



**Housing Authority of the City of
Asbury Park,
Asbury Park, NJ
Public Housing Operating and Capital Fund Programs**



To: Theresa Arce, Director, Office of Public Housing, Newark Field Office, 2FPH

//SIGNED//

From: Kimberly S. Dahl, Regional Inspector General for Audit, 2AGA

Subject: The Housing Authority of the City of Asbury Park, NJ, Did Not Always Administer Its Operating and Capital Funds in Accordance With Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Housing Authority of the City of Asbury Park's administration of its operating and capital funds.

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 website. 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.



Audit Report Number: 2018-NY-1003

Date: February 8, 2018

The Housing Authority of the City of Asbury Park, NJ, Did Not Always Administer Its Operating and Capital Funds in Accordance With Requirements

Highlights

What We Audited and Why

We audited the Housing Authority of the City of Asbury Park based on our risk analysis of public housing agencies located in the State of New Jersey. The objective of the audit was to determine whether the Authority administered its Public Housing Operating and Capital Fund programs in accordance with applicable U.S. Department of Housing and Urban Development (HUD), Federal, and Authority requirements.

What We Found

The Authority did not always administer its operating and capital funds in accordance with HUD, Federal, and Authority requirements. Specifically, the Authority did not (1) adequately support nearly \$1.3 million paid to the Long Branch Housing Authority for technical, administrative, maintenance, and redevelopment services; (2) follow applicable requirements when purchasing more than \$451,000 in goods and services; and (3) properly support \$119,409 in Capital Fund grant obligations. It also improperly used operating funds to pay a settlement with the State of New Jersey. These issues occurred because the Authority did not have adequate controls in place and because Long Branch did not fully understand requirements related to procurement, Capital Fund grant obligations, and allowable Public Housing Operating Fund program expenses. As a result, HUD did not have assurance that (1) nearly \$1.3 million paid to Long Branch was for eligible, reasonable, necessary, and allocable costs; (2) more than \$451,000 paid for goods and services was for reasonable prices and related to valid contracts; (3) \$119,409 in capital funds would be used for eligible activities in a timely manner; and (4) \$75,722 was available to the Authority to operate and fulfill its mission.

What We Recommend

We recommend that HUD require the Authority to (1) provide documentation to show that (a) nearly \$1.3 million paid to Long Branch was for eligible, reasonable, necessary, and allocable costs; (b) more than \$451,000 paid for goods and services was reasonable and related to valid contracts that were in place before disbursements were made; and (c) \$119,409 in obligations was supported; (2) reimburse \$75,722 for the settlement payment; (3) update its policies and procedures to ensure (a) that additional payments for technical, administrative, maintenance, and redevelopment services are adequately supported and that services were provided in accordance with requirements; (b) compliance with HUD and Federal procurement requirements; and (c) that capital funds are obligated in a timely manner and adequately supported.

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Background and Objective

The U.S. Department of Housing and Urban Development's (HUD) public housing program was established to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. Operating funds and capital funds are two major components of HUD's public housing program. Operating funds provide annual operating subsidies to public housing agencies to assist in funding the operating and maintenance expenses of low-income housing units. Capital funds provide annual formula grants to public housing agencies for the development, financing, and modernization of public housing developments and management improvements.

The Housing Authority of the City of Asbury Park was established in 1938 to build and manage public housing developments for residents of Asbury Park. The Authority is under the jurisdiction of HUD's Newark Office of Public and Indian Housing and is governed by a seven-member board of commissioners appointed by the mayor, city council, and New Jersey Department of Community Affairs as delegated by the governor. The Authority owns and manages 586 operating subsidy units at 7 sites, and it received more than \$8.3 million in operating funds and \$2.7 million in capital funds from fiscal years 2015 through 2017.

The Authority's main administrative functions are provided by the management of the Long Branch Housing Authority under an interagency agreement, which is renewed annually. The services provided by Long Branch include (1) technical assistance for daily operations and monitoring; (2) consulting services for administrating staff; and (3) maintenance, rehabilitation, and procurement services.

Our objective was to determine whether the Authority administered its operating and capital funds in accordance with applicable HUD, Federal, and Authority requirements.

Results of Audit

Finding: The Authority Did Not Always Administer Its Operating and Capital Funds in Accordance With Requirements

The Authority did not always administer its operating and capital funds in accordance with HUD, Federal, and Authority requirements. Specifically, the Authority did not (1) adequately support nearly \$1.3 million paid to the Long Branch Housing Authority for technical, administrative, maintenance, and redevelopment services; (2) follow applicable requirements when purchasing more than \$451,000 in goods and services; and (3) properly support \$119,409 in Capital Fund grant obligations. It also improperly used operating funds to pay a settlement with the State of New Jersey. These issues occurred because the Authority did not have adequate controls in place and because Long Branch did not fully understand requirements related to procurement, Capital Fund grant obligations, and allowable Public Housing Operating Fund program expenses. As a result, HUD did not have assurance that (1) nearly \$1.3 million paid to Long Branch was for eligible, reasonable, necessary, and allocable costs; (2) more than \$451,000 paid for goods and services was for reasonable prices and related to valid contracts; (3) \$119,409 in capital funds would be used for eligible activities in a timely manner; and (4) \$75,722 was available to the Authority to operate and fulfill its mission.

Payments to the Long Branch Housing Authority Were Not Adequately Supported

Contrary to regulations at 2 CFR (Code of Federal Regulations) 200.403, the Authority did not ensure that nearly \$1.3 million paid to Long Branch was for eligible, reasonable, necessary, and allocable costs. The Authority entered into an interagency agreement with Long Branch for technical, administrative, maintenance, and redevelopment services when it had turnover at the executive director level before our review period. The agreement included a schedule of Long Branch employees, the tasks they would perform, an estimated number of hours per week, and a statement indicating that the number of hours would vary. While the annual agreements did not detail how compensation would be determined, they listed a monthly maximum and stated that both housing authorities would maintain a comprehensive system of expense and operational records associated with the agreement. However, the monthly invoices for the 3-year period reviewed did not contain detailed information to support the amounts charged, such as how many hours staff members worked and what services they provided, or supporting documentation to show that services were performed. Instead, the total capital and operating funds invoiced each month generally matched the maximum monthly compensation listed in the agreement. The invoices and Authority payment vouchers provided also did not show how the allocation of the costs between operating and capital funds was determined. Further, while the agreement indicated that the Authority compared the cost and availability of the identified supplies and services on the open market with the cost of contracting for the services, the Authority could not show how it performed this analysis and determined that the costs were reasonable and necessary and that the agreement provided for greater economy and efficiency as required by section 14.2 of HUD Handbook 7460.8, REV-2. These issues occurred because the Authority did not have

adequate controls in place to ensure that it complied with applicable HUD, Federal, and Authority requirements. For example, while the Authority's board reviewed invoices received from Long Branch prior to making payment, it did not have procedures in place to ensure that adequate support was provided. As a result, HUD did not have assurance that nearly \$1.3 million paid to Long Branch during our review period, including more than \$670,000 paid from operating funds and \$623,000 paid from capital funds, was for eligible, reasonable, necessary, and allocable costs.

Goods and Services Were Not Properly Procured

The Authority did not always follow applicable requirements at 24 CFR 85.36, 2 CFR Part 200, HUD Handbook 7460.8, and the Authority's procurement policy when purchasing more than \$451,000 in goods and services with operating and capital funds. Specifically, it did not ensure that (1) micropurchases and small purchases were supported by price quotes, (2) purchases made using an intergovernmental agreement complied with Federal procurement requirements, (3) the method of procurement used for larger purchases was documented and the prices paid for these goods and services were reasonable, and (4) contracts were executed and on file before making payments to vendors.

- The Authority did not ensure that purchases below its micropurchase and small purchase thresholds were supported by price quotes prior to disbursing \$123,319 to 20 vendors. For example, in December 2016, the Authority disbursed \$4,125 for storm windows but did not document that it had obtained at least three price quotes as required by its procurement policy. Further, we noted that the Authority's micropurchase threshold of \$2,500 exceeded the \$2,000 threshold outlined in HUD Handbook 7460.8, REV-2, section 3.2.
- The Authority used an intergovernmental agreement with the State of New Jersey to purchase vehicles for \$54,380 from two vendors without ensuring that the procurement complied with Federal procurement requirements as required by paragraph 14.2.A.3 of HUD Handbook 7460.8, REV-2. For example, the Authority did not research the State's basis for selecting the vendors and did not ensure that the State performed cost or price analyses to determine that the prices were reasonable.
- The Authority did not document the procurement method used for larger purchases or that the prices paid for these goods and services were reasonable prior to disbursing \$148,397 to six vendors. In one case, the Authority did not document the method of procurement used when purchasing security cameras and an intercom system and whether it performed a cost or price analysis as required by regulations at 2 CFR 200.318(i), 200.320, and 200.323(a). In another case, the Authority paid more than \$21,000 for a piece of equipment after receiving only one bid but did not document that the price was reasonable despite the lack of price competition as required by regulations at 24 CFR 85.36(f)(1).
- The Authority did not ensure that contracts were executed and on file prior to disbursing \$125,589 to four vendors. In one case, the Authority failed to execute a contract for the

purchase of a bobcat, which it used to pick up dirt and remove snow. In three other cases, the Authority continued to use and pay vendors after the initial contracts expired without executing an extension or option.

These deficiencies occurred because the Authority did not have adequate controls over the maintenance of procurement files and to ensure that its procurement policy was in line with applicable Federal requirements. Further, Long Branch staff providing assistance did not fully understand applicable procurement requirements. As a result, HUD did not have assurance that \$326,096 in operating and capital funds disbursed for goods and services was reasonable and that the Authority had valid contracts in place when disbursing \$125,589 to vendors.

Obligations of a Capital Fund Grant Were Not Adequately Supported

The Authority did not maintain adequate documentation to support \$119,409 in 2015 Capital Fund grant obligations. Regulations at 24 CFR 905.326 required the Authority to maintain complete records of the history of each Capital Fund grant, including records to support obligations. While the Authority had obligated all \$903,409 in capital funds from its 2015 grant, its records supported \$784,000 in obligations. The Authority indicated that the remaining \$119,409 in obligations was related to force account labor from its approved budget and other miscellaneous expenses. However, the force account labor was related to an outdated 2011 estimate, and the Authority did not provide any contracts, purchase orders, or other documentation to support the remaining obligation amount. This condition occurred because Long Branch believed that the 2011 force account labor estimate was sufficient and that other obligations were effective once it intended to spend the funds. As a result, HUD did not have assurance that the capital funds would be used for eligible activities in a timely manner.

Operating Funds Were Used To Pay a Settlement With The State

The Authority did not maintain documentation to show that \$75,722 in operating funds paid to the State of New Jersey to satisfy a settlement was an eligible expense. The payment was made after the Authority's former executive director misused funds received from the State's Department of Labor and Workforce Development and a court ordered the Authority to repay the funds. However, section 9(e)(1) of the Housing Act of 1937 does not list settlement payments as an eligible use of operating funds, and the Authority did not provide documentation to show that the settlement payments were otherwise allowable or related to eligible expenses. This condition occurred because Long Branch believed that court-ordered payments were allowable. As a result, \$75,722 was not available to the Authority to operate and fulfill its mission of providing safe and decent housing.

Conclusion

The Authority did not always administer its operating and capital funds in accordance with HUD, Federal, and Authority requirements. Specifically, it did not adequately support payments made to the Long Branch Housing Authority, follow applicable requirements when purchasing goods and services, properly support Capital Fund grant obligations, and ensure that operating funds were used only for eligible costs. These issues occurred because the Authority did not have adequate controls in place and because Long Branch did not fully understand requirements related to procurement, Capital Fund grant obligations, and allowable Public Housing Operating

Fund program expenses. As a result, HUD did not have assurance that (1) nearly \$1.3 million paid to Long Branch was for eligible, reasonable, necessary, and allocable costs; (2) more than \$451,000 paid for goods and services was for reasonable prices and related to valid contracts; (3) \$119,409 in capital funds would be used for eligible activities in a timely manner, and (4) \$75,722 was available to the Authority to operate and fulfill its mission.

Recommendations

We recommend that the Director of HUD's Newark Office of Public Housing require the Authority to

- 1A. Provide documentation to show that the \$1,294,062 paid to the Long Branch Housing Authority was for eligible, reasonable, necessary, and allocable costs or reimburse its Operating and Capital Fund programs from non-Federal funds for any amount that it cannot support or that is not considered reasonable.
- 1B. Update its policies and procedures to ensure that any additional payments made under interagency agreements for technical, administrative, maintenance, and redevelopment services are adequately supported prior to making payment and that these services are provided in accordance with applicable requirements.
- 1C. Provide documentation to show that the \$326,096 paid for goods and services was reasonable or reimburse its Operating and Capital Fund programs from non-Federal funds for any amount that it cannot support or that is not considered reasonable.
- 1D. Provide documentation to show that it had valid contracts in place before disbursing \$125,589 to three vendors or reimburse its Operating and Capital Fund programs from non-Federal funds for any amount that it cannot support.
- 1E. Update its procurement policies and procedures to ensure compliance with HUD and Federal procurement requirements.
- 1F. Provide documentation to support \$100,496 in 2015 Capital Fund grant obligations that have already been disbursed or reimburse HUD from non-Federal funds for any amount it cannot support.
- 1G. Provide documentation to support \$18,913 in 2015 Capital Fund grant obligations that have not yet been disbursed or request that HUD recapture the funds in accordance with regulations at 24 CFR 905.306.
- 1H. Improve its policies and procedures to ensure that capital funds are obligated in a timely manner and adequately supported.
- 1I. Reimburse its Operating Fund from non-Federal funds for the \$75,722 settlement payment made to the State of New Jersey.

Scope and Methodology

We conducted the audit from April through November 2017 at the Authority's office located at 1000½ Third Avenue, Asbury Park, NJ; Long Branch's office located at 2 Hope Lane, Long Branch, NJ; and our office located in Newark, NJ. The audit covered the period April 2014 through March 2017.

To accomplish our audit objective, we interviewed applicable HUD, Authority, and Long Branch officials and staff. We also reviewed

- Relevant background information.
- Applicable laws, regulations, HUD guidance, and Authority policies and procedures.
- Annual contributions contracts, 5-year plans, and annual action plans.
- Audited financial statements and other financial reports provided by the Authority.
- Contracts, contract files, check registers, invoices, receipts, voucher disbursements, and other records related to the Authority's operating and capital funds.

The Authority disbursed approximately \$9.6 million in operating and capital funds during our review period. We selected \$2.3 million in disbursements for review, including \$1.6 million in Capital Fund disbursements and more than \$650,000 in Operating Fund disbursements. To select disbursements for review, we summarized the data by funding source, vendor, and fiscal year and analyzed the amounts disbursed to each vendor, the nature of the expenses, whether the vendors appeared to be related entities, and other risk factors observed during prior Office of Inspector General (OIG) reviews. Although this approach did not allow us to make a projection to the full \$9.6 million disbursed during our period, it allowed us to review nearly 24 percent of the total disbursed and was sufficient to accomplish our objective. We obtained and reviewed documentation to determine whether the Authority documented required authorizations for purchases and whether it followed applicable procurement and cost principle requirements.

In addition to our sample of disbursements for review, we reviewed the Authority's obligations for its 2015 Capital Fund grant. We selected this grant for review because it was the only one where the funds were awarded during our audit period and the obligation deadline for the funds fell during our audit period.¹ We obtained and reviewed contracts, purchase orders, or other documentation related to the obligations to determine whether they were adequately supported.

¹ The 2016 and 2017 Capital Fund grants were awarded during our audit period, but had obligation deadlines that fell outside of our audit period. Further, while the 2013 and 2014 Capital Fund grants had obligation deadlines during our audit period, the funds were awarded prior to our audit period.

Although this approach did not allow us to make a projection to all Capital Fund grants awarded or obligated during our audit period, it was sufficient to accomplish our objective.

To achieve our objective, we relied in part on computer-processed data from HUD's Public and Indian Housing Information Center system and Line of Credit Control System and data from the Authority, such as its disbursement log. We used the data as background information and to select disbursements and contracts for review. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes. The testing included comparing information from these systems for the sampled items to the Authority's records. We based our conclusions on source documentation obtained from HUD and the Authority.

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 finding and conclusion 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 a program meets its 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.
- 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.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

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 Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The Authority did not have adequate policies and procedures to ensure that it followed applicable requirements.

Follow up on Prior Audit

The Housing Authority of the City of Asbury Park, Asbury Park, New Jersey, Requires Improved Controls over Capital Funds, Salaries, and Maintenance, Audit Report 2007-NY-1006, Issued May 24, 2007

The following recommendation was still open at the time of this report: 1A. Reimburse HUD for the excessive administrative fee charge of \$692,990 in capital funds in accordance with procedures described in 24 CFR 905.120. HUD agreed to an annual repayment plan with the Authority over a 25-year period. The current balance of the payment amount is \$415,796. We will track the progress of HUD's resolution of this recommendation through the management decision process prescribed in HUD Handbook 2000.06, REV-4.

Appendixes

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		\$1,294,062	
1C		326,096	
1D		125,589	
1F		100,496	
1G			\$18,913
1I	\$75,722		
Totals	75,722	1,846,243	18,913

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ 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.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this case, if the Authority implements our recommendation and provides documentation to support \$18,913 in 2015 Capital Fund grant obligations that have not yet been disbursed or requests that HUD recapture the funds, it will ensure that these funds are put to better use for eligible activities.

Appendix B

Auditee Comments and OIG's Evaluation

Auditee Comments

Ref to OIG Evaluation

1000 1/2 Third Avenue
Asbury Park, NJ 07712
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Fax: 732-774-0643



Working Together for Housing Excellence

January 22, 2018

Kimberly S. Dahl
Regional Inspector General for Audit
26 Federal Plaza, Room 3430
New York, NY 10278

Re: Auditee Comments – Asbury Park Housing Authority

Ms. Dahl,

Attached to this letter you will find the Asbury Park Housing Authority's auditee comments following our exit conference on January 16, 2018. The Authority appreciates that you and your team took the time to discuss our various questions and concerns as a result of our review of OIG's draft audit report. Should you have any further questions of us following your review of our comments, please feel free to contact me at your convenience.

Regards,



Thomas A. Sahlín
Interim Executive Director
Housing Authority of the City of Asbury Park

Encl: "Auditee Comments"

Cc: [REDACTED]
[REDACTED]

www.aphanj.com

Auditee Comments and OIG's Evaluation

Auditee Comments

Ref to OIG Evaluation

Comment 1

Comment 2

Comment 3

Housing Authority of the City of Asbury Park
1000 ½ 3rd Ave
Asbury Park, NJ 07712

Auditee Responses (Organized by respective heading within report under "Finding"):

*Submitted 01-22-2018

Payments to the Long Branch Housing Authority Were Not Adequately Supported:

Response: The Long Branch Housing Authority (LBHA) was tasked per the inter-local agreement with both planning/consulting services and the day-to-day administration of the Asbury Park Housing Authority's (APHA's) operations. Payments to the LBHA were effectuated in accordance with an annual "not to exceed" contract amount based off a mutually agreed upon minimum weekly time allocation for various LBHA employees. The APHA was consistently provided with monthly time sheets for the aforementioned LBHA staff as backup for its invoices. These time sheets indicated the dates worked, the number of hours worked by each staff member on each date, as well as a description of what the staff member worked on to support the hours that were provided. On average, the hours provided by LBHA staff greatly exceeded the minimum hour allocation set forth in the contract. Additionally, the administration regularly submitted to HUD updates to the Corrective Action Plan that had been put into place for the APHA. As a result, the APHA was provided with sufficient information to show that the services which LBHA was contractually obligated to provide were indeed being performed.

Due to the financial mismanagement of a prior administration, the APHA was in a severe accumulated deficit position that would require years' worth of cost-cutting measures to recover from. With this in mind, the LBHA provided APHA with a side-by-side cost comparison for services to be provided within the contract as follows: 1) a complete list of administrative staff functions by job title with an estimate for what the Authority would pay (e.g. salary + benefits and employer taxes) if the Authority were to hire its own staff from the open job market to perform those functions, and 2) an analysis to support the cost savings it could realize by utilizing force account labor through the LBHA contract to perform unit turn-over rather than utilizing an independent contractor as it had done in the past. As a result, a significant cost savings was clearly presented to the APHA Board.

Goods and Services Were Not Properly Procured

Response: Following the retirement of the Authority's former procurement staff member an issue was identified with the individual's filing habits. Upon the transition of this former employee's responsibilities to his successor, many (but not all) of the procurement files that were thought to have been missing were located and subsequently filed in a proper manner. That being stated, there are still some files that have yet to be located – including but not limited to: price quotes to support purchase orders (micro/small purchase), research related to New Jersey State Contract purchases, as well as

Auditee Comments and OIG's Evaluation

Auditee Comments

Ref to OIG Evaluation

Comment 3

executed contracts. Regarding the executed contracts, it is worth noting that all three contracts were entered into as a second-year option to renew (as was provided for in the initial executed contract) and were properly approved via resolution by the Board of Commissioners. This does not excuse the former employee's failure to properly file the executed documents, but rather is intended to illustrate the fact that the Authority is committed to adhering to its procurement policy. As soon as the supporting documents are located, they will be properly filed in their respective folders.

Comment 4

Pertaining to the issue of the use of intergovernmental agreements (i.e. State contracts and/or GSA), the Authority relied on the vetting of approved vendors by State and/or Federal processes. As a result, the Authority was of the opinion that performing supplemental comparisons would be an efficient use of Authority resources. The purchase of the \$21,000 piece of equipment as was noted in the report [REDACTED] was purchased through State Contract, and furthermore, it was indicated through further research by the Authority that the vendor was the only in the region to offer the piece of equipment that was needed to effectively continue the operations of the maintenance staff.

Comment 5

The Authority will review the procurement policy currently in place to ensure that it complies with all applicable HUD regulations. If it is found to be in need of revision, that action will be taken as soon as is reasonably possible.

Comment 6

Obligations of a Capital Fund Grant Were Not Adequately Supported:

Response: With regard to force account labor, the APHA submitted to HUD an OSAR request to obligate \$60,000 in Capital Funds for the purpose of turning over LIPH units by utilizing the inter-local contract with the LBHA. After review by HUD Field Office staff, the OSAR was approved. It was/is our understanding that subsequent approvals were not necessary after the initial approval was granted. Of the remaining \$59,409 in questioned obligations, the Authority had budgeted for another \$22,409 for unit repairs, \$25,000 for sidewalk repairs, and \$12,000 for equipment repairs. These necessary repair estimates were identified through our capital needs planning process, which included internal analysis of potential REAC deficiencies.

Comment 7

Operating Funds Were Used To Pay a Settlement With The State:

Response: As indicated in the report, the Authority arranged for the State of New Jersey to be repaid in the amount of \$75,722 after receiving a court order resulting from the misuse of grant funds by the former Executive Director. In order to comply with the court order, the Authority booked the repayment as a Central Office Cost Center (COCC) expense. The Authority maintains its belief that the accounting of this payment was appropriate. The underlying issue that resulted from this payment has been interpreted to be that the APHA COCC's accumulated deficit brought into question the availability of non-federal funds in making said payment. The Authority will consult with its fee accountant and HUD to determine the proper course of action in resolving this matter.

OIG Evaluation of Auditee Comments

- Comment 1 The Authority maintained that monthly timesheets were consistently provided as support for the services performed by Long Branch. We disagree. While the Authority provided spreadsheets listing the number of hours worked by Long Branch staff to support 15 of the 48 Long Branch invoices reviewed, the records did not meet the Federal cost principle requirements for documenting salaries and wages and did not adequately support the payments made under the agreement. While we informed the Authority on five occasions that it had not provided sufficient time records, it did not provide any additional records for the invoices reviewed during our audit. As part of the normal audit resolution process, the Authority will need to provide documentation to HUD supporting the nearly \$1.3 million paid to Long Branch and showing that it was eligible and properly allocated between its operating and capital funds.
- Comment 2 The Authority stated that Long Branch provided it with a side-by-side cost comparison showing how much it would cost the Authority to hire additional staff and how it could save money by utilizing force account labor through Long Branch. However, the documentation provided during the audit did not show how Long Branch or the Authority performed its analysis and determined that costs were reasonable and necessary and that the agreement provided for greater economy and efficiency as required by section 14.2 of HUD Handbook 7460.8, Rev-2. Therefore, as part of the audit resolution process, the Authority will need to provide documentation to HUD showing that the amount it paid Long Branch was reasonable and necessary, or repay from non-Federal funds any amount that it cannot support or that is not considered reasonable.
- Comment 3 The Authority stated that it had identified an issue with a former procurement employee's filing habits and indicated that it had not yet located some files and documents such as price quotes for micropurchases and small purchases, research related to New Jersey State contract purchases, and executed contracts. It further stated that it would properly file the documents when they are located. As part of the normal audit resolution process, the Authority will need to provide documentation to HUD showing that the prices it paid for goods and services were reasonable or repay from non-Federal funds any amount that it cannot support or that is not considered reasonable.
- Comment 4 The Authority stated that when using intergovernmental agreements, it relied on the vetting of vendors performed by those agencies and believed that performing supplemental comparisons would not be an efficient use of its time. The Authority further noted that it purchased the bobcat from the only vendor in the region to offer the specific piece of equipment it needed. HUD Handbook 7460.8, REV-2 required the Authority to ensure that the purchase complied with Federal procurement requirements. While the Authority received only one bid, it did not document that the price paid was reasonable as required by 24 CFR 85.36(f)(1).

Further, it did not document that it complied with the requirements of 24 CFR 85.36(d)(4) to purchase from a single source, such as documenting showing how it solicited bids and that the equipment was only available from one source. Therefore, as part of the normal audit resolution process, the Authority will need to provide documentation to HUD showing that the amount paid for the equipment was reasonable or repay from non-Federal funds any amount that it cannot support or that is not considered reasonable.

- Comment 5 The Authority indicated that it would review its procurement policies to ensure compliance with HUD regulations and take action to revise its policies if needed. The Authority's planned actions are generally responsive to recommendation 1E. However, it should ensure that its procurement policies and procedures comply with both HUD and Federal procurement requirements.
- Comment 6 The Authority maintained that HUD's initial approval of its request to obligate \$60,000 of its capital funds for force account labor was sufficient and that additional approvals were not necessary. Further, the Authority explained that the remaining \$59,409 was budgeted for repairs based on estimates identified through their capital needs planning process. We disagree that HUD's approval of the Authority's request to obligate capital funds for force account labor was sufficient. Regulations at 24 CFR 905.314(j) required the Authority to seek HUD's approval and document that the cost for procuring the services was reasonable when compared to using its own labor. The Authority did not provide adequate documentation to show that the cost was reasonable. Further, the Authority did not provide adequate documentation to support the capital funds obligated for repairs.
- Comment 7 The Authority contended that it accounted for the \$75,722 settlement payment to the State as a Central Office Cost Center expense, though it acknowledged that an accumulated deficit raises the question of whether these non-Federal funds were available for the payment. Further, the Authority indicated that it would consult with its fee accountant and HUD to determine the proper course of action to resolve this matter. We disagree with the Authority's assertion that it accounted for the payment as a Central Office Cost Center expense because the documentation provided showed the funds had been accounted for as an Operating Fund expense and paid from the Authority's operating funds. However, we agree with the Authority's plan to consult with its accountant and HUD to determine the proper course of action. As part of the normal audit resolution process, the Authority will need to provide documentation to HUD showing that it has reimbursed its Operating Fund for the \$75,722 payment.