Authority received \$1.2 million in operating subsidy for fiscal year 1994 and \$1.1 million for fiscal year 1993.

The Authority has a five member Board of Commissioners, and George H. Hemcher is the Chairperson. The Authority's Executive Director is Troy L. Chapman. The Authority's Central Office is located at 222 No.Church Street in West Chester, Pennsylvania.

Audit Objectives

The primary objectives of the audit were to determine whether the Authority was:

- administering its public housing programs in an efficient, effective, and economical manner, and
- in compliance with the terms and conditions of its ACC, applicable laws, HUD regulations, and other applicable directives.

Audit Period

Audit work was performed in 1994 and 1995 and covered the period January 1993 through November 1994. Where appropriate, the review was extended to include other periods.

Audit Scope and Methodology

We reviewed the Authority's general administration to evaluate the areas of staffing and responding to HUD management reviews.

We reviewed the Authority's system for collection of rents to determine whether the Authority was implementing its rent collection policy. We reviewed tenants accounts receivable for the period January 1993 through October 1994. In addition, we reviewed the Authority's write offs of uncollectible tenants accounts receivable.

A review of the Authority's admission and occupancy practices was performed to determine the efficiency, effectiveness, and economy of Authority operations in these areas.

We reviewed the Authority's procurement practices to determine if the Authority purchased goods and services at the lowest reasonable cost and in accordance with its procurement policy. We judgmentally selected and reviewed 15 rehabilitation contracts.

We conducted a review of the Authority's internal controls and cash management. The purpose of the review was to determine whether the Authority's internal controls over operations were adequate to ensure an efficient, effective, and economical operation, and whether cash assets were adequately safeguarded. We tested the Authority procedures for cash receipts and disbursements, and performed cash counts and bank reconciliations.

Also, we reviewed the Authority's practices related to travel by the staff and Board to evaluate the efficiency, effectiveness, and economy of Authority operations in this area.

We reviewed the Authority's maintenance operations to evaluate the efficiency, effectiveness, and economy of the maintenance department. We inspected one development that included 192 units to determine whether the Authority was providing decent safe and sanitary units to its residents. Also, we evaluated the Authority's work order system, its control over inventory and its ability to rehabilitate vacant units in a timely manner.

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

Management of Authority Operations Should Be Improved

The Authority has several staffing vacancies that have gone unfilled for up to 2 years. These vacancies affected the Authority's ability to manage PHA activities efficiently, economically, and effectively. Thus, the stability and direction of management operations has diminished. Additionally, the Authority did not: adequately implement numerous vital policies and procedures; ensure employees met minimum qualifications; and correct deficiencies cited in HUD management reviews. This occurred because management did not promptly make administrative decisions. As a result of the above, the Authority lacks proper control over its management functions.

Important positions open too long

1. Key vacancies were not filled timely.

The Authority did not fill key administrative positions in a timely manner. During most of our audit, the Authority had no permanent Executive Director, Accountant, or Maintenance Superintendent. The positions were vacant for as long as two years. These vacancies are directly attributable to the current condition of the Authority's operations. In addition, the Authority has 11 other vacant positions.

According to the Acting Executive Director, the positions are Civil Service positions and candidates must be selected from the Civil Service list. Further, she stated the Authority had difficulties finding suitable candidates from that list.

Authority needs essential policies implemented

2. Necessary policies and procedures were not adequately implemented.

The Authority was using personnel, procurement, and other required policies without HUD approval. Recent HUD management reviews cited that the Authority's policies governing personnel, admissions and occupancy, tenant grievance, and procurement should be updated. Authority personnel said they submitted the updated operating policies to HUD for review but HUD had not responded.

Areas of improvement for the Authority are as follows:

- a. Tenants Accounts Receivable
- b. Admissions and Occupancy
- c. Procurement
- d. Internal Controls Over Cash
- e. Travel

These areas and the problems we noted during our audit are discussed in the following sections.

Delinquent rent and bad debts are high

- a. Tenants Accounts Receivable

Of the Authority's current residents, 27 percent are delinquent on their rents and balances for vacated residents are rapidly increasing. In addition, the Authority did not exercise controls over writing off balances of vacated residents . The Authority did not follow its collection policy requirements and did not have sufficient qualified staff to implement its program. As a result, rent collections are decreasing and there is no assurance that \$13,592 in written off resident's balances was uncollectible.

Authority has a collection policy

The Authority's rent collection policy requires rental payment on the first of each month. Further, it states that during the first 5 days of the month, managers will spend sufficient time contacting residents in an effort to collect delinquent rent.

Regarding delinquent vacated residents, the Authority's policy requires management to use all resources to contact former residents in an effort to collect the balances. The policy also states if management has not been contacted by the former resident within fifteen (15) days, the amount will be reviewed for forwarding to a local credit bureau for collection.

Delinquent rent is increasing

The Authority's tenants accounts receivable showed the following increases for the period January 1993 through October 1994:

	Number of <u>Delinquent Tenants</u>		<u>Amount Owed</u>	
	Jan 1993	Oct 1994	Jan 1993	Oct 1994
Residents in Possession	67	120	\$11,074	\$38,999
Vacated Residents	<u>22</u>	<u>94</u>	<u>5,339</u>	<u>31,940</u>
Total Receivables	<u>89</u>	<u>214</u>	<u>\$16,413</u>	<u>\$70,938</u>

Receivables for residents in possession increased from 14 to 27 percent and the total amount owed increased by 432 percent during the period January 1993 through October 1994.

For the year ending December 31, 1993, the Authority wrote off delinquent accounts of 35 residents totalling \$13,592. This amount included 15 accounts for residents that had moved out within three months or less. It also included the account of one resident who moved out December 29, 1993, owing \$3,563. 61. The fee accountant did not obtain the required board approval to write off the accounts.

Collection policy not followed and not enforced

The Authority did not follow the requirements of its collection policy for delinquent accounts and did not have sufficient qualified staff to enforce its policy. Resident files showed the Authority made very little effort to collect delinquent accounts of residents in possession and no effort to collect accounts of vacated residents. The Authority's Property Management staff is responsible for collecting delinquent rents. Property Management staff consisted of the Property Manager and a clerk. The department has three vacant Assistant Property Manager positions. According to the Property Manager, they were not able to enforce the collection policy because of the work load and the lack of staff.

In addition, the Authority did not maintain an agreement with a collection agency to recover accounts of vacated

delinquent residents. Authority records showed balances for vacated residents were not turned over to a collection agency for possible recovery of delinquent balances prior to write off. Authority personnel said this part of its policy somehow was overlooked.

Because Authority personnel did not follow collection policy and ensure sufficient qualified staff were available to enforce that policy, the Authority is not receiving the maximum collectible rents and HUD subsidy payments are increasing.

Leasing and occupancy process needs improvement

b. Admissions and Occupancy

The Authority did not: determine the eligibility of applicants before placing them on waiting lists; place applicants in units according to their waiting list rank; adequately maintain tenant files; recertify all tenants annually; charge tenants the correct rents; and rent rehabilitated vacant units in a timely manner. This occurred because the Authority did not have sufficient qualified staff to implement its admissions and occupancy policy. As a result, applicants appeared to receive preferential treatment, the Authority did not receive the maximum collectible rents, and applicants waited while rehabilitated units remained vacant.

Eligibility of applicants not initially determined

The Authority's waiting list for public housing did not contain eligible applicants. Authority personnel responsible for maintaining the waiting list stated applicants are placed on a waiting list whenever they fill out the application. The staff does not verify information proving eligibility at that time. Applicants are placed on the waiting list based on the date and time the Authority receives the application. Whenever a unit becomes available, staff go down the waiting list and request a number of applicants to provide documentation to support their eligibility. The first requested applicant that provides this information is placed in the unit. An applicant's rank on the waiting list is not a factor. This procedure is repeated each time a unit becomes available.

Applicants are not informed of their position on the waiting list. Further, applicants are told not to call the Authority until they hear from staff after the application is taken.

Tenant files lack proper information

Tenant files did not contain complete information and were not in order. Our review of files noted the following:

- Eight of ten tenant files did not contain complete information.
- Five of ten files showed the tenants were not recertified.

Missing items included leases, applications, and total tenant payment calculations. It also appeared that some tenant's rents were not properly calculated.

Units remain vacant too long

The Authority did not rent rehabilitated vacant units timely. The vacancy report as of November 16, 1994 showed seven completed units. These units were completed between May 15 and August 23, 1994. None of the units was occupied. The Authority had a list of 114 applicants for zero to three bedroom units in August, 1994. Authority personnel said these units were not rented because they had difficulties getting applicants to move to its projects in Coatesville.

The Authority did not have sufficient qualified staff to implement its admissions and occupancy policy. The Authority's current housing management staff consisted of a housing manager and a clerk. Three positions for assistant housing managers were vacant.

As a result, applicants appeared to receive preferential treatment, the Authority did not receive the maximum collectible rents, and qualified applicants were required to wait while rehabilitated units remained vacant.

Authority needs to strengthen procurement practices

c. Procurement

The Authority did not obtain rehabilitation contracts in accordance with HUD requirements. Also, its procurement practices did not ensure goods and services were obtained at the lowest reasonable cost. This occurred because the Authority did not comply with its own procurement policy and procedures, circumvented HUD's requirements, and did not ensure contractors satisfied contract requirements. As a result, there was no assurance that \$752,458 paid to three rehabilitation contractors was a reasonable expense or that contract requirements were satisfied.

According to the Authority's procurement policy, sealed bids are required for all purchases exceeding \$10,000 and solicitation of at least three offers and/or price quotes are required for all purchases exceeding \$1,000.

Administration of rehabilitation contracts was inadequate

Rehabilitation Contracts

The Authority did not ensure costs for rehabilitation contracts were reasonable or contract requirements were completed. A review of the Authority rehabilitation contracts showed the following:

- Fifteen of 15 contracts did not have the required cost or price analysis;
- Nine of 15 contracts were issued based on one contractor's cost estimates;
- Authority specifications for contracted work did not adequately identify required work; and
- Completed work was not inspected by qualified staff.

Cost estimates were not prepared

Cost estimates for rehabilitation work were not prepared by the Authority. Authority rehabilitation contract amounts were based on the contractors' cost estimates. Contractors were asked to walk through units and submit cost estimates for rehabilitation work. Although the estimated costs for most of the rehabilitation contracts exceeded the amount

requiring at least three cost estimates, the Authority issued contracts when only one estimate was requested and received.

Three contractors performed most of the Authority's rehabilitation work. Since January 1991, the Authority has paid the three contractors \$752,458 for rehabilitation work.

Specifications were not adequate

In addition, the Authority did not prepare adequate specifications for required work. The Authority's written specifications did not identify quantity or measurements of repair items. OIG's appraiser could not establish cost estimates for completed rehabilitated work because the specifications were too vague.

Inspections were not adequate

The Authority did not adequately inspect contractors' rehabilitation work. Completed rehabilitation work was inspected by the Authority's leasing manager. The leasing manager did not have knowledge of rehabilitation work or inspections. She performed inspections without specifications for the required work. She said the inspections consisted of a check of working appliances and physical appearance of the units.

Procurement policy not followed

Procurement Procedures

Although the Authority's written procurement policy and procedures appeared adequate, the Authority did not follow its policy to ensure goods and services were obtained at the lowest reasonable cost. The Authority's practices for procuring goods and services did not include:

- a contract administration system that ensures contractors perform according to the terms of their contract;
- written procedures to ensure duplicative and unnecessary items are not purchased;
- maintaining a contract register;
- maintaining an adequate list of pre-qualified contractors and suppliers; and

- provisions to ensure reduced collusion and price fixing by contractors.

The procurement process was circumvented

Procurement practices used by the Authority circumvented the need for sealed bids and allowed contractors to decide who would receive contracts, set the price of work items, and amount of work to be performed. The following is an example of the Authority's general procurement practice. The Authority determined four units needed extensive rehabilitation. The Authority's purchasing agent informed the four rehabilitation contractors on her list of the required work. However, instead of issuing the work as one contract, the Authority told the contractors to provide four estimates for the units. The Authority had the contractors walk through the units together and provide estimates for each unit. Each of the four contractors received one of the jobs and the total paid for the four contracts exceeded the \$10,000 threshold requiring sealed bids. The Authority did not provide specifications or cost estimates for the required work.

According to the Authority's purchasing agent, she was new in the position and had not received any training. She also indicated she was not aware of the requirements included in the Authority procurement policy.

Because the Authority did not follow its procurement policy, circumvented HUD requirements, and did not perform adequate inspections of contractors' work, there was no assurance the Authority received fair prices for contracted work, and the \$752,458 paid rehabilitation contractors might have been excessive.

Authority needs to strengthen controls over cash

d. Internal Controls Over Cash

The Authority's internal control system did not provide the required controls over cash. The Authority did not have the necessary trained staff to implement a good internal control system and did not have written procedures. As a result, cash assets were not safeguarded and information used to make management decisions was neither reliable nor accurate.

Receipts not properly controlled

Cash Receipts

The Authority did not issue receipts to tenants for rent payments and HUD subsidy payments were not recorded timely. Tenants are provided a monthly statement that is used to make rent payments to the Authority. The statements are stamped "paid" when tenants provide it with the payment. Whenever tenants make payments without the statement, they are given a receipt. Neither the tenants' statements or the receipts provided to tenants are numbered. The Authority is not able to perform a true daily reconciliation of cash received through this system and the safeguard of cash relies on the trustworthiness of the cashier.

Discarded, missing, or cancelled receipts and statements are not accounted for by the Authority. Because of these deficiencies, we could not ascertain whether the Authority accounted for all cash received or that tenants' records were accurate.

The Authority did not record HUD subsidy receipts timely or use proper documentation to ensure accuracy. HUD subsidy payments are recorded from monthly bank statements. The Authority personnel said neither the bank nor HUD provided information when the subsidy payments were credited. This practice does not allow the Authority to identify possible bank errors in crediting subsidy payments to its bank account.

Disbursements not properly supported

Cash Disbursements

The Authority did not adequately support cash disbursements. The Authority paid invoices that did not support receipt of a service or goods and made payments that were supported with photo copies of invoices. Our review of payments showed that the Authority paid invoices for motor vehicle gas and repairs although the invoice did not identify that the vehicles were Authority vehicles or that the vehicles needed repair. The Authority also paid travel costs without supporting invoices to verify the costs. In

Voided checks not properly controlled

addition, the Authority reimbursed an employee for expenditures based on a copy of a personal check paid to another employee.

The Authority did not properly account for voided checks. Voided checks were not recorded and checks voided after they were written were included in the Authority books as issued. The Authority removed the unissued checks at the end of the month through a journal entry.

Shortages in both petty cash funds

Petty Cash

Two petty cash funds were short by a total of \$552. The Authority's general ledger showed a \$950 petty cash imprest fund. These funds were divided among two custodians, the Acting Executive Director (\$450) and the Acting Maintenance Superintendent (\$500). According to the Acting Executive Director, she only received \$200 when she took custody of the funds and she was not aware the fund should have been \$450. She indicated the difference might have been an accounting error and it will be researched.

The Acting Maintenance Superintendent could not account for \$302 of his \$500 petty cash fund. He indicated that he had issued \$150 to an employee, however, he did not provide a receipt. The petty cash custodians did not issue receipts for all petty cash funds issued.

Bank reconciliations not properly performed

Bank Reconciliations

Although the Authority performed bank reconciliations, the reconciliations did not show the correct general ledger or bank balances. The reconciliations did not reconcile the bank accounts to the general ledger cash balance or corrected cash balance. In addition, the Authority used cash receipts that appeared on the bank statements to determinate its general ledger balances. This method would not identify errors in either bank or general ledger balances. The Authority employee responsible for reconciliations stated she was performing reconciliations the same way

they were done in the past. A review of two bank reconciliations showed the balances to vary slightly.

The Authority did not have an accountant on its staff and had no written operating procedures for cash management. Its accounting department has been without an accountant for more than one year. The accounting function is being performed by the assistant accountant and a fee accountant. The Authority's accounting department has three positions and two are currently vacant.

No written operating procedures exist for the Authority's accounting department. The assistant accountant relies on instructions that were verbally passed down to her to perform her duties.

The Authority accounting department is understaffed and has no written procedures to guide the staff in performing their duties. The Authority is not able to provide the needed internal controls over its cash transactions. As a result, Authority cash assets were not adequately safeguarded and there was no assurance information used in reporting and making management decisions were accurate.

Travel costs were not properly supported

e. Travel

Necessity and reasonableness of claimed travel costs were not always documented. This occurred because the Authority did not have travel policies and procedures governing travel by its staff and Board members. As a result, the Authority paid \$15,791 in unsupported travel costs and possible excessive travel expense reimbursements.

The Authority did not adequately document travel costs or determine whether travel costs claimed by employees and Board members were within established per diem rates. In addition, the Authority did not establish what constituted eligible travel costs and conditions.

Credit card charges not supported by invoices

The Authority paid unsupported credit card bills totalling \$15,791 from January 1993 through August 1994. The credit card bills were not supported with invoices verifying

Finding 1

the charges. The charges included hotel and restaurant costs for employees and Board members. In addition, Authority credit cards were used to charge meals which the travelers did not include on their travel vouchers. Authority personnel indicated the per diem rates were \$25 for employees and \$50 for Board members.

Also, Board members used the credit cards to charge meals at local restaurants. The Authority did not obtain documentation supporting the eligibility of the meal costs. Examples of undetermined and unsupported travel costs are as follows:

- reimbursement for an employee taking a HUD employee to lunch; and
- four night stay at the Omni Royal Orleans hotel in New Orleans at a cost of \$1,437.37. The bill was charged on the Authority credit card that was given to the former Executive Director. The bill did not state what charges were included and no invoice was provided by the traveler.

Authority travel policy incomplete

-

The Authority addressed travel policies and procedures as part of its personnel policy. However, the policy did not:

include per diem rates;

- establish what constituted eligible travel;
- establish eligible and reimbursable travel costs, and
- establish the need to document travel costs.

As a result, the Authority paid \$15,791 of unsupported credit card bills and reimbursed employees for costs without determining their eligibility.

Staff qualifications were not reviewed before employment

3. Employee qualifications were not properly checked.

The Authority did not ensure that employees met minimum qualifications for positions before they were hired. A review of personnel files for eight maintenance employees showed that seven of them did not meet the minimum qualifications for their position. Authority personnel did not verify application information or determine whether

application information met the job requirements. According to Authority personnel, they did not verify applicant information because they were not always informed of new hires.

Previous review identified deficiencies which are not corrected

4. Deficiencies cited in HUD management reviews were not corrected.

HUD's March 1993 management review cited 11 deficiencies. At the time of our audit, the Authority has not corrected the cited deficiencies. Authority personnel cited lack of staff and inaction by HUD as reasons for not correcting the deficiencies.

The Authority's vacant managerial positions and the results of HUD's managerial review are over 1 year old, yet the Authority has not taken concrete action to correct the problems. Although the Authority cited difficulties in hiring because of civil service guidelines and HUD inaction regarding their policies, the Authority had the tools to correct the cited problems.

As a result, there are no controls over the Authority accounting, managerial, and maintenance functions. The Authority guidelines to accomplish program objectives, and evaluate program and staff achievements are not adequate. Also, HUD requirements for approved policies are not met.

Criteria

Section 201 of the Annual Contributions Contract states the Authority shall at all times operate in such manner as to promote serviceability, efficiency, economy, and stability.

Although HUD has cancelled Handbook 7465.1 REV-2, the Handbook still contains valuable guidance to assist the Authority in complying with various laws, regulations, and other requirements regarding admissions and occupancy. Chapter 1 of the Handbook contains information required for an admission policy and Chapter 2 addresses applications. Paragraph 2-1.a.(4) states all applications must be processed to the extent necessary to determine whether the applicant is eligible. Further, paragraph 2-1.b.(4) states, in conjunction with taking applications, the

PHA should request whatever documentation it will need to verify the information the applicant has provided.

24 CFR 960.209 (a) requires PHAs to reexamine income and family composition of all tenants at least once every 12 months. Further, the PHA must make appropriate adjustments in the Total Tenant Payment and Tenant Rent in accordance with 24 CFR part 913.

Procurement practices must meet Federal purchasing and contracting standards (24 CFR 85.36) and HUD requirements (Handbook 7460.8 REV-1).

Section 307 of the Annual Contributions Contract requires PHA's to adopt and comply with a statement of personnel policies comparable with pertinent local public practice. Paragraph (C) requires the Authority to maintain complete records with respect to, among other things, authorization of official travel by employees and vouchers supporting reimbursement of travel expense.

Auditee Comments

Generally, the Authority agreed with the finding. Further, the Authority reported it had corrected some of the cited deficiencies and was in the process of correcting the others.

The Authority indicated it had corrected its personnel problems by hiring an Executive Director, Maintenance Superintendent, three Assistant Project Managers, and other key staffing positions. It indicated the Accounting position was not filled, however, a Fee Accountant is being used to satisfy this staffing need.

Operating policies have been developed and submitted to HUD. The Authority is currently waiting for HUD's response.

The Authority contracted with an agency to update job descriptions for all employees. According to the Authority, when the updates are completed, procedures will be written and implemented.

Further, the Authority stated that along with the hiring of the Executive Director, systems are being developed to

evaluate program achievements and staff performance. Also, the Authority said it will develop written procedures regarding evaluation of prospective employees.

The Authority indicated it was currently ensuring that prices are reasonable and proper methods are used when purchasing goods and services. It also stated although it does not maintain a list of pre-qualified contractors it does maintain a list of contractors by trade.

The Authority indicated it has purchased a new cash register which provides numbered receipts, it now provides receipts to all tenants when payments are received, and is in the process of developing procedures for its accounting operations.

Further, the Authority states: (1) a Fee Accountant is currently used to perform its accounting functions and the Executive Director is reviewing the need for a systems person; (2) training information has been provided to its staff for them to select courses and seminars that would be helpful in performing their duties; and (3) new petty cash procedures have been developed and funds are reconciled with the general ledger balances.

The Authority indicated it was in the process of developing a travel policy that would incorporate items cited in the finding. It also indicated travel payments are currently being reviewed.

OIG Evaluation of Auditee Comments

OIG recognizes the Authority has been trying to correct the cited deficiencies. Based on our evaluation of the Authority's response and review of relevant documents, we believe the Authority has satisfied the recommendation in the draft finding to fill vacant managerial positions. Therefore, we have removed this recommendation from the finding.

Also, the Authority provided sufficient information to show it has satisfactorily satisfied its accounting vacancy needs and the petty cash deficiencies. As a result, we have removed the draft recommendations related to these matters from the finding.

The Authority is making an effort in addressing the remaining cited deficiencies. However, efforts to correct these matters were not complete at the time of our review.

Recommendations

We recommend you direct the Authority to;

- 1A. Develop and implement operating policies and procedures which adequately cover the following areas:
 - Tenant Accounts Receivable
 - Admissions and Occupancy
 - Internal Controls Over Cash
 - Travel
- 1B. Implement its procurement policy and procedures to ensure the following:
 - Cost estimates are provided to ensure prices are reasonable and the proper procurement methods are used for purchases of goods and services.
 - Qualified inspectors are used to inspect contractors work to ensure all contracts requirement are completed properly.
 - Adequate work specifications are provided to allow reasonable job costing and evaluation of required work.
 - An adequate list of pre-qualified contractors and suppliers are maintained and used to ensure competitive prices are used for purchases.
- 1C. Develop and implement procedures to adequately evaluate prospective employees.
- 1D. Correct all deficiencies noted in prior management reviews.

1E. Provide documentation evidencing the eligibility of the \$15,791 in unsupported travel cost and repay any amounts that can not be supported.

The Authority Did Not Maintain Its Projects In Good Repair and Condition

The Authority's maintenance operations did not provide projects that are in good repair and condition. Specifically, maintenance operations were found to be deficient in the areas of: (a) vacancies; (b) work orders; (c) operating procedures; (d) preventive maintenance; (e) annual Housing Quality Standards (HQS) inspections; (f) controls over materials and supplies inventory; and (g) evaluating staff performance. This occurred because maintenance operations were not managed in an efficient, effective, or economical manner. As a result, residents were not provided decent, safe, and sanitary housing as required and applicants spent an excessive amount of time waiting for units.

The Authority needs to turn around vacant units quicker

Vacancies

At the time of our review, the Authority had 64 vacant units. The Authority did not rehabilitate 54 (84 percent) of the 64 vacant units within the 30 day period suggested by HUD.

Vacancies included the following:

<u>Days Vacant</u>	<u>Number of Units</u>
1 to 30 days	8
31 to 180 days	25
181 to 365 days	20
over 365 days	<u>11</u>
Total	<u>64</u>

The Authority did not consider vacant units a priority and allowed its vacancies to increase from 33 in 1993 to its current level. The maintenance department did not have planned schedules for rehabilitating vacant units.

All vacant units are contracted out for repairs. The Authority did not determine whether its maintenance staff

could perform the required repairs faster and more economically.

The Authority's Oak Street Project accounted for 46 vacancies. According to Authority staff, repairing vacant units at the Oak Street Project was not a priority because the Authority was not able to rent those units.

Work order system has problems

Work Orders

The Authority's work order system was not effective in ensuring reported repairs were completed timely. Authority supervisory staff said the standards for completing work orders were as follows: emergency work orders within 24 hours; urgent work orders within 48 hours; and routine work orders within 7 days. The Authority's report of work orders dated November 21, 1994, listed 181 outstanding work orders. These work orders are categorized as follows:

<u>Period Outstanding</u>	<u>Number of Work Orders</u>
up to 1 week	56
2 to 4 weeks	50
5 to 12 weeks	29
13 to 26 weeks	27
27 to 48 weeks	<u>19</u>
Total	<u>181</u>

Based on the Authority's standards, it should have completed at least 125 of the above work orders.

Work orders outstanding in excess of one week included emergency and urgent work items. Examples include: bedroom ceiling fell in; leaking bedroom ceiling; clogged sewer line; and smoke detectors not operating. In addition, the Authority work order inventory was cluttered with miscellaneous items such as: recording truck milage; answering office telephones; and routine cleaning.

Some work orders were not completed because materials were not in inventory. Needed materials included locks, cabinets, screen door handles, faucets, cement and plywood. These items were within the spending limits of the department's petty cash fund.

The Acting Maintenance Superintendent said he distributed work orders to his staff, but they did not complete them and he never followed up.

Maintenance operation needs written procedures

Operating Procedures

The Authority maintenance department did not have written operating procedures for maintaining projects in good repair and condition. Maintenance staff were guided by oral instructions passed down by prior maintenance supervisors. The Acting Maintenance Superintendent provided us a document showing some guidelines for work orders. However, this document did not provide procedures for all categories of work orders, vacant unit repairs, tenant damages, materials usage, and other operating requirements.

Authority personnel said they are restructuring the department and are writing operating procedures and performance standards.

Authority needs a preventive maintenance plan

Preventive Maintenance

The Authority did not have a preventive maintenance program. Although he did not provide documentation to show the inspections were done, the Acting Maintenance Superintendent provided a schedule showing dates preventive maintenance inspections were scheduled. The poor physical condition of the projects illustrates the lack of preventive maintenance.

Required inspections were not performed

Housing Quality Standards (HQS) Inspections

The Authority did not perform annual HQS inspections as required. Although the Authority provided a report showing that annual HQS inspections were performed, the report was not accurate. A review of ten inspection files showed that inspection reports were not included in seven

of the files and none stated whether the unit met HQS. In addition, OIG inspection of the Authority's Oak Street Project (192 units) found it did not meet HQS.

The maintenance staff said they did not do inspections to determine whether units met HQS. According to the staff, they did inspections because they were told to do them. The Acting Maintenance Superintendent did not know why the files did not have inspection reports when his report showed the inspections were completed.

Controls over inventory
are weak

Materials and Supplies Inventory

The Authority did not know the quantity or value of its inventory of materials and supplies. According to Authority staff, they had just done a physical count of the inventory but had not completed the process and could not provide the quantity or value. The general ledger showed a negative balance in its materials inventory account (\$14,213). The Acting Maintenance Superintendent said a new inventory system was being implemented to accurately track the Authority's inventory and supplies.

Maintenance personnel
not properly evaluated

Staff Evaluations

Maintenance supervisory staff did not adequately supervise or evaluate staff performance. The Acting Maintenance Superintendent said he relied on his supervisors to monitor staff performance. However, staff did not complete work orders and the supervisors, including himself, were not ensuring that staff were performing. The Acting Maintenance Superintendent did not do annual staff performance evaluations.

The Acting Maintenance Superintendent provided documentation showing he made management and the Authority Board aware of the maintenance operation problems. Since 1993, various memorandums and letters to the Acting Executive Director and the Board outlined the problems. However, management did not take corrective actions. The maintenance operations are unorganized, lack adequate supervision, and provide no accountability of staff, materials, and supplies. In addition, the maintenance

department has not had a permanent Maintenance Superintendent in two years.

Criteria

Section 209 of the Annual Contributions Contract states the Authority shall at all times maintain each project in good repair, order, and condition. Section 201 of the Contract specifies that the Authority must operate the projects:

"...(1) solely for the purpose of providing decent, safe, and sanitary dwellings...(2) in such manner as to promote serviceability, efficiency, economy, and stability, and (3) in such manner as to achieve the economic and social well-being of the tenants thereof."

Paragraph 6-2E. of HUD Handbook 7460.5, Public Housing Management Assessment Program (PHMAP), indicates that an Authority can achieve an acceptable level of performance by completing vacant unit turnaround on an average of greater than 25 calendar days and less than or equal to 30 calendar days.

In summary, the Authority has not established an effective and economical maintenance operation necessary to provide decent, safe, and sanitary housing for its tenants as required.

Auditee Comments

The Authority indicated it was in the process of developing and implementing maintenance procedures that would include the areas cited in the recommendations. The Authority indicated a Maintenance Superintendent was hired.

OIG Evaluation of Auditee Comments

Based on the Authority's response and our review of relevant documents, the Authority has satisfied the recommendation requiring them to hire a Maintenance Superintendent. We removed this draft recommendation from the finding.

Recommendation

We recommend you require the Authority to:

2A. Develop and implement maintenance operation systems and procedures that address the matters noted in this report. The procedures should include, but not be limited to:

- rehabilitating vacant units in a timely manner;
- ensuring work orders are completed timely;
- implementing a preventive maintenance plan;
- inspecting units annually to ensure the units meet Housing Quality Standards;
- maintaining an accurate inventory of materials and supplies and properly accounting for usage; and
- ensuring proper supervision and evaluation of staff.

Internal Controls

In planning and performing our audit, we considered internal control systems of the management of the Housing Authority of Chester County to determine our auditing procedures and not to provide assurance on internal control. Internal control is the process by which an entity obtains reasonable assurance as to achievement of specific objectives. Internal control consists of interrelated components, including integrity, ethical values, competence, and the control environment which includes establishing objectives, risk assessment, information systems, control procedures, communication, managing change, and monitoring.

Control Categories

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

- (1) Cash Management
- (2) Maintenance
- (3) Housing Quality Standards
- (4) General Procurement
- (5) Travel
- (6) Admissions and Occupancy
- (7) Tenants Accounts Receivables
- (8) General Administration

Scope of Work

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

Significant Weaknesses

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

- (1) Cash Management (Finding 1)
- (2) Maintenance (Finding 2)
- (3) Housing Quality Standards (Finding 2)
- (4) General Procurement (Finding 1)
- (5) Travel (Finding 1)
- (6) Admissions and Occupancy (Finding 1)
- (7) Tenants Accounts Receivable (Finding 1)
- (8) General Administration (Finding 1)

Follow Up On Prior Audits

This is the first OIG audit of the Housing Authority of the County of Chester's public housing activities.

The most recent Independent Accountant report, for the year ended December 31, 1994, contained four outstanding findings. Two findings related to inventory matters and another related to late recertifications of tenants. The remaining finding was not applicable to our audit.

Auditee Comments

Schedule of Unsupported Costs

Recommendation <u>Number</u>	<u>Unsupported</u> <u>1/</u>	
	\$ <u>15,791</u>	1E
	\$ <u>15,791</u>	Total

1/ Unsupported amounts are not clearly eligible or ineligible but warrant being contested because of a lack of documentation supporting the need to incur such costs.

Distribution

Secretary's Representative, Mid-Atlantic, 3AS
Director, Internal Control and Audit Resolution, 3AFI
Director, Office of Public Housing, 3APH
Director, Field Accounting Division, 3AFF
Assistant Secretary for Field Management, SDF (Room 7106)
Eleanor Clark, Comptroller/Audit Liaison Officer (Room 5132) (3)
Acquisitions Librarian, Library, AS (Room 8141)
Chief Financial Officer, F (Room 10164) (2)
Deputy Chief Financial Officer for Operations, F (Room 10166) (2)
Assistant Director in Charge, US GAO, 820 1st St., NE Union
Plaza, Bldg 2, Suite 150, Washington, DC 20002
Attn: Mr. Cliff Fowler (2)
Auditee