



**Housing Authority of the County of Lackawanna
Dunmore, PA**

Public Housing Program



Issue Date: February 28, 2014

Audit Report Number: 2014-PH-1003

TO: Dennis G. Bellingtier, Director, Office of Public Housing, Pennsylvania State Office, 3APH
//signed//

FROM: David E. Kasperowicz, Regional Inspector General for Audit, Philadelphia Region, 3AGA

SUBJECT: The Housing Authority of the County of Lackawanna, Dunmore, PA, Needs To Improve Its Controls Over Its Operations To Comply With HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Housing Authority of the County of Lackawanna, PA.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 215-430-6730.



February 28, 2014

The Housing Authority of the County of Lackawanna, Dunmore, PA, Needs To Improve Its Controls Over Its Operations To Comply With HUD Requirements

Highlights

Audit Report 2014-PH-1003

What We Audited and Why

We audited the Housing Authority of the County of Lackawanna because we received an anonymous complaint alleging incompetent leadership, nepotism, misuse of funds, and poor quality of life at the Authority. Based on the complaint, we performed a comprehensive audit of the Authority. Our objectives were to determine whether the allegations in the complaint had merit and whether the Authority had effective controls to prevent conflicts of interest, ensure that interfund accounts were settled in a timely manner, identify parties excluded from doing business with the U.S. Department of Housing and Urban Development (HUD), and prevent undue risk to the Authority from its employees' use of Authority-owned vehicles. This is the first of two audit reports to be issued on the Authority.

What We Recommend

We recommend that HUD require the Authority to develop and implement (1) policies and procedures to detect, prevent, and resolve conflict-of-interest situations and (2) controls to ensure that interfund accounts are settled in a timely manner, thereby putting \$370,234 to better use over a 1-year period.

What We Found

The allegations in the anonymous complaint had merit. The Authority allowed a conflict-of-interest situation to exist, did not settle an interfund account balance totaling \$370,234 in a timely manner, did not check to identify parties excluded from doing business with HUD, and assumed an undue risk by not controlling its employees' use of Authority-owned vehicles. We discussed these deficiencies with Authority officials during the audit and they took some immediate corrective action and informed us they planned to take additional corrective action to address our recommendations.

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BACKGROUND AND OBJECTIVES

The Housing Authority of the County of Lackawanna, PA, was established 1967 to provide low-income citizens with safe, clean, and affordable housing and help improve their quality of life. The Authority is a nonprofit corporation, which was organized for the purpose of engaging in the development, acquisition, and administrative activities of the low-income housing program and other programs with similar objectives for low- and moderate-income families residing in the County of Lackawanna in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD). The Authority is governed by a board of commissioners consisting of five members appointed by the Lackawanna County Board of Commissioners. The board appoints an executive director to manage the day-to-day operations of the Authority. The Authority's executive director during the audit was James Dartt. Its main office is located at 2019 West Pine Street, Dunmore, PA.

The Authority's housing inventory includes 1,132 public housing units in its 19 developments spread throughout Lackawanna County. The Authority also provides rental subsidies for 871 units under its Section 8 Housing Choice Voucher program.

For fiscal years 2012 and 2013, HUD authorized the Authority the following financial assistance:

Year	Public housing operating subsidies	Public housing capital funds	Housing Choice Voucher program
2013	\$2,809,787	\$1,491,637	\$3,250,518
2012	\$3,348,100	\$1,409,125	\$3,324,699

HUD provides operating funds annually to public housing agencies for the operation and management of public housing. It provides capital funds annually to public housing agencies for the development, financing, and modernization of public housing developments and for management improvements and it provides Housing Choice Voucher program funds annually to public housing agencies to provide rental housing assistance for eligible households.

Our objectives were to determine whether the allegations in the complaint had merit and whether the Authority had effective controls to prevent conflicts of interest, ensure that interfund accounts were settled in a timely manner, identify parties excluded from doing business with HUD, and prevent undue risk to the Authority from its employees' use of Authority-owned vehicles.

RESULTS OF AUDIT

Finding: The Authority Lacked Controls Over Its Operations To Ensure Compliance With HUD Requirements

The Authority allowed a conflict-of-interest situation to exist, did not settle interfund accounts in a timely manner, did not properly check to identify parties excluded from doing business with HUD, and assumed an undue risk by not controlling its employees' use of Authority-owned vehicles. These conditions occurred because the Authority lacked controls to prevent them from occurring. Because the Authority did not comply with the terms of its consolidated annual contributions contract and HUD regulations and guidance and allowed these conditions to exist, it negatively impacted the public's confidence in it and HUD; allowed interfund payables to increase to \$370,234 without reimbursement; was at risk of doing business with parties that were debarred, excluded, or suspended from doing business with HUD; and exposed itself to undue financial loss.

The Authority Allowed a Conflict-of-Interest Situation To Exist

Contrary to the terms of its consolidated annual contributions contract with HUD, the Authority hired the son of a member of its board of commissioners as a maintenance worker in January 2012, causing a conflict-of-interest situation. The board member was appointed to the Authority's board of commissioners in May 2011 and became the board chairman in May 2013. The board member was also the mayor of the Borough of Dunmore, where the Authority's main office is located.

The Authority's consolidated annual contributions contract prohibits it from hiring an employee in connection with a project under the contract if the prospective employee is an immediate family member of any present or former member or officer of the governing body of the housing agency except for one who does not occupy a policy-making position within the agency; any employee of the agency who formulates policy or influences decisions with respect to the project; or any public official, member of the local governing body, or State or local legislator who exercises functions or responsibilities with respect to the project or the agency.

The situation described above occurred because the Authority lacked controls to detect, prevent, and resolve conflict-of-interest situations. The executive director indicated that two members of the Authority's board of commissioners pressured him to hire the board member's son. This impropriety negatively impacted the public's confidence in the Authority and HUD.

As a result of our audit, the chairman of the board (the parent of the Authority employee) resigned from the board effective November 13, 2013. The Lackawanna County Board of Commissioners accepted the resignation. To avoid a similar situation in the future, the Authority needs to develop and implement policies and procedures to detect, prevent, and resolve conflict-of-interest situations. We discussed this issue with Authority officials during the audit, and they agreed to develop and implement the needed policies and procedures.

Interfund Balances Were Not Settled in a Timely Manner

The Authority used an interfund “due-to, due-from” account system to account for transactions among other funds included within its general ledger. However, it did not have controls in place requiring it to settle its interfund accounts in a timely manner.

A program’s due-to balance (payable) represents amounts it owes another fund or program for disbursements or advances made on its behalf. A due-from balance (receivable) represents an amount owed to the program entity.

The Authority had an interfund balance of \$370,234 that had accumulated over a 12-month period. As a result of the audit, the Authority settled this interfund balance on May 31, 2013. The Authority’s previous settlement of interfund accounts occurred on May 30, 2012, and totaled \$114,342, which had accumulated over 5 months. To make these settlements, the Authority had to transfer funds from its Housing Choice Voucher program account to reimburse its public housing program account. The Authority’s controller stated that the Authority typically settled its interfund accounts every 6 to 12 months.

The Authority’s consolidated annual contributions contract states that it may withdraw funds from the general fund only for the payment of the costs of development and operation of the projects under the consolidated annual contributions contract with HUD, the purchase of investment securities as approved by HUD, and such purposes as may be specifically approved by HUD. However, in practice, HUD generally allows short-term uses of funds to pay expenses on behalf of other programs as long as reimbursement is made in a timely manner, which the Authority did not do.

The situation described above occurred because the Authority did not have controls in place that required it to settle its interfund accounts in a timely manner. The Authority needs to develop and implement these controls. We discussed this issue with Authority officials during the audit, and they agreed to develop and implement the needed controls.

The Authority Did Not Properly Screen for Debarred, Suspended, or Excluded Parties

The Authority did not properly screen contractors and its other business partners, such as owners participating in its Housing Choice Voucher program, to prevent debarred, suspended, or ineligible parties from participating in HUD-funded activities.

The regulations at 24 CFR (Code of Federal Regulations) 85.35 prohibit the Authority from making any award to any party that is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs. HUD Handbook 7460.8, REV-2, states that before a contract is awarded, the public housing agency must check to determine whether HUD has issued a limited denial of participation or whether a contractor has been debarred or suspended.

The situation described above occurred because the Authority was checking the Pennsylvania State debarment listing and was not aware that it could screen parties against the Federal System for Award Management. We screened 20 of the Authority's contractors and business partners against the Federal system and although we identified no problems, by not properly screening its contractors and business partners, the Authority was at risk of doing business with parties that were debarred, excluded, or suspended from doing business with HUD. The Authority needs to develop and implement controls to ensure that it screens its current and future contractors and other business partners against the Federal System for Award Management. We discussed this issue with Authority officials during the audit, and they agreed to start using the Federal System for Award Management to screen the Authority's contractors and business partners.

Employees' Use of Authority-Owned Vehicles Could Put the Authority at Financial Risk

The Authority lacks controls over its employee's use of its vehicles. The Authority owned 21 vehicles. Twelve of the vehicles (pick-up trucks, a dump truck, a van, etc.) were used by the Authority's maintenance staff and were parked on Authority property when they were not in use. Nine vehicles (sedans, pick-up trucks, and small SUVs) were assigned to Authority employees (directors, managers, and housing inspectors). The Authority allowed the employees to drive the vehicles to and from work and for personal use. The Authority did not have a policy addressing employees' personal use of the vehicles. It did not maintain logs on the use of the vehicles, nor did it require the employees to record their personal use of the vehicles. The Authority's insurance policy states that its

vehicles are for business and commercial use and they should be garaged on the Authority's premises.

The Authority's consolidated annual contributions contract requires it to procure adequate insurance to protect the Authority from financial loss. Based on the use of the vehicles and the terms of the Authority's insurance policy, the Authority could be exposed to financial risk if an accident were to occur with a vehicle while being used for nonbusiness purposes or while being driven by an unauthorized driver.

The situation described above occurred because the Authority mistakenly believed that its policy for vehicle safety and equipment use adequately addressed the personal use of Authority-owned vehicles. The policy only required employees who operate Authority-owned vehicles to have a valid driver's license, notified them that they will be financially responsible for any citations received while operating the vehicles, expected employees to exercise care and follow operating instructions, and cautioned them against receiving violations such as alcohol and controlled substance violations and leaving the scene of an accident. It also required employees to promptly report accidents, citations, and incidents resulting in a revoked or suspended driver's license. The Authority needs to develop and implement controls governing employees' personal use of Authority-owned vehicles. It also needs to review its insurance policy to ensure that it is adequate to cover potential claims that could result from employees' personal use of Authority-owned vehicles. We brought this issue to the attention of Authority officials during the audit, and they agreed to develop and create the needed policy and to review the Authority's insurance policy.

Conclusion

The allegations in the complaint had some merit. The Authority allowed a conflict-of-interest situation to exist, did not settle interfund accounts in a timely manner, did not check to identify parties excluded from doing business with HUD, and assumed an undue risk by not controlling its employees' use of Authority-owned vehicles. The Authority needs to improve its controls over its operations to comply with HUD requirements.

Recommendations

We recommend that the Director of HUD's Pennsylvania State Office of Public Housing direct the Authority to

- 1A. Pass a board resolution approving the development and implementation of policies and procedures to detect, prevent, and resolve conflict-of-interest situations.

- 1B. Develop and implement written policies and procedures to ensure that interfund accounts are settled in a timely manner and, thereby, put \$370,234 to better use over a 1-year period.
- 1C. Develop and implement written policies and procedures to ensure that it screens future contractors and other business partners against the Federal System for Award Management to prevent debarred, excluded, or suspended parties from doing business with HUD.
- 1D. Screen its current contractors and other business partners against the Federal System for Award Management to identify parties debarred, excluded, or suspended from doing business with HUD and take corrective action as appropriate.
- 1E. Develop and implement written policies and procedures governing employees' personal use of Authority-owned vehicles.
- 1F. Review its insurance policy to ensure that it provides adequate coverage against potential claims that could result from employees' personal use of Authority-owned vehicles.

SCOPE AND METHODOLOGY

To accomplish our objectives, we

- Reviewed relevant HUD regulations guidance,
- Reviewed the Authority's policies and procedures and its consolidated annual contributions contract with HUD,
- Reviewed the minutes from meetings of the Authority's board of commissioners for the period July 2012 to April 2013,
- Reviewed the Authority's audited financial statements for its fiscal year ending June 30, 2012,
- Reviewed the Authority's vehicle inventory and insurance policy,
- Analyzed the Authority's financial records, and
- Interviewed Authority and HUD staff.

We conducted our onsite audit work from May through November 2013 at the Authority's offices located at 2019 West Pine Street, Dunmore, PA, and at our office located in Philadelphia, PA. The audit covered the period July 2012 through May 2013 but was expanded when necessary to include other periods. To achieve our audit objectives, we relied in part on computer-processed data from the Authority's computer system. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

We used the random number generator feature of the U.S. Army Audit Agency Statistical Sampling System, version 6.3, software to select 20 of 609 owners participating in the Authority's Housing Choice Voucher program as of May 2013 and all 7 contractors with current contracts with the Authority greater than \$20,000 as of May 2013 and screened them against the Federal System for Award Management to determine whether any of them were debarred, suspended, or ineligible from doing business with HUD.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of resources is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

The Authority did not

- Establish controls to prevent, detect, and resolve apparent conflict-of-interest situations.
- Establish controls requiring it to settle its interfund accounts in a timely manner.
- Screen its business partners against the Federal System for Award Management to prevent debarred, excluded, or suspended parties from doing business with HUD.
- Establish policies and procedures to control employees' use of Authority-owned vehicles.

Separate Communication of Minor Deficiencies

Minor internal control and compliance issues were reported to the Authority by a separate letter, dated January 9, 2014.

APPENDIXES

Appendix A

SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use 1/
1B	\$370,234

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Authority implements our recommendation, it will cease to allow interfund payables from accumulating, thereby putting \$370,234 in program funds to better use. Once the Authority successfully improves its controls and ensures that interfund accounts are settled in a timely manner, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

Appendix B

AUDITEE COMMENTS



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January 31, 2014

David E. Kasperowicz
Regional Inspector General for Audit
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100 Penn Square East, Suite 10205
Philadelphia, PA 19107-3380

Dear Mr. David E. Kasperowicz:

This letter is in response to the review of the Housing Authority of the County of Lackawanna done by the Office of Inspector General. The review period was from May 2013 to November 2013.

The areas discussed included conflict of interest, inter fund account balances, screening of contractors, business partners, HCV landlords and an updated vehicle policy. All of these concerns have been and will continue to be addressed with new policies passed by the Board of Directors, and they will be periodically reviewed and amended as needed. By doing so, we will be in compliance with all of HUD regulations and directives.

The Housing Authority of the County of Lackawanna would like to commend your auditors and staff for their professionalism, courtesy and helpfulness in all situations that we worked on with them. They kept us abreast and informed of all procedures that took place during the audit, and they explained to us what was needed and expected.

If you need any additional information, please contact me at 570-342-7629, ext. 305.

Sincerely,


James Dartt
Executive Director



Housing Authority of the County of Lackawanna