Issue Date

February 13, 1996

Audit Case Number

96-SF-207-1002

TO: C. Raphael Mecham, Administrator, Southwest Office of Native American Programs, 9EPI

FROM: Gary E. Albright, District Inspector General for Audit, 9AGA

SUBJECT: Pascua Yaqui Housing Authority
Tucson, Arizona

We have completed an audit of the Pascua Yaqui Housing Authority (PYHA), Tucson, Arizona. The audit objective was to determine whether the PYHA was operated in an efficient, effective and economical manner, and in compliance with the terms and conditions of its Annual Contribution Contracts, applicable laws, HUD regulations, and other directives. This report includes eleven findings with recommendations.

Within 60 days please furnish us, for each recommendation in this report, a status report on (1) the corrective action taken, (2) the proposed corrective action and the date for its completion, or (3) why action is not needed. Also, please furnish us copies of any correspondence or directives issued related to the audit.

To ensure timely action on this report, we will adhere strictly to the departmental requirement for a management decision within 120 days after report issuance. If a decision is not reached by then, we will immediately refer the report to the Director, Office of Native American Programs.

We have provided copies of this report to the auditee.

Should you have any questions, please contact David McCargar, Assistant District Inspector General for Audit, at (415) 436-8101.

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Executive Summary

We completed an audit of the Pascua Yaqui Housing Authority (PYHA) located near Tucson, Arizona. The audit objective was to determine whether the PYHA was operated in an efficient, effective and economical manner, and in compliance with the terms and conditions of its annual contributions contracts, applicable laws, regulations and other directives.

PYHA's poor performance is adversely affecting its programs and residents

The PYHA is experiencing serious management problems which are adversely affecting its ability to carry out its housing and grant programs and, ultimately, the welfare of its residents. These problems primarily resulted from a serious lack of staffing, frequent turnovers in top management, and a failure to develop appropriate policies and procedures and assign individual responsibility for carrying out activities. Deficiencies are summarized below and discussed in detail in Findings No. 2-11.

The $6 million Comprehensive Grant program was poorly planned and administered

Although it is in the fourth year of its Comprehensive Grant program, the PYHA has no real strategy for using the over $6 million it has been awarded, and has made very little progress in identifying and addressing the physical needs of its units or its very real management deficiencies. Additionally, it expended over $118,000 for ineligible or unsupported work items. As a result, residents are being deprived of needed improvements to their units.

Procurement and contract administration were inadequate

The procurement and contract administration process was not effectively managed. Problems were noted in almost all areas of the procurement process, including preparation of bid specifications; documenting the procurement decision making process; performing and documenting construction inspections; and enforcement of Davis-Bacon wage rates. A review of three procurement actions totaling approximately $605,000 identified avoidable costs of about $65,000 and wage underpayments of over $10,000.

Accounting controls were inadequate

Accounting procedures and practices did not provide appropriate control over assets and full disclosure of the results of its operations and grant activities.

Weaknesses included the failure to post accounting records for over seven months; inaccurately posted accounting records; failure to properly invest and control over $3 million of excess funds; and lack of controls over obligated but unspent funds. As a result, records and reports were not useful in managing operations or assisting HUD to monitor the PYHA.

Maintenance and renovation procedures were inadequate

The PYHA needs to provide better quality housing to residents. Maintenance and renovation procedures and practices did not ensure that Mutual Help and Low Rent units were decent, safe and sanitary as required. Deficiencies included the failure to complete routine maintenance and repairs; uncontrolled pest infestations; failure to complete unit renovations and repairs prior to tenant move-in; and not requiring tenants to clean their yards and remove junked cars. As a result, living conditions in and around the PYHA's units were often shameful, dangerous or unsanitary.

Personnel and travel functions need improvement

The PYHA needs to improve its handling of personnel and travel functions and ensure that its Board actions are recorded and made available for public and HUD review. There was confusion among employees as to their job responsibilities, the basis for performance ratings, and eligibility for promotions or salary increases; travel costs were not supported; and neither the public nor HUD could determine what actions the Board had taken for over eight months.

Problems were noted in almost all areas of tenant and homebuyer occupancy functions

Policies governing tenant and homebuyer occupancy functions need to be improved. Problems were noted with almost all occupancy functions, including admissions, income verifications and recertifications, collections, and title transfer to homebuyers. The inadequate management of these functions has resulted in the housing of ineligible families; rental and home ownership payments based on unverified and outdated information; a significant increase in tenant/homebuyer accounts receivables; and the failure to allow Mutual Help families the opportunity to obtain ownership of their homes when their payment obligations had been fulfilled.

Completed development projects need to be audited and closed out

Audits, needed to determine actual development costs, were not obtained on ten projects which had been completed for up to twelve years. As a result, projects with over $3.7 million of unused funds have not been closed out. Had these audits been completed, at least $671,000 of these funds could have been used by the PYHA for additional housing or other housing related purposes. Additionally, the PYHA has drawn down approximately $496,000 in excess of the actual costs of these projects resulting in increased interest costs to HUD.

Monthly Equity Payment Account funds were mismanged

Policies and procedures necessary to ensure that its homebuyers' Monthly Equity Payment Accounts (MEPA) were managed in accordance with its occupancy agreements and applicable regulations had not been developed and implemented. Consequently, the use of such funds has been haphazard, unsupported, inconsistent, or ineligible. A review of MEPA withdrawals totaling over $90,000 indicated that over $60,000 of the funds were expended for unsupported or ineligible purposes. The improper use of MEPA funds deprives the PYHA of funds which it could use to construct additional housing or provide other needed services to its tenants and homebuyers.

Drug elimination grants should be closed

Incomplete drug elimination grants, which have had no activity for over two years, have been ineffective and need to be closed out. Unused funds of over $182,000 need to be deobligated; questionable expenditures of over $86,000 need to be resolved; and over $30,000 of equipment purchased with grant funds must be accounted for and disposed of or utilized for other purposes.

Utility allowances may not be reasonable

Procedures had not been established or responsibility assigned to ensure that resident utility allowances were properly established and reviewed on an annual basis. The last analysis of the adequacy of tenant utility allowances was over four years ago. Thus, neither the PYHA or HUD can be assured that the current utility allowances are appropriate and fair to tenants.

HUD has designated the PYHA as an Operation Recovery and High Risk PHA

In June 1995 the Southwest Office of Native American Programs (SWONAP) designated the PYHA as an **Operation Recovery** housing authority. Under the Operation Recovery program, SWONAP will provide the PYHA with training and technical assistance in an effort to help it improve its operations. In addition, On January 19, 1996 SWONAP designated the PYHA as a **high risk** authority as recommended in our draft audit report. As a high risk housing authority, it will be subject to additional monitoring and approvals by HUD and required to develop a management improvement plan to overcome its management problems.

Auditee Comments

We provided copies of the draft findings to the PYHA and received written responses (dated December 21) on January 2, 1996. We also discussed the draft findings with PYHA officials during the audit and at a February 2, 1996 exit conference. The PYHA generally agreed with the majority of the recommendations set out in our draft findings. They stated that they have recognized the seriousness of their management deficiencies and have already taken significant steps to address them and improve their operations. In light of the actions already taken, they felt that it was premature to declare them high risk. Additionally, they felt that although there were problems with their procurement process and contract administration, many of the specific details set out in the draft finding were in error and procurement decisions made were in accordance with its policy and in the best interest of the PYHA. Thus, they believed that they should not be declared high risk in relation to their procurement activities. In relation to their management of homebuyers Monthly Equity Payment Accounts (MEPA), the PYHA felt that our interpretation on the restrictions on the use of MEPA funds were incorrect and the funds are essentially the homebuyers' funds to use as they see fit.

We considered the PYHA's comments and made revisions to the findings and recommendations where appropriate. The PYHA's responses are summarized at the end of each finding, together with our evaluation. Due the voluminous nature of the PYHA's written response, we have not included a copy of it in the report. However, the Executive Director's overall comments in his letter transmitting the response are included as Appendix A.

Recommendations

We are recommending that you continue to designate the PYHA as a **high risk** housing authority and also classify it as high risk in relation to its procurement activities. In order to begin addressing its management deficiencies, the PYHA should perform an in-depth analysis of its current operations, identify staffing needed to carry out these operations, and then hire qualified personnel to fill the positions identified. We have also recommended that the PYHA review all current policies and procedures, update them when necessary or adopt new ones if they don't exist, and then assign individual responsibility to ensure that these policies and procedures are implemented.

We are making additional recommendations for repayment of ineligible costs and establishment of procedures to correct specific weaknesses detailed in the findings.

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Table of Contents

ACC	Annual Contributions Contract
CFR	Code of Federal Regulations
Comp Grant	Comprehensive Grant Program
DOFA	Date of Full Availability
HUD	The U. S. Department of Housing and Urban Development
IHA	Indian Housing Authority
MEPA	Monthly Equity Payment Account
MHO	Mutual Help and Occupancy (agreements)
PFS	Performance Funding System
PYHA	Pascua Yaqui Housing Authority
SWONAP	Southwest Office of Native American Programs
TOP	Training and Opportunity Program

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Introduction

BACKGROUND

The Pascua Yaqui Tribe established the Pascua Yaqui Housing Authority (PYHA) in 1978 to provide decent, safe and sanitary housing for tribal members. As of September 30, 1995, the PYHA managed 343 conventional Low Rent units and 340 Mutual Help units in 13 projects. Additionally, the PYHA had 40 Low Rent and 40 Mutual Help units in development, 14 of which were being built in Guadalupe, Arizona (a suburb of Phoenix.)

The PYHA was also managing a Comprehensive Grant Program with approved funding of over $6,000,000 through fiscal year 1995 (initial funding approval was in 1992); two Drug Elimination grants funded for $250,000 each; and a Youth Sports Grant of $60,000. HUD froze funding for these programs because the PYHA did not submit current year Low Rent and Mutual Help program budgets. Funding for the Drug Elimination and Youth Sports Grants has also been frozen for lack of progress and failure to submit required financial and narrative reports.

The PYHA was governed by a seven member Board of Commissioners appointed by the Tribal Council. The Board appointed an Executive Director responsible for management of the PYHA's day-to-day operations. On March 27, 1995, Richard Valenzuela was named Executive Director. On May 4, 1995, the Tribal Council abolished the PYHA Board of Commissioners, and named itself as a replacement for the Board. In January 1996 the Tribal Council appointed a new Board of Commissioners.

The PYHA administrative offices are located at 4720 W. Calle Tetakusim, on the Tribal reservation near Tucson, Arizona. Watkins & Associates, Garland, Texas, provides fee accounting services to the PYHA.

OBJECTIVES, SCOPE AND METHODOLOGY OF THE AUDIT

The purpose of our audit was to determine whether the PYHA was (1) complying with its Annual Contribution

Contracts, applicable laws, HUD regulations[1], policies and requirements, and (2) using its resources and managing its programs and operations effectively, efficiently and economically. Specifically, the objectives were to determine whether the PYHA:

- Established and implemented procurement and contract administration policies and procedures which ensured that goods and services were obtained at the best available price and that contract terms were adhered to.
- Maintained current and accurate books and records which provided for appropriate control over assets and full disclosure of the results of its operations and grant activities.
- Ensured that its Low Rent and Mutual Help units were maintained in a decent, safe and sanitary condition.
- Adhered to applicable occupancy requirements relating to resident admissions.
- Completed appropriate certifications and recertifications of resident income and properly determined monthly resident payments.
- Enforced lease or homeownership agreements including maintenance and collection requirements.
- Maintained efficient and effective personnel policies and procedures.
- Controlled and accounted for residents' Mutual Equity Payment Accounts (MEPA) in accordance with applicable regulations and the Mutual Help and Occupancy Agreements.

[1] The consolidated Indian Housing regulations are contained in 24 CFR Part 950. The regulations were moved from Part 905 to the new Part 950 in April 1995. In addition to moving the regulations to Part 950, some of the regulations were simplified to provide more flexibility to local officials. References in this report to the regulations cite the current Part 950 requirements.

- Closed out completed developments as required.

- Administered its grant programs in an efficient and effective manner and in accordance with its own policies and governing regulations.

- Established and updated resident utility allowances in an equitable manner.

The audit was conducted from March through August 1995, and generally covered the period April 1, 1993 through August 31, 1995. Where appropriate, we extended our review to cover other periods. The audit was conducted in accordance with generally accepted government auditing standards.

Our principal methodologies used to accomplish this work included:

- Reviews of Phoenix HUD Southwest Office Native American Program (SWONAP) files and interviews with HUD program personnel.

- Interviews with PYHA and Pascua Yaqui Tribal employees.

- Interviews with the PYHA's fee accountant and reviews of financial records maintained by the fee accountant.

- Consideration of the PYHA's internal control systems pertinent to our audit objectives to determine auditing procedures.

- Inspections of housing units in the PYHA's Low Rent and Mutual Help programs.

- Examination of PYHA procedures and controls related to procurement, accounting, occupancy, maintenance, grant management, personnel, travel, investments, management of restricted accounts, and utility allowances. Where pertinent, we also examined books, records, and other documents relat ed to these areas of PYHA operations to determine whether they were functioning as intended and/or required.

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Management Problems Are Seriously Affecting The PYHA's Housing and Grant Programs Administration

The PYHA is experiencing serious management problems which are adversely affecting its ability to carry out its housing and grant programs and, ultimately, the welfare of its residents. As discussed in Findings 2 through 11, the PYHA is experiencing problems in almost all areas of operations. These problems resulted primarily from a serious lack of staffing, frequent turnovers in top management, and a failure to develop appropriate policies and procedures and assign individual responsibility for carrying out activities. Due to the seriousness of its management problems, the Southwest Office of Native American Programs designated the PYHA as *high risk* on January 19, 1996. As a high risk housing authority, it will be subject to additional monitoring by HUD and required to develop a management improvement plan to overcome its management problems.

PYHA programs have grown substantially over the last three years

During the last three years the PYHA's programs and responsibilities have grown dramatically. It has become involved in a large Comprehensive Grant program with current funding of over $6 million (it had never previously had a modernization program), has attempted to carry out two Drug Elimination grants with total funding of $500,000, and has completed or has in process five development projects with available funding of over $15 million and over 160 units (a 27 percent increase in its number of units).

During this time it has suffered from a serious lack of continuity in top management positions. For example, it has had three Executive Directors and three Comprehensive Grant program coordinators during the last three years. At the time of our audit approximately 15 budgeted staff positions were vacant, including Deputy Director, Development Officer, Accountant, Tenant Relations Officer, and numerous clerical positions.

Further complicating these problems has been a lack of policies and procedures for governing its activities including a failure to assign individual responsibility for carrying out routine work assignments. These problems have seriously affected the PYHA's ability to carry out its programs in a economical and efficient manner which promotes stability and economic and social well-being of the tenants.

PYHA's problems are summarized below and detailed in Findings 2-11

Problems noted during our review are discussed below and in more detail in Findings 2 through 11.

- Although it is in the fourth year of its Comprehensive Grant program, the PYHA has no real strategy for using over $6 million already awarded and has made very little or no progress in identifying and addressing the physical needs of its units or its very real management deficiencies.

- The procurement and contract administration process was not effectively managed. Problems existed in almost all areas of the procurement process including preparation of bid specifications; documenting the procurement decision making process; performing and documenting construction inspections; and enforcement of Davis-Bacon wage rates.

- Accounting procedures and practices did not provide for appropriate control over assets and full disclosure of the results of its operations and grant activities.

- Maintenance and renovation procedures and practices did not ensure that its Mutual Help and Low Rent units were maintained in a decent, safe and sanitary condition.

- Policies and procedures necessary for the prudent management of its personnel and travel functions had not been developed and implemented, and Board actions were not recorded and made available for public and HUD review.

- Policies governing its tenant and homebuyer occupancy functions need to be improved.

Problems were noted with almost all occupancy functions including admissions, income verifications and recertifications, collections, and title transfer to homebuyers.

- Audits, needed to determine actual development costs, were not obtained on ten projects which had been completed for up to twelve years.

- Policies and procedures necessary to ensure that its homebuyers' Monthly Equity Payment Accounts were managed in accordance with its occupancy agreements and applicable regulations had not been developed and implemented. Consequently, the use of such funds has been haphazard, unsupported, inconsistent, or ineligible.

- Drug elimination grants, whose activities were never completed and had no activity for over two years, have been ineffective and need to be closed out.

- Procedures had not been established or responsibility assigned to ensure that resident utility allowances were properly established and reviewed on an annual basis.

The Tribal Council abolished the PYHA Board of Commissioners

In an attempt to address the above problems, the PYHA's Board of Commissioners was abolished by the Pascua Yaqui Tribal Council in May of 1995. The Council replaced the Board as the oversight body of the PYHA. However, there has been no significant improvement in the PYHA's operations since the Council takeover. Staffing issues have not been adequately addressed; pertinent policies and procedures have not been developed, adopted, and implemented; and other deficiencies noted in our review have not been addressed or corrected. In January 1996 the Tribal Council appointed a new Board of Commissioners.

In order to begin addressing its management deficiencies, the PYHA needs to perform an in-depth analysis of its current operations, identify staffing needed to carry out these operations, and then hire qualified personnel to fill the positions identified. It also needs to review all current policies and procedures, update them when necessary or adopt new ones if they don't exist, and then assign individual responsibility to ensure that these policies and procedures are implemented. Until these basic steps are taken, any attempts to improve its operations will be difficult if not impossible.

Auditee Comments

The PYHA stated that while they do have administrative problems, they have demonstrated that they are capable of taking actions to correct the problems. Also, they felt that some of OIG's concerns regarding their operations were without merit. They further stated that they have taken actions to fill key staff positions and to implement needed corrective actions. Accordingly, they feel that declaring them to be a **high risk** housing authority is premature.

OIG Evaluation of Auditee Comments

Although the PYHA has begun the process of improving their operations, in our opinion, significant problems still remain to be addressed and corrected. Accordingly, until these deficiencies are corrected, the PYHA should remain a **high risk** housing authority.

Recommendations

We recommend that you, for this finding as well as Findings 2-11:

A. Continue the PYHA as a **high risk** housing authority, subject to additional monitoring and approvals, until it has demonstrated that it has developed and implemented a management system capable of properly administering its programs, including hiring of adequate qualified staff and adoption and implementation of appropriate policies and procedures necessary to carry out its programs. A deadline should be mutually established between HUD and the PYHA, with firm dates, to achieve substantial improvements. If this approach is not successful, you should consider taking over the management of the PYHA.

B. Provide technical assistance to the PYHA in the identification of staffing needs and the development and implementation of policies and procedures needed to properly carry out its programs or assist it in contracting for such assistance. Assistance should be provided, as needed, for each of the problem areas discussed in Findings 2-11 (Comp Grant implementation, procurement, contract management, accounting, maintenance, personnel, occupancy, project closeout, and utility allowances.)

The PYHA Did Not Properly Implement Its Comprehensive Grant Program

The PYHA did not plan and administer its Comprehensive Grant program in a cost effective and efficient manner or in compliance with requirements. The PYHA is entering the fourth year of its program with no real strategy for using the over $6 million awarded and has made little progress in identifying and addressing the physical needs of its units or its very real management deficiencies. Also, the PYHA expended over $118,000 for ineligible or unsupported work items. Deficiencies noted indicate the PYHA does not have the management capacity needed to carry out its program. As a result, residents are being deprived of needed improvements to their units. These problems were caused, in part, by lack of knowledgeable and experienced staff.

The Comprehensive Grant Program began in 1992

The Comprehensive Grant (Comp Grant) program, which is governed by regulations contained in 24 CFR 950.600[2], was first funded in 1992 to provide modernization assistance to authorities that own or operate units on a reliable and more predictable basis; to enable them to operate, upgrade, modernize and rehabilitate housing developments; and to ensure their continued availability for low-income families as decent, safe, and sanitary housing.

Indian Housing Authorities are to prepare a Comprehensive Plan to identify the best use of Comp Grant program funds. This plan is to include both a

[2]The consolidated Indian Housing regulations were moved from Part 905 to a new Part 950 in April 1995.

Physical and Management Needs Assessment based on input from public meetings, authority personnel, tenant organizations, completion of inspections of units and energy audits.

The Physical Needs Assessment Plan is to identify all work that the authority would need to undertake to bring its developments up to the modernization and energy conservation standards established by HUD. The Management Needs Assessment identifies the improvements needed to upgrade the management and operation of the authority.

The Comprehensive Grant Program was poorly planned

The PYHA's Comp Grant program was poorly planned. There was no documentation to support the data in the Physical and Management Needs Assessments submitted to HUD; not all physical and management needs were identified and included in its plan; routine maintenance items which are the responsibility of the homebuyers were included; energy conservation needs were not addressed; and input from the residents and the public appeared limited. These weaknesses are discussed below.

The physical needs assessment was unreliable

Although the PYHA stated in its 1992 through 1994 grant applications that the physical needs addressed in its comprehensive plan were based on unit inspections, the PYHA did not have documentation of the inspections. Without such inspections, the PYHA could not determine physical needs or plan how to use Comp Grant funds.

In June 1995, the PYHA submitted new budgets for its 1992, 1993, and 1994 Comp Grant program. As before, there was no documentation available to support the Physical Needs Assessment. The Executive Director stated that some items included in these budgets were based on what former authority officials had promised tenants and homebuyers and not on an actual needs assessment. As a result, the Physical Needs Assessment did not include all needed repairs. During inspections made during our review we noted that the exteriors of many units were cracking, resulting in water leaking into the units from the exterior; most units lacked weather stripping needed to reduce utility costs and limit insect infestation; and the concrete foundation slabs of the units in one development were cracking. None of these items were addressed in the PYHA's needs assessment.

The management needs assessment was unsupported

The PYHA did not adequately determine its management needs when developing the Management Needs Assessment. As a result, it developed no specific plans to address its management deficiencies discussed in other findings of this report.

In accordance with 24 CFR 950.672(d)(3), a Comprehensive Plan must include a management needs assessment. This assessment must identify and prioritize all management needs (eg., accounting control systems, employee qualifications, and adequacy of resident programs and services, occupancy, maintenance, etc.)

Sources of data are to be identified in the needs assessment and retained. However, the PYHA could provide no documentation for our review which supported its Management Needs Assessment. Funds were apparently budgeted without real thought or effort to determine actual needs. Our review noted management deficiencies in each of the areas discussed above (see Findings 3, 4, 5, 6, and 7), yet the PYHA had no documentation indicating that it had identified these management deficiencies or developed a plan to address them.

Unneeded repairs were scheduled

The Physical Needs Assessments included cosmetic work to be completed on Mutual Help units which is the responsibility of the homeowner, such as painting; new appliances; and routine maintenance. When asked why these items were included in the Comp Grant program, we were told that the prior Executive Directors and Board of Commissioners made promises to homebuyers to include such work in the Comp Grant program. The current Executive Director feels compelled to complete the promised work, although it may not be the best use of Comp Grant funds or even an eligible use of funds.

Lack of energy conservation

The Physical Needs Assessment is to identify all work needed to bring units up to energy conservation standards established by HUD. However, the PYHA did not conduct an energy audit as part of its planning process or include measures to reduce energy costs in its Comp Grant plans. As discussed previously, the PYHA's units are badly in need of weather stripping. This simple repair item could result in significant energy savings. Yet weatherstripping and other energy saving measures were not planned.

Public meetings were restricted

The PYHA had only limited documentation recording the results of public meetings held as part of its annual Comp Grant budget (Annual Submission) process. Documentation was available indicating that some type of public meetings were held for 1994. However, there was no documentation available indicating that meetings were held for the 1993 submission. Further, there were indications that not all tenants were invited to participate in some meetings. For instance, the PYHA held an annual public meeting May 26, 1995. However, the PYHA only invited residents from two of its thirteen developments.

Budgeted Comp Grant activities duplicate work budgeted and/or already completed under other activities

Besides not adequately determining its physical needs, the PYHA did not ensure that there was no duplication between activities planned to be carried out under the Comp Grant program and activities budgeted for or previously completed using other funds. We compared items included as Extraordinary Maintenance in the Authority's Low Rent Budget with those budgeted under the Comp Grant program and noted various items which were included in both budgets. For example, street lights were included in both budgets for three projects, fences were in both budgets for six projects, and evaporative coolers were in both budgets for one project. Additionally, the PYHA relaced 21 evaporative coolers in Project 2 about two years ago, but has budgeted to replace the same coolers with Comp Grant funds.

Comp Grant funds were expended on ineligible and unsupported activities

The PYHA expended over $118,000 of Comp Grant program funds on ineligible and questionable work items. This included using funds for routine maintenance of Mutual Help units and questionable charges for claimed drug elimination activities. The PYHA also used Comp Grant program funds to make non-emergency physical improvements to Mutual Help units for which homebuyers were delinquent in their house payments. The use of funds in this manner raises further concerns as to whether the PYHA has the capability to manage its program in a cost efficient and effective manner and in conformance with the requirements of the program.

Funds were used for ineligible routine maintenance

The PYHA expended $52,502 for routine maintenance of Mutual Help units (see Appendix B). These routine maintenance repairs included such items as replacement of window glass, miscellaneous plumbing repairs, leveling of refrigerator, fuse replacement, etc. Routine maintenance costs are not an eligible cost item and routine maintenance of Mutual Help units is the responsibility of the homebuyer not the PYHA.

Unsupported expenditures for drug elimination activities

Under the Comp Grant program, individual housing authorities are allowed to expend funds on drug elimination activities. One of the eligible activities is the provision of additional on-duty police, only where such police will provide additional security and protective services over and above those contractually obligated by the Cooperation Agreement with the Tribal government. The additional services are to be verifiable through time sheets and written work assignments.

The PYHA contracted with the Tribal government to provide additional security services and through April 11, 1995 had expended $66,349 for salary costs of individuals involved in this drug enforcement activity. However, the Tribal government did not submit any reports to the PYHA documenting that the one to three employees, whose salary was being paid by the PYHA, were even working on drug elimination activities. According to the PYHA Executive Director, tribal officials stated that they would use the employees however they wanted. The Executive Director did not know what these employees actually did and it is questionable as to whether the activities were actually drug enforcement related.

Funds were spent on ineligible mutual help units

The PYHA used Comp Grant funds to complete non-emergency physical improvements on Mutual Help units whose owners were not in compliance with their financial obligations under their homebuyer agreements. Under Comp Grant regulations, such improvements are ineligible unless they are necessary to meet statutory or regulatory requirements or there is an emergency situation, and prior HUD approval is obtained.

In July 1995 the PYHA elected to use force account labor to replace roofs on the 40 Mutual Help units in Project No. 40-2. However, seven of the forty homebuyers living in the project were delinquent on their financial obligations to the PYHA by periods ranging from three to twelve months. The roof replacement was not an emergency situation, a statutory or regulatory requirement, nor was prior HUD approval of the work requested or obtained. Since the work did not meet statutory or regulatory requirements and HUD did not approve waiving the above requirements, the Authority should not have replaced these seven roofs and the related costs are an ineligible Comp Grant expense.

Implementation was not timely

Generally, a housing authority is expected to obligate each year's Comp Grant funds within two years, and expend such funds within three years, of the date of HUD's approval of their plan. Although the PYHA is now in its fourth year of funding under the Comp Grant program, it has made very little progress towards obligating and expending its funds. Because of serious problems with the posting of its accounting records (see Finding 4), neither we nor the PYHA were able to determine total actual expenditures or obligations of the Comp Grant program. However, based upon drawdown information obtained from HUD, the PYHA has only expended approximately 15% of its cumulative grant amounts.

The delay in implementing the Comp Grant program partially resulted from the constant turnover in Comp Grant staff and the extended period of time the Comp Grant coordinator position was vacant. The PYHA has had three Comp Grant program coordinators, and had no coordinator for 11 out of 16 months from November 27, 1993 to March 20, 1995. Also, there was no indication that any of the staff in charge of the program had the knowledge or experience to efficiently and effectively operate a program of this size.

Recently the expenditure rate increased after the PYHA began large dollar projects such as replacing roofs, fencing, and street lights. However, based on past performance and current problems facing the program (as discussed above), it is doubtful the PYHA will meet its target dates for the obligation and expenditure of funds. In September 1994 HUD extended the deadline for obligating first year Comp Grant funds to December 1994 and the deadline for expending the funds to December 1995. The December 1994 deadline has long past and the PYHA has not yet obligated its first year Comp Grant funds.

HUD is to evaluate IHAs' Comp Grant performance

24 CFR 950.687 requires HUD to evaluate the performance of the authority to determine whether the authority has carried out its activities in a timely manner, in accordance with the Act, including requirements that the work carried out meets the modernization and energy conservation standards and other applicable laws and regulations. If it is determined the authority does not have continuing capacity to operate its Comp Grant program, this section provides various corrective actions or sanctions to be taken against the authority, including freezing or recapture of unspent funds and repayment of ineligible costs. Any repayment must be from non-HUD sources.

Clearly the PYHA has not carried out an acceptable Comp Grant program and it is questionable whether it has the continuing capacity to do so in the future. In our opinion, HUD should consider freezing the PYHA's Comp Grant funding until an acceptable, fully documented Comprehensive Plan is completed and HUD is assured it will be properly implemented.

Auditee Comments

The PYHA admitted that it has had serious problems with the administration of its Comp Grant program. However, it stated that actions have been taken to improve program administration, including hiring an architect to assist in developing a comprehensive plan. Accordingly, it feels that attention should be given to the current administration's ability to manage the program, not to what happened in the past.

The PYHA stated that OIG's characterization of painting and appliance repairs as being cosmetic and not eligible Comp Grant activities was in error. In regards to energy conservation measures, the PYHA stated that an energy audit would not be cost effective because of climatic conditions. However, it stated that revised Comp Grant activities will address energy conservation. Additionally, it stated that the expenditures for roofing on units whose homebuyers' were not current on their monthly payments and expenditures on repairs of units in project 40-2 were eligible Comp Grant activities. It stated that the roofing repairs on the units of ineligible homebuyers were in the best interest of the PYHA and resulted in significant cost savings and that the repairs on units in project 40-2 were for eligible work items included in its approved plan that were simply done out of sequence because of delays in implementing the Comp Grant program.

In relation to payments to the Pascua Yaqui tribe for drug enforcement activities, the PYHA stated that the payments were for police officers whose activities were in the best interest of the Yaqui community. It stated that there was no duplication between work items budgeted under its conventional housing program and its Comp Grant program. Items were included in the operating budget because of problems with Comp Grant funding and the intention was to repay the operating fund with Comp Grant funds when received.

OIG Evaluation of Auditee Comments

We recognize the PYHA's recent efforts to address the major deficiencies hindering the implementation of it's Comp Grant program. However, the fact remains that neither a fully documented Physical and Management Needs Assessment nor a detailed Comprehensive Plan have been completed. Until these items are completed, the PYHA's Comp Grant program will continue to languish and will not meet the minimum requirements or the intent of the program. In regard to the PYHA's specific concerns with information contained in the draft finding, we have made revisions to the finding where deemed appropriate. However, we continue to disagree with many of the PYHA's comments. Specifically:

- Although an energy audit is not specifically required by the Comp Grant program regulations, the Physical Needs Assessment must identify all work needed to bring units up to energy conservation standards established by HUD. Thus, the PYHA must ensure that improvements needed to meet these standards are identified either through the completion of an energy audit or by other equivalent means.

- In our opinion, appliance replacement (specifically refrigerators) and painting are the responsibility of the mutual help homeowners and not an eligible Comp Grant expenditure. Removable appliances have traditionally been considered personal property and thus their replacement would not be a real property improvement. Painting, specifically interior painting, is a routine maintenance item which is not an eligible Comp Grant program expenditure.

- We do not concur with the PYHA's claim that the roof replacement on units of homebuyers who were delinquent on their financial obligations were eligible. In order for work to be done on such units, prior HUD approval must be obtained. Such approval was not obtained. Additionally, based on information submitted, the economics of scale, as it related to the seven units discussed, would not have resulted in significant cost savings as claimed. However, due to the difficulty in going back and assigning roofing costs to specific units, we have amended our recommendation to only require future compliance.

- We continue to consider the $52,502 discussed in the finding to be routine maintenance costs, which were the responsibility of the homeowner and thus ineligible Comp Grant expenditures. The type of work as discussed in the finding and detailed in Appendix B is clearly miscellaneous minor repairs and not part of a structured Comp Grant program.

Recommendations

We recommend you require the PYHA to:

2A. Freeze the PYHA's Comp Grant funding until an acceptable, fully documented and supported Comprehensive Plan has been submitted and approved;

2B. Refund to the Comp Grant program, from non HUD sources, the $52,502 of ineligible routine maintenance costs charged to the program which are detailed in Appendix B;

2C. Submit for your determination of eligibility documentation to support the $66,349 of personnel costs charged to the Comp Grant program's drug elimination activity; and

2D. Cease performing non-emergency Comp Grant work on Mutual Help units when residents are not in compliance with the financial requirements of their Homeownership Agreements.

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Procurement And Contract Administration Need Improvement

The PYHA did not effectively manage its procurement and contract administration process. Problems were noted in almost all phases, including preparation of bid specifications; documenting the procurement decision making process; performing and documenting inspections; and enforcement of Davis-Bacon wage rates. Problems occurred because the PYHA staff and Board members had inadequate knowledge of contracting procedures and an acceptable contract administration system had not been established. As a result, HUD has no assurance the PYHA gives fair and equitable treatment to all firms involved in the purchasing process; that supplies, services, equipment, and materials are procured efficiently, effectively, and at the best prices; or that required wage rates are paid by its contractors. In this regard, a review of three procurement actions totaling $605,189 identified avoidable costs of about $65,000 and wage underpayments of over $10,000.

Housing authorities must establish an effective procurement management system

Regulations contained in 24 CFR 950.160, require, in part, that a housing authority (1) maintain records sufficient to detail the significant history of a procurement, including evidence that the solicitation and award procedures were conducted in compliance with tribal and federal requirements including requirements for wage rates; (2) adopt, promulgate, and comply with rules or regulations for the procurement and administration of supplies, materials, services, and equipment which ensures that all procurement transactions are conducted in a full and open competitive manner; and (3) maintain a contract administration system that ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts. More specific requirements of procurement and contract administration systems are contained in 24 CFR 85.36.

Procurement process relating to three contracts was reviewed

We reviewed the procurement and contract administration process relating to three contracts totaling $605,189. These procurements included the purchase of vehicles, fences and street lighting. We evaluated documentation on hand, interviewed bidders, and reviewed contractor payrolls. Significant problems were noted in each of the three procurements as discussed below:

The procurement process for vehicle purchase was flawed

The procurement process used for the purchase of eight vehicles was seriously flawed. As a result, the PYHA incurred at least $19,300 in unnecessary costs and competition was improperly limited. In August of 1994 the PYHA solicited price quotations for the purchase of six vehicles. Subsequently, in January 1995, the PYHA purchased eight (instead of six) vehicles at a total cost of $139,894. Problems in the solicitation process are discussed below.

The decision to buy all vehicles from one dealer was not prudent

The PYHA purchased all vehicles from a Ford dealer. However, it could have purchased four of the vehicles from a Chevrolet dealer for a total of $11,820 less - $2,955 each. We were informed that the Chevrolets were not purchased because a Board member disliked Chevrolets and the PYHA decided to issue the purchase contract to the Ford dealer who had the overall low total bid. However, there was only a price quote, not a formal bid. Thus, the PYHA could have, and should have, split the procurement and selected the combination of prices which would have resulted in the least cost, even if it meant buying vehicles from more than one dealer [reference 85.36(b)(4)].

New bids should have been solicitated when the number of vehicles changed

The PYHA decided to increase the number of vehicles it would purchase from six to eight. However, new bids were not requested even though this was a significant change from the original solicitation. By not doing so, the PYHA limited competition and could not be assured that the best available price was received. As noted below, the dealer from whom the vehicles were purchased increased the prices.

Delays in purchasing the vehicles cost an additional $7,480

The PYHA did not purchase the eight vehicles until January 1995, five months after its solicitation. This delay resulted in the PYHA paying an additional $7,480 for the vehicles. The price of the vehicles went up and the increase was passed on by the dealer.

The procurement of fences was improperly handled

In November 1994, the PYHA awarded a $325,295 contract for the construction of chain link fences for 180 of its residential units. However, the total solicitation and administration process had serious problems, as follows:

Specifications were inadequate

The drawings and specifications used were originally developed for a fence which the PYHA had constructed around a holding pond. They were not fully applicable for residential use so the PYHA crossed out items set out in the drawings and deleted certain items from the specifications. However, this created confusion as some items were crossed out in the drawings but not deleted from the specifications and visa versa. For example, braces and threaded trusses were shown in the drawings but not required in the narrative specifications. This resulted in at least one bidder including the braces and trusses in his bid because of the conflicting information.

Incorrect Davis-Bacon wage rates were cited in the specifications

According to bid specifications, the Davis-Bacon wage rate for fence workers was $8.50 per hour. This was not the correct hourly wage rate because the $8.50 did not include the mandatory hourly fringe benefit which must be paid. According to HUD Labor Relations Office, the Davis-Bacon wage rate for this job would be $10.81 ($8.29 plus $2.52 for benefits), not $8.50. The PYHA failed to obtain a current wage decision and was unfamiliar with wage requirements.

We reviewed the fence contractor's payrolls for the period January 19, 1995 through May 4, 1995 and determined that employees were underpaid $10,457 as a result of the use of the wrong wage rate (see Appendix C).

The fence contract was not awarded to the low bidder

The contract for fence construction was not awarded to the lowest responsive bidder, resulting in the PYHA paying $37,600 more than necessary for the fences. The PYHA did not have documentation explaining why the low bidder was rejected as required by 24 CFR 85.36(b)(5). However, the staff verbally informed us that the low bidder did not submit a **Training and Opportunity Plan** (TOP) as required by the bid specifications. However, PYHA files indicated that it also had problems with the winning contractor's TOP submitted as part of the bid. The bidder was permitted, after bid opening, to submit a new TOP.

We noted that the TOP was not included in the "Documents and Forms to be Included with Bid" section of the specifications. We interviewed the low (losing) bidder who informed us that the bid specifications and PYHA verbal explanations caused confusion.

Because of the inconsistencies in the bid documents and the failure of the bidders to completely comply with all requirements of the solicitation, the PYHA should have either rejected all bids or allowed the submission of additional documentation, both of which were allowed for in the bid solicitation documents. The PYHA did neither and it resulted in unnecessary costs of $37,600.

The PYHA verbally approved contract changes

The PYHA verbally approved changes in contract requirements without verification as to the advisability of the changes. For example, the PYHA accepted a proposed contract change order suggested by the contractor which resulted in a change in the depth of the fence post holes from 36" to 30" for all fence posts. The contractor stated "The change will not alter the strength of finished product and [we] will warrant this fully."

We asked another fence installer whether such a change would affect the strength of the fence. He said yes, that it is very important to have 36" holes in the type of soil where these fences were constructed. Any shallower hole would affect the fences' strength.

Prudent contract administration practices would require that all contract change orders be approved in writing to preclude potential misunderstandings and possible legal action. Additionally, prudent practices would require that, prior to the approval of any change order, the advisability and cost of it be reviewed and approved by a knowledgeable individual.

The PYHA did not perform or document adequate inspections

The PYHA did not perform adequate inspections of the fences during construction and after completion. As a result, the fences, as constructed and accepted by the PYHA, do not meet contract specifications.

We requested an estimator for another fence company to inspect the completed fences to determine whether they met contract specifications. The inspector stated the fence did not meet the specifications as follows:

- Contract specifications called for 7 gauge tension wire but 9 gauge, a smaller size, was installed.

- Contract specifications required gate posts have a 2 7/8" diameter. The inspector stated that the posts installed were 2 3/8" diameter.

The PYHA stated that it changed the original specifications relating to wire gauge and gate posts prior to bid opening through an addendum sent to all bidders. However, the two losing bidders claimed they received no such addendum. The PYHA's documentation behind its contention was contradictory and did not adequately show that the specifications for wire gauge and fence posts were changed prior to bid opening.

In addition to the above, the specifications required a 2" gap between the ground and bottom of the fence. Our inspection of the fence showed this gap was often over 6".
We requested copies of the Authority's inspections of the fences to determine their extent and adequacy. The responsible employee stated he had inspected fencing at every unit, but did not have any documentation.

The PYHA did not enforce construction labor standards

The Authority did not adequately review contractor payrolls or complete worker interviews. As a result, HUD has no assurance contractors are complying with Davis-Bacon wage rates, HUD and contract requirements.

HUD Handbook 1344.1 Rev 1, Federal Labor Standards Compliance in Housing and Community Development Programs, Chapter 3, requires employee interviews and payroll reviews to ensure employees are categorized in the correct job classification, paid Davis-Bacon wage rates, deductions are authorized and the net pay is correct.

A review of payrolls for this contract revealed that the contractor did not pay Davis-Bacon Wage rates (see above), nor did it pay amounts as shown on the payrolls submitted to the PYHA. We compared the amounts of canceled payroll checks for one pay period with the original payroll. We noted that the net pay of some workers did not agree with the payroll submitted to the PYHA. The contractor told us that the difference was a deduction for employee purchase of lifting belts, but did not explain why the original erroneous payrolls were submitted to the PYHA. The PYHA would have noted this discrepancy had they properly reviewed payroll records and interviewed workers.

There were problems with installation of street lighting

In April 1995, the PYHA awarded a $140,000 contract for street lighting at several Low Rent projects. However, the PYHA had no documentation in its file relating to the selection process. PYHA officials stated that they had appointed their architect as contract administrator and thus thought that they did not need to retain any documentation related to bid selection or contract administration. Interviews with one of the bidders and review of available information indicates that there were problems with the original bid specifications, the contractor selection, and contract administration as follows:

- According to one bidder, the bid specifications were incomplete because they did not contain Davis-Bacon wage rates. He stated he repeatedly called the PYHA to obtain the applicable rates, but never received them. Also, the lighting plan was flawed because it called for an excess number of controllers. Normal installation requires one controller for every 100 lights. However, the Authority's plan required 9 controllers for 47 lights. The bidder said the unneeded 8 controllers raised the cost of the lights by about $8,000.

- One bidder stated he was low bidder on February 7, 1995 and February 15, 1995, but was not chosen and was not told why. The bidder protested the February 15, 1995 award, but received no reply from the Authority. In accordance with 24 CFR 85.36(b)(9) and 85.36(b)(12), the PYHA must have procedures in place to resolve disputes relating to their procurements and must retain records documenting significant events of the procurement. In this case, these requirements were not met and HUD has no assurance that the bid process and contract award was fair or justified.

- The PYHA did not have any records showing employee interviews were held to ensure contractor employees were properly categorized or paid Davis-Bacon wages. Our requests to the contractor for supporting payroll documentation were ignored.

Several factors caused problems

As discussed above, the PYHA has serious problems with its procurement and contract administration. These problems are a result of several factors. The PYHA, although it has adopted a procurement policy, has not developed procedures for carrying out the policy and administering the resulting contracts. As a result, no one is fully aware of their responsibilities or what they are required to do. Further, the person nominally in charge of large procurement actions, including contract administration, has many other responsibilities and thus does not have the time to spend on proper contract administration. Further, this individual has had no previous experience with large procurement actions and has had no relevant procurement training.

In view of these problems, we believe that the PYHA should be declared a "high risk" grantee as it relates to its procurement activity. As provided for in 24 CFR 85.12 appropriate restrictions, including requiring prior contract approval and additional monitoring, should be applied until such time as the PYHA has demonstrated that it has the capability to properly manage its procurement and contract administration process.

Auditee Comments

The PYHA agreed with most of the draft recommendations, but disagreed with OIG's analysis of their specific procurement actions. They felt that all procurement actions reviewed by OIG adhered to the PYHA's adopted procurement policy. However, they stated that they are taking action to improve their procurement process including the hiring of a procurement officer, use of professional consultants on large procurements, revision of its existing procurement policy, and training of those involved in the procurement process. In regards to the specific procurements reviewed by OIG, they disagreed with OIG's conclusions and facts as follows:

- They stated that delays in the procurement of vehicles resulted from disagreement between the Board and the Executive Director and that the staff had no control over this. They stated that the purchase of all vehicles at one time would not have resulted in any savings as volume discounts would not have applied. Additionally, they stated that the purchase of the higher priced Ford vehicles was in the best interest of the PYHA as in the past they had maintenance problems with Chevrolets. Thus, choosing the Fords would result in decreased maintenance costs.

- The PYHA stated that it had used the latest available wage rates in its bid documents for fencing work. It also stated that the bid award was given to the lowest **responsible** bidder, the low bidder was rejected as it didn't have a Training and Opportunity Plan as part of its bid, and that the requirement for this plan was well documented in the bid documents. The PYHA stated that the reduction of the depth of post footers didn't affect the strength of the fence as the specifications in the bid documents were for a seven foot high fence rather than the six foot high fence actually built. Further, it stated that this change was documented through change order No. 1 to the contract. The PYHA claimed that the fence was build in accordance with the bid specifications, as revised by addendum prior to bid opening. The PYHA also stated that the limited scope of the contract would not have required documentation of interim inspections.

- The PYHA stated that the contracting and contract administration for its street lighting contract was handled by a professional

Architectural and Engineering firm. It stated that the correct wage decision was included in the bid documents, the low bidder on the job was rejected because it did not submit a Training and Opportunity Plan, and the response to the bid protest was documented.

The PYHA felt that much of the information in OIG's draft finding was shown to be inaccurate by its response and therefore, it shouldn't be declared high risk in relation to its procurement activities.

OIG Evaluation of Auditee Comments

Based upon the PYHA's response, it appears that it recognizes existing problems in its procurement and contract administration process. However, we do not concur that the additional information submitted by the PYHA demonstrates in any substantial manner that OIG's facts or conclusions presented in the draft finding were inaccurate. In fact, the information submitted was often contradictory and raises even more concerns. Specifically:

- No matter who in the PYHA was responsible, delays in purchasing vehicles resulted in increased prices; the PYHA can not be assured that volume discounts could have been obtained if all vehicles had been purchased at one time; and the PYHA had no documentation available to support its claim that vehicle maintenance costs would be less on Fords versus Chevrolets. Future procurements should be properly planned to ensure that the purchases are timely and result in the best available price.

- The PYHA's claim that the proper wage rate was used for the fencing contract is inaccurate. The documentation submitted to support this was simply a form filed out by the former Executive Director listing wage rates with the notation "pending approval". The correct wage rate determination was subsequently received by the PYHA but not used. Contrary to the PYHA's claim, the requirement for a Training and Opportunity Plan was not well documented in the bid plans and did cause confusion to the bidders. In relation to the changed depth of post holes, both non-winning bidders stated that the reduction would affect the fences' strength. Even if the depth of the holes would be adequate, this would only demonstrate the poor quality of the original specifications, which called for the deeper holes. Further, it should be noted that the official change order relating to this factor was not made until six months after substantial completion of the contract. In relation to the PYHA's claim that contract specifications for wire gauge and fence posts were changed by addendum prior to bid opening, the information submitted to support this claim was contradictory. Further, both non-winning bidders stated that they received no such addendum. We do not agree with the PYHA's claim that interim inspections on this type of contract do not need to be documented.

- In relation to the PYHA's statement that the contracting and contract administration for street lighting was handled by an outside firm, this does not relieve the PYHA of its responsibility to ensure that the contracting was done in accordance with its procurement policy and other applicable requirements and fully documented. Information submitted related to the wage decision for this project supports the bidder's claim of problems encountered in obtaining such information. The original bid solicitation for this contract was dated December 20, 1994, yet the wage determination was not sent to contractors until January 21, 1995, eight days before the scheduled bid opening. The PYHA's claim that the low bidder was rejected because of a failure to submit a Training Opportunity Plan, was contradicted by the documentation it submitted in support of this claim.

Recommendations

We recommend that you require the PYHA to:

3A. Develop and implement procedures to effectively and efficiently carry out its procurement and contract administration process, including determining appropriate method of procurement, proper development of plans and specifications, documentation of the procurement process, proper notification of losing bidders, appropriate response to bid protests, approval of change orders, conducting and documenting inspections on ongoing and completed work, and wage requirement enforcement;

3B. Ensure that the workers on the fence project are paid the $10,457 in wage underpayments set out in Appendix C; and

3C. Obtain and review payrolls related to the contract for street light installation and ensure that contractor employees were paid at the appropriate Davis-Bacon wage rate.

In addition, we recommend that you:

3D. Declare the PYHA to be "high risk" in relation to its procurement management until such time that it has demonstrated that it has the capacity to manage its procurement process in accordance with the requirements of 24 CFR 85.36. During this period, all procurements over $5,000 should be submitted to your office for approval prior to award and intensive monitoring of the PYHA should be undertaken.

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Accounting Procedures And Practices Were Inadequate

The PYHA had not adopted and/or implemented accounting procedures and practices that provided for appropriate control over assets and full disclosure of the results of its operations and grant activities. Weaknesses noted included:

- **Failure to post accounting records for over seven months.**
- **Inaccurately posted accounting records, including cash and investment accounts, accounts receivable and payable, tenant accounts receivable, fixed assets, travel advances, and casualty losses.**
- **Failure to properly invest and control excess funds.**
- **No controls over obligated but unspent funds.**

As a result, the PYHA's records did not reflect the PYHA's true financial position and the results of its operations and could not be used to manage its operations and grant activities or assist HUD in monitoring the PYHA's activities. Additionally, Low Rent funds were used to pay over $213,000 of other program costs; potential investment income was lost; over $337,000 of investment income was not allocated to the appropriate programs; and the PYHA's assets were not adequately protected.

Deficiencies were due to: (a) failure pay the fee accountant or obtain a new fee accountant; (b) failure to staff budgeted accounting positions or provide adequate training to existing staff; (c) lack of policy and procedures; (d) failure to assign responsibilities; and (e) lack of coordination between the Comp Grant program staff and the accounting section.

PYHA is required to maintain complete and accurate records

Section 309 (Low Rent) and Article 12.3 (Mutual Help) of the PYHA's ACCs require it to maintain complete and accurate books of account and records. In addition, 24 CFR 85.20, which establishes the standards for financial management systems of governmental units receiving funding from HUD, requires that accounting records must be maintained " ... which adequately identify the source and application of funds provided for financially-assisted activities."

PYHA's accounting records were not posted for seven months

As of September 1995, the PYHA's books of account had not been posted since January 31, 1995. Effectively, neither the PYHA or HUD knows the financial status of any of its housing or grant programs and the PYHA is attempting to manage its operations without having the necessary accounting data. The lack of posting was partially caused by the former Board of Commissioners' refusal to pay the fee accountant $30,325 for services performed dating back to fiscal year 1992. The fee accountant stopped all accounting work and threatened to initiate legal action against the PYHA if not paid. This impasse continued until June 1995 at which time the fee accountant was paid. The current Executive Director stated that he didn't know why the former Board of Commissioners had refused to pay the fee accountant. During this period the PYHA took no action to obtain a new fee accountant and the Board of Commissioners did not attempt to fill three vacant (budgeted) accounting positions. These actions further aggravated a bad situation.

The fee accountant, in addition to posting the PYHA's formal accounting records, was responsible for preparing it's budgets and required grant and development program reports. When he ceased providing services the PYHA not only didn't know its financial status, it couldn't provide its reports to HUD. As a result, the PYHA's operating subsidy funding for its Low Rent and Mutual Help program was frozen at the start of its new fiscal year on April 1, 1995. Additionally, drawdown authority for its development and Comp Grant programs was placed in jeopardy. In order to get around these problems the PYHA used funds from its Low Rent and Mutual Help restricted accounts to fund its day to day operations. Finally, in order to free up its funding, the PYHA prepared required reports for submission to SWONAP based upon estimates rather than actual data.

PYHA's accounting records were inaccurate

General Ledger accounts were not reconciled or posted correctly and there was no documentation available to support and explain many accounting entries. As a result, PYHA accounting books do not balance and neither it or HUD are sure of the PYHA's actual financial status. We attribute these accounting problems to the PYHA's staff's unfamiliarity with the proper accounting treatment of many items and to the former Board of Commissioner's failure to fill the accountant and two other budgeted staff positions in the accounting section which were necessary for the proper administration of its on-site accounting function.

Following are examples of discrepancies noted during our review of the PYHA's accounting records:

Cash and investments

The PYHA's General Ledger did not reflect accurate cash and investment balances for each program and grant activity. As a result, it is difficult to determine the actual cash position of each program and grant activity, making it burdensome to properly administer the programs. Further, because of the method of accounting, it is almost impossible to determine investment balances needed to compute operating subsidy for its Low Rent program and to allocate interest earned to the proper activities.

Cash - Rather than maintaining separate cash balances for each program and grant activity, all the PYHA's cash was recorded in the Low Rent Program's General Ledger with offsetting accounts receivable/payable for all other programs and grants. All expenditures were paid out of one bank account. This account was not a revolving fund and there was no reconciliation of the fund on a monthly basis with each program or grant activity providing funds needed to cover its estimated expenditures. Effectively, these funds were primarily funds of the Low Rent program. This method of accounting is in violation of the accounting requirements of ACC Sections 12.2 (Mutual Help) and 402 (Low Rent) relating to the pooling of funds and/or the use of revolving funds. This type of accounting has resulted in the Low Rent program fronting the costs of almost all the activities of the PYHA. For example, at January 31, 1995 $213,368 was owed to the Low Rent program by other grant activities:

Comprehensive Grant Program	$ 133,180
Drug Elimination Grant - Year Two	73,383
Youth Sports Grant	6,805
Total owed to Low Rent	$213,368

Investments - HUD Handbook HM 7510,1, Low-Rent Housing Accounting Handbook, Chapter 4, paragraph 15, requires that a register or other record shall be maintained to record the purchase and sale of investment securities. As a minimum the register shall provide a complete description of the securities, date of purchase, price paid and interest paid. Additionally, Sections 401(E) (Low Rent) and 12.1(e) (Mutual Help) of the PYHA's ACCs require it to take actions to identify and invest all funds in excess of its immediate needs. 24 CFR 85.20 requires a system which maximizes the yield from investments.

The PYHA did not have an investment register identifying investments and the source of funds used to purchase the investments or know how much money was invested or where it was invested. We were able to determine (and account for) that at January 31, 1995 the PYHA had $3,189,488 invested in 10 different accounts. However, neither we nor the PYHA could readily determine to which program the funds belonged. As a result the PYHA has been unable to allocate interest earned to the appropriate program. At January 31, 1995 the PYHA's accounting records showed unallocated interest earnings of over $337,000 dating from 1990.

Additionally, the PYHA did not have a policy for the prudent management and investment of excess funds. Up until December 1994 it had over $3 million in checking and savings accounts and as of January 1995 still had over $1.1 million in checking and savings accounts and short term CDs earning less than 3.0 percent annual interest. A good cash management program could have dramatically increased the PYHA's interest earnings.

Accounts receivable and payable

The PYHA did not analyze balances in its Accounts Receivable and Payable accounts on a periodic basis to resolve any long outstanding or questionable entries. Our analysis of the PYHA's Receivable and Payable Accounts identified numerous outstanding items up to 12 years old that had not been resolved and which the PYHA could not explain. For example, Account 1125 - Accounts Receivable HUD, included a $17,406.36 entry from July 1988; Account 2118 - Accounts Payable HUD, included a March 1984 entry for $35,708; and Account 2290 - Deferred Credits Other, included a $98,640 March 1990 entry.

Such entries should be analyzed on a ongoing basis to ensure that proper action is taken on them, including recovering funds due and paying legitimate debts.

However, no one at the PYHA was assigned the responsibility for reviewing these accounts.

Tenant accounts receivable

The aggregate total individual homebuyers' accounts receivable as maintained by the PYHA differed from the General Ledger balance (posted by the fee accountant) by approximately $33,000. The PYHA had not attempted to resolve this discrepancy. We analyzed the account and determined that part of the difference consisted of:

1. $3,616 representing the cost of maintenance work done by the PYHA on Mutual Help units. Rather, than charging this to the homebuyers' account receivable balance the PYHA improperly added the cost to the purchase price of the homes. The fee accountant had properly accounted for these costs as accounts receivable when posting to the general ledger. On-site staff were unfamiliar with the proper accounting for such costs.

2. $3,810 representing monthly administrative charges for vacated Mutual Help units which were improperly charged to homebuyer accounts receivable balances by the PYHA's on-site accounting staff. The fee accountant had properly excluded these charges from his account receivable balances which were represented in the General Ledger.

The PYHA needs to resolve the unidentified differences in this account and establish procedures to reconcile account balances on a monthly basis in the future.

Fixed assets

The PYHA did not have procedures in place to properly record fixed assets when purchased and account for and control them through a periodic physical inventory. During the last two years there has been no accounting for newly purchased fixed assets or any physical inventory counts. We attempted to account for selected items which had been recently purchased. Several of the items selected for review including a television, a monitor, and weed eaters could not be located and are assumed to have been stolen. According to PYHA staff, other equipment items may be missing as a result of recent break ins at the PYHA's administrative office and maintenance facilities. However, because of a lack of records they can't tell if anything is missing.

Travel advances

The PYHA is improperly accounting for travel advances. When an employee receives a travel advance the PYHA records it as an expense rather than as an advance/receivable. Further, the PYHA is not requiring employees to account for the advances after travel is completed through submission of a travel expense report as required by its travel policy. For example, only seven of twenty one travel advances we reviewed were subsequently supported by the employee filing a travel report. Accordingly, the PYHA does not know whether the advances given employees were eventually supported by the actual costs of the employees' travel. Since the PYHA does not properly account for advances we could not readily determine the amount of travel advances which have not been accounted for (also see Finding 6).

Casualty losses (noncapitalized)

The PYHA did not properly account for costs incurred in the renovation of damaged Mutual Help units. During the renovation period these costs and related insurance proceeds, where applicable, are to be recorded in account 4620 Casualty Losses - Noncapitalized. As of January 31, 1995 this account had a recorded credit balance of $28,273. A credit balance typically indicates that the insurance proceeds exceeded the cost of restoring the damaged units. However, the $28,273 credit balance was not accurate as the PYHA had failed to charge account 4620 for force account salaries applicable to the restoration of the damaged units. Proper accounting for all applicable costs is necessary to enable the PYHA to determine the actual cost of renovation and file for full reimbursement from the insurance carrier or obtain additional subsidy funding from HUD when the costs are greater than the insurance coverage or where the original damage was not covered by insurance.

The initial insurance payment for damaged units is equal to 80 percent of the estimated cost of rehabilitation. The insurance company will pay the remaining 20 percent of the claim only after the PYHA submits documentation supporting its total cost of rehabilitation. In addition, HUD provides additional subsidy if the cost of restoration exceeds the insurance proceeds. However, to make these supplemental claims an accounting for all applicable costs must first be made.

In December 1994 the PYHA decided to use force account staff to restore vacated Mutual Help units which had been damaged by fire or abandoned. The force account staff also performs work under the PYHA's Comp Grant program, and the allocating for their time amongst the two programs is the responsibility of the Comp Grant program coordinator. However, as of August 1995, the Comp Grant program coordinator had not submitted, to the accounting section, an allocation of force account labor time applicable to each program which is necessary to determine the total cost of rehabilitation of damaged units. Thus, since December 1994 the PYHA has been unable to submit any final insurance claim or a request to HUD for additional subsidy. Since a portion of the force account labor cost is also a Comp Grant program expense, the accuracy of the Comp Grant program accounting records has also been affected.

The Comp Grant program coordinator stated that his department was working on the allocations, but did not explain why they had not been done. The PYHA needs to take immediate action to account for past force account labor cost and establish procedures to ensure that in the future such information is submitted to the accounting section along with each payroll submission.

There was no control over obligated funds

The PYHA had not established procedures to account for and control obligated but unspent funds for any of its activities. The PYHA's formal accounting system, maintained by the fee accountant, has the capability to capture and disclose this information, if available. However, the fee accountant stated that the PYHA has never provided him with the information necessary to make the applicable postings. Knowledge of obligated funds is critical for the effective management of the PYHA's activities. Further, such information is needed to enable the PYHA to properly report to HUD on the progress of its grant activities.

Auditee Comments

The PYHA agreed with the draft finding and recommendations and stated it has begun to address the deficiencies.

Recommendations

We recommend that you require the PYHA to:

4A. Bring its accounting records current and submit required year end and grant reports to you;

4B. Reimburse the Low Rent Program for expenditures made on behalf of other programs and implement procedures to preclude the need for interprogram borrowing in the future.

4C. Establish policies and procedures to account for each program's and grant's cash and follow proper procedures if a revolving or similar type fund is used;

4D. Establish an investment policy to ensure excess funds are identified and invested prudently and maintain an investment register to account for the source and disposition of all investments;

4E. Analyze Accounts Receivable and Payable balances to determine their propriety and resolve any long outstanding or questionable items, including write off as appropriate;

4F. Reconcile on-site Tenant Accounts Receivables to the General Ledger balance maintained by the fee accountant and resolve any differences identified;

4G. Establish and implement procedures for the control of fixed assets including proper recording and identification when purchased and periodic physical inventories. Additionally, identify fixed asset purchases not previously recorded, ensure that they are recorded and determine their current location;

4H. Establish policies and procedures which will ensure that force account labor costs are properly accounted for on an ongoing basis, i.e. at the time of each payroll submission to accounting;

4I. Require that all travel advances be properly accounted for as advances until such time as a travel voucher is submitted by the traveler to support any claimed costs; and

4J. Establish policies and procedures to properly account for obligated but unspent funds.

Maintenance and Renovation Procedures and Practices Require Improvement

The PYHA needs to provide better quality housing to residents. Maintenance and renovation procedures and practices did not ensure that units were decent, safe and sanitary as required. Specifically, routine maintenance and repairs were not completed; needed pest control was not completed; unit renovations and repairs were not completed prior to or after tenant move-in; and tenants were not required to clean their yards or remove junked cars. As a result, living conditions in and around the PYHA's units were often shameful and dangerous or unsanitary. These conditions resulted from a lack of staffing and assigned responsibility for conducting annual inspections; a failure of Comp Grant, maintenance and occupancy staff to co-ordinate and communicate on inter-related activities to ensure that needed repairs were identified and completed; and a reluctance to enforce Low-Rent and Mutual Help tenant/homebuyer maintenance requirements.

Maintenance procedures did not ensure that units were maintained in a decent, safe and sanitary condition

The PYHA is responsible for maintaining Low Rent units and ensuring that tenants perform applicable housekeeping functions to keep the units clean and sanitary (reference Section 209 of its ACC). Mutual Help homebuyers are responsible for repair and maintenance of their own units. The PYHA is required to ensure that homebuyers adhere to these responsibilities (reference Article 6 of its ACC). If homebuyers can't or won't meet these responsibilities, the PYHA is to take action to remove them from the Mutual Help program. This can be done through eviction, transfer to a Low-Rent unit, or through conversion of the homebuyer's Mutual Help unit to the low-rent program [24 CFR 950.428(d) and (e), 950.446(f), 950.458(a)].

To identify needed repairs and ensure that tenants and homebuyers are properly maintaining their homes, the PYHA is required to perform periodic inspections of all its units, usually at least once each year (reference 24 CFR 950.345 and 950.428). However, due to a lack of occupancy staffing (only five of nine budgeted occupancy positions were filled at the time of our review) and a failure to clearly designate responsibility, the inspections were not done and needed repairs were not identified and corrected. When needed repairs were identified by the PYHA, it had not developed procedures to ensure that they were made. The PYHA failed to assign responsibility for completing repairs for which it was responsible and had no procedures to deal with homebuyers responsible for but incapable or unwilling to perform needed maintenance.

To determine whether these procedural problems effected the upkeep of the PYHA's units, we judgmentally selected 32 units for inspection (16 Low Rent Units and 16 Mutual Help units.) Thirty (15 Low Rent and 15 Mutual Help) of the thirty two units we inspected had health and safety violations or needed repairs (Appendix D). Consequently, tenants are living in conditions hazardous to their health. Although many of the items we noted were minor, failure to promptly correct them could adversely affect tenants' and homebuyers' health and lead to future costly repairs.

We categorized deficiencies as either Health and Safety or Other Needed Repairs. Health and safety items included unlockable doors or windows; vermin infestation; inoperative heaters; no smoke detectors; missing windows; water leaks; electrical hazards, etc. Needed repairs included missing or damaged screens; cabinet doors broken or coming loose; cracked sinks; holes in walls; interior or exterior needing paint, cracked windows, etc.

Following are examples of conditions noted during our inspections:

<u>Project 7 No. 38 - Low Rent</u>

- This unit had such severe health and safety violations that we notified the Tribal Health Department. The unit was filthy with feces on the kitchen floor and massive cockroach infestation. We could not enter one bedroom because it was housing a dog, and another bedroom was so full of junk we could not enter. PYHA employees said this was not the first time they found the unit in this condition. However, there was no documentation showing that the PYHA had taken any action to correct the problem.

Project 5 No. 41 - Mutual Help

- This unit was infested with cock roaches and was filthy. The Homebuyer said the heater had not worked in two years and in wintertime she and her children bring blankets into the living room to try to stay warm. Windows were broken and the smoke detector did not work.

Project 2 No. 3 - Mutual Help

- This unit was filthy, windows were missing, the dead bolt lock did not work, the bathroom had a serious mildew problem, and paint was peeling from the ceiling.

Project 4 No. 15 - Low Rent

- The sink drain pipes in the bathroom leaked, there appeared to be a short in the wiring, tiles were coming up from the floor, and a window was not sealed. Additionally, a large amount of trash and a junked car were in the yard.

We found no evidence that the Low Rent tenants had informed the PYHA of the needed repairs. Their failure to notify the PYHA makes the annual inspections even more critical in the PYHA's attempt to maintain units in a decent, safe, and sanitary condition.

Many units were infested with cockroaches

During our inspections we noted that some Low Rent units suffer from severe cockroach infestation. The PYHA advises tenants that there is a bad problem with cockroaches in rental units and attempts to schedule extermination service (spraying). Quarterly spraying for insects is required as part of the Low Rent lease agreements; however, only 45% of the families allowed their units to be sprayed, due to failure to make or keep appointments. Because the PYHA has filled only one of two budgeted pest control positions, if a unit is not sprayed at the appointed time, the PYHA has to wait three months until the unit can be rescheduled. Although denying access for spraying violates the Low Rent lease, PYHA maintenance officials said they do not take action or notify the occupancy section of lease agreement violations. The infestation problem will not be controlled until the lease agreements are enforced and units can be treated on a routine basis.

Repairs of low rent and mutual help units were not completed prior to tenant move-in

The PYHA did not complete needed repairs before tenants moved into Low-Rent and Mutual Help units or follow-up to ensure that needed repairs identified in tenant move-in inspections were completed. This resulted from the failure to develop procedures and assign responsibility for the inspection of units and completion of repairs prior to and after occupancy. There was confusion as to whether the Comp Grant program coordinator, maintenance supervisor, or occupancy staff was responsible for ensuring that repairs were identified and completed.

The PYHA has assigned responsibility for readying vacant Low Rent units to its maintenance staff and vacant Mutual Help units to a force account staff under the direction of the Comp Grant program coordinator. However, no one was given responsibility to inspect units to ensure that repairs were properly completed and units were ready for occupancy. The only inspections are those made by the occupancy staff at the time of tenant move-in. Further, no one was made responsible for ensuring that items noted by the occupancy staff were corrected. Maintenance staff claimed that correction of uncompleted repairs to Mutual Help units was the responsibility of the force account staff while the force account staff claimed that it was the maintenance staff's responsibility. As a result no one took responsibility and needed repairs were not identified.

Low rent units were not ready for occupancy

We inspected six Low Rent units where tenant move-in occurred between December 1994 and April 1995. Our inspections were completed from one to four months after move-in. Few of the deficiencies noted during the original tenant move-in inspections had been corrected at the time of our inspections. Also, our inspections identified other problems not noted during the original move-in inspection. The results of several of our inspections are detailed below:

Project 7 No. 15

The tenant moved in December 23, 1994. The move in inspection documented many problems with the unit which still existed at the time of our April 24, 1995 inspection as follows:

- Kitchen light fixture not working properly, hot water heater not working properly, two missing window blinds, faucet leaking, back yard light fixture missing, furnace vent cover missing, and light socket in living room burnt out.

We found the following additional problems not noted on the original move-in inspection:

- Exterior doors did not lock, screens missing, kitchen sink leaking, no curtain rods, fire extinguisher not dated, door knobs missing, and no door stops.

Project 6 No. 15

The tenant moved in January 31, 1995. Our inspection on April 24, 1995 identified the following uncorrected problems:

- No curtain rods, no toilet paper holder, hole in bedroom wall, outside front light did not work, heater did not have a filter.

We identified additional problems with the unit including:

- No fire extinguisher, refrigerator leaked water, and the unit needed weather stripping.

We also accompanied PYHA employees on two move-in inspections (made three to four days after tenant move-in) which identified the following problems which had not been corrected prior to tenant move-in.

Project 4 No. 8

- No locks on windows, cockroach infestation, gas leak during the first weekend of occupancy, no closet clothes rods, and a curtain rod which fell down because it was the wrong size.

Project 6 No. 29

- No locks on windows, no screens, refrigerator not working properly, no fire extinguisher, and water cooler leaking.

The PYHA needs to develop and implement procedures which clearly set out methods and responsibility for ensuring that needed unit repairs are identified and completed prior to tenant move-in.

Repairs were not always made to Mutual Help units prior to move-in

We accompanied occupancy staff on the move-in inspections for two restored Mutual Help units. One unit still needed many repairs on the scheduled day of move in as follows:

Project 2 No. 27

- No bedroom closet poles, exposed electrical wires, no windows locks, no medicine cabinet shelves, poor interior paint job, no door stop, swamp cooler not assembled or functional, storage building needed new roof, roofing of unit blowing off, gaps in both bathroom ceilings due to bathroom fans being smaller than the holes cut for them.

The other unit inspected (Project 2 No. 2) was in excellent condition. In our opinion, however this resulted not from the actions of the PYHA, but from the actions of the homebuyer to whom this unit was awarded. The unit was awarded to a PYHA employee whose husband is a contractor. Thus the homebuyers had the knowledge of what work needed to be completed and refused to move in until the unit was free from defects. With proper assignment of responsibility, the PYHA could have the same type of success with all unit renovations.

Junked automobiles and other garbage were allowed to accumulate in tenants' and homebuyers' yards

In violation of their Low Rent leases and Mutual Help agreements, many tenants and homebuyers had allowed abandoned vehicles, significant amounts of trash, and other junk to accumulate in their yards. This not only is unsightly, but can be a health hazard. PYHA officials were reluctant to attempt to enforce the lease and homeownership agreement provisions requiring that yards be kept clean because the Pascua Yaqui Tribe does not require tenants in its homes to maintain clean yards or dispose of abandoned vehicles. The Tribal homes are often right next to the PYHA units and tenants/homebuyers in the PYHA units don't want to be held to different standards. In our opinion, the PYHA should not accept this line of thinking but enforce its lease and Mutual Help agreements and work with the Pascua Yaqui Tribe to establish similar requirements for its units to improve the living conditions of all Tribal residents.

Auditee Comments

The PYHA stated that it has hired additional maintenance staff and once the new employees learn their jobs, maintenance operations will improve. Additionally, the PYHA stated that the confusion among unit renovation work teams resulted from the magnitude of renovation work performed during the last year. During this period, the PYHA stated that its maintenance and force account crews had renovated 35 low rent and 8 Mutual Help units, thereby greatly increasing the availability of housing. Further, the PYHA felt that rehabilitation work not completed on renovated units did not make them unfit for occupancy, and that the needed repairs were subsequently accomplished. The PYHA agreed to implement all the draft recommendations.

OIG Evaluation of Auditee Comments

We recognize the significant efforts made by the PYHA during the last year in rehabilitating units and increasing the availability of housing. However, our concern is that the PYHA had no procedures in place to ensure that repairs/renovation work was properly completed or that, once identified, any defects were corrected in a timely manner. Further, many of the deficiencies in rehabilitation work noted during our inspections of renovated units, as set out in the finding, were health and safety violations. Such items are not minor and do affect the habitability of the units and the safety of the tenants. We inspected these units up to four months after tenant move-in. Yet the deficiencies existing at the time of tenant move-in had not been corrected.

Recommendations

We recommend that you require the PHYA to:

5A. Inspect all units to identify current maintenance needs. This could be done in conjunction with inspections made to develop a Comprehensive Plan (see Recommendation 2A.)

5B. Develop and implement procedures to ensure that units are inspected yearly and timely actions are taken to correct any deficiencies noted;

5C. Develop and implement procedures to resolve instances where homebuyers are unwilling or unable to maintain their residences, including eviction, transfer to low-rent units , or conversion of units to low-rent;

5D. Establish and implement a plan to address pest infestation in units;

5E. Develop and implement procedures to ensure that needed repairs are completed and units are ready for occupancy before move-in. Procedures should assign responsibility and include instructions for conducting inspections prior to occupancy and completing the identified needed repairs.

In addition we recommend you:

5F. Encourage the Pascua Yaqui Tribe to adopt and enforce housing standards for Tribal units to eliminate junked cars and trash in yards.

The PYHA Needs to Improve its Administrative Management Functions

The PYHA needs to improve its handling of personnel and travel functions and ensure that its Board actions are recorded and made available for public and HUD review. Serious problems were noted in these areas, including the failure to:

- **Implement personnel policies and procedures which met the requirements of its Annual Contribution Contracts.**
- **Establish employee personnel files which included yearly employee evaluations, job descriptions, salary rates and personnel actions.**
- **Maintain documentation that newly hired employees met the qualification standards for their positions and that the hiring process was equitable.**
- **Ensure that travel costs were justified and fully documented through employee submission of travel vouchers at the completion of the travel.**
- **Document Board actions through the maintenance of written minutes.**

As a result, there was confusion among employees as to job responsibilities, the basis for performance ratings, and eligibility for promotions or salary increases; travel costs were not supported; and neither the public or HUD could tell what actions its Board had taken for over eight months, including whether resolutions were legally approved by the Board.

IHAs are required to adopt personnel policies and procedures

Article VII, paragraph 7.1(a) of the Mutual Help ACC and Section 307 of the Low Rent ACC require the PYHA to adopt and comply with a personnel policy comparable with local public practices and any requirements or regulations of HUD. Such policy should include job titles and classifications, salary and wage rates, qualification standards and payment of expenses for commissioners, officers and employees in travel status.

Appropriate personnel procedures were not established

Based on available information, it appears that the PYHA has adopted a formal personnel policy. However, staff could not locate and provide a copy of the policy for our review. Moreover, the PYHA did not establish procedures for handling personnel matters or assign responsibility for such matters to anyone. In 1994 the PYHA hired a consultant to create job descriptions for its staff and establish a structured wage/salary system. The PYHA felt that the consultant's final product was not adequate and didn't adopt its recommendations. We reviewed the personnel files of five employees and noted numerous problems including no job descriptions or qualifications standards for the position; no periodic evaluations of job performance; no documentation of any personnel actions; and no indication as to whether the employees were eligible for or received salary increases. Such a system impedes the PYHA's ability to manage its staff and is unfair to employees.

Personnel hiring practices were not documented

The PYHA did not document its hiring process. Thus, it can not be determined whether the process was open and fair and resulted in the selection of the best qualified applicants. In March 1995, the PYHA appointed a new Executive Director and Comprehensive Grant Program Coordinator. The only documentation available was a handwritten memo from the former Vice Chairman of the Board of Commissioners appointing the two individuals and establishing their salaries. There was no documentation setting out the hiring process and qualification standards for the positions or indicating how the salary rates were determined. Further, because of the lack of a personnel policy and Board minutes, there was no confirmation of the former Vice-Chairman's authority to make the hiring decision and establish the salary rates.

Also questionable was the PYHA's June 1995 hiring of a Development Officer and Home ownership Counselor. The Pascua Yaqui Tribe "assisted" the PYHA in the hiring process. However, the PYHA was given no real say in the hiring and there was no documentation available to demonstrate that the individuals hired met minimum qualification requirements of the positions and were the best qualified applicants. According to the Executive Director, the Development Officer had no development experience and the Homeownership Counselor was only hired for the summer. Final selections were made without the Executive Director's participation.

Without documentation, neither the PYHA nor HUD can be assured that the hiring process was equitable, fair, and resulted in the hiring of qualified applicants.

Necessity and support for travel costs was not maintained

The PYHA's Travel Policy requires that travel outside its jurisdiction be approved by the Board of Commissioners. The travel must be the most economical and expeditious means available as documented by a travel report submitted within five working days after return. The report must include purpose of travel, points of travel and dates and times of departures and returns. The traveler must also submit coupons for transportation tickets, lodging receipts, receipts for reimbursable cash expenditures and rental car contracts. The policy allows travel advances only if previous travel advances have been accounted for.

The PYHA did not comply with its policy. A review of recorded travel costs incurred during the period between July 1994 and June 1995 identified numerous discrepancies in the PYHA control over travel expenses.

- Prior Board approval of travel was received for only one of five instances, where required. (Note: We were unable to determine whether board approval was received in six other instances as Board minutes were not available.)

- Travel advances made to travelers were recorded as expenses rather than as advances, thereby reducing the PYHA's controls over final accountability (see Finding 4).

- Travel reports (vouchers) were not submitted by the travelers for 14 of the 21 trips reviewed. Thus, the PYHA could not determine whether employees' actual travel costs were more or less than advances received or ensure the travel was completed by the most economical and expeditious means. Also, contrary to its policy, in 14 instances, the PYHA gave employees travel advances even though they had not accounted for previous advances through submission of travel vouchers.

- The necessity of travel was not always apparent from available documentation. For example, a PYHA Secretary attended two training classes which involved significant travel expense - Finance and Budget Training and the National American Indian Housing Council Convention and Trade Show. However, the Secretary was not involved with finance and budget nor was she a member of the Housing Council. Prior to approval of training and related travel the PYHA must ensure that the training is pertinent to the employee's job responsibilities and a prudent use of funds.

- The PYHA did not ensure travel costs were reasonable. A review of travel vouchers indicated that travelers were paid excess per diem, lodging, and other costs. For instance, a secretary was paid six nights lodging and seven days per diem to attend a convention in Honolulu, Hawaii but official convention business was for only three days. This resulted in overpayment of at least $355. In another instance the PYHA paid $402 for the former Executive Director's car rental during a convention in San Diego. Since the convention was held at the hotel where the former Executive Director was staying, there was no need to rent a car.

No PYHA employee was given responsibility or authority to ensure that travel costs are necessary, reasonable, and properly accounted for. This has resulted in the PYHA's inability to demonstrate that its travel funds were judiciously utilized and that travel was necessary and carried out in accordance with its adopted travel policy.

Official board business was not documented

Contrary to Tribal Ordinance PYLA 79-1, which requires the maintenance of complete and accurate records of all meetings and actions taken by the Board, the PYHA did not have available for review, the minutes of the meetings of the Board of Commissioners held after December 13, 1994. The responsibility for transcribing the recorded minutes of Board meetings was delegated to a PYHA secretary. Although, during our field work we and the Executive Director repeatedly requested the secretary to transcribe the meeting minutes, it was never done. Approved Board minutes are not only necessary to allow the Public and HUD to monitor the PYHA activities, they are legally necessary to establish official PYHA policy and document its actions. Without them, it is impossible to determine what actions the Board has taken and determine whether claimed resolutions and contract approvals are legally valid.

Auditee Comments

The PYHA concurred with all the draft recommendations. However, it felt that it was not completely at fault as previous audits and HUD reviews had not identified any problems with the administration of its personnel and travel functions. Further, the PYHA stated that it does have a personnel policy, but that it is outdated. It has been attempting to revise the policy for the last two years.

OIG Evaluation of Auditee Comments

The PYHA, not HUD or the independent auditors, is responsible for ensuring that appropriate personnel and travel policies are adopted and followed. In regards to the personnel policy, it appears that the PYHA has adopted such a policy. However, they could not locate and provide us with a copy. The only thing that could be located was a copy of its employee handbook which summarized the policy. A policy that can not be found is meaningless.

Recommendations

We recommend you require the PYHA to:

6A. Establish and follow to a personnel policy covering job titles and classifications, salary and wage rates, qualification standards, weekly hours of work, and leave regulations. The hiring policy should meet HUD requirements and ensure fairness in hiring and full documentation of actions taken;

6B. Establish and maintain **complete** personnel files for all employees including position descriptions and job classifications, salary and wage rates including availability of periodic increases, periodic performance evaluations, and records of all personnel actions involving the employee;

6C. Assign responsibility for ensuring adherence to its travel policy and perform a periodic review of travel to ensure that travel is justified, documented, and adheres to its travel policy;

6D. Cease giving travel advances to Board Members and employees who have unliquidated advances from previous travel. The PYHA should consider limiting travel advances to 80% of costs to encourage submission of vouchers after travel is completed (see Finding 4 regarding proper accounting for advances);

6E. Obtain travel expense reports from employees and board members for all outstanding travel advances where expense reports have not been submitted; review the reports to determine whether the advances are fully accounted for; and if excess advances are identified, require the traveler to reimburse the excess; and

6F. Have past Board minutes transcribed immediately and ensure that future Board meeting minutes are transcribed timely.

Tenant And Homebuyer Occupancy Functions Were Poorly Managed

The PYHA did not ensure that its tenant and homebuyer occupancy functions were properly managed. We noted problems in almost all areas affecting tenant and homeowner occupancy - admissions, income verifications and recertifications, collections, and title transfers to homebuyers. Inadequate management resulted in housing of ineligible families; rental and homeownership payments based on unverified and outdated information; a significant increase in tenant/homebuyer account receivables; and the failure to allow Mutual Help families the opportunity to obtain ownership of their homes when their payment obligations had been fulfilled. The failure to properly administer these functions resulted from a severe staffing shortage, Board interference in its day-to-day activities, a failure to identify and adopt procedures needed to implement policies, and a lack of clear employee job responsibilities and supervision. Each of these areas is discussed below.

Admissions

The PYHA's admission policies require that a waiting list be established to ensure reasonableness, fairness and priority in the admission of tenant and homebuyer families into its housing programs. Prior to being placed on the waiting list, income and other information must be verified to ensure family eligibility and priority. Additionally, governing regulations set out in Title 24 Code of Federal Regulations (CFR) 950.301 require that to be eligible for housing, families must be low-income and priority in housing be given to families who qualify for Federal preference. Preferences apply to families who have been involuntarily displaced, live in substandard housing, or who are paying more that 50 percent of income for rent. The family's eligibility for Federal preference must be verified.

The PYHA's waiting lists were meaningless and did not establish reasonable priorities for housing eligible families. We identified four waiting lists. The lists were confusing and had names added or deleted without explanation. Three lists were dated September 7, 1994, May 13, 1995, and August 3, 1995. One list was undated. The list dated September 7, 1994 had only 12 names on the list, yet other information indicated that approximately 275 families had previously applied for housing. It appears these lists were not even used in determining housing priority and eligibility. A review of 10 families who obtained housing during the period January through June 1995 indicated that only one was on the September 7, 1994 waiting list. Two of the four families housed after May 13, 1995 were not on the list dated May 13, 1995. In relation to the waiting list dated August 15, 1995, it was determined that all families who responded to update requests were placed on the list without verifying that they were eligible for housing or qualified for Federal or other preferences.

During the period January through June 1995 the PYHA awarded housing to 10 families based upon their claimed Federal preference eligibility/priority. However, a review of these families' files indicated that in six of the ten cases the families either did not meet Federal preference requirements or there was insufficient information available to make a determination as to eligibility. For example:

- One family was awarded housing, as authorized by the Tribal Chairman, based upon claimed involuntary displacement from its previous housing. However, file information indicates the family was not involuntarily displaced and had given a 30 day notice to its previous landlord that it would be moving.

- A family was awarded housing because it was living in substandard housing. Documentation consisted of an inspection of the family's previous housing which noted that there was no heating in the housing unit. However, there was no indication as to whether this lack of heating was permanent or temporary, i.e. a result of a broken heating system which could be repaired.

- A family was forced to vacate its housing in July 1994 and was awarded housing by the PYHA in June 1995 based upon involuntary displacement. No determination was made as to whether the Federal priority which existed in July 1994 was still applicable one year later.

The PYHA not only did not properly verify claimed Federal preferences, it did not ensure that families met the low-income requirements of its adopted policies, Section 204(b) (Low Rent) and Section 5.2 (Mutual Help) of its ACCs, and 24 CFR 950.301(b). For example, two of the three families awarded Mutual Help housing during the period January through August 1995 had incomes over the applicable low-income limits for admission. In one instance the family's annual income was $47,800 versus the maximum income limit of $30,950. In the other instance the family's income was $40,250 versus the income limit of $28,650. In both instances a family member worked for the PYHA. In one instance the employee family member was responsible for determining families' eligibility for housing. Thus it appears that the waiting list priorities and eligibility requirements were manipulated for the benefit of PYHA employees and to the detriment of other eligible families (Note: regulations allow for housing other than low income families; however, to do so, the PYHA needs to amend its admission policy.)

Deficiencies resulted from the PYHA's failure to develop specific procedures and a clear assignment of responsibility for the verification of information submitted. Further, inadequate supervision was provided to staff to ensure that actions taken met the PYHA's and applicable HUD requirements. As a result, ineligible families were housed at the expense of other needy, eligible families. Further, the PYHA's haphazard manner of maintaining its waiting list and awarding housing could serve to destroy the public's confidence in the PYHA's ability to administer its programs in an equitable manner for the benefit of all eligible families.

Annual and interim recertifications were not completed

The PYHA did not complete Fiscal Year 1994 and 1995 recertifications of tenant information as required by Sections 208(A) (Low Rent) and 5.3(a) (Mutual Help) of its ACCs, 24 CFR 950.315, and its own policies. Staff stated that recertifications were not done because of a lack of staff. The prior Board of Commissioners did not allow the Executive Director to fill vacancies. At the time of our audit the PYHA had five vacant occupancy positions.

The problem continues to worsen as set out below:

Program	No. of Units	Recertification not completed as of 3/20/95	Recertifications not completed as of 8/20/95
Low Rent	322	32(10%)	63(19%)
Mutual Help	320	39(12%)	199(62%)
Total	642	71(11%)	262(40%)

As a result, there is no assurance that rents are proper and that HUD's Low Rent operating subsidy is correct. The failure to complete yearly recertifications is a recurring problem. In September 1993 the SouthWest Office of Native American Programs (SWONAP) notified the PYHA that it had not met HUD recertification requirements for fiscal years 1991, 1992, and 1993. SWONAP reduced the PYHA's Fiscal Year 1993 Low Rent operating subsidy by $106,193. The operating subsidy was reduced to reflect estimated income losses resulting from the failure to recertify. The reduced income resulted in an increased operating subsidy for the affected years. The current failure to recertify incomes, unless corrected, will also result in decreased operating income and a related (improper) increase in future operating subsidies.

The PYHA also did not complete interim income recertifications as required by their Low Rent admissions and occupancy policy. As a result, the PYHA could not be assured that tenants were paying their required rent. Our review of the rent rolls identified 41 of 322 (12%) families as having zero income. Some families have been listed as zero income for over three years. Since families cannot exist for any length of time without income, PYHA employees should have completed interim recertifications as required by paragraph 6.2 of its admissions and occupancy policies which state in part:

> "If, at the time of...Re-Examination, ...it is not possible to make an estimate of Family Income for the next twelve-month period with any degree of accuracy...a Special Re-Determination shall be scheduled by the Housing Authority.
>
> If at the time of such special Re-Examination, it is still not possible to make a reasonable estimate of Family income, special re-examinations shall continue to be scheduled and conducted until such time as a reasonable estimate of Family income can be made for the next twelve months."

The Supervisory Homeownership Counselor stated that interim recertifications were not completed due to lack of staff.

Tenant and homebuyer accounts receivable are increasing

The PYHA's tenant/homebuyer accounts receivables are increasing at an alarming rate. During the period June 1994 to June 1995 Low Rent tenant accounts receivable increased from $9,717 to $28,843 (296 percent) and homebuyer accounts receivable increased from $12,993 to $51,796 (398 percent). Such a trend, if it continues, could have serious consequences as it would deprive the PYHA of funds needed for proper maintenance and operation. PYHA staff said they lacked the staff needed to properly perform their collection and counseling efforts and the former Board of Commissioners instructed them to disregard policies requiring the sending of collection letters to delinquent tenants and homebuyers and the eviction of those seriously delinquent in their payments. In our opinion, such actions reduce tenants' and homebuyers' incentives to make their payments.

Transfers of title were not being made

In accordance with Mutual Help and Occupancy Agreements, the PYHA is to convey title of Mutual Help units to the homebuyers when the unamortized purchase price balance can be covered from the balance in the monthly equity payment account (MEPA). However, the PYHA has not developed procedures or assigned responsibility for conveying title. As a result, homebuyers who have met the requirements for obtaining title to their properties continue to make monthly payments which are no longer required. During our audit, the accounting section identified four homebuyers who qualified for ownership and others who will soon be eligible. Thus, the PYHA needs to immediately develop and implement procedures to ensure that eligible homebuyers receive timely title to their properties.

Auditee Comments

The PYHA generally agreed with the recommendations set out in the draft finding and stated that it has already begun the process of correcting the deficiencies cited. In this regard, it stated that almost all delinquent recertifications have now been brought current. The PYHA also pointed out that regulations governing the mutual help program allow for admission of a limited number of families whose income exceeds the established low income limits (up to 10 percent of the available units).

OIG Evaluation of Auditee Comments

We agree that up to 10 percent of available units under the mutual help program can be occupied by families whose incomes exceed the levels established for low-income families. However, in order to do so, the PYHA must demonstrate to HUD's satisfaction that there is a need to house such families that cannot reasonably be met except under this program. Further, the admission policies adopted by the PYHA must be amended to allow for such admissions. Neither of these two requirements have yet been met.

Recommendations

We recommend you require the PYHA to:

7A. Develop and implement procedures to establish and maintain a waiting list that meets requirements, ensures reasonableness and fairness in establishing priorities for housing, and provide for verification of information and supervisory review;

7B. Complete all overdue tenant and homebuyer recertifications and implement procedures for performing interim recertifications when appropriate, including interim recertifications for tenants/homebuyers who report zero income;

7C. Aggressively enforce its adopted collection policies; and

7D. Develop and implement procedures to identify and transfer title to those homebuyers who have met the requirements for obtaining title to their properties.

In addition, we recommend you:

7E. Reduce Low Rent operating subsidy to compensate for any excessive subsidy paid due to decreased rental income resulting from the PYHA's past failure to recertify tenants on a timely basis; and

7F. Advise the PYHA of actions to take in those cases where ineligible families received housing.

Audits Were Not Obtained For Ten Completed Development Projects

The PYHA did not obtain final development cost audits on ten projects which have been completed for up to twelve years. As a result, HUD has been unable to close out the projects and deobligate or reformulate over $3.7 million of unused funds. Had these audits been completed, at least $671,000 of these funds could have been reformulated by the PYHA for additional housing or other housing related purposes. Additionally, the PYHA has drawn down approximately $496,000 in excess of the actual costs of these projects resulting in increased interest costs to HUD.

Development costs are to be audited so projects can be closed out

In accordance with the requirements of 24 CFR 950.285, a housing authority is to submit to HUD a certificate of actual development cost within 24 months of the date of full availability (DOFA) of each development project. Additionally, with in 36 months of DOFA an audit verification of the actual development costs is to be submitted. If these time frames are not met, HUD may make a determination that all development activities have been completed and proceed with the fiscal closeout of the project. Funds awarded to a housing authority but not used may, with HUD's approval, be reformulated and used for additional housing or other related activities.

Development costs of ten projects were not audited

During the period March 1983 through April 1992 ten projects reached DOFA. The PYHA submitted Actual Development Cost Certificates to HUD for nine of the projects, but did not ensure that its annual financial statement audits included audits of development costs. As a result, final (actual) development costs were not audited within 36 months of DOFA, or since, and none of the ten projects have been closed out. Undisbursed award balances on these projects totaled over $3.7 million dollars. Of this, at least $671,000 would be available to the PYHA for reformulation. More would be available, depending on interest charges by HUD and the value of land donations, which would reduce the total unobligated balance of $3.7 million. Also, for these ten projects the PYHA had drawn down over

$496,000 in excess of its actual costs, causing HUD to incur unnecessary interest costs.

A summary of these projects is set out below:

Project No.	DOFA	GROSS UNOBLIGATED AWARD	DISBURSABLE AMOUNT NOT DISBURSED	DRAWS IN EXCESS OF ACTUAL COSTS
40-2	3/31/83	$ 335,725	$ 137,291	$ 10,730
40-3	4/30/86	173,992	5,656	36,405
40-4	12/31/86	369,446	36,733	14,263
40-5	5/31/87	763,951	42,362	21,783
40-6	6/30/87	211,616	26,667	32,794
40-7	12/31/87	864,365	50,122	92,510
40-8	11/30/87	635,121	228,290	226,834
40-9*	11/30/91	130,594	18,094	498
40-10	11/30/91	64,953	11,766	19,500
40-11	4/30/92	160,317	119,949	40,862
TOTAL		$3,710,080	$ 671,839	$ 496,179

* Actual Development Cost Certificate has not been submitted by the PYHA.

Due to the age of some of these projects, it is questionable as to whether the PYHA has documentation available needed to complete audits of the older projects. If this is the case, then HUD should initiate action to close out the projects based upon available information. But it is the PYHA's responsibility to ensure future audits include all developments which have reached DOFA.

Auditee Comments

The PYHA stated that staff was previously unaware that audits had not been conducted of completed development projects and that HUD had never informed them that there was a need to close out the projects. However, it is now in the process of contracting for the audit of the completed projects and will take needed actions to close out the projects.

Recommendations

We recommend you:

8A. Require the PYHA to obtain audits of completed projects, where needed documentation is still available, and submit the audits to your office for review and project closeout. You should close out, based upon available information, those projects where an audit is not feasible due to the lack of supporting documents;

8B. Require that the PYHA include audits of development costs in all future annual (single) audits, when applicable; and

8C. Require the PYHA to remit to HUD the $496,179 excess drawdowns on the ten completed projects.

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The PYHA Mismanaged Homebuyers' Monthly Equity Payment Accounts

The PYHA has not adopted and implemented policies and procedures to manage its homebuyers' Monthly Equity Payment Accounts (MEPA) as required by 24 CFR 950.428 and 437. As a result, the use of such funds has been haphazard, unsupported, inconsistent and contrary to the terms of the homebuyers' Mutual Help and Occupancy Agreements and applicable regulations. We reviewed MEPA withdrawals totaling $90,222 and determined that $60,417 (67 percent) was expended for unsupported or ineligible purposes. The improper use of MEPA funds deprives the PYHA of funds which it could use to construct additional housing or provide other needed services to its tenants and homebuyers.

MEPA payments were either improper or questionable

Specific concerns noted during our audit included:

- Payments were made for homebuyer utility bills without verification to assure that the homebuyer was unable to pay them (unsupported $2,674).
- MEPA funds were used for routine maintenance although homebuyers are responsible for such costs and appeared to have income to pay the expensess without using MEPA funds (ineligible $5,468).
- Homebuyers were allowed to use MEPA funds to buy appliances which are personal property and an ineligible use of MEPA funds (ineligible $7,244).
- There was no policy as to whether homebuyers had to repay MEPA funds used to pay for utilities, maintenance and property betterments and additions.
- There was no verification homebuyers used MEPA funds for the uses claimed (unsupported $30,428).

- The PYHA did not define luxury items and allowed homebuyers to use MEPA funds for items we considered luxury items (ineligible $14,603).

MEPA funds represent homebuyers' equity

Funds in homebuyers' MEPAs represent equity towards the purchase of their homes under the Mutual Help program. The homebuyer, based upon income, makes monthly payments which are placed in the account. Once the account balance equals the unamortized balance of the purchase price of the property, it can be used by the homebuyer to make final purchase. At purchase this balance reverts to the housing authority and can be used for other low-income housing purposes, including construction of additional units.

Homebuyers have no right to receive or use the funds in the accounts except as set out in their Mutual Help and Occupancy (MHO) Agreements (reference 24 CFR 950.437 and 950.440). Uses set out in the MHO agreements (other than for the ultimate purchase of the home) are for payment of past due administrative charges and for utilities and maintenance only when the homeowner can't meet the costs of these items and the failure to pay utilities or perform required maintenance would result in conditions hazardous to the life or safety of the occupants.

A housing authority **may** allow homebuyers to use their MEPA funds for betterments and additions. If so, the authority is to determine whether the homebuyer must replenish the funds and, if so, if interest will be charged. Funds can not be used for luxury items, as determined by the housing authority [reference 24 CFR 950.428(g)].

To properly administer MEPA accounts and ensure consistent and fair treatment of all homebuyers, it is incumbent on a housing authority to adopt and implement policies specifically setting out its rules relating to allowable uses of MEPA funds and procedures to ensure that funds released are used properly. However, the PYHA did not adopt comprehensive policies and procedures. We judgementally reviewed 87 MEPA withdrawals totaling

$90,222, relating to 15 homebuyers. Based on our review, the lack of effective policies and procedures resulted in haphazard management and improper use of MEPA funds. As discussed below $60,417 of the $90,222 was unsupported or ineligible:

No need determination was made prior to release of funds to pay utilities

The PYHA released funds to homebuyers for payment of utilities without verifying that the homebuyers were unable to pay for the utilities or that a true emergency existed as required by 24 CFR 950.428(e) and section 8.5 of the MHO Agreements.

We reviewed utility payments totaling $4,192 made by the PYHA on behalf of four homebuyers. The PYHA made emergency need determinations relating to only one of the four homebuyers. No need determinations were made for the other three families on whose behalf payments totaling $2,674 were made. Consequently, the use of MEPA funds in these cases was not supported. The PYHA was also paying the homebuyers' telephone bills, including substantial long distance charges. In our opinion, such charges are not eligible uses of MEPA funds as their nonpayment would not create an emergency situation.

MEPA funds were released to homebuyers to pay for routine maintenance

The PYHA used MEPA funds totaling $5,644 to pay for routine maintenance needs of five homebuyers (painting, plumbing repairs, water heater replacement, and miscellaneous repairs.) Under the terms of the MHO agreements (section 8.4) and pertinent regulations [24 CFR 950.428(d)] the homebuyer is responsible for routine and non-routine maintenance, including all repairs and replacements. MEPA funds can only be used if the homebuyer fails to perform the maintenance and it is determined that the condition of the property creates a hazard to the life, health, or safety of the occupants, or if there is a risk of damage to the property if the condition is not corrected. Such a determination was made in only one instance involving replacement of a water heater costing $176. The remaining $5,468 of maintenance payments were not supported and are ineligible uses of MEPA funds. In this regard, $4,276 of the payments went directly to the homebuyers (who were Board members, PYHA employees or relatives) without any verification that the claimed maintenance work was done.

$7,244 was paid for ineligible appliance purchases

The PYHA improperly used MEPA funds totaling $7,244 to purchase appliances for homebuyers. As previously mentioned, all routine maintenance and **replacements** are the responsibility of the homebuyer. Further, appliances are considered personal property and not a property betterment or addition. Accordingly, funds should not be released to homebuyers for appliance purchases. Appliances purportedly purchased included washers (2), dryers (2), microwave, and refrigerators (2). In all but one instance, the checks for payment went to an appliance dealer. However, the PYHA did not verify that the appliances were actually purchased and received by the homebuyer. Further, the appliances purportedly purchased were in many instances very expensive, eg., $1,283 for a refrigerator and $2,424 for a refrigerator and stove.

$71,022 was used for betterments and additions without any policy or procedures

The PYHA released $71,022 to homebuyers for betterments and additions to their properties. However, the PYHA has never adopted policies which would allow such use of MEPA funds or set out terms for their use, including whether or not the funds must be replaced by the homebuyer. Since the PYHA has not formally adopted policies relating to the use of MEPA funds, their use is governed by the individual MHO agreements which do not allow for betterments and additions. Failure to adopt policies and procedures for use of MEPA funds for betterments and additions resulted in serious deficiencies:

- The PYHA released $30,428 for planned improvements which were not completed by the homebuyers. In these instances the funds were given directly to the homebuyers prior to the start of work on the claimed betterments and additions. Of further concern is that the individuals receiving these payments were either Board members, PYHA employees, or their relatives. Since the claimed work was not completed, funds were used for purposes other than the intended betterments and additions.

- The PYHA has not adopted policies defining luxury items as required. As a result, it allowed $14,603 of MEPA funds to be used for items, which we consider luxury items and an ineligible use of MEPA. This included purchase of storage sheds ($2,997); building a patio wall ($4,722 - payment directly to homebuyer), patio ($2,500 - payment directly to homebuyer), and patio cover ($542); and conversion of a three bedroom unit to a two bedroom unit ($3,842).

* * *

The PYHA's failure to adequately regulate the use of MEPA funds has resulted in a complete loss of control. Rather than serving to create equity in the homebuyer's property, the MEPAs have effectively become savings accounts which the homebuyers can access at any time for any purpose. This is particularly disturbing as those who appear to benefit most are Board members and employees or their relatives. The improper, unregulated use of MEPA funds deprives the PYHA of funds which it could use to construct additional housing or provide other needed services to its tenants and homebuyers.

Auditee Comments

The PYHA stated that it previously adopted a policy for the use of MEPA funds, and it processed requests for use of these funds in accordance with this policy on a case by case basis. It believes that this policy does require revision. It states that it is aware of no definition of luxury items and that pertinent regulations allow the housing authority to make this determination. The PYHA further stated that it is not in the best interest of the housing authority to deny anyone the possibility of using MEPA funds for bettering or replacing an item which the homebuyer will eventually own.

The PYHA also stated that it could not comprehend how the balances in a homebuyer's MEPA account could be used to build additional housing as, at the time of conveyance, the balance in the account would zero out. Thus, there would be no funds left to build additional housing.

Additionally, the PYHA stated that OIG failed to give consideration to actual day to day family activities which would eventually require the replacement of household items or repair of the unit. Thus, it is not in PYHA's best interest to deem routine maintenance an ineligible expense. Work items to be paid for from MEPA should be at the discretion of the homebuyer.

OIG Evaluation of Auditee Comments

The PYHA could not provide us with evidence that its Board of Commissioners had ever adopted procedures related to the use of MEPA for betterments and additions. It did have a draft policy which was supposedly used. However, the policy was so general that it was not workable, as discussed in the finding. The PYHA's response also raises additional concerns relating to staff's knowledge of the Mutual Help program. This program is a home ownership program. The homebuyer's monthly payment in excess of the administrative fee is to go to the MEPA account. Once the balance in this account is equal to the unamortized purchase price, the homebuyer can use the funds to obtain title to the property. The MEPA balance used by the homebuyer to purchase the property then reverts to the housing authority to use for housing related purposes, including development of new housing. Additionally, under this program the **homebuyer**, just like any homeowner, is responsible for **all** maintenance of the unit, to be paid for from non-MEPA sources. The homebuyer has no right to MEPA funds, except as set out in the MHO agreements. In order to provide homebuyers with more disposable income to meet their maintenance needs, the monthly payments under this program are set at 15% of the homebuyers' adjusted income, rather than the 30% which is required under the rental program.

In relation to luxury items, we agree that the PYHA is responsible for establishing a reasonable and prudent definition of such items. However, they had not done so. Thus, in order to analyze the use of MEPA funds, we had to use our own definition of luxury items. We used the dictionary definition of luxury and the description of luxury items set out in HUD Handbook, 7485.3, Comprehensive Grant Program.

Recommendations

We recommend you require the PYHA to:

9A. Immediately adopt and implement policies and procedures to govern the use of MEPA funds including determining emergency need and procedures for verification prior to payment for utilities and routine maintenance; definition of eligible uses of MEPA relating to betterments and additions; procedures to verify that funds will be used for the intended purposes; identification of luxury items; and policies relating to replenishment of MEPA by homebuyers who are allowed to withdraw funds. **Until such policies and procedueres are adopted and implemented,** you should cease allowing MEPA funds to be used for any purpose other than delinquent administrative fees or emergency maintenance performed by the PYHA;

9B. Require homebuyers to repay their MEPA accounts the $27,315 spent for ineligible purposes;

9C. Require homebuyers to repay that portion of the $33,102 they can not document was spent on eligible improvements; and

9D. Submit to your office, for review, documentation supporting all MEPA disbursements over $500 made since January 1992. Homebuyers should be required to repay any disbursements not meeting MEPA eligibility requirements.

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Ineffective Drug Elimination Programs Need To Be Closed Out

The PYHA must take action to close out its two drug elimination grants. These grants ($250,000 each), originally funded in 1990 and 1991, have had questionable effectiveness and have had no activity for over two years. Yet the PYHA has taken no action to close out the grants and de-obligate unused funds totaling over $182,000. Additionally, over $86,000 of questionable expenditures must be resolved and over $30,000 of equipment purchased with grant funds must be accounted for, disposed of, or used for other purposes. In accordance with grant terms, all drug elimination funds were to be expended within two years from the date of obligation (reference Notice PIH 90-43 and 24 CFR 962.26(b)). However, because of a lack of staffing and other priorities the PYHA has taken no action to close out the grants.

Effectiveness of grant activities is questionable

The activities funded under the grants were not adequately managed and as a result had no demonstrable success. The programs were to include tenant security patrols, additional security officers, youth mentor programs, resident training, and development of video's by local youth. Although the programs started off well, a lack of staffing and ineffective management resulted in the programs being abandoned. For example, the tenant security patrols were abandoned, the mentor program was dropped, only one security officer was available for any significant period of time, and the videos were never completed.

Additionally, the PYHA did not maintain records with which it could measure the success of programs or submit required financial and narrative reports to HUD needed to monitor the grant activities. Although over $317,000 was expended under the two grants the PYHA has no evidence, or tracking system, to show that the expenditures have had any impact on drug elimination. Also, there was $182,000 in unused funds.

Expenditures for security officers were not supported

The PYHA expended $86,412 in drug elimination grant funds for security officer salary costs. The security officers were Tribal employees and as such their activities were governed by, and they reported to, Tribal authorities not the PYHA. In accordance with the written agreement between the Tribe and the PYHA, time sheets and narrative reports were to be submitted by the security officers to document that they were actually involved in drug elimination activities. However, these reports were never submitted and thus there is no documentation available to demonstrate that these security officers actually worked on drug elimination activities. PYHA officials stated that they asked Tribal officials for such reports but their requests were ignored. Without such documentation the eligibility of the security officers' salary costs is questionable.

Equipment purchased with grant funds needs to be accounted for and used or disposed of

The PYHA purchased over $30,000 of equipment with its drug elimination grant funds. This equipment included mountain bikes, high quality (expensive) video equipment, two-way radios, etc. The PYHA also purchased games and toys for the youth who were to participate in activities offered as part of the drug elimination programs. These programs have been inactive for over two years yet no action has been taken to account for this equipment and either dispose of it or use it for other activities as required by 24 CFR 85.32(e). Most of the equipment is currently not being used and is stored away and being allowed to deteriorate.

Auditee Comments

The PYHA stated that it is in the process of obtaining an independent audit of its drug elimination grant activities. Once the audit is completed the grants will be closed out. In relation to the payment of $86,412 for security officer salary costs, the PYHA stated that these individuals were in actuality working as police officers for the Tribal government and answering calls intended for shift officers. The PYHA further stated that it was not its "obligation to undermine the obvious necessity for police officers to address all community needs.."

OIG Evaluation of Auditee Comments

The use of police officers to meet all community needs may be admirable. However, it does not meet the terms of the PYHA's drug elimination grant applications. Further, there is no documentation available to establish that the officers even worked on drug elimination activities affecting the PYHA and its residents.

Recommendations

We recommend you require the PYHA to:

10A. Obtain and submit for your review and determination of eligibility, documentation detailing the activities of security officers whose salary was charged to the drug elimination program. If it is determined that the $86,412 charged to the program is not supported and an eligible drug elimination program expense, require the PYHA to refund the funds from non HUD sources;

10B. Submit to your office the required financial data (including audits) to allow for close out of its 1990 and 1991 drug elimination grants, including recapture of unused funds; and

10C. Prepare an inventory and account for all equipment purchased with drug elimination funds and submit for your review and approval a planned use or disposition action for each item.

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The Adequacy Of Resident Utility Allowances Is Questionable

The PYHA had no records documenting the basis on which its residents' utility allowances were established or when the last review of their adequacy was performed. As a result, neither HUD nor the PYHA and its residents have assurances that the current allowance reflects the cost of reasonable consumption of utilities by an energy-conservative household of modest circumstances consistent with the requirements of a safe, sanitary and healthful living environment.

Utility allowances should be reviewed annually

24 CFR 950.874 requires housing authorities to review at least annually the basis on which utility allowances have been established and, if justified, establish revised allowances. Additionally, 24 CFR 950.865 requires that a record be maintained that documents the basis for the allowances established. However, the PYHA had not established procedures or assigned responsibility to ensure reasonable utility allowances.

A current utility allowance is especially important to PYHA residents considering the high cost of utilities resulting from the severe climate of Southern Arizona. According to PYHA records, the last change (and apparent analysis) in resident utility allowance was four years ago.

Auditee Comments

The PYHA concurred with the finding and stated that needed corrective action will be taken.

Recommendations

We recommend you require the PYHA to:

11A. Conduct a review of the adequacy of its current resident utility allowances within 60 days, and establish revised allowances if determined appropriate. If staff is not qualified to make the reviews, the PYHA should contract out for them; and

11B. Establish procedures and assign responsibility to ensure that reviews of the adequacy of utility allowances are performed annually and that the basis for allowances established are fully documented.

Internal Control

In planning and performing our audit, we considered internal control systems used by the PYHA to determine our auditing procedures and not to provide assurance on internal control. Internal control is the process effected by an entity's board of commissioners, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

In each of these three categories of objectives, organizations will establish their own specific control objectives and control procedures aimed at achieving these broad objectives. If organizations are to meet these control objectives, five components of internal control - control environment, risk assessment, control activities, information and communication, and monitoring - must be present. That is, the control objectives in each category are inextricably linked with the five supporting components.

We evaluated pertinent internal control systems

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

- Grant Administration
- Procurement and Contract Administration
- Accounting Books and Records
- Dwelling Unit Maintenance and Renovation
- Personnel and Travel Administration
- Tenant/Participant Management
- Development Closeout
- Utility Allowances

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

Significant control weaknesses were noted

A significant weakness exists if internal control does not give reasonable assurance that all three control objectives are met. Based on our review, we believe the following were significant weaknesses:

- The PYHA did not possess the administrative capacity to operate its housing and grant programs in an efficient and effective manner (Findings 1 and 2).

- The PYHA did not develop or did not implement policies and procedures adequate to ensure that its programs and activities were carried out in an efficient and effective manner and in compliance with requirements and did not adequately assign responsibility to staff (Findings 1 through 11).

- PHYA staff did not adequately understand HUD requirements (Findings 1, 2, 3, and 9).

- Accounting procedures and practices did not provide for appropriate control over assets and full disclosure of the results of operations and grant activities (Finding 4).

Auditee Comments

Ineligible Comprehensive Grant Costs

Underpayment of Fence Contractor Employees

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Results of OIG inspections of Low Rent and Mutual Help Units

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Schedule of Ineligible and Unsupported Costs

Finding number and subject	Ineligible Amount (1)	Unsupported Amount(2)
2. CompGrant funds used for routine repairs	$52,502	
2. CompGrant funds used for drug elimination		$66,349
3. Underpayment of contract fence employees	10,457	
8. Excess development advances to completed projects	496,179	
9. Ineligible disbursements of MEPA funds	27,315	
9. Unsupported disbursements of MEPA funds		33,102
10. Unsupported use of Drug Elimination Grant funds		86,412
Totals	**$586,453**	**$185,863**

(1) Ineligible amounts obviously violate law, contract, HUD or local agency policies or regulations, such as buying unneeded services.

(2) Unsupported amounts do not obviously violate law,a contract, policy or regulation but warrant being contested for various reasons such as the lack of satisfactory documentation to support eligibility and HUD approval.

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