



Freeport Housing Authority, Freeport, NY

Low-Rent Housing and Homeownership Programs

**Office of Audit, Region 2
New York-New Jersey**

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To: Luigi D'Ancona
Director, Office of Public Housing, New York Hub, 2APH

Craig Clemmensen
Director, Departmental Enforcement Center, CACB

From: //SIGNED//
Edgar Moore
Regional Inspector General for Audit, New York-New Jersey Region, 2AGA

Subject: The Freeport Housing Authority, Freeport, NY, Did Not Administer Its Low-Rent Housing and Homeownership Programs in Accordance With HUD's Regulations

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 Freeport Housing Authority's administration of its low-rent housing and homeownership programs.

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 (212) 264-4174.



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The Freeport Housing Authority, Freeport, NY, Did Not Administer Its Low-Rent Housing and Homeownership Programs in Accordance With HUD's Regulations

Highlights

What We Audited and Why

We audited the Freeport Housing Authority's administration of its low-rent housing and homeownership programs. We selected the Authority due to a request from the U.S. Department of Housing and Urban Development's (HUD) New York Office of Public and Indian Housing officials. The objective of the audit was to determine whether the Authority administered its low-rent housing and homeownership programs in accordance with HUD's regulations.

What We Found

The Authority did not administer its low-rent housing and homeownership programs in accordance with HUD's regulations. Specifically, former Authority officials did not (1) maintain adequate records to support the proper procurement of services, including justifications for not using customary procurement procedures; (2) administer its homeownership program in compliance with the HUD-approved homeownership plan; (3) comply with admissions and occupancy administrative requirements; and (4) implement financial and general administrative practices that were consistent with requirements. These conditions occurred because former Authority officials were either unfamiliar with or chose to disregard HUD's regulations and the Authority's policies. As a result, officials could not provide documentation to show that they expended more than \$1 million in Federal funds for properly procured services.

Further, officials could not ensure the proper use of more than \$1.25 million in homeownership sale proceeds. As such, some proceeds may have been improperly spent, depriving the Authority of funds that could have been used to complete the sale of all scattered-site properties under the program. Former Authority officials also lacked records to support the integrity of the Authority's tenant selection process and financial controls to ensure the proper allocation and disbursement of \$270,849 in Federal funds.

What We Recommend

We recommend that HUD require Authority officials to (1) implement controls to ensure that the emergency procurement procedures in the Authority's procurement policy comply with Federal regulations and are consistently followed, (2) provide supporting documents for the use of approximately \$1.25 million in homeownership program sale proceeds, (3) maintain records to show the proper selection of applicants from the Authority's waiting lists, and (4) develop and implement financial controls to ensure the proper allocation and disbursement of funds.

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Background and Objective

The Freeport Housing Authority was established in 1951 as a not-for-profit public corporation to provide affordable housing for low-income families. The Authority is governed by a seven-member board of commissioners, five of whom are appointed by the mayor and two of whom are elected by the Authority's residents. In February 2014, the mayor appointed four new commissioners after three were removed from the board and one resigned.

The Authority operated without a permanent housing assistant from May 2010 through August 2013. The housing assistant, appointed in September 2013, is responsible for processing and evaluating applications for public housing eligibility. From February 2011 through March 2013, the Authority also operated without a permanent executive director. The Authority's former executive director was appointed in April 2013 but resigned a year later. The board then appointed an interim executive director in April 2014. The executive director is responsible for supervising the day-to-day operations of the Authority.

The Authority's main office, located at 3 Buffalo Avenue, Freeport, NY, sustained damage during Hurricane Sandy. As a result, in November 2012, Authority officials moved their management operations to the community center in the Reverend John J. Madden senior citizen development, located at 240 South Main Street, Freeport, NY.

The Authority owns and operates 352 low-rent housing units, which are located in two scattered-site properties and three developments: (1) Moxey A. Rigby, a 100-unit family development; (2) Reverend E. Mitchell Mallette, a 100-unit senior citizen development; and (3) Reverend John J. Madden, a 150-unit senior citizen development. The Authority also administers 211 Section 8 housing choice vouchers. The U.S. Department of Housing and Urban Development (HUD) authorized the Authority approximately \$2.3 million in Public Housing Operating and Capital Fund subsidies for fiscal years 2012 and 2013.

In 1999, the Authority created an affiliated, not-for-profit entity, Nautilus Development Corporation. The not-for-profit had an affiliated entity relationship with the Authority because its former governing board consisted of three members who were also on the board of the Authority. Nautilus Development Corporation was created to rehabilitate the Authority's 11 scattered-site properties for sale to first-time, low-income home buyers under the section 5(h) homeownership program. The program offers public housing agencies a flexible way to sell to low-income families public housing units that may no longer be efficient to operate. After all necessary and reasonable costs for carrying out the homeownership plan have been paid; public housing agencies may retain the net proceeds from the sale of the public housing units to meet other low-income housing needs. The Authority sold 9 of 11 scattered-site properties.

On February 15, 2002, the Village of Freeport executed a HOME Investment Partnerships Program contract with Nassau County to allocate \$110,000 in HOME grant funds for costs related to the rehabilitation and construction of single-family public housing units to be sold to low-income residents. The HOME program provides formula grants to States and localities,

often in partnership with local nonprofit groups, to fund a wide range of activities, including building, buying, and rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people. The HOME program is the largest Federal block grant to State and local governments designed exclusively to create affordable housing for low-income households. According to the homeownership plan, the not-for-profit entity applied for HOME funds to ensure that adequate resources were available to rehabilitate the scattered-site properties. Between October 2004 and September 2005, the not-for-profit entity disbursed \$78,530 of the \$110,000 in Nassau County HOME funds awarded to the Village of Freeport. The undisbursed balance of \$31,470 is pending cancellation and reprogramming by the Village.

HUD designated the Authority “financially substandard” for the fiscal year ending December 31, 2011, because officials did not submit audited financial statements by the established deadline. HUD officials have actively worked to improve the Authority’s overall performance and are negotiating the terms of the proposed HUD recovery agreement and draft action plan to assist the Authority in becoming a standard or high performer.

The objective of the audit was to determine whether the Authority administered its low-rent housing and homeownership programs in accordance with HUD’s regulations.

Results of Audit

Finding 1: Former Authority Officials Did Not Maintain Adequate Records To Support the Proper Procurement of Services

Contrary to HUD's procurement regulations and the Authority's procurement policy,¹ former Authority officials did not maintain adequate records to support the proper procurement of services. Specifically, officials lacked adequate documentation to support the history of the procurements and a procurement planning process. This deficiency occurred because former Authority officials were either unaware of or chose to disregard HUD's procurement regulations and the Authority's procurement policy. As a result, there was no assurance that services were procured in a manner that provided full and open competition, independent cost estimates were obtained, and procurements were efficient and economical. Therefore, former Authority officials could not provide documentation to show that they expended more than \$1 million in Federal funds for properly procured services.

Lack of Documentation To Support Proper Procurement of Services

HUD officials repeatedly cited the Authority for not providing documentation as evidence to support that the contracts for services were procured in accordance with the requirements of 24 CFR (Code of Federal Regulations) 85.36. HUD officials informed the Authority that contracts for landscaping, legal, security, and staffing services were improperly procured and requested evidence of their proper procurement. However, former Authority officials issued a new solicitation for only the legal services contract. Yet, HUD officials found that the request for proposal violated HUD's procurement regulations because it imposed a local geographical preference, thereby limiting the competition. Since the Authority did not provide evidence that these four contracts were properly procured, HUD officials would not authorize the use of Federal funds to pay the related invoices.

Due to the Authority's troubled designation and findings resulting from a HUD procurement review, beginning in January 2012, Authority officials were required to request payment authorization for all invoices under HUD's zero-threshold drawdown policy.² When HUD officials rejected all payment requests for invoices related to the landscaping, legal, security, and staffing services contracts, former Authority officials circumvented HUD's drawdown policy by paying several of these invoices using rental income deposited into the general fund, Federal Emergency Management Agency (FEMA) funds, and the affiliated not-for-profit entity funds.

¹ See appendix D for HUD's procurement regulations and the Authority's procurement policy.

² Under HUD's zero-threshold drawdown policy, Authority officials are required to submit documents supporting their requests for payments and obtain HUD's approval before HUD funds can be drawn down.

During onsite reviews, HUD officials found evidence that improper payments were made under these contracts and asked that we expand the scope of their discovery by determining the source and the amounts paid. The table below shows the information gathered in response to HUD’s request.

Contract	Source of funds			Grand total
	General fund	FEMA funds ³	Not-for-profit entity funds	
Landscaping services	\$60,700	\$0	\$0	\$60,700
Legal services	\$0	\$0	\$0	\$0
Security services	\$0	\$60,690	\$291,593	\$352,283
Staffing services	\$15,130	\$54,343	\$0	\$69,473
Total	\$75,830	\$115,033	\$291,593	\$482,456

Although there was no evidence that the landscaping, security, and staffing services contracts had been properly procured, between May 2011 and January 2014, former Authority officials used \$482,456 in Federal funds to pay the invoices related to these contracts despite HUD officials’ instructions.

The proposed HUD recovery agreement and draft action plan under negotiation outline specific remedies to ensure that the Authority conducts and documents procurement actions in compliance with HUD’s requirements and its procurement policy and addresses all open procurement deficiencies in a manner satisfactory to HUD officials.

Lack of Documentation To Support Procurement History

We expanded the scope of the work HUD officials performed by reviewing additional procurements; namely, the fee accounting and the plumbing and heating services contracts. However, former Authority officials did not provide adequate documentation to support the history of these procurements. They did not provide records regarding the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and basis for the contract price. As a result, there was no assurance that the services were procured in a manner that provided full and open competition and that independent cost estimates were obtained to ensure cost reasonableness.

For example, there was no corresponding contract file for the most recent fee accounting services contract for the period March 1, 2013, through February 28, 2015. Further, according to the fee

³ The New York State Office of Emergency Management coordinates the State’s response and recovery efforts in Federal emergency or disaster declarations. In June and July 2013, the Office disbursed \$243,892 in FEMA funds to the Authority. According to HUD officials, FEMA payments to the Authority must be treated as Federal funds and used only for eligible public housing expenses.

accountant, the former board of commissioners had not approved this contract, which was provided in response to the Authority's request for proposals that was due February 7, 2013.

Regarding the plumbing and heating services contract, according to the contractor, a formal contract had not been executed; therefore, a contract file documenting the history of the procurement did not exist. While the contractor was reportedly used for emergencies, officials did not provide documentation regarding the rationale for not using customary procurement procedures and the basis for determining price reasonableness. Between January 2007 and January 2014, former Authority officials paid the plumbing and heating services contractor more than \$1 million for the services received.

Inadequate Procurement Planning

There was no evidence that former Authority officials performed adequate procurement planning to ensure that the Authority's ongoing and future needs were met in an efficient and economical manner. The previous fee accounting services contract for the period July 1, 2010, through June 30, 2011, included a 1-year renewal option. The contract renewal option expired on June 30, 2012. However, proposals for accounting services were due at the Authority on February 7, 2013, more than 7 months after the contract had expired. In the interim, the former board extended the contract on a month-to-month basis until a new contract was procured. However, since there was no evidence that the fee accountant's current contract was properly planned and procured, between May 2013 and January 2014, Authority officials made \$22,000 in improper payments under this contract.

Former Authority officials also did not properly plan for ongoing plumbing and heating service needs. While former Authority officials used a plumbing and heating services contractor continually and paid this contractor more than \$1 million between January 2007 and January 2014, a formal contract had not been executed. Since officials did not properly plan and procure ongoing plumbing and heating services, there was no assurance that they obtained the most economical price for the services received.

Conclusion

Former Authority officials did not maintain adequate records to support the proper procurement of services. Officials lacked documentation to support the history of the procurements. As a result, there was no assurance that services were procured in a manner that provided full and open competition and independent cost estimates were obtained to ensure that the most economical prices were obtained. Also, there was no evidence that former Authority officials performed adequate procurement planning to ensure that the Authority's ongoing and future needs would be met in an efficient and economical manner. These procurement deficiencies occurred because officials were either unaware of or chose to disregard HUD's procurement regulations and the Authority's procurement policy. As a result, former Authority officials could not provide documentation to show that they expended more than \$1 million in Federal funds for properly procured services. The proposed HUD recovery agreement and draft action plan outline specific remedies to address the Authority's procurement deficiencies. Therefore, we included only one audit recommendation, which the draft action plan did not specifically address.

Recommendations

We recommend that the Director of HUD's New York Office of Public and Indian Housing require Authority officials to

- 1A. Implement controls to ensure that the emergency procurement procedures in the Authority's procurement policy comply with Federal regulations and are consistently followed.

Finding 2: Former Authority Officials Administered the Homeownership Program Contrary to the HUD-Approved Homeownership Plan

Former Authority officials administered the homeownership program contrary to the HUD-approved homeownership plan. Specifically, officials did not maintain proper records for all program-related activities, redirected homeownership program resources to purposes unrelated to the administration of the program, and demolished a scattered-site property without HUD approval. These deficiencies occurred because former Authority officials were unfamiliar with the homeownership plan's requirements or chose to ignore them to circumvent HUD's zero-threshold drawdown policy. Therefore, they could not ensure the proper use of more than \$1.25 million in homeownership sale proceeds. Further, some proceeds may have been used improperly, depriving the Authority of funds that could have been used to complete the sale of all scattered-site properties under the program and repay HOME funds expended for the unauthorized demolition of a scattered-site property.

Proper Records Not Maintained for All Homeownership Program Activities

Federal regulations 24 CFR 906.17 require the Authority to ensure that its not-for-profit entity maintains proper records for all program-related activities. However, former Authority officials did not provide evidence that they obtained executed partial releases of declarations of trust from HUD for two scattered-site properties that were transferred to and then sold by the not-for-profit entity. An executed partial release of declaration of trust is required for the Authority to transfer the ownership of a property to a not-for-profit entity with clear title. In addition, former Authority officials did not maintain all sale and financial records, including signed purchase agreements, promissory notes, and records to identify the source and use of all homeownership program funds, including \$1.25 million in homeownership sale proceeds.

Officials did not maintain all homeownership program banking records, including bank statements, deposit slips, and canceled checks, or source documents supporting all expenditures, such as bills, receipts, and contracts. Therefore, we relied on the not-for-profit entity's general ledgers and journals and had to obtain banking records⁴ from the banks to identify the source and use of the funds deposited into the entity's four bank accounts (see appendix C). However, since source documents were often not available, the accuracy of the identified source and use of all homeownership program funds could not be assured.

Resources Redirected to Unrelated Program Purposes

Contrary to provisions of the HUD-approved homeownership plan, not-for-profit entity officials redirected program resources to purposes unrelated to the administration of the program. Sale

⁴ Due to the bank's 7-year retention period, bank statements for the period before 2007 were not available.

proceeds from the scattered-site properties totaling more than \$1.25 million⁵ were combined with funds on deposit from other sources (see appendix C). Further, officials did not maintain a separate accounting for the use of the sale proceeds. Therefore, we could not determine the amount of proceeds used for purposes unrelated to the administration of the program. However, based on the not-for-profit entity's books of account, funds on deposit were used for unrelated homeownership program purposes, such as (1) the operation of summer day camp and after-school programs, (2) security services for public housing residents, (3) unauthorized loan repayments and transfers to the Section 8 and low-rent housing programs, (4) the purchase of a sports utility vehicle, and (5) Authority-related obligations. However, officials did not provide source documents to support the accounting records.

For example, between March 2012 and April 2013, not-for-profit entity officials redirected \$291,593 in homeownership program resources to provide security services for public housing residents. Resources were redirected because officials had found it difficult to carry out the program's objectives of acquiring, rehabilitating, and selling affordable housing during the economic climate of the past 4 years. Since HUD officials had cited former Authority officials for improperly procuring the security services contract and rejected all related invoices for payment, officials should not have paid these invoices. However, they used homeownership program resources to circumvent HUD's zero-threshold drawdown policy. Further, in accordance with section 13 of the section 5(h) implementing agreement, if not-for-profit entity officials believed that it was not feasible to continue the program, they should have sought HUD's approval to terminate it and returned any unused funds to HUD. Officials should not have redirected the \$291,593 in homeownership program resources to finance the Authority's improperly procured security services.

Although the not-for-profit entity's books of account showed more than \$475,000 in rehabilitation, consulting, accounting, and legal costs, which are considered reasonable administrative costs for carrying out the approved homeownership plan, officials did not provide source documents to support their accounting records. If these costs were eligible homeownership program expenses, the former Authority officials may have improperly used more than \$750,000⁶ in homeownership sale proceeds. Since the homeownership program was not complete because 2⁷ of the Authority's 11 scattered-site properties had not been rehabilitated and sold, program resources should have been used to complete the program before they were redirected to purposes unrelated to the administration of the program.

⁵ Although 9 of the Authority's 11 scattered-properties were sold, only 8 were transferred to and sold by the not-for-profit entity, and the sale proceeds were deposited into 1 of the not-for-profit entity's accounts. The remaining property was not transferred to the not-for-profit entity because the court directed the Authority to sell the property and the related sale proceeds were deposited into the Authority's general fund.

⁶ We calculated the more than \$750,000 by subtracting from the \$1,250,417 in homeownership sale proceeds the sum of \$477,519 in rehabilitation, consulting, accounting, and legal costs (\$401,083 + \$51,010 + \$22,475 + \$2,951), which are considered reasonable homeownership program administrative costs.

⁷ One of the two properties was demolished without HUD's approval.

As of December 2013, two of the not-for-profit entity's four bank accounts were closed. On December 27, 2013, the bank mailed a \$3,919 check to the Authority for the remaining balance to close out the first account. However, as of the end of our fieldwork, the check had not been deposited. The second account was closed on August 14, 2008, after the former executive director wrote a \$1,051 check to himself. The remaining two bank accounts had a total balance of \$6,521 as of December 2013.

Scattered-Site Property Demolished Without HUD's Approval

Despite a statement in the Authority's homeownership plan that 11 scattered-site properties would be rehabilitated and sold, former Authority officials demolished 1 property in 2004 without HUD's prior approval as required. Further, officials did not provide evidence that they planned to construct a replacement home for sale to a low-income home buyer. An audit of the Nassau County HOME program⁸ found that former Authority officials improperly used \$23,000 in HOME funds to demolish the property and recommended that these funds be repaid. Officials had not repaid these funds.

In addition, while former Authority officials were informed that they should request retroactive HUD approval, the former executive director explained that he was told that the Authority had to file for a permit for the demolition before the Village of Freeport would provide the Authority with a letter in favor of the demolition. However, he stated that the Authority had obtained a permit before the demolition and did not plan to pursue the matter further. The new executive director was unaware that retroactive HUD approval was required for the demolished property and the Authority would need to seek HUD's guidance on how to address the issue.

Conclusion

Former Authority officials did not administer the homeownership program in compliance with the HUD-approved homeownership plan because they were unfamiliar with the plan's requirements or chose to ignore them. Therefore, they did not ensure that proper records were maintained for all program-related activities, more than \$1.25 million in homeownership sale proceeds was properly used, and HUD's approval was obtained before demolishing a property. While the not-for-profit entity's books of account reflected more than \$475,000 in rehabilitation, consulting, accounting, and legal costs, which are considered eligible homeownership program expenses, these costs were not supported by source documents. Therefore, former Authority officials provided no assurance that the costs were incurred for the administration of the homeownership program. However, if these costs were eligible program expenses, potentially more than \$750,000 in homeownership program funds was redirected to purposes unrelated to the administration of the program. Thus, the Authority was deprived of funds that could have been used to complete the program and repay \$23,000 in HOME funds.

⁸ Audit report number 2013-NY-1006 was issued on May 13, 2013.

Recommendations

We recommend that the Director of HUD's New York Office of Public and Indian Housing require Authority officials to

- 2A. Implement controls to ensure that proper records are maintained for all homeownership program-related activities.
- 2B. Consolidate the not-for-profit entity bank accounts and deposit the \$3,919 check received from the bank.
- 2C. Provide supporting documents for the proper use of \$1,250,417 in sale proceeds from the scattered-site properties. Any amounts not supported or found to be improperly used should be repaid to the homeownership program from non-Federal funds.
- 2D. Obtain retroactive approval from HUD for the demolished scattered-site property or develop a plan to fulfill the Authority's obligation under the homeownership plan.
- 2E. Seek technical assistance from HUD officials regarding how to complete the homeownership program and the proper use of the remaining \$6,521 in program funds.

We recommend that the Director of HUD's Departmental Enforcement Center

- 2F. Pursue administrative action against any Authority officials found to have expended homeownership program funds for personal use.

Finding 3: Authority Officials Did Not Comply With Admissions and Occupancy Administration Requirements and the Authority's Policies

Authority officials did not comply with admissions and occupancy administration requirements and the Authority's policies.⁹ Specifically, officials did not (1) update the waiting lists at least annually and maintain complete and accurate records demonstrating the proper selection of applicants from these lists, (2) always use Enterprise Income Verification (EIV) system reports in a timely manner to confirm the accuracy of the income tenants reported, (3) conduct reviews of flat rents and reexaminations of income and family composition at least annually, (4) always update the unit tenant status data in the Public and Indian Housing Information Center (PIC) system, and (5) conduct annual unit inspections. These deficiencies occurred because during the more than 3-year period when the Authority operated without a permanent housing assistant, the former board of commissioners did not ensure that all admissions and occupancy functions were properly carried out. Further, Authority officials were either unfamiliar with file documentation requirements or chose to ignore them. As a result of these deficiencies, they did not ensure the integrity of the Authority's tenant selection process; maximize rental income; and ensure that Public Housing Operating and Capital Fund subsidy calculations were based on accurate unit data and that the public housing units were decent, safe, and sanitary.

Waiting List Records and Tenant Files Not Properly Maintained

Authority officials did not update the waiting lists at least annually as required. The housing assistant stated that the waiting lists had not been updated since a former Authority official last updated the lists in 2010. Updating the waiting lists at least annually would make it easier for Authority officials to contact eligible applicants and match them with the available unit sizes for which they qualify.

Contrary to 24 CFR 960.206(e)(2), Authority officials also did not maintain complete and accurate records to leave a clear audit trail that could be used to demonstrate that applicants from the waiting lists had been properly selected in accordance with the Authority's preferences and tenant selection policies. Officials did not maintain waiting list records to demonstrate that 16 of 22 applicants were at the top of the waiting lists when selected for public housing units. While the Authority's policy stated that applicants who qualified for preferences must be assisted first according to date and time of application, officials skipped over three applicants to accommodate an applicant with the least number of preference points and an application dated later than the others. This applicant moved into a public housing unit within 18 days of the application date, while, on average, the other three applicants moved into units within 1,606 days of their application dates. Further, 11 applicants with the same number of preference points for the bedroom size needed were skipped over to accommodate others with later application dates. In addition, Authority officials did not always maintain records to justify applicant selections.

⁹ See appendix D for HUD's requirements and the Authority's policies.

Officials should have maintained a record of all unit offers accepted and rejected and applicants who asked to be removed from the waiting lists, withdrew their applications, or were rejected because they were either ineligible or failed the screening process.

Our review of 22 tenant files of families selected for public housing units from the Authority’s waiting lists between January 2013 and January 2014 revealed that in all cases, the files lacked the required documentation, including evidence that all information provided was properly verified. This information is detailed in the table below.

Missing documentation	Number of files
Application	4
Birth certificate	1
EIV system income report	18
Medical expense deduction verification	1
Preference verification	4
Unit offer record	22

Further, copies of documentation Authority officials obtained from the tenants were not stamped “Copied from Original” as required by the Authority’s policies. Also, contrary to HUD’s and the Authority’s requirements, Authority officials inappropriately retained criminal background checks in the tenant files. The background checks should have been maintained confidentially and destroyed once the purpose for which they were obtained was accomplished. In addition, officials did not conduct a criminal background check for one family.

EIV Reports Not Always Used Timely To Verify Reported Income

Although use of HUD’s EIV system is mandatory as a verification source to support income and rent determinations, the newly hired housing assistant acknowledged that the system was not always used timely. The housing assistant stated that she had been incorrectly informed that the family’s income information would not be verifiable through the EIV system until the family had participated in the low-rent housing program for at least 6 months. However, the Authority’s policy required that officials generate an income report from the EIV system within 120 days of the family’s program admission to confirm the accuracy of the income reported. In response to our audit inquiry, the Authority generated EIV income reports for 15¹⁰ of the 18 families whose reports were missing from the tenant files.

In one instance, an EIV income report generated as a result of our inquiry showed unemployment compensation that the applicant had not disclosed. Although the applicant stated that he was unemployed, Authority officials did not obtain and include the applicant’s unemployment compensation in the calculation of total tenant payment. Thus, the total tenant payment was understated by \$131 per month, or \$1,572 per year. Had Authority officials reviewed the

¹⁰ EIV income reports were not available for three families.

applicant's EIV income report as required, the unemployment compensation would have been disclosed.

Annual Reviews of Flat Rents Not Always Conducted

Although HUD's requirements and the Authority's policies required officials to conduct reviews of flat rents at least annually, Authority officials had not adjusted the flat rents since 2010. Further, officials did not maintain records documenting the method used to determine the 5 percent annual increase passed by the former board of commissioners in February 2009. Since the Authority's flat rents were not based on market rents charged for comparable units in the private rental market, officials potentially forfeited thousands of dollars in rental income.

The table below shows the Authority's flat rents in comparison to the published fiscal years 2010 through 2014 fair market rents for all bedroom sizes within the Authority's jurisdiction.

Comparison of Authority's flat rents to fiscal years 2010 through 2014 fair market rents by number of bedrooms						
Number of bedrooms	Authority's flat rent	Fair market rents				
		2010	2011	2012	2013	2014
0 bedrooms	\$835	\$1,167	\$1,218	\$1,233	\$1,014	\$1,033
1 bedroom	\$1,005	\$1,348	\$1,407	\$1,425	\$1,285	\$1,309
2 bedrooms	\$1,226	\$1,592	\$1,661	\$1,682	\$1,583	\$1,613
3 bedrooms	\$1,706	\$2,113	\$2,204	\$2,232	\$2,058	\$2,097
4 bedrooms	\$1,828	\$2,302	\$2,402	\$2,432	\$2,370	\$2,415

An Authority official stated that the flat rents had not been adjusted because the Authority operated without a permanent housing assistant for more than 3 years. In September 2013, the Authority hired a housing assistant; however, the housing assistant stated that she was unfamiliar with the requirements regarding the method used to determine and document flat rents and would seek guidance from the Authority's consultant.

Annual Reexaminations of Income and Family Composition Not Always Conducted

Authority officials also did not conduct all required examinations of family income and composition at least annually. The PIC delinquency report as of March 31, 2014, showed that only 71 of 336 required reexaminations were current, for a reporting rate of 21 percent. This number was well below HUD's minimum reporting rate of 95 percent and subjected the Authority to sanctions, such as reduced operating subsidies. Further, with regard to the delinquencies, the dates of the last annual reexaminations ranged from August 2011 through March 2013. As a result of our inquiry, in March 2014, HUD officials notified the Authority that, as of March 16, 2014, it had 247 households with overdue annual reexaminations and instructed the Authority to take necessary actions to correct this deficiency.

An Authority official stated that annual reexaminations of family income and composition had not been conducted during the more than 3-year period when the Authority operated without a

permanent housing assistant. The newly hired housing assistant's first priority was to decrease the reexamination delinquency rate.

PIC Unit Status Data Was Not Always Updated

Authority officials did not always update the unit tenant status data in PIC as required. The Authority is eligible to receive Operating or Capital Fund subsidies for only occupied units, units with a HUD-approved vacancy, and a limited number of vacancies for each unit month during which those units are under an annual contributions contract. However, Authority officials did not update unit tenant status data in PIC within 60 calendar days from the effective date of the status change, as required, to ensure that Operating and Capital Fund subsidies were accurately calculated. Therefore, PIC did not always reflect the Authority's vacancy and move-in records. For example, the vacancy unit listing covering the period January 1 to November 26, 2013, reported 16 vacancies while PIC reported 13 vacancies, and only two were identical in both records. Further, the Authority's reconciled movement listing report covering the period January 1 to December 16, 2013, reported 19 new move-ins, yet PIC reported only 4 during the same period. Reporting inaccurate data in PIC could negatively affect Operating and Capital Fund subsidy calculations.

Annual Unit Inspections Not Conducted

Annual inspections of the Authority's public housing units were not conducted in calendar year 2013 as required. The former executive director explained that unit inspections were not conducted because HUD officials disapproved using the inspector who had conducted the inspections the previous year because former Authority officials could not provide evidence that the inspector was properly procured and the amount charged was reasonable.

Conducting annual unit inspections is an important tool in determining needed maintenance and repairs and assessing tenant damage. This issue is especially important since HUD designated the Authority as physically substandard in January 2012. Further, the completion of needed maintenance and repairs ensures that public housing residents live in decent, safe, and sanitary units.

Conclusion

Authority officials did not comply with HUD's requirements and the Authority's policies in administering the admissions and occupancy function. Officials did not update the waiting list at least annually, maintain complete and accurate records to ensure the integrity of the Authority's tenant selection process, and always use EIV reports timely to confirm the accuracy of the income tenants reported. In addition, officials did not ensure that flat rents were consistent with market values and that rent calculations were based on annually reexamined income levels. As a result, Authority officials did not maximize the Authority's rental income. Further, officials did not ensure that Operating and Capital Fund subsidy calculations were based on accurate unit tenant status data and annual unit inspections were conducted to ensure that the public housing units were decent, safe, and sanitary.

While these deficiencies began during the period when the Authority operated without a permanent executive director and housing assistant, the former board of commissioners was

ultimately responsible for ensuring that the Authority's operations complied with HUD's requirements. The Authority hired a housing assistant in September 2013, but the housing assistant received no formal training. Therefore, many of the deficiencies persisted because the housing assistant was unfamiliar with HUD's requirements concerning documenting tenant selections from the waiting lists, the method used to determine flat rents, and updating unit tenant status data in PIC.

Recommendations

We recommend that the Director of HUD's New York Office of Public and Indian Housing require Authority officials to

- 3A. Establish controls to ensure that the waiting lists are updated at least annually to facilitate tenant selections for public housing units.
- 3B. Implement controls to ensure that complete and accurate records are maintained to leave a clear audit trail demonstrating the proper selection of future applicants for public housing units from the waiting lists.
- 3C. Establish controls to ensure that the tenant files contain all required information, including evidence that all tenant-provided information is properly verified.
- 3D. Implement controls to ensure that criminal background checks are maintained separately from the tenant files so that only authorized persons have access to the records and the records are destroyed once an admission decision has been made.
- 3E. Implement controls to ensure that an EIV income report is generated within 120 days of each family's admission into the low-rent housing program to confirm the accuracy of the income reported.
- 3F. Develop and document a method for determining flat rents and maintain records to show flat rent determinations using this method.
- 3G. Develop and implement controls to ensure that annual reviews of flat rents are conducted and properly documented.
- 3H. Implement controls to ensure that resident income and family composition are reexamined annually.
- 3I. Implement controls to update unit status data in PIC within 60 calendar days from the effective date of the status change to ensure accurate Operating and Capital Fund subsidy calculations.
- 3J. Properly procure an inspector to perform unit inspections in accordance with the Authority's policies and Federal regulations to ensure that units are decent, safe, and sanitary.

- 3K. Provide training to the housing assistant on HUD's requirements regarding admissions and occupancy administration.

Finding 4: The Authority's Financial and General Administrative Practices Were Inconsistent With HUD's and Its Own Requirements

The Authority's financial and general administrative practices were inconsistent with requirements.¹¹ Specifically, former Authority officials did not (1) properly document the allocation of \$262,849 in salaries and other costs among various programs, (2) obtain HUD's approval to settle a lawsuit for \$8,000, (3) accept only full rental payments, (4) deposit rents from a scattered-site property into the Authority's general fund, (5) change account signatories to reflect current Authority officials, (6) use a petty cash journal to track disbursements, (7) obtain full flood insurance coverage, (8) install all replacement windows purchased with Federal funds, and (9) maintain inventory records and all board meeting minutes and resolutions. These deficiencies occurred because former Authority officials did not establish adequate procedures to ensure compliance with HUD's and the Authority's own requirements. As a result, officials could not ensure that program funds were used in accordance with each specific program requirement and for purposes specifically approved by HUD. Further, since the Authority lacked adequate insurance coverage, it was not protected against the loss resulting from flood damage caused by Hurricane Sandy. Former Authority officials also did not ensure that safeguards were in place to detect loss of, damage to, and theft of the Authority's assets and a record of all key board decisions affecting the Authority's operations was properly maintained.

Lack of Documentation Supporting the Allocation of Salaries and Other Costs to Various Programs

During calendar years 2012 and 2013, the Authority did not document the basis for \$262,849 in salaries allocated among its various programs. Although the Authority's operating budget schedules of all positions and salaries included the method of salary allocation by program, Authority officials did not allocate all salary costs in 2012 and 2013 based on the method specified by the budgets. Further, there was no reasonable basis for the allocation method used by Authority officials because it was neither based on nor developed from time distribution records. The biweekly timesheets did not show the time distributed to the various programs.

This matter was also addressed in our 2006 audit report.¹² At that time, an Authority official acknowledged that the salary allocation was not based on a plan developed from time distribution records and stated that the Authority would develop such a plan and implement new payroll documentation procedures. Although the matter reportedly had been resolved, Authority officials did not provide a cost allocation plan based on time distribution records to support the salaries charged to the various programs.

¹¹See appendix D for the requirements.

¹²Audit report number 2006-NY-1008 was issued on June 30, 2006.

In addition, contrary to the requirements, Authority officials expended low-rent program funds to pay the Section 8 program's administrative expenses and did not provide a cost allocation plan to show how the cost of shared expenses was prorated among the programs. In September 2013, Authority officials issued a \$100,000 check from the Section 8 program account to reimburse the low-rent program for administrative expenses paid on the Section 8 program's behalf over an undetermined period. However, officials could not provide documentation to show how the reimbursed amount was determined. Further, an employee whose primary duties related to the Section 8 program charged all of her time to and was paid from the low-rent program. An official stated that because of decreases in Section 8 administrative fees, the program did not have sufficient resources to pay its administrative expenses and relied on the low-rent program to meet its obligations. However, Authority officials should have maintained complete and accurate records of the expenses the low-rent program paid on the Section 8 program's behalf, in accordance with the cost allocation plan developed, and reimbursed the low-rent program monthly from available Section 8 program funds.

HUD's Approval Not Obtained for a Lawsuit Settlement

Authority officials settled a lawsuit with the former executive director for \$8,000 in September 2012 without providing evidence that HUD's approval was obtained. HUD's written agreement was required before Authority officials could accept the terms of any proposed settlement arising out of litigation. A similar matter was addressed in our 2006 audit report.¹³

Partial Rental Payments Accepted and Rental and Other Payments Waived

Contrary to the Authority's written rental policy, in 2012, former Authority officials adopted the informal policy of accepting partial rents. In calendar year 2011, before partial rents were accepted, the average monthly tenant accounts receivable balance was \$22,195. However, as of February 1, 2014, Authority officials reported a delinquent tenant accounts receivable balance of \$173,345.

The former executive director also adopted the informal policy of waiving rental and other payments. Between May and October 2013, three new move-ins received a total of \$392 in prorated rent waivers to fill vacant units. In addition, a tenant received a full waiver of his \$194 June 2013 rent for performing a service for the Authority. Rather than providing the tenant with a full rent waiver, which was contrary to the Authority's written policy, HUD's requirements allowed the Authority to provide the tenant with a resident service stipend of no more than \$200 during the month when the service was performed. In another instance, a tenant had two pets, one of which was a qualified service dog. However, the tenant received a monthly pet fee waiver of \$12.50, or \$150 annually, for each pet. Since there was no evidence that the second pet was also a qualified service animal, Authority officials should not have waived the second pet fee. As a result of our audit inquiry, officials retroactively reinstated the pet fee.

¹³ Audit report number 2006-NY-1008 was issued on June 30, 2006.

According to the new executive director, the Authority no longer accepted partial rents or waived rental payments and had begun to take legal action against tenants with delinquent accounts.

Rents From a Scattered-Site Property Not Deposited Into the Authority's General Fund

Former Authority officials did not deposit into the Authority's general fund \$11,685 in rents collected from a scattered-site property. In addition, officials did not provide documentation justifying why the rents collected in 2006 were deposited into one of the not-for-profit entity's bank accounts instead of the Authority's general fund. In the absence of such documentation, officials could not ensure that these rents were properly used.

Account Signatories Not Changed To Reflect Current Authority Officials

Former Authority officials did not change account signatories to reflect current Authority officials. While the former executive director's employment was terminated in February 2011, his name was listed as the only signatory on one of the Authority's bank accounts. Officials should have changed the bank account's signatory immediately after the former executive director's employment was terminated to protect the Authority's funds from unauthorized use. As of September 30, 2013, the account had a balance of \$300,109. In addition, a former board member, who had been deceased since May 2012, was listed as a signatory on the not-for-profit entity's bank account, which was closed by the bank on December 27, 2013.

Petty Cash Journal Not Used To Track Disbursements

Authority officials did not use a petty cash journal to track disbursements. While no shortages were noted during a surprise petty cash count and Authority officials maintained receipts for all disbursements, they should have recorded disbursements in a journal and maintained a running account balance. To determine the petty cash balance and its accuracy, we counted the cash on hand and then subtracted the maximum petty cash balance from the total disbursements supported by receipts. The petty cash custodian stated that the Authority had not used a petty cash journal. However, in response to our inquiry, the custodian planned to implement new petty cash documentation procedures. By maintaining a petty cash journal to track disbursements and the available petty cash balance, Authority officials could ensure that there would be sufficient funds to cover future disbursements.

Flood Insurance Coverage Not Obtained

Section 305(D) of the Authority's annual contributions contract states that the Authority must obtain insurance coverage at the time it becomes subject to risk or hazard. Since former Authority officials were aware that the Authority was located in a flood hazard area, they were required to purchase flood insurance.

In 2011, HUD told the Authority to purchase flood insurance after Hurricane Irene damaged its family development. However, at that time, the Authority did not have a permanent executive director, and the former board of commissioners did not follow up to ensure that flood insurance was purchased. While former Authority officials purchased flood insurance after Hurricane Sandy occurred in October 2012, full insurance coverage could not be obtained until the officials repaired the main office and family development damaged by Hurricane Sandy.

HUD officials estimated that the cost to repair and replace equipment damaged by Hurricane Sandy was \$625,000. The Authority had received \$243,892 from the New York State Office of Emergency Management. Therefore, we estimated the net loss as the difference between \$625,000 and \$243,892 (\$381,108), which may have been covered by insurance. Included in HUD officials' \$625,000 cost estimate to repair and replace damaged equipment were replacement windows valued at more than \$200,000, which were stored in the basement of the Authority's family development for approximately 2 years before they were destroyed by Hurricane Sandy.

All Replacement Windows Not Installed

Former Authority officials did not install all replacement windows purchased with \$292,462 in Federal funds.¹⁴ In 2010, a contractor installed new windows in 3 apartments in the Authority's 100-unit family development before the Village of Freeport Department of Buildings issued a work stoppage due to safety concerns that the installation of emergency escape windows represented a falling hazard to children under the age of 10. To lift the work stoppage, Authority officials proposed to install full window guards. However, since the proposal did not move forward, the windows for the remaining 97 apartments, stored in the basement of the development, were not installed and were later destroyed by Hurricane Sandy in October 2012.

Due to the work stoppage, the contractor filed a more than \$40,000 breach of contract lawsuit against the Authority. Authority officials stated that they planned to obtain HUD's written approval to settle the lawsuit. However, they should also seek advice from their legal counsel regarding whether the Authority had a possible direct claim against another party for the loss incurred on the window replacement project due to negligence, professional liability, and errors or omissions.

Inventory Records and All Board Meeting Minutes and Resolutions Not Maintained

Former Authority officials did not maintain inventory records as required by 24 CFR 85.32(d)(1) through (3). Officials stated that they were developing a spreadsheet to track inventory. By implementing an inventory tracking system, officials would know what assets the Authority had on hand and would be able to implement adequate safeguards to detect their loss, damage, and theft.

Former Authority officials also did not maintain all board meeting minutes and resolutions. Records of several months of board meeting minutes and resolutions were missing. For example, in June 2010, there was a motion to approve the accounting services contract. However, the corresponding board resolution was not available. Further, two board resolutions were approved retroactively. The resolutions were approved 6 months after the former board

¹⁴ Of the \$292,462, \$162,286 was paid from Capital Fund program funds and \$130,176 from capital funds awarded under the American Recovery and Reinvestment Act of 2009. Capital funds are provided annually to public housing agencies for the development, financing, and modernization of public housing developments and for management improvements. The Recovery Act invested \$4 billion in energy-efficient modernization and renovation of the Nation's public housing inventory.

approved the contracts. As a result, former Authority officials did not ensure that a record of all key board decisions affecting the Authority's operations was maintained and that executed contracts received prior board approval.

Conclusion

Former Authority officials did not properly allocate costs, obtain HUD's approval to settle a lawsuit, accept only full rental payments, deposit rents from a scattered-site property into the Authority's general fund, update account signatories to reflect current Authority officials, use a journal to track petty cash disbursements, obtain flood insurance coverage, install all replacement windows purchased with Federal funds, and maintain a record of inventory and all board meeting minutes and resolutions. As a result, the Authority may have been deprived of funds that could have been used to pay its operating expenses. Further, officials did not protect the Authority's funds from unauthorized use and properly record and track petty cash disbursements. Due to a lack of flood insurance, the Authority was not protected against financial loss, and since Authority officials did not install all replacement windows, officials sustained a more than \$200,000 loss on the project. Officials also did not track the Authority's assets to prevent and detect loss, damage, and theft; maintain a record of all key board decisions affecting the Authority's operations; and ensure that executed contracts received prior board approval. These deficiencies occurred because former Authority officials did not establish adequate procedures to ensure that financial and general administrative practices complied with HUD's and the Authority's own requirements.

Recommendations

We recommend that the Director of HUD's New York Office of Public and Indian Housing require Authority officials to

- 4A. Develop a cost allocation plan, based on time, to support salaries and an equitable cost allocation of shared resources charged to various HUD programs in accordance 2 CFR 225.
- 4B. Develop and implement procedures to ensure that HUD's approval is obtained before disbursing funds for future lawsuit settlements.
- 4C. Obtain retroactive approval from HUD for the \$8,000 lawsuit settlement. If approval is not obtained, the Authority should repay the \$8,000 from non-Federal funds.
- 4D. Establish controls to ensure that pet fee waivers are supported by documentation demonstrating that the tenants are disabled and require qualified service animals.
- 4E. Provide supporting documents for the proper use of \$11,685 in rents collected from a scattered-site property. Any amounts not supported or found to be improperly used should be repaid to the Authority from non-Federal funds.
- 4F. Implement controls to ensure that rents are properly deposited and used.

- 4G. Update bank account signatories to reflect current authorized Authority officials.
- 4H. Use a petty cash journal to track disbursements from the petty cash fund.
- 4I. Develop a written plan outlining HUD-approved project milestones and target dates to complete all needed repairs resulting from damage caused by Hurricane Sandy.
- 4J. Procure full flood insurance coverage to protect the Authority and HUD's investments from financial loss.
- 4K. Consult their legal counsel regarding whether the Authority has a possible direct claim against another party for the loss incurred on the window replacement project.
- 4L. Establish controls to ensure that inventory records and an inventory control system are maintained to ensure that the Authority's assets are safeguarded to prevent and detect loss, damage, and theft.
- 4M. Implement controls to ensure that complete and accurate records of all board meetings and resolutions are maintained.

Scope and Methodology

The review generally covered the period January 1, 2012, through September 30, 2013, and was expanded as necessary. Audit fieldwork was performed onsite from November 2013 through July 2014 at the Authority's temporary office located at 240 South Main Street, Freeport, NY.

To accomplish our audit objective, we

- Reviewed applicable laws and regulations; HUD handbooks, guidebooks, and notices; the Authority's policies and procedures; and the consolidated annual contributions contract.
- Examined a prior Office of Inspector General (OIG) audit report, HUD monitoring reports and financial reviews, and independent public accountant audit reports.
- Interviewed HUD and Authority officials to obtain an understanding of the Authority's operations and system of internal controls.
- Reviewed the Authority's available board meeting minutes and resolutions.
- Reviewed bank statements and canceled checks pertaining to FEMA funds received by the Authority at the request of HUD officials.
- Tested 2 months of bank reconciliations and traced recorded transactions to the bank statements, canceled checks, check registers, invoices, payroll records, and general ledgers. We selected October 2012 because we noted the greatest bank balance increase during that month and September 2013 because it was the last month of the audit period.
- Traced the Authority's record of 16 vacancies¹⁵ and 23 move-ins¹⁶ to HUD's PIC system data to determine whether PIC had been properly updated. Based on the work performed, we concluded that neither the Authority's records nor the data in PIC were sufficiently reliable.
- We selected and reviewed two procurement actions to determine regulatory compliance. We selected the fee accounting services contract for review because the contractor had provided services for the Authority for the past 15 years. We chose the plumbing and

¹⁵The Authority's vacancy unit listing covered the period January 1 to November 26, 2013.

¹⁶An analysis of the Authority's movement listing report, covering the period January 1 to December 16, 2013, showed that there had been 19 new move-ins since 2 residents were duplicated and 2 were mistakenly reflected on the report.

heating services contract because an analysis of the check registers showed that the contractor was continually used and was paid the second largest amount during the audit period. The procurement universe could not be determined because the Authority did not maintain a procurement log.

- Reviewed all 22 tenant files of applicants selected for public housing units from the Authority's waiting lists between January 2013 and January 2014 to determine program compliance.
- Analyzed available sale and financial records regarding 8 of the Authority's 11 scattered-site properties sold under the homeownership program to determine whether sale proceeds had been appropriately used during the period August 2003 through December 2013. However, there was a scope limitation because officials did not maintain all financial records, including the not-for-profit entity's bank statements, deposit slips, canceled checks, or source documents supporting all expenditures, such as bills, receipts, and contracts. Therefore, we relied on the not-for-profit entity's general ledgers and journals and had to obtain banking records from the banks to identify the source and use of the funds deposited into the not-for-profit entity's four bank accounts. Due to the bank's 7-year retention period, bank statements for the period before 2007 were not available. Further, since source documents were often not available, the accuracy of the identified source and use of all homeownership program funds could not be assured. To assist in the analysis of the source and use of funds deposited into the not-for-profit entity's accounts, we used the Audit Command Language program.

While we selected several nonstatistical samples to accomplish our audit objective, the results from these samples relate only to the items sampled and cannot be projected to the universe.

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 objective.

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 objective:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that programs meet their objectives.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of funds is consistent with laws and regulations.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that funds are safeguarded against waste, loss, and misuse.
- 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 in reports.

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:

- Authority officials did not have adequate controls over compliance with laws and regulations when they did not (1) maintain sufficient records to support that services paid for with HUD funds were procured in accordance with HUD's regulations and the Authority's procurement policy; (2) ensure that the use of homeownership program funds and the demolition of a scattered-site property met HUD's requirements; and (3) maintain complete and accurate records to demonstrate the proper selection of applicants from the waiting lists, review flat rents and reexamine income and family composition at least annually, update the waiting lists at least once a year, and accept only full rental payments (see findings 1, 2, 3, and 4).
- Authority officials did not have adequate controls over safeguarding resources when they did not ensure that expenses were properly allocated and approved, assets were accounted for and safeguarded against unauthorized use, and the Authority was protected from financial loss resulting from hazards (see finding 4).
- Authority officials did not have adequate controls over program operations to ensure that tenants resided in units that were decent, safe, and sanitary because annual unit inspections were not performed (see finding 3).
- Authority officials did not have adequate controls over the validity and reliability of data when they did not update the unit tenant status data in PIC to ensure that the data agreed with the Authority's vacancy and move-in records (see finding 3).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Unsupported 1/	Funds to be put to better use 2/
2B		\$3,919
2C	\$1,250,417	
4C	8,000	
4E	11,685	
Totals	\$1,270,102	\$3,919

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an 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 to deposit the check received from the closed bank account, \$3,919 can be put to better use for the homeownership program's completion.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

FREEPORT HOUSING AUTHORITY
THREE BUFFALO AVENUE
FREEPORT NY 11520
(516) 623-2508
Fax (516) 544-2141

EXECUTIVE DIRECTOR
JOHN HRVATIN

COMMISSIONERS
Dr. JOSEPH CATTANO
LUVINE MARTIN
DOUGLAS MAYERS
DONNA SPRINGER
GLADYS VAILES

VIA REGULAR MAIL AND FAX (212.264.1400)

November 17, 2014

Mr. Edgar Moore
Regional Inspector General for Audit
New York-New Jersey Region
U.S. Department of Housing and Urban Development
26 Federal Plaza – Suite 3430
New York, NY 10278

Dear Mr. Moore:

The Village of Freeport Housing Authority ("FHA") is in receipt of the Draft Audit Report prepared by your office and presented to us in the meeting/conference call conducted on October 29, 2014.

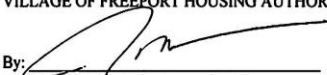
We offer the following brief comments in connection therewith.

1. The leadership of FHA has changed substantially since the period(s) reviewed by your office. A majority of commissioners (four out of seven) were new appointees in 2014, a new Board Chair was elected (Commissioner Dr. Joseph Cattano), and a highly skilled Acting Executive Director was put in place by the Board of Commissioners to manage the day-to-day affairs of FHA.
2. Accordingly, in numerous aspects of the Draft Audit Report, the current FHA administration is not in a position to explain or justify the events of the past.
3. It is the express intention of the FHA to carefully consider the recommendations that will be contained in the final Audit Report and utilize them as a "road map" for the continuing recovery of FHA.
4. Where such recommendations suggest revisiting issues for which FHA lacks the necessary documentation, paperwork, basic information and/or historical context, FHA will work with the HUD Office of Public Housing to the best of our ability to bring those particular issues to closure.

We thank you for your kind attention in this matter.

Very truly yours,

VILLAGE OF FREEPORT HOUSING AUTHORITY

By: 
John Hrvatin, Acting Executive Director

OIG Evaluation of Auditee Comments

Comment 1 Authority officials state that the recommendations will be used as a ‘road map’ for the Authority’s continued recovery. However, the officials stressed that the Authority’s leadership has substantially changed and that they are not in the position to explain or justify past events. Nevertheless, Authority officials state that they will work with the HUD Office of Public Housing to resolve the issues related to past events. During the audit resolution process, officials will need to provide HUD with documentation supporting questioned costs and their proposed action plan to implement the internal control recommendations.

Appendix C

Schedule of Not-for-Profit Entity Bank Account Activity as of December 31, 2013

Not-for-profit entity account ending in 0873			
Deposits		Withdrawals	
Homeownership sale proceeds	\$1,250,417	Funds to Authority's low-rent housing program	\$500,966
HOME grants	78,530	Rehabilitation and other costs	401,083
Funds from Authority's low-rent housing program	78,475	Transfers to accounts ending in 8256 and 8310	300,000
Nassau County after-school program grants	54,523	Payroll costs	159,489
Transfer from account ending in 8310	50,000	Professional consulting fees	51,010
Advance from Authority's Section 8 program	40,000	Insurance	33,211
Gross rental revenue from a scattered-site property	11,685	Vehicle purchase	32,428
Miscellaneous	41,557	Security services	31,628
		After-school program	25,819
		Accounting fees	22,475
		Summer day camp	5,148
		Legal fees	2,951
		Miscellaneous	38,979
Total deposits	\$1,605,187	Total disbursements	\$1,605,187
Remaining balance = \$0			

Not-for-profit entity account ending in 4882			
Deposits		Withdrawals	
Camp tuition	\$3,550	Payroll costs	\$3,760
Loan from account ending in 0873 to open bank account for summer day camp	2,500	Travel	1,239
		Payment to former executive director	1,051
Total deposits	\$6,050	Total disbursements	\$6,050
Remaining balance = \$0			

Not-for-profit entity account ending in 8256			
Deposits		Withdrawals	
Transfer from account ending in 0873	\$100,000	Transfer to account ending in 8310	\$45,000
Local government grants	10,000	Security services	59,785
Interest	116	Wire fees and bank charges	500
Miscellaneous	1		
Total deposits	\$110,117	Total disbursements	\$105,285
Remaining balance = \$4,832			

Not-for-profit entity account ending in 8310			
Deposits		Withdrawals	
Transfer from account ending in 0873	\$200,000	Transfer to account ending in 0873	\$50,000
Transfer from account ending in 8256	45,000	Security services	200,179
Interest	7,492	Wire fees and bank charges	625
Total deposits	\$252,492	Total disbursements	\$250,804
Remaining balance = \$1,688			

Appendix D

Criteria	
Finding 1	
Procurement	<p>Regulations at 24 CFR 85.36(b)9 state, “Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.”</p> <p>HUD Handbook 7460.8, REV-2, appendix 3, states that the contract file for each small purchase procurement should generally include an independent cost estimate; the source of the solicitation, such as a mailing list, advertisement, or other; a solicitation notice and amendment; a record of bids requested or requests for proposals or the quotes, bids, or proposals received; technical and price evaluations; an evaluation report; a preaward survey and responsibility determinations; contract and award documents; notification to unsuccessful bidders; all correspondence related to appeals; and contract modifications and supporting documentation (if applicable).</p> <p>HUD Handbook 7460.8, REV-2, paragraphs 8.5(A) and (B), state, “Procurement by noncompetitive proposals shall be conducted only if a written justification is made as to the necessity of using this method in accordance with the procedures described in PHA’s [Public Housing Agency] procurement policy....The justification should include the following information: 1. Description of the requirement; 2. History of prior purchases and their nature (competitive vs. noncompetitive); 3. The specific exception in 24 CFR 85.36(d)(4)(i)(A) through (D) which applies; 4. Statement as to the unique circumstances that require award by noncompetitive proposals; 5. Description of the efforts made to find competitive sources, e.g., advertisement in trade journals or local publications, phone calls to local suppliers, issuance of a written solicitation, etc.; 6. Statement as to efforts that will be taken in the future to promote competition for the requirement; and 7. Signature of the Contracting Officer and any higher approving official as required by the PHA’s policy.” Further, “the Contracting Officer shall include the written justification and approval in the contract file.”</p> <p>Section 1.4 A of the Authority’s procurement policy states, “The Contracting Officer shall ensure that...procurement requirements are subject to a planning process to assure efficient and economical</p>

	<p>purchasing.”</p> <p>Section 2.4, A4 and B, of the Authority’s procurement policy states that “...procurement by noncompetitive proposals may be used only when a contract is not feasible using small purchase procedures, sealed bids, or competitive proposals, and...An emergency exists that seriously threatens the public health, welfare, or safety; endangers property; or would otherwise cause serious injury to the Authority, as may arise by reason of a flood, earthquake, epidemic, riot, equipment failure, or similar event. In such cases, there must be an immediate and serious need for supplies, services, or construction such that the need cannot be met through any other procurement methods and the emergency procurement shall be limited to those supplies, services, or construction necessary to meet the emergency.” Further, “each procurement based on noncompetitive proposals shall be supported by a written justification for using such procedures.”</p>
Finding 2	
Record keeping	<p>Regulations at 24 CFR 906.17 state that “...the PHA shall be responsible for the maintenance of records (including sale and financial records...for all activities incident to implementation of the HUD-approved homeownership plan. Until all planned sales of individual dwellings have been completed...Where another entity is responsible for sale of individual units...the PHA must ensure that the entity’s responsibilities include proper recordkeeping and accountability to the PHA, sufficient to enable the PHA to monitor compliance with the approved homeownership plan, to prepare its reports to HUD, and to meet its audit responsibilities. All books and records shall be subject to inspection and audit by HUD and the General Accounting Office (GAO).”</p> <p>Paragraph 13 of the homeownership plan states, “NDC [Nautilus Development Corporation] and FHA [Federal Housing Administration] will keep copies of all signed purchase agreements, closing documents, and promissory notes on file.”</p>
Use of sale proceeds	<p>Regulations at 24 CFR 906.15(a) state, “Sale proceeds may, after provision for sale and administrative costs that are necessary and reasonable for carrying out the homeownership plan, be retained by the PHA and used for housing assistance to low-income families (as such families are defined under the Act). The term ‘sale proceeds’ includes all payments made by purchasers for credit to the purchase price (e.g., earnest money, downpayments, payments out of the proceeds of mortgage loans, and principal and interest payments under purchase-money mortgages), along with any amounts payable upon resale under 906.14, and interest earned on all such receipts.”</p>
Transfer of title	<p>Section 4 of the HOME section 5(h) program plan states that the</p>

	<p>Authority will transfer title to the not-for-profit entity, which in turn will directly transfer title to eligible purchasers.</p> <p>Section 2.2 of the section 5(h) implementing agreement states, “Upon conveyance of title to any property by the HA [housing authority] in accordance with the Plan, HUD shall release the title restrictions thereon prescribed by the ACC [annual contributions contract]. Thereafter, the property shall no longer be subject to the ACC and shall cease to be eligible for further HUD funding for operating subsidies or modernization.”</p>
Termination of homeownership plan	<p>Section 13 of the section 5(h) implementing agreement states, “This Agreement may be terminated if both HUD and the HA agree that continuation of the Agreement is infeasible. In such an event, the HA agrees that any funds not expended in carrying out this Agreement shall be returned to HUD.”</p>
Demolition	<p>Regulations at 24 CFR 970.12 state that “... a PHA may not take any action to demolish or dispose of a public housing project or a portion of a public housing project without obtaining HUD approval under this part.”</p>
Finding 3	
Updating the waiting list	<p>Section 4, paragraph C1, of the admissions and continued occupancy policy states, “The PHA may update (purge) its waiting list at least every twelve (12) months in order to remove the names of applicants who are no longer interested in being admitted, no longer qualify for admission or who cannot be located.”</p>
Applicant selection method	<p>Regulations at 24 CFR 960.206(e)(2) state, “The method for selecting applicants must leave a clear audit trail that can be used to verify that each applicant has been selected in accordance with the method specified in the PHA plan.”</p>
Preferences	<p>Section 6, subsection 4, of the admissions and continued occupancy policy states, “Applicants who meet all the eligibility requirements and who qualify for a preference will be assisted first according to the date and time of application. After all applicants with verified preferences are assisted, the PHA will then contact applicant families who are next on the waiting list, according to date and time of application, and bedroom size needed.”</p>
Record of applications and waiting list	<p>Section 4, paragraph A, of the admissions and continued occupancy policy states, “The PHA will indicate on the Record of Application/Waiting List the applicant’s name; date and time of application; race/ethnicity of the head of household; unit size required based on PHA occupancy standards; whether the applicant is eligible or ineligible; the applicant’s preferences; the date and time the applicant was offered a unit; the unit number and location; the date the applicant was assigned a unit, or the date the applicant rejected the assignment; and any circumstances pertaining to assignment of a</p>

<p>Applicant file</p> <p>Operation records</p>	<p>unit, such as removing the applicant’s name because the applicant requested it be done.”</p> <p>Section 2 of the admissions and continued occupancy policy requires the PHA to obtain and copy original documents provided by the applicant, stamp each copy “Copied from Original,” and return the originals to the family. The documents include Social Security cards, State-issued photo identification, birth certificates, adoption documents or divorce decrees, copies of the most recent income tax return or Internal Revenue Service Forms W-2 (if required), evidence of eligible immigration status, and asset information. Further, section 4, subsection 4, states that the file must contain the original application, the form HUD-50058, and signed verification and consent forms.</p> <p>The annual contributions contract, section 309(1), states, “The Local Authority shall maintain complete and accurate books of account and records, as may be prescribed from time to time by the Government, in connection with the development and operation of the Projects, including records which permit a speedy and effective audit... Such records shall include, among others as may be required, operation records which shall include application for admission to, and continued occupancy in, the Projects and the evidence (or notations thereof) used by the Local Authority to verify such applications.”</p>
<p>Criminal records management</p>	<p>Regulations at 24 CFR 5.903(g) require a PHA to “...establish and implement a system of records management that ensures that any criminal record received by the PHA from a law enforcement agency is: (1) Maintained confidentially; (2) Not misused or improperly disseminated; and (3) Destroyed, once the purpose(s) for which the record was requested has been accomplished, including expiration of the period for filing a challenge to the PHA action without institution of a challenge or final disposition of any such litigation.”</p> <p>Section 4, subsection E, of the admissions and continued occupancy policy states that “...material secured under a criminal background check or drug treatment center check will not be retained in the applicant file but will be segregated in a secure location under lock and key. Following a decision on acceptability of an applicant, the criminal background check and drug treatment program information will be removed and destroyed (shredded).”</p>
<p>Mandated use of EIV system</p>	<p>Section 3 of the admissions and continued occupancy policy states, “Use of HUD’s EIV system in its entirety is mandatory... Within four</p>

	months (120 days) of admission of each family or submission of a Code 14 Historical Adjustment, you must generate an income report to confirm that income reported is accurate.”
Annual reviews of flat rents	<p>Section 14, paragraph B, subparagraph 5, of the admissions and continued occupancy policy states, “The PHA will review the flat rents levels at least annually, to ensure that the established levels continue to mirror market rent values. This periodic review may result in the flat rents being either increased or decreased. Residents paying flat rents would not have their rent adjusted (up or down) until their annual reexamination or annual update.”</p> <p>Regulations at 24 CFR 960.253(b)(5) state, “The PHA must maintain records that document the method used to determine flat rents, and also show how flat rents are determined by the PHA in accordance with this method, and document flat rents offered to families under this method.”</p>
Reexamination requirements	Regulations at 24 CFR 960.257(a)(1) and (2) state, “When PHA is required to conduct reexamination for families who pay an income-based rent, the PHA must conduct a reexamination of family income and composition at least annually and must make appropriate adjustments in the rent after consultation with the family and upon verification of the information. For families who choose flat rents, the PHA must conduct a reexamination of family composition at least annually, and must conduct a reexamination of family income at least once every three years.”
Minimum reporting rate for HUD-50058	Notice PIH (Public and Indian Housing) 2008-11(HA) states, “PHAs must have a minimum 95 percent reporting rate (or 94.5 percent before rounding) for public housing families at the time of their quarterly Form HUD-50058 reporting rate assessment or be subject to sanctions.”
PIC unit status data updates	Paragraph 5 of Notice PIH-2011-7 (HA) states, “PHAs must update their IMS [Inventory Management System]/PIC Development Sub-Module data when the status of a unit changes. It is the PHA’s responsibility to submit data no later than 60 calendar days from the effective date of unit tenant status change to ensure accurate calculation of the Operating Fund and Capital Fund formulas.”
Eligible units for operating subsidy	Regulations at 24 CFR 990.125 state, “A PHA is eligible to receive operating subsidy for public housing units under an ACC for: (a) Occupied dwelling units as defined in § 990.140; (b) A dwelling unit with an approved vacancy (as defined in § 990.145); and (c) A limited number of vacancies (as defined in § 990.150).”
Annual unit inspections	Section 21, paragraph B, of the admissions and continued occupancy policy states that the public housing agency must inspect the dwelling unit and premises at least annually.

	Regulations at 24 CFR Part 5, subpart G - 5.705 , states, “Any entity responsible for conducting a physical inspection of HUD housing, to determine compliance with this subpart, must inspect such HUD housing annually in accordance with HUD-prescribed physical inspection procedures.”
Finding 4	
Support for salaries	Regulations at 2 CFR Part 225, appendix B, section 8, subsection h(4) , states that in support of salaries and wages, the standards regarding time distribution apply in addition to the standards for payroll documentation. “Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation.”
Documentation of cost and allowability	Regulations at 2 CFR Part 225, appendix A, section C 1j , state, “...to be allowable under Federal awards, costs must...be adequately documented.” Further, Section C 3c states, “Any cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.” The annual contributions contract, section 402(E) , states, “In no event shall the Local Authority withdraw from any of the funds or accounts authorized under this Sec. 402 amounts for the Projects or for any other project or enterprise in excess of the amount then on deposit in respect thereto.”
Lawsuit settlement	HUD Handbook 1530.1, REV-5, paragraph 5-3C , states, “No settlement arising out of litigation shall be accepted by a PHA without the prior written concurrence of HUD.”
Rental fee policy	Section 14, paragraph A, of the admissions and continued occupancy policy states, “Tenant rent is the amount of rent payable by the resident to the PHA. Tenant rent is the Total Tenant Payment (TTP) minus any applicable utility allowance or tenant paid utilities. Rent is due and payable on the 1 st of the month and is delinquent if not paid by the close of business on the 10 th of the month.”
Resident service stipend	Regulations at 24 CFR 5.609(c)(8)(iv) state, “A resident service stipend is a modest amount (not to exceed \$200 per month) received by a resident for performing a service for the PHA or owner, on a part-time basis, that enhances the quality of life in the development.”

<p>Service animals</p>	<p>Regulations at 24 CFR 960.705(a) state that "...this subpart G (Pet Ownership in Public Housing) does not apply to animals that are used to assist, support or provide service to persons with disabilities. Project owners and PHAs may not apply or enforce any policies established under this subpart against animals that are necessary as a reasonable accommodation to assist, support, or provide service to persons with disabilities. This exclusion applies to animals that reside in projects for the elderly or persons with disabilities."</p> <p>Section IX, paragraph Z, of the Authority's low-rent dwelling lease states, "Tenants who are disabled and have a qualified 'service animal' shall be exempt from the Pet Deposit."</p> <p>Section II of the Authority's pet policy states, "If a tenant has more than one pet he or she must pay the applicable annual fee and deposit for each pet."</p>
<p>General Fund</p>	<p>The annual contributions contract, section 401(B) and (C), states, "All monies and investment securities received by or held for account of the Local Authority in connection with the Projects, except such monies as are deposited with the Fiscal Agent, or with paying agents for the payment of Temporary Notes pursuant to this Contract, shall constitute the 'General Fund.' The Local Authority shall, except as otherwise provided in this Contract, deposit promptly with such bank or banks, under the terms of the General Depositary Agreement, all monies and investments securities constituting the General Fund."</p>
<p>Accounting records</p> <p>Books of account and records</p>	<p>Regulations at 24 CFR 85.20(b)(2) state, "Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."</p> <p>The annual contributions contract, section 309, states, "The Local Authority shall maintain complete and accurate books of account and records, as may be prescribed from time to time by the Government, in connection with the development and operation of the Projects, including records which permit a speedy and effective audit.... Such records shall include, among others as may be required, books of account and other fiscal records in accordance with a classification of accounts prescribed by the Government."</p>
<p>Insurance coverage</p>	<p>The annual contributions contract, section 305(D), states, "Each insurance policy or bond shall be written to become effective at the time the Local Authority becomes subject to the risk or hazard covered thereby, and shall be continued in full force and effect for such period as the Local Authority is subject to such risk or hazard."</p>

<p>Inventory records</p>	<p>Regulations at 24 CFR 85.32(d)(1) through (3) state, “(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.”</p> <p>The annual contributions contract, section 309, states, “The Local Authority shall maintain complete and accurate books of account and records, as may be prescribed from time to time by the Government, in connection with the development and operation of the Projects, including records which permit a speedy and effective audit.... Such records shall include, among others as may be required, personal property records which shall include an annual inventory of all equipment.”</p>
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