

Issue Date
October 5, 1995
Audit Case Number
96-CH-202-1001

TO: Joann Adams, Acting Director, Office of Public Housing, Grand
Rapids Area Office

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Benton Township Housing Commission
Low-Income Housing Program
Benton Harbor, Michigan

We completed an audit of the Benton Township Housing Commission's Low-Income Housing Program. We selected the Commission for audit based on a program of periodic reviews of Public Housing Authorities and input from the Grand Rapids HUD staff. The audit objectives were to determine whether the Commission effectively and efficiently administered its low-income public housing activities in compliance with HUD's requirements.

The Commission generally administered its Low-Income Housing Program according to HUD's requirements. The Commission maintained its occupied units in decent, safe and sanitary condition; properly managed its nonexpendable equipment; and properly maintained its accounts receivable balances and occupancy levels. The Commission could, however, further improve its operations by: (1) reducing the time to prepare and lease vacant units; (2) assuring its travel policy is comparable to the local public practice; and (3) charging only supported payroll costs to the Comprehensive Improvement Assistance Program.

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

Should your staff have any questions, please have them contact me at (312) 353-7832.

Executive Summary

We conducted an audit of the Benton Township Housing Commission's Low-Income Housing Program. Our objectives were to determine whether the Commission effectively and efficiently administered its Low-Income

Housing activities in compliance with HUD's requirements.

The Commission generally administered its Low-Income Housing Program according to HUD's requirements. The Commission maintained its occupied units in decent, safe and sanitary condition; properly managed its nonexpendable equipment; and properly maintained its accounts receivable balances and occupancy levels. However, as shown in the findings, the Commission could further improve the administration of its Low-Income Housing Program to ensure compliance with HUD's requirements and to increase efficiency and effectiveness.

The Commission Took Too Much Time To Prepare and Lease Units

The Benton Township Housing Commission took excessive time to prepare and lease its vacant units. The Commission's average unit turnaround time was 145 days between October 1994 and June 1995. The Commission also incorrectly certified to HUD that its average turnaround time was 15 days between October 1993 and September 1994. HUD Regulations require the Commission to maintain an average turnaround time of 30 days, with a goal of 10 days. The Commission did not give priority to preparing vacant units. As a result, the Commission did not maximize rental income and assistance provided to needy families.

The Commission's Travel Policy Needs Revision

The Benton Township Housing Commission's travel policy was not comparable to the local public practice, as required by HUD. The policy allowed subsistence reimbursement for meals of \$65 per day, whereas the local city allowed a maximum of \$38 per day. The Executive Director believed the Commission's policy was valid since the Board of Commissioners determined it was comparable to other Commissions' policies. The Commission's policy was not economical and cost efficient.

The Commission Improperly Charged Payroll Costs

The Benton Township Housing Commission charged excessive payroll costs to the Comprehensive Improvement Assistance (modernization) Program. Modernization funds that were available at year end were inappropriately divided between the payroll costs of three employees. The Commission charged \$67,479 to the Program. The employees' time records supported that costs of only \$11,409 should have been charged to the Comprehensive Improvement Assistance Program. As a result, \$56,070 of modernization funds were not used for the intended purposes of making physical and management improvements at the Commission. Instead, the Commission used the funds to inappropriately subsidize its Low-Income Housing operations.

Recommendations

We recommend that the Director of the Public Housing Division assures the Housing Commission implements procedures and controls to assure its: units are prepared and leased in a timely manner; Public Housing Management Assessment Program certifications are fully supported; travel policy complies with the City of Benton Harbor; and modernization programs are only charged for actual costs.

We provided our draft findings to the Commission's Executive Director and HUD staff during the audit. We held an exit conference on August 24, 1995 with the Commission's Executive Director. The Housing Commission provided written comments to our findings. We considered the comments in preparing our report.

Introduction

We completed an audit of the Benton Township Housing Commission. The Commission was established in 1960 under the laws of the State of Michigan. The Commission is a public housing agency organized to efficiently and effectively provide decent, safe and sanitary housing to low-income families.

A five-member Board of Commissioners governs the Housing Commission. The Benton Township Supervisor appoints the board members to staggered five-year terms. The Executive Director is responsible for day-to-day operations.

The Housing Commission operates and maintains 300 low-income housing units at two projects. Plaza Manor contains 100 elderly units. Blossom Acres contains 160 family units and 40 elderly units. The Commission also manages 75 Section 8 units.

The Commission received \$322,482 in operating subsidies for fiscal year 1994. The Commission also received \$3,229,000 for the Comprehensive Improvement Assistance Program for fiscal years 1991 and 1992. In 1993, HUD approved the Housing Commission's Five-Year Comprehensive Grant Program with annual funding of \$505,220 for modernization. In 1994, HUD increased the annual funding to \$544,562.

The Commission's books and records are at 1216 Blossom Lane, Benton Harbor, Michigan. Sammie Smith is the Executive Director. The Board of Commissioners President is James Ray.

Audit Objectives

Our audit objectives were to determine whether the Commission effectively and efficiently administered its Low-Income Housing Program according to HUD's requirements.

Our specific objectives were to determine whether the Commission:

- Maintained decent, safe and sanitary units;
- Properly managed its non-expendable equipment;
- Properly maintained accounts receivable balances and occupancy levels;
- Prepared and leased its vacant units timely;
- Maintained adequate support for its Public Housing Management Assessment Program certification;
- Maintained a travel policy according to HUD's requirements; and
- Assured that payroll costs were properly allocated to its various programs.

Audit Scope and Methodology

To obtain background information, we interviewed HUD's staff from the Grand Rapids Area Office's Public Housing Division. At HUD's Grand Rapids Office, we also reviewed independent audit reports, operating budgets, statements of operating receipts and expenditures, and Public Housing Management Assessment Program reports.

To assess the adequacy of the Commission's operations, at the Commission's Office, we interviewed the Executive Director and other appropriate staff. We also reviewed records related to vacant unit preparation, travel policies, travel expense reports, Public Housing Management Assessment Program certifications, work orders, inventory records, applicant waiting lists, accounts receivable and occupancy reports, and unit inspection reports. We inspected 10 units to assess their condition.

The audit covered the period from October 1, 1993 through March 31, 1995. We extended the audit period as necessary. We did the on-site audit work between May and August 1995.

We conducted the audit in accordance with generally accepted government

auditing standards.

We provided a copy of this report to the Benton Township Housing Commission's Board President.

Finding 1

The Commission Took Excessive Time To Prepare And Lease Vacant Units

The Benton Township Housing Commission took excessive time to prepare and lease its vacant units. The Commission's average unit turnaround time was 145 days between October 1994 and June 1995. The Commission also incorrectly certified to HUD that its average turnaround time was 15 days between October 1993 and September 1994. HUD's Regulations require the Commission to maintain an average turnaround time of 30 days, with a goal of 10 days. The Commission did not give priority to preparing vacant units. As a result, the Commission did not maximize rental income and assistance provided to needy families.

HUD Requirements

HUD Handbook 7460.7 REV-1, Field Office Monitoring of Public Housing Agencies, defines unit turnaround as a Performance Standard for maintenance operations. Paragraph 5-2 (c) requires the Commission to complete vacant unit turnaround in an average of no more than 30 calendar days, with a goal of 10 days.

Unit turnaround is an operations indicator under Handbook 7460.5, Public Housing Management Assessment Program. Paragraph 6-2 E 10(b) defines the turnaround time as including the time a unit is vacated until a new lease is in effect. Under the Assessment Program, unit turnaround is one of the seven performance indicators that public housing agencies must certify to HUD.

HUD Regulation 24 CFR, 901.100 (b)(2) requires public housing agencies to maintain documentation that verifies all certified indicators. Documentation should be retained for three years.

Turnaround Time Exceeded 30 Days

The Benton Township Housing Commission did not prepare and lease its vacant units within 30 days, as required by HUD. Between October 1, 1994 and June 30, 1995, the Commission averaged 145 days to prepare and lease 22 vacant units. The average time to prepare a unit for occupancy was 102 days. The average time to lease a unit was an additional 43 days and

the range of the total time was from 21 to 335 days. The following chart shows the number of units and the range of days they were vacant:

Days Vacant	Number of Units
01-30	1
31-60	2
61-90	2
91-180	12
181-360	5

Delays Occurred in Preparing and Leasing Vacant Units

The Executive Director said delays in unit turnover occurred because maintenance personnel were required to complete work at occupied units before they worked on vacant units. He said he had inadequate staff to repair the unusual increase in vacancies that occurred in 1994. He also said five-bedroom family and elderly efficiency units were difficult to rent. Our audit showed that although the Commission had an increase in turnover, it was exceeding the HUD standard of 30 days by 68 days before the increase. The Commission's maintenance staff was comparable in number to other commissions of its size. Additionally, of the 22 units vacated, only one was an efficiency unit and three were five-bedroom units.

The Commission expended excessive time before it inspected units, wrote work orders and assigned the units to its maintenance staff for repairs. For example, Unit 515, a three-bedroom unit, was vacant for 167 days. The Commission inspected the unit 19 days after it was vacated. It took the Commission another 112 days to write the work orders and 36 days to complete the maintenance work and lease the unit.

Once the Commission completed the maintenance work, it took excessive time to lease units. After the completion of maintenance work, 11 of the 22 units vacated in 1994 to 1995 were waiting to be leased for over 21 days. The average waiting time for these 11 units was 79 days. One of the 11 units was an efficiency apartment; however, an applicant was available and had to wait 81 days to occupy the unit.

The Executive Director said he is in the process of implementing new procedures to improve the unit turnaround time. The new procedures will: set priorities for repairing vacant units; allow smaller families to live in larger units when there are no applicants for the larger units; and start an applicant's certification process at an earlier stage. We believe these procedures, when implemented, will improve the unit turnaround time.

The Commission Provided an Incorrect Certification

The Commission incorrectly certified to HUD that the average time it took to prepare and lease its vacant units between October 1, 1993 and September 30, 1994 was 15 days. The 15-day turnaround time earned the Commission a grade of A on HUD's Public Housing Management Assessment Program Report. We determined the average turnaround time was 98 days for the 20 units that became vacant during the 12 months. The 98-day turnaround time should have earned the Commission a Grade of F. Since HUD believed the Commission had a score of A on this indicator, HUD did not accurately assess the Commission's performance and make recommendations for improvement.

The Commission did not have documentation that showed the basis for its calculation or that supported the accuracy of the certification. The Executive Director said he did not personally calculate the numbers, but believed some units were excluded because of fire-damage, modernization work or other HUD-approved reasons. Our review showed that no units should have been excluded from the calculation.

Auditee Comments

Excerpts from the Executive Director's comments on our draft finding follow.

The Executive Director concurs that HUD's regulations require the Housing Commission to complete vacant unit turnaround in an average of no more than 30 calendar days, with a goal of 10 days. This is, however, an unrealistic goal. There are many variables that enter into turning a unit around, such as the number of units vacated within a given period of time, the size of the units, the condition of the units when finally vacated, available materials, work that requires a licensed contractor, available staff, etc. During the period of time in question, the Housing Commission reached a high of 30 vacancies. With a staff of four maintenance men and one working supervisor, it was impossible to meet a 30 day turnaround schedule.

OIG Evaluation of Auditee Comments

HUD requires the Housing Commissions to complete vacant unit turnaround in an average of no more than 30 calendar days. Therefore, the Housing Commission should try to achieve this goal. We considered the variables that the Executive Director mentioned in his comments and still found the time to prepare the units for occupancy was well in excess of the HUD standard. There were no records to support that 30 units were vacant at

one time. Our audit showed 22 units were vacated between October 1, 1994 and June 30, 1995. The Executive Director did not provide comments to explain why it took the Commission excessive time to inspect units, write work orders, and lease units after completion of maintenance work.

Auditee Comments

During this year, modernization work was going on at Blossom Acres and Plaza Manor. It made more sense to complete the modernization work while the units were vacant. The Commission received approval from the Grand Rapids HUD Office to use excess modernization funds from a previous Comprehensive Improvement Assistance Program to contract out the work to rehab the vacant units.

Because the units were being made ready for leasing under the modernization programs, they were not considered in the Public Housing Management Assessment Program report. There was no attempt to misrepresent our unit turnaround nor to influence HUD's determination of the Public Housing Management Assessment Program score for this indicator. Scores are fine, but most important to the Commission is operating and maintaining a well organized and managed Housing Commission.

OIG Evaluation of Auditee Comments

Our review showed that there were no units that should have been excluded from the average unit turnaround time calculation due to modernization or rehabilitation work. HUD allows the Commission to exclude a unit from the unit turnaround calculation if the approved modernization makes it necessary to vacate the unit. The Commission did not have records to show which units were required to be vacated because of the modernization program. The Commission also did not have records to show which units it included or excluded from its calculation of the Public Housing Management Assessment Program unit turnaround calculation.

The units we reviewed did not have to be vacated to prepare them for occupancy. For example, Unit 515 was vacant 167 days to make the following relatively minor repairs: 25 pieces of floor tiles; two towel bars; three outlet sockets and cover plates; three locks; one thermopane; one toilet seat; sixteen shades and painting.

The purpose of maintaining the unit turnaround time of 30 days is not for scoring purposes, but to maximize rental income and provide assistance to needy families in an expeditious manner.

Auditee Comments

The Executive Director did not provide comments regarding Recommendation 1A. The Director provided comments for Recommendations 1B and 1C.

Recommendation 1B

The Commission has implemented the following procedures to speed up the tenant certification process: The first working day immediately following the day that an intention to vacate a unit is received, the intention is recorded by the housing manager or his/her designee. From the waiting list, the next three eligible applicants in line for the particular size unit are determined. Immediate contact is made by mail with each of the applicants. The letter contains a listing of all information that the applicant must provide to the Commission to determine final eligibility. An approximate date that the unit will be available is established.

Recommendation 1C

For tracking and reporting purposes the Commission has implemented a reporting procedure that is reviewed the beginning of each work week. The Director provided two exhibits for tracking and reporting.

OIG Evaluation of Auditee Comments

Although the Executive Director said he was implementing new procedures to improve turnaround time, his written comments did not reflect that he was implementing procedures to address Recommendation 1A.

The tenant certification procedures and tracking procedures should, if properly followed, reduce lease time and satisfactorily correct the problem of inaccurate Public Housing Management Assessment Program certifications.

Recommendations

We recommend that the Grand Rapids Office's Director of Public Housing assures the Benton Township Housing Commission:

- 1A. Implements procedures and controls to inspect units and write work orders immediately after units are vacated.
- 1B. Implements procedures to start the certification process for new

tenants when the Commission knows a unit will be vacated.

- 1C. Establishes procedures and controls to assure that all future Public Housing Management Assessment Program certifications are correct, adequately supported, and that documentation is retained.

Finding 2

The Commission's Travel Policy Needs To Be Revised

The Benton Township Housing Commission's travel policy was not comparable to the local public practice, as required by HUD. The policy allowed subsistence reimbursement for meals of \$65 per day, whereas the local city allowed a maximum of \$38 per day. The Executive Director believed that Commission's policy was valid since the Board of Commissioners determined it was comparable to other Housing Commissions' policies. The Commission's policy was not economical and cost efficient.

HUD Requirements

HUD Handbook 7401.7, Public Housing Authority Personnel Policies, Paragraph 5-19, requires the Commission to adopt travel regulations that are comparable to local public practice governing reimbursements of travel expenses to Board members and employees. Payments should cover only reasonable travel costs that are necessary to operate the public housing program economically and efficiently.

Commission's Travel Policy

The Commission revised and adopted its travel policy in January 1994. The Commission's policy states that for subsistence allowance, a Commissioner, employee or authorized delegate travelling on official business shall be allotted \$65 per diem.

Travel Policy Was Not Comparable to Public Policy

The Commission's travel policy was not comparable to local public practice regarding payments for meals and incidentals. The City of Benton Harbor used the Federal rates to establish reasonable allowances for meals and incidentals. Using the Federal rates, a traveller may be reimbursed from \$26 to \$38 a day depending on the location of travel. The Commission allowed \$65 per day for meals at any location.

The Executive Director said in January 1994 the Commissioners requested and approved the increase in the meals allowance from \$25 to \$65 a day.

He said the Commissioners determined that per diem subsistence allowance between \$55 and \$65 was common among other public housing agencies. We verified the rate other commissions in the vicinity were paying and found one was paying \$60 a day; however, two others were paying \$35 and \$36 a day. HUD requires the Commission's rate to be comparable to the local public practice, not other housing commissions.

Between January 1994 and May 1995, the Commission processed and paid 82 reimbursement vouchers that included claims for meals at the rate of \$65 per day. The travel was to locations in Michigan, Indiana, Ohio, Florida, California, Illinois, and the District of Columbia. The Housing Commission reimbursed travelers \$18,915 for 291 temporary duty days. Using the City of Benton Harbor's maximum rate of \$38 per day, the reimbursement would have been \$11,058. As a result, the Commission paid excessive costs of at least \$7,857.

Auditee Comments

Excerpts from the Executive Director's comments on our draft finding follow. Appendix A contains the complete text of the comments

The Board of Commissioners have consented to revise the travel policy. The revised travel policy will reflect actual reasonable expenses incurred rather than the \$65 per diem. Travel expenses must be documented and all meals \$20 and over must be verified with a receipt. The revised policy will reflect the norms of the housing industry and the local governing body, Benton Charter Township. A committee has been appointed to revise the travel policy and make recommendations to the board at the October 1995 meeting. A review copy will be forwarded to the U.S. Department of Housing and Urban Development, Grand Rapids Office.

OIG Evaluation of Auditee Comments

The Commission's plan to revise its travel policy should adequately resolve Finding 2 if the Commission's per diem rates do not exceed those established by the City of Benton Harbor. The Benton Charter Township's policy is general and does not contain specific per diem rates because travel is infrequent; therefore it does not serve as an adequate guide for developing a policy. HUD's regulations require that the policy be comparable to local public practice not housing industry norms.

Recommendation

We recommend that the Grand Rapids Office's Director of Public Housing

require the Benton Township Housing Commission to:

2A. Revise its travel policy so that it is comparable with the City of Benton Harbor.

Finding 3

The Commission Charged Excessive Payroll Costs To The Comprehensive Improvement Assistance Program

The Benton Township Housing Commission charged excessive payroll costs to the Comprehensive Improvement Assistance (modernization) Program. Modernization funds that were available at year end were inappropriately divided between the payroll costs of three employees. The Commission charged \$67,479 to the Program. The employees' time records supported that costs of only \$11,409 should have been charged to the Comprehensive Improvement Assistance Program. As a result, \$56,070 of modernization funds were not available or used for the intended purposes of making physical and management improvements at the Commission. Instead, the Commission used the funds to inappropriately subsidize its low-income housing operations.

HUD Requirements

HUD Regulation 24 CFR 85.20 requires the Housing Commission to maintain records that adequately identify the source and application of funds provided for Federally assisted activities. The Commission must assure that the funds are used only for authorized purposes. Section 85.22(b) requires the Commission to comply with the Office of Management and Budget Circular A-87-HB 1300.18. The Circular requires that salaries and fringe benefits chargeable to more than one program must be supported by appropriate time distribution records.

Regulation 24 CFR 968.205 (e) requires that all proration of salaries must be justified by the Housing Commission.

Records Did Not Support Allocation of Salaries

The Benton Township Housing Commission charged \$56,070 in excessive payroll costs to the Comprehensive Improvement Assistance (modernization) Program. The Commission did not follow HUD's requirements. The Commission charged the modernization program for salaries and benefits that were not applicable to the modernization program. For fiscal year 1994, the Commission charged \$67,479 to the modernization program for three employees. The employees time distribution records, however,

supported charges of only \$11,409 for time spent working on the Comprehensive Improvement Assistance Program.

The Executive Director said the fee accountant divided all unspent comprehensive program funds at the 1994 year end between the three employees' payroll costs. The fee accountant said she was unaware that she should have prorated the salaries and benefits costs based on the actual time spent by each employee on the modernization program.

As a result, modernization funds of \$56,070 were not available or used for the intended purpose: to make management and physical improvements at the Commission. Additionally, since the funds should have been charged to the low-income housing program and were not, HUD could not accurately assess the Commission's performance for the low-income housing program.

Auditee Comments

The Benton Township Housing Commission takes issue with the statement that excessive payroll costs were charged to the Comprehensive Improvement Assistance Program. It was stated that the Commission inappropriately divided modernization funds that were available at year end between the payroll costs of three employees. Contrary to the above statement, the fee accountant distributed funds that were approved by HUD in the 1410 Administration account of three on-going programs. The approved amount of \$107,018 was to be distributed according to the budget.

A search for a person to be modernization coordinator was not productive. The Maintenance Supervisor, the Procurement Specialist and the Executive Director, therefore, performed the modernization coordinator duties and the administrative functions of the position remained with the three. At the end of the year, the fee accountant charged off salaries and benefits according to the HUD approved percentages.

It is the opinion of the Commission that the charges for the three employees were appropriate. The funds were never approved in the 1408 accounts to make management and physical improvements, but were approved to be used in the 1410 administrative account.

Not hiring the Coordinator and distributing the duties to the three employees resulted in a cost savings of \$39,539 that was available to be re-directed to other purposes.

OIG Evaluation of Auditee Comments

The fact that HUD approved the budget does not mean the Commission can charge the applicable accounts if there is no support that costs charged were actually incurred. The finding showed that the Commission charged the Comprehensive Improvement Assistance Program for costs that it could not support. For the \$67,479 charged to the program, only \$11,409 was supported by time distribution records. The Commission did not provide any documentation to support the charges of \$56,070. Since the funds were intended to be used to hire a Coordinator, it does not appear that not hiring one resulted in a cost savings. The Coordinator's duties performed by Commission personnel took time away from the performance of their regular duties which included addressing the other problems we found.

Recommendations

We recommend that the Grand Rapids Office's Director of Public Housing assures the Benton Township Housing Commission:

- 3A. Reallocates \$56,070 from the Comprehensive Improvement Assistance Program to the low-income housing program.
- 3B. Establishes procedures and controls to assure that the Programs administered by the Commission, like the Comprehensive Improvement Assistance Program or other modernization programs, are only charged for the actual time spent by each employee.

Internal Controls

In planning and performing our audit, we considered the internal controls of the management of the Benton Township Housing Commission in order to determine our auditing procedures and not to provide assurance on internal controls. Internal controls consist of the 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 are obtained, maintained, and fairly disclosed in reports.

Relevant Internal Controls

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

- Management Policies, Procedures, and Practices
- Management monitoring methods

-- Documentation

-- The correctness of reports submitted to HUD

We assessed all the relevant controls identified above.

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.

Significant Weaknesses

Based on our audit, the followings items are significant weaknesses:

-- Management Policies, Procedures, and Practices. The Housing Commission did not follow adequate policies, procedures, and practices to assure: vacant units were prepared and leased in a timely manner (see Finding 1); its travel policy was comparable to local practice (see Finding 2); and payroll costs were charged to the modernization program based on the actual time spent by each employee (see Finding 3).

Follow Up On Prior Audits

This is the first Office of Inspector General audit of the Benton Township Housing Commission. The Commission's last Independent Accountant's audit report was for the year ended September 30, 1994. It did not contain any findings.

Appendix A

Auditee Comments

[Available in official printed copy ONLY.]

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