



Issue Date May 14, 2008

Audit Report Number 2008-BO-1006

TO: Donna J. Ayala, Director, Office of Public Housing, Boston Hub, 1APH
Henry S. Czauski, Deputy Director, Departmental Enforcement Center, CV

FROM: 
John A. Dvorak, Regional Inspector General for Audit, Region 1, 1AGA

SUBJECT: Woonsocket Housing Authority, Woonsocket, Rhode Island, Housing Choice Voucher Program and Public Housing Program Deficiencies Resulted in Cost Exceptions Totaling \$904,494

HIGHLIGHTS

What We Audited and Why

We audited the Housing Choice Voucher (Voucher) and public housing programs at the Woonsocket Housing Authority (Authority) as part of our annual audit plan. The overall objective of the audit was to determine whether the Authority efficiently and effectively administered its Voucher and public housing programs in compliance with its annual contributions contracts and U.S. Department of Housing and Urban Development (HUD) regulations. In addition, we wanted to determine whether the Authority's board of commissioners (board) had conflicts of interest and whether the Authority established and followed a reasonable policy for travel costs charged to federal programs. Our efforts focused on whether the Authority properly (1) used federal funds to subsidize a separate nonprofit entity; (2) allocated costs and accounting for interfund transactions; (3) adhered to its procurement practices; (4) account for travel per diem rates and travel expense vouchers; and (5) adhered to its waiting lists procedures.

What We Found

The Authority generally administered the Voucher and public housing programs in compliance with its annual contributions contract and HUD regulations. In addition, HUD's Regional Counsel rendered an opinion that the Authority's board members did not violate conflict-of-interest provisions of section 19(A) of the contract. However, we identified several deficiencies, including \$663,413 in unsupported costs and \$241,081 in opportunities for funds to be put to better use, because the Authority

- Improperly used federal funds to subsidize the development activities of Blackstone,
- Did not establish an adequate cost allocation plan for administrative and indirect costs and improperly advanced and used funds between its public housing and Voucher programs,
- Did not always comply with HUD procurement regulations and its own procurement policy,
- Did not establish a reasonable policy for travel per diem rates charged to federal programs and ensure that board members always submitted travel expense vouchers, and
- Did not always follow its HUD-approved waiting list procedures.

What We Recommend

We recommend that the Director of the Office of Public Housing require the Authority to (1) cease the practice of improperly using federal funds to pay nonprogram costs and repay \$2,608 in unreimbursed funds, (2) provide support for \$587,000 in salary expenses and \$67,855 in indirect costs charged to the Voucher program or reimburse these costs and cease the practice of advancing and using funds between its federal programs, (3) comply with HUD procurement regulations and its own procurement policy, (4) establish a reasonable policy for travel per diem rates charged to federal programs and ensure that board members always submit travel expense vouchers, and (5) obtain HUD approval on all actions that are contrary to its waiting list procedures.

We also recommend that Authority establish controls to ensure that all interprogram transactions are recorded and reconciled monthly, thereby eliminating the average daily balance of \$241,081 that was owed between federal programs during the period January 2005 through June 2007. Further, we recommend that HUD's Departmental Enforcement Center consider sanctions as appropriate against the responsible parties for the improper use of federal funds used to pay nonprogram costs of an affiliated nonprofit entity.

For each recommendation in the body of the report without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the Authority a draft report on March 31, 2008, and held an exit conference with officials on April 4, 2008. The Authority provided written comments on April 18, 2008. The Authority has taken some corrective actions that should eliminate the conditions noted in this report. The Authority's response, along with our evaluation of that response, can be found in appendix B of this report.

TABLE OF CONTENTS

Background and Objectives	5
Results of Audit	
Finding 1: The Authority Improperly Used Federal Funds to Subsidize a Nonprofit Entity	6
Finding 2: The Authority Did Not Have an Adequate Cost Allocation Plan and Improperly Advanced and Used Funds between Its Public Housing and Section 8 Programs	8
Finding 3: The Authority Failed to Comply with HUD Procurement Regulations and Its Own Procurement Policy	11
Finding 4: The Authority Did Not Establish a Reasonable Policy for Travel Costs Charged to Federal Programs and Board Members Did Not Always Submit Travel Expense Vouchers	15
Finding 5: The Authority Did Not Always Follow Its HUD-Approved Program Waiting List Procedures	17
Scope and Methodology	19
Internal Controls	20
Appendixes	
A. Schedule of Questioned Costs and Funds to Be Put to Better Use	22
B. Auditee Comments and OIG's Evaluation	23
C. Selected Criteria for the Voucher Program	35

BACKGROUND AND OBJECTIVES

The United States Housing Act of 1937 established the federal framework for government-owned affordable housing. This act also authorized public housing as the nation's primary vehicle for providing jobs and building and providing subsidized housing through the U.S. Department of Housing and Urban Development (HUD). HUD disperses funds to public housing agencies under annual contributions contracts to provide subsidy payments or housing assistance payments for participating low-income families.

In addition, the United States Housing Act of 1937, as amended by the Quality Housing and Work Responsibility Act of 1998, created the Section 8 Housing Choice Voucher tenant-based program (Voucher program). The Voucher program is funded by HUD and allows public housing authorities to pay HUD subsidies directly to housing owners on behalf of the assisted family.

The Voucher program and a low-rent housing program are administered by the Woonsocket Housing Authority (Authority) for the City of Woonsocket, Rhode Island. HUD contracts with the Authority to administer 642 low-income units through annual contributions contracts.¹ The Authority received \$10.2 million in Voucher program funds during the period January 1, 2005, through June 30, 2007, and earned administrative fees of approximately \$1.2 million. The annual contributions contracts require the Authority to follow appropriations laws, HUD requirements including public housing notices, and the Authority's administrative plan.

The principal staff member of the Authority is the executive director, who is hired and appointed by the Authority's board of commissioners (board). The executive director is directly responsible for carrying out the policies established by the board and is delegated the responsibility for hiring, training, and supervising the remainder of the Authority's staff to manage the day-to-day operations of the Authority and to ensure compliance with federal and state laws and directives for the programs managed.

Our overall audit objective was to determine whether the Authority effectively and efficiently administered its Voucher program in compliance with its annual contributions contracts and HUD regulations. In addition, we wanted to determine whether board members had conflicts of interest and whether the Authority established and followed a reasonable policy for travel costs charged to federal programs. Our specific audit objectives were to determine whether the Authority (1) improperly used federal funds to subsidize development activities of Blackstone Valley Housing Development Corporation (Blackstone), a separate nonprofit entity; (2) had an adequate cost allocation plan for administrative and indirect costs and whether it improperly advanced and used funds between its public housing and Voucher programs; (3) complied with HUD procurement regulations and its own procurement policy; (4) established and followed a reasonable policy for per diem rates charged to federal programs; and (5) followed its public housing and Voucher program waiting list procedures.

¹ As of May 1, 2007.

RESULTS OF AUDIT

Finding 1: The Authority Improperly Used Federal Funds to Subsidize a Nonprofit Entity

The Authority improperly loaned and used \$114,326 in federal funds² to pay the operating expenses of Blackstone, a separate affiliated nonprofit entity. This condition occurred because the Authority's board members did not follow the annual contributions contract or the Voucher program restrictions to ensure that expenditures complied with federal regulations. As a result, public housing and Voucher program funds were put at risk of not being repaid and not available for use to pay the Authority's public housing and Voucher program costs. Blackstone repaid all of the funds except \$2,608.

The Authority Improperly Used Federal Funds on Blackstone Activities

The Authority created a separate affiliated corporation to promote neighborhood economic development, related employment opportunities, housing revitalization, and urban renewal activities. This corporation was established within the state of Rhode Island on January 29, 2002, and was called the Blackstone Valley Housing Development Corporation. However, the Authority provided a \$20,000 interest-free loan from its public housing program to Blackstone in early 2005 to support its initial operations. In addition, the Authority improperly used another \$75,577 in public housing and \$18,749 in Voucher program funds to subsidize the operations of Blackstone from February 2003 through August 2007. The \$20,000 loan was repaid on May 22, 2006, and as of August 2007, Blackstone had repaid all but \$2,608 of the remaining funds to its federal program.

In using the funds to subsidize Blackstone, the Authority's board members and the executive director did not follow annual contributions contract and Voucher program restrictions. Therefore, the Authority's use of the funds violated section 11(B) of the its annual contributions contract with HUD, which states, "the Authority must not make any program expenditures, except in accordance with the HUD approved budget estimate and supporting data for a program." In addition, Federal Appropriations Acts from 2004 forward restrict the use of Voucher program funds to program uses.

² \$95,577 in public housing funds and \$18,749 in Voucher program funds.

Board Members Were Aware of Funding Activity

The Authority's board members were aware of Blackstone's funding activity. Our audit found through a review of the Authority's board minutes that the board members had specific knowledge as to the origin of Blackstone's initial funding. Two of the Authority's board members also sat on the board of Blackstone. In addition, the Authority's board members approved all of the Authority expenses on a monthly basis. Therefore, board members were aware that the Authority paid expenses on behalf of Blackstone and failed to follow HUD rules and regulations governing use of public housing and Voucher program funds.

Conclusion

The Authority improperly used federal funds to pay nonprogram costs and put \$114,326 in federal program funds at risk of loss had the operations of Blackstone failed. Also, these funds were not available for public housing and Voucher program purposes, and \$2,608 of the funds had not been repaid.

Recommendations

We recommend that the Director of the Office of Public Housing require the Authority to

- 1A. Cease the practice of using federal funds to pay nonprogram expenses including those on behalf of Blackstone.
- 1B. Require the Authority to repay the \$2,608 in ineligible expenditures from nonfederal sources.
- 1C. Consider taking administrative actions against the Authority's board members and executive director who approved the improper use of federal funds.

We also recommend that the Director of the Departmental Enforcement Center

- 1D. Consider taking administrative sanctions against the Authority's board members and executive director who approved the improper use of federal funds identified in this and the other findings presented in the report.

RESULTS OF AUDIT

Finding 2: The Authority Did Not Have an Adequate Cost Allocation Plan and Improperly Advanced and Used Funds between Its Public Housing and Voucher Programs

The Authority did not have an adequate cost allocation plan for its administrative salaries and could not account for the indirect costs charged for other Voucher program administrative costs. In addition, it improperly advanced and used funds between its public housing and Voucher programs and did not reconcile differences between these federal programs. These conditions occurred because the Authority did not establish a supportable basis for its cost allocation plan and see the need for establishing accounting controls over program borrowing because it only borrowed funds between its federal programs. As a result, the Authority's allocation of management and finance salaries totaling \$587,000 and indirect costs of \$67,855 were not supported. In addition, an average of \$241,081 was owed to the public housing program from the Section 8 program during the period January 2005 through June 2007, making these funds unavailable for public housing purposes.

Allocation of Salaries and Indirect Costs Was Unsupported

The Authority did not establish a supportable basis for its cost allocations between federal programs. Instead, it allocated salaries between its federal programs³ using predetermined percentages. The Authority charged \$587,000 for administrative salaries (management and finance) and could not support the indirect rate of 12 percent charged for other Voucher program administrative costs totaling \$67,855. This condition occurred because the Authority did not have a written cost allocation method that the clearly defined and supported the allocation percentages. Therefore, we consider the costs charged to the Voucher program to be unsupported.

The Authority Advanced Funds between Federal Programs

The Authority advanced and used funds between its federal programs in violation of its annual contributions contract, section 11(B), which states that the Authority

³ The Authority's primary housing programs are federal operating, federal leased housing, and capital fund programs.

must not make any program expenditures except in accordance with the HUD-approved budget estimate and supporting data for a program. This condition occurred because the Authority was unaware of the fund restriction for the public housing program and did not see the need for establishing accounting controls over program borrowing since it only borrowed funds between its federal programs. Therefore, the Authority also did not have adequate accounting controls over its interprogram receivables and payables and did not reconcile differences in its interfund accounts between its federal programs on a monthly basis. Over a period of 910 days, there was as much as \$669,000 in funds owed to the Authority's public housing program by the Voucher program, and the average daily balance owed was \$241,081. As a result, the funds owed were not available for public housing purposes.

The Authority needs to establish controls to ensure that all interprogram balances are reconciled monthly and repaid. This will eliminate the significant balances owed, resulting in an average of \$241,081 in public housing funds being put to better use annually.

Conclusion

Management and finance salaries totaling \$587,000 and indirect costs of \$67,855 were not supported. The Authority did not have an adequate cost allocation plan for its administrative salaries (management and finance) because it failed to establish a supportable basis for its cost allocation plan. In addition, it could not account for the indirect cost allocation rate of 12 percent charged for other Voucher program administrative costs because it did not have a documented basis for its indirect cost rate.

On a monthly basis, \$241,081 was not available for public housing program purposes. The Authority improperly advanced and used funds between its public housing and Voucher programs because it was unaware of fund restrictions. In addition, it did not reconcile differences between its federal programs because it did not establish accounting controls over program borrowing between its federal programs.

Recommendations

We recommend that the Director of the Office of Public Housing require the Authority to

- 2A. Develop allocations method to determine the proper allocation of salaries and benefits and indirect costs to the public housing and Voucher programs.
- 2B. Provide support for management and finance salary expenses totaling \$587,000 charged to the Voucher program or reimburse the Voucher program from nonfederal funds.
- 2C. Provide support for the 12 percent indirect allocation factor used to charge \$67,855 for indirect costs to the Voucher program or reimburse the Voucher program from nonfederal funds.
- 2D. Establish controls to reconcile differences and eliminate borrowing between federal programs on a monthly basis, resulting in an average of \$241,081 in public housing funds being put to better use annually.

RESULTS OF AUDIT

Finding 3: The Authority Failed to Comply with HUD Procurement Regulations and Its Own Procurement Policy

The audit identified several instances in which the Authority's procurement practices did not comply with HUD regulations and its own procurement policy. Specifically, the Authority failed to

- Award contracts competitively,
- Execute or update service contracts and/or written agreements,
- Implement a method for conducting technical evaluations,
- Document the source selection process, and
- Maintain a detailed history of all procurements.

This condition occurred because the executive director (contracting officer) did not fulfill his responsibility to establish and follow effective management controls over the procurement process. As a result, HUD had no assurances that the Authority's procurement process was fair and equitable and resulted in obtaining the best quality and/or priced goods and services. In addition, without formal contract documents, the Authority was at risk for overbilling and paying for unauthorized or substandard goods and services.

The Authority Did Not Comply with Procurement Regulations and Its Own Policy

The Authority did not comply with requirements when procuring services for housing quality inspections, legal services, and fee accountant services and did not use a lease-purchase analysis when it considered leasing photocopy equipment. The Authority's procurement policy stated that the Authority would comply with HUD's annual contributions contract; HUD Handbook 7460.8, "Procurement Handbook for Public Housing Agencies;" and the procurement standards of 24 CFR [*Code of Federal Regulations*] 85.36. The term "procurement" includes both contracts and modifications—including change orders—for construction or services as well as purchase, lease, or rental of supplies and equipment. Section 5(A) of the annual contributions contract further required the Authority to comply with all provisions of the contract and all applicable regulations issued by HUD. Procurement regulations at 24 CFR 85.36 required the Authority to

- Conduct all procurement in a manner that provides full and open competition and

- Maintain sufficient records to show the history of the procurement. The records should include the rationale and justification for the method of procurement, the type of contract, the selection of the contractor, and the basis for the contract price.

The specific requirements not complied with included the awarding of contracts competitively, executing or updating service contracts and/or written agreements, implementing a method for conducting technical evaluations, documenting the source selection process, and maintaining a detailed history of all procurements.

There Were No Housing Quality Inspection Contracts

The Authority could not show that the best quality and/or priced goods and services had been obtained for its housing quality inspections before our audit. In addition, the Authority could not show that inspection services procurements were awarded competitively because it could not provide a detailed history of the procurement showing the selection process or the method for conducting the technical evaluations. The procurements needed to be supported by documentation regarding the method of selection, the procurement chosen, the rationale for selecting or rejecting offers, and the basis for the contract price.

The Authority's two Voucher program housing quality inspection contractors had been working without a written contract since December 2005. There had been no written agreements, only verbal commitments, to extend the contracts. However, all contracts and modifications should be in writing, clearly specifying the desired supplies, services, or construction. The two contractors were paid a total of \$35,325 for their inspection services during the period January 2006 through July 2007. As a result of our audit, the Authority solicited a request for proposal for Voucher program housing inspections on September 12, 2007. The request outlined in detail the scope of services and contract award process evaluation criteria. The Authority received three bid proposals. It entered into two signed contracts with the two lowest responsive bidders, which turned out to be the previous two contractors.

Procurement Policies Not Followed For Legal Services

The Authority did not follow its procurement policy regarding the hiring of its attorneys. For the legal contracts before July 2006, the Authority could not show a detailed history of the procurement, although the requests for proposals were publicized and identified the evaluation factors. However, the bid proposals were not maintained, nor were the negotiations regarding the selection process and

methods used for conducting technical evaluations of the proposals received documented in the files.

For the current attorney services, the authority did not have a detailed history of the procurement to support the selection or signed contracts. The two legal firms being used had been working without written contracts since July 2006, and have been paid a total of \$133,753 without signed contracts. Therefore, The Authority could not show that the best quality and/or priced goods and services were obtained for its legal services. The executive director stated that the board approved the hiring of the law firms in July 2006. The executive director also stated that it was an oversight on his part in not obtaining the signed legal contracts. All contracts and modifications should be in writing, clearly specifying the desired supplies, services, or construction and supported by documentation regarding the method of selection, the procurement chosen, the rationale for selecting or rejecting offers, and the basis for the contract price.

Procurement Policies Not Followed For Fee Accountant Services

The Authority did not follow its procurement policy regarding the hiring of its fee accountant. It entered into a sole source contract for fee accountant services at a \$2,000 monthly cost for the period January 2005 through December 2006. The Authority did not document the history of the procurement and did not follow its own procurement policy regarding small purchases. Its procedures state, "For small purchases in excess of \$2,500 but not exceeding \$25,000, no less than three offers shall be solicited to submit price quotations. These quotes may be obtained orally, by telephone or in writing, as detailed by State or local laws."

In addition to failing to obtain competition, the Authority continued to retain and pay \$2,000 per month for the fee accountant services although the contract had expired well over a year earlier. Therefore, the Authority could not show that the best quality and/or priced goods and services were obtained for its fee accountant services.

The Authority Leased Photocopy Equipment

The Authority entered into leasing contracts totaling \$85,200 to lease its copiers in 2006. However, leasing the copiers may not have been the Authority's best option as required by its procurement policy. Our analysis of the lease showed

that the purchase of the copiers would have been less costly than the leases. The Authority did not normally perform such analyses when considering a lease. We determined that the Authority could have saved more than \$13,000 had it purchased the copiers instead of leasing them. This example illustrates potential cost savings if the Authority incorporates lease versus purchase analyses in its procurements.

Conclusion

HUD had no assurance that the Authority's procurement process was fair, equitable, and resulted in obtaining the best quality and/or priced services. When procuring services for housing quality inspections, legal services, and fee accountant services and when leasing photocopy equipment, the Authority did not comply with HUD regulations and its own procurement policy. In addition, without formal contract documents, the Authority was at risk of overbilling and paying for unauthorized services. This condition occurred because the Authority's executive director did not fulfill his responsibility to establish and implement effective management controls over the procurement process.

Recommendations

We recommend that the Director of the Office of Public Housing require the Authority to

- 3A. Implement procedures and controls to ensure that its contracts are awarded in a manner that provides full and open competition as required by HUD's regulations and its procurement policy.
- 3B. Perform a lease versus purchase analysis on future procurements when it is considering a lease.
- 3C. Maintain documentation supporting the basis for contracts awarded, including history of procurement and appropriate analysis and signed copies of contracts.

RESULTS OF AUDIT

Finding 4: The Authority Did Not Establish a Reasonable Policy for Travel Costs Charged to Federal Programs and Board Members Did Not Always Submit Travel Expense Vouchers

The Authority did not establish a reasonable policy for travel costs charged to federal programs. In addition, the Authority's board members did not always submit travel vouchers for travel costs incurred for Authority business. These conditions occurred because the board members established an arbitrary \$175 per diem rate and the board members incorrectly interpreted the requirement for submitting travel expense vouchers. As a result, the travel expenses charged to federal programs were excessive, and without submitting detailed travel expense reports upon completion of the travel, expenditures may not have been valid and reasonable. In addition, the Authority could not account for \$5,950 in cash advances for board members who attended Public Housing Authorities Directors Association (PHADA) conferences. Therefore, we question these costs as being unsupported.

The Per Diem Rate of \$175 per Day Was Excessive

The Authority did not establish a reasonable policy for travel costs when its board members arbitrarily established a travel per diem and incidental expense rate of \$175 per day. In addition to the rate having been excessive, the Authority did not follow its own Board Resolution No. 703, which stated that the board members could adopt the Federal Travel Regulation Manual as a reference to provide additional guidelines in establishing this arbitrary rate. Although, the resolution did not mandate the Authority to use the Federal Travel Regulation Manual, it would have aided the Authority in determining what a reasonable per diem rate should be. The daily per diem rate of \$175 for meals and incidental expenses was clearly unreasonable. For example, the federal per diem rates for the Phoenix, Arizona, and Las Vegas, Nevada, trips taken to PHADA conferences were \$59 and \$64, respectively.

Board Members Did Not Always File Expense Vouchers

Board members did not always complete or file travel expense vouchers for expense incurred on the behalf of the Authority. This condition occurred because some board members had different interpretations of the Authority's approved

travel policy, which stated that travel expenses (1) would be reimbursed provided they were reasonable in nature and amount, (2) were properly supported with documentation, and (3) had been appropriately approved. In addition, the reimbursements for actual subsistence expenses would need to be supported by receipts and/or travel expense reports, and receipts were required for expenses of more than \$50. Some board members misinterpreted this policy to mean that if the expenses were less than \$50, the board members would not have to prepare a travel expense voucher. By not always submitting travel expense vouchers, the Authority had no assurances that travel funds were properly supported and reasonable. The Authority could not account for \$5,950 in cash advances for board members who attended PHADA conferences in Phoenix, Arizona, and Las Vegas, Nevada.⁴ Therefore, we question these costs as being unsupported.

Conclusion

Travel cost incurred by the Authority were unreasonable when compared to the federal travel rates allowed, and unsupported costs were charged to federal programs. The Authority did not establish a reasonable policy for travel per diem rates charged to federal programs because the board of commissioners established an arbitrary travel per diem rate of \$175 per day. In addition, board members did not always submit travel expense vouchers for travel costs incurred for the Authority because of the board's incorrect interpretation of the expense reporting policy.

Recommendations

We recommend that the Director of the Office of Public Housing require the Authority to

- 4A. Establish a reasonable policy for travel per diem rates charged to federal programs.
- 4B. Enforce the requirement to always file a travel expense voucher for all travel cost incurred.
- 4C. Provide support for the travel expense vouchers for the PHADA conferences totaling \$5,950 or if support is unavailable, reimburse the applicable federal programs accordingly.

⁴ The board members who attended PHADA conferences received \$1,750 in cash advances for Phoenix, Arizona, and \$4,200 in cash advances for Las Vegas, Nevada.

RESULTS OF AUDIT

Finding 5: The Authority Did Not Always Follow Its HUD-Approved Program Waiting List Procedures

The Authority did not always follow its own HUD-approved public housing admissions and continued occupancy policy and Voucher program waiting list procedures. We identified three instances in which applicants received preferential treatment over other applicants on the public housing and Voucher program waiting lists. This condition occurred because the executive director decided to put the safety of the tenants first and provide housing to a homeless person without HUD approval. As a result, prospective tenants on the public housing and Voucher program waiting lists were bypassed for these applicants.

Three Tenants Were Given Preferential Treatment on Waiting Lists

Two tenants received Voucher program assistance, and another tenant was placed in public housing ahead of others on the waiting lists. Although the Authority documented the reasons why these tenants received preferential treatment, including detailed police and medical reports, it failed to obtain HUD approval for these exceptions.

Both the Authority's admissions and continued occupancy policy for the public housing program and Voucher program administrative plan provided detailed instructions on how to establish and maintain waiting lists including a preference system, selection factors, and removing applicants from the waiting list.

Further, HUD regulations at 24 CFR 982.204(a) state, "The PHA [public housing authority] must select participants from the waiting list in accordance with admission policies in the PHA administrative plan."

The admissions and continued occupancy policy for the public housing program and the Voucher program's administrative plan did not provide the board members or the executive director clear guidance on how to handle problem tenants or homeless applicants. Therefore, the executive director made a conscious decision to put the safety of the tenants first and provide housing to a homeless person without HUD approval.

Conclusion

The Authority failed to request HUD's approval before deviating from its approved waiting list procedures. Two tenants received Voucher program assistance, and another tenant was placed in public housing ahead of others on the waiting lists.

Recommendations

We recommend that the Director of the Office of Public Housing require the Authority to

- 5A. Establish clear policy and guidance on how to handle extraordinary circumstances (or emergency situations such as problem tenants or homeless applicants) and the requirement to obtain HUD approval when extraordinary circumstances arise that may require actions that are contrary to its approved admissions and continued occupancy policy and waiting list procedures for its Voucher program.

SCOPE AND METHODOLOGY

We conducted the audit between August 2007 and February 2008. Our fieldwork was conducted at the Authority's main office located at 679 Social Street Woonsocket, Rhode Island. In addition, we performed a sample of physical inspections of tenant units throughout the city of Woonsocket. Our audit covered the period January 1, 2005, to June 30, 2007, and was extended when necessary to meet our objectives. To accomplish our audit objectives, we

- Interviewed the Authority's executive director, deputy director, Section 8 coordinator, senior housing data clerk, accounting specialists, management information specialists, and fee accountants to determine policies and procedures to be tested;
- Interviewed Blackstone board members to determine the relationship between Authority board members and Blackstone;
- Requested a legal opinion from Regional Counsel to determine whether any conflicts of interest existed between Blackstone and the Authority board members;
- Reviewed the financial statements, general ledgers, tenant files, rent reasonableness data, and cost allocation plans as part of our testing for control weaknesses;
- Reviewed program requirements including federal laws and regulations, Office of Management and Budget circulars, the consolidated annual contributions contract between the Authority and HUD, and the Authority's administrative plan to determine its compliance to applicable HUD procedures;
- For the period January 2005 through June 2007, reviewed the Authority's accounting controls over cost allocations, interprogram borrowing, and travel to determine whether the Authority had accounting controls in place to safeguard its assets; and
- Summarized the results of our analyses.

We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Controls over tenant eligibility and calculating housing assistance payments, tenant payments, and utility allowances;
- Controls over rent reasonableness;
- Controls over housing quality standards inspections;
- Controls over expenditures to ensure that they were eligible, necessary, and reasonable
- Controls over accounting for cost allocations and interprogram receivables and payables;
- Controls over procurements;
- Controls over travel per diem costs and travel expense vouchers; and
- Controls over voucher use (eligibility, waiting lists, and use).

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we determined the following items to be significant weaknesses:

- Controls to prevent using program funds for nonprogram expenses (see finding 1).
- Controls over accounting for cost allocation and interprogram receivables and payables (see finding 2).
- Controls over the management of its procurement practices (see finding 3).
- Controls over establishing travel per diem rates and filing travel expense vouchers (see finding 4).
- Controls over waiting list procedures (see finding 5).

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/}	Totals
1B	\$2,608			\$2,608
2B		587,000		587,000
2C		67,855		67,855
2D			241,081	241,081
4C		5,950		5,950
Totals	\$2,608	\$660,805	\$241,081	\$904,494

- ^{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 polices 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 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. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy 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 eliminate interfund payables and receivables, this amount \$241,081 will be available annually for the program area for which it was originally intended.

AUDITEE COMMENTS AND OIG'S EVALUATION

Appendix B

Ref to OIG Evaluation

Auditee Comments



Woonsocket Housing Authority
679 Social Street • Woonsocket, Rhode Island 02895-2090

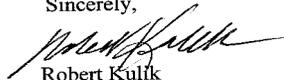
April 18, 2008

Mr. John Dvorak
Regional Inspector General
U.S. Dept. of Housing and Urban Development
Office of Inspector General for Audit, Region 1
Thomas P. O'Neill Federal Building
10 Causeway Street, Room 370
Boston, Massachusetts 02222-1092

Dear Mr. Dvorak:
Enclosed please find the Housing Authority of the City of Woonsocket's response to the discussion draft audit report received April 1, 2008.

If you have any questions, please contact me directly at 401-767-8000.

Sincerely,



Robert Kulik
Executive Director

Enclosures

Tel: 401-767-8000 • Fax: 401-767-8088 • Email: customerservice@woonsockethousing.org
Board of Commissioners: Albert G. Brien, Chairman • Constance M. Laprade, Vice-Chairwoman
Commissioners: Charles C. Baldelli • Chief Michael L. A. Houle • John Notarangelo • Lucienne L. Cote • Robert Kulik, Executive Director

Ref to OIG Evaluation

Auditee Comments

Comment 1

Finding #1

Response:

We agree with your factual comments detailing the creation of a separate affiliated corporation and would add that HUD, for a period, encouraged this type of entrepreneurial activity to supplement public housing authority's mission in light of expected funding reductions on the federal government budget horizons. We should also note that well regarded national public housing trade organizations promoted this type of activity at training seminars and conventions which are routinely attended by HUD representatives. We agree with your comments related to the portion of public housing fund advances, however we raise some questions regarding the amounts.

In 2003 approximately \$12,000 was advanced out of the revolving fund and then recorded on the books of both the Authority's public housing and voucher programs at year end. In 2004, advances continued and were similarly made out of the revolving fund. All but the noted \$2,608 of these advances were reimbursed by the end of 2004. As such, the Authority never formally classified these advances as coming from one fund or the other. In 2003 the Authority initially charged some of these advances to Voucher program accounts and later re-classified them to an affiliate receivable; you have considered these pre 10/1/03 advances allowable. In 2004 many of the expenditures were initially coded to the affiliate receivable; you have attributed them as being public housing funds. Since these amounts were repaid by year end, we never took a financial statement position as to which program advanced the funds; we feel they could have been considered Voucher funds.

In 2004, HUD's rules changed placing restrictions on permissible uses of certain Voucher program funds. You have raised the issue on Voucher program advances made after the beginning of FFY 2004. HUD's PIH Notice 2004-7, dated 4/22/04 addresses the issue referring to FFY 2004 effectively making a retroactive change back to 10/1/03. You have questioned post 10/1/03 advances even though HUD's notice wasn't released until 4/22/08. In addition PIH 2004-7 stated: "Any administrative fees from FFY 2004 funding that are subsequently moved into the administrative fee reserve account at year end may not be used . . .". In theory, FFY 2004 administrative fees would not be determined or determinable until 9/30/04. The majority of the funds you have questioned were spent before 9/30/04. Secondly, the Authority had adequate administrative fee reserves from periods prior to FFY 2004 which by the language of this notice would still have been available for these expenditures. On PIH Notice 2005-1 dated 12/8/04, HUD re-iterated the restriction on FFY 2004 administrative fees and went on to continue the restriction of FFY 2005 administrative fees.

Our understanding is that administrative fee reserves accumulated prior to 12/31/03 remain available for "other housing purposes permitted by state and local law". We had adequate reserves to cover the level of advances made from the Voucher program as well as many of the advances you have attributed to the public housing program. In the past, HUD has made note of the reserve buildup and suggested that the Authority take actions to put them to use.

Ref to OIG Evaluation

Auditee Comments

Comment 2

In summary, we acknowledge the issues you have raised. We feel there is some subjectivity with the dollar amounts mentioned; we also feel there is a level of subjectivity in light of HUD's directive notices and the issuance dates of these notices. Going forward we have and will continue, as you recommend, to cease the use of federal funds for non-program expenses. We will reimburse the \$2,608 amount mentioned in your report. We should also note that we feel the actions taken in regards to the affiliated entity, albeit not in perfect alignment with HUD's intended directives, achieved a very successful furtherance of our mission as a public housing agency. In light of the genuine nature of the activity conducted and vagaries created by a changing regulatory environment, we finally ask that you not consider a suggestion of administrative sanctions. We felt that the Authority was taking permissible actions at all times.

Finding #2

Factual correction:

The comment states that the Authority did not "see the need for establishing accounting controls over program borrowing because it only borrowed funds between its federal programs". Our interim controller may have queried the issue with this consideration; however, the Authority clearly understands the requirement.

Response:

We agree that during the conduct of your audit we could not provide you with a document supporting cost allocations between our two federal programs. We have done an after the fact analysis and done more historical research into the books to determine a source for the 12% administrative cost allocation. We continue to feel comfortable that previous cost allocations made fairly distribute expenses among our federal programs. Our analysis has been done based on management interviews, assessments of total administrative overhead costs incurred, and in relation to HUD's current and ongoing project concerning the nationwide revamping of public housing financial management and reporting guidelines.

Your report questions \$587,000 of management and finance salaries. That figure represents everyone in management, many of which have only a very peripheral if any involvement with the Voucher program. We do not feel justified in making allocations of any of those peripheral personnel to the Voucher program. We have only allocated personnel costs for individuals that have a clear and definitive role in the administration or supervision of the Voucher program.

In the distant past our historical review indicates that the Authority utilized an acceptable traditional allocation methodology based upon the quantity of units served in the various public housing and Section 8 programs. Several years ago HUD merged the various Section 8 programs together; in the more recent past the Authority was granted funds to support additional Voucher program units. During these changes the Authority considered revising the allocations. The Authority decided that an increase in cost

Ref to OIG Evaluation

Auditee Comments

allocations was not warranted. Although more units were covered under the program, the indirect costs were not significantly affected and therefore a change in the allocation factors utilized was not justifiable. If the Authority now utilized the traditional allocation methodology considering the program consolidation and additions, we would be allocating approximately 1/3 of the agency's indirect costs to the Voucher program. Funding does not exist to support that level of expense, nor does management feel that such an allocation is warranted.

HUD, as mentioned above has undertaken a project of revamping public housing authority's financial management and reporting guidelines. One part of the project provides authorities with a simplistic "safe harbor" fee structure which can be utilized in place of burdensome allocation tracking systems. When we compared HUD's suggested fee structure with our actual 2007 cost allocations we found comparable allocations with both approaches.

Going forward we will embrace HUD's "safe harbor" fee structures because we feel that represents a fair and equitable and furthermore simplistic method of cost allocations among our programs. We have interviewed the management personnel that have been allocated to the Voucher program and continue to feel comfortable with previous program allocations. In light of total allocations permissible under HUD's new financial management guidelines, we feel justified in having utilized the 12% indirect cost allocation.

Finally the report mentioned a delinquency in the timing of funding or reimbursing costs between our public housing and voucher programs. The history does indicate that significant balances did develop between the two programs. Your report also states that funds were not available for public housing purposes. We would first like to point out that monthly steps have been taken correct the time gap of the inter-fund borrowing. We would also like to point out that over the 910 day time period mentioned in your report, that the voucher program always had adequate and readily available funds to remit to the public housing program if there was an urgent need. Over that same time period, public housing also possessed adequate and available funds and did not have to go without. The issue is that the administrative task of transferring the funds between the program accounts did not take place. This issue has been largely corrected.

Finding #3

Response:

We feel that we are in compliance with CFR 85.36 however we will take steps to better document our procedures.

We'll address the contracts you've identified individually:

HQS Inspections:

Comment 3

Ref to OIG Evaluation

Auditee Comments

We agree we should have not extended the original HQS inspection contract for services beyond the 2 year period. However, we disagree with the conclusion that we did not insure the best quality in services and price. We did have a contract which essentially continued at the prior terms and conditions based on subsequent actions of both parties following the terms of the original contract which assured the continued quality of service and the same pricing. When you identified this problem through your audit, the Authority immediately initiated an RFP. The Authority received three proposals, two of which were from the individuals that were doing the inspections under a verbal agreement. One price remained the same and one increased by \$10.00. The prices obtained continue to be among the lowest in the region. At no time was the Authority in danger of receiving less than quality goods or services as was stated in the report. As a means of internally assuring that the Authority obtains quality services in this area we conduct some of our own HQS inspections following up after our outside HQS inspectors have completed their work.. We also sometimes alternate the inspector's unit assignments to further enhance and enable an internal evaluation of the quality.

Legal Services:

As required by CFR 85.36, HUD Procurement Handbook 7460.8 and HUD Litigation Handbook 1530.1 Rev. 5, the Authority publicly advertised for the pre July 2006 period as well as for current periods for legal services and defined the criteria in the specifications for which proposals were submitted. A matrix was then prepared for each period from the proposals listing the selection criteria of the attorneys; credentials, staff, names, specialties, and pricing for the services solicited. The Board of Commissioners met at a public meeting, reviewed the criteria, credentials and pricing and then documented the record for the award to the firms in the best interest of the Authority. The legal firm's ability to provide the service was the primary consideration along with pricing. The result was clearly apparent and resulted in the selection of the best qualified firms with the most competitive pricing. In the future all proposals will be retained in accordance with record retention policies. We have an engagement letter from one of the law firms which is tantamount to a contract; we will obtain either a contract or engagement letter from all firms in the future.

Fee Accountants:

We did document the procurement with an advertisement for bids defining criteria and subsequent award for a 2005 contract in the best interest of the Authority with pricing considered. This contract was then extended for an additional year to 2007 which was bid again for award in 2008. This was a small purchase as defined in CFR 85.36; the advertising we did went above and beyond the requirement. The Authority continued at all times to insure the quality of services were in the best interest of the Authority and competitive as was once again verified in the most recent solicitation resulting in awarding to the same firm for a similar fee.

Leased Equipment:

Factual correction:

Ref to OIG Evaluation

Auditee Comments

The leasing contracts totaled \$85,200, the difference from the reported figure was for an annual maintenance contract over the lease term.

Response:

When the Authority leased copiers in 2005 we found evidence of a lease/purchase analysis which seemed to indicate a 5% lease interest rate assuming no residual equipment value or out of pocket cost at the end of the lease. We did find evidence of a lease purchase analysis on the noted 2006 leases which indicated a leasing cost premium. In 2006 it appears that budget concerns may have driven the lease/buy decision. Memos were located indicating requirements for multiple machines which on a purchase basis would have exceeded budget constraints. The memo indicated that the annual leasing of multiple machines would be within budget whereas the purchase of multiple machines would not.

The equipment cost assumptions you have utilized in calculating the noted \$13,000 potential savings are reasonable for the cash on cash analysis however there didn't appear to be a consideration of interest earnings on the cash made available by leasing as opposed to outright purchase. If interest income on the cash made available by not purchasing were considered it would reduce the \$13,000 potential savings figure. Regardless of cost and investment alternative assumptions utilized, leasing normally carries some premium. In the future a lease versus purchase analysis considering the Authorities acquisition alternatives will be performed as part of the procurement process when there is a leasing option, and when fund availability would allow consideration of both alternatives.

Comment 4

Finding #4

Factual correction:

An advance check was never issued to one of the Commissioners for the PHADA trip, accounting for \$1,050 of the \$5,950 cash advances noted. Additionally, following the noted trips, unexpended advances totaling \$1,981.61 were returned to the Authority following the travel. These two reductions reduce the amount requiring support or reimbursement from \$5,950 to \$2,918.39.

Response:

We agree that the per diem travel rate was excessive in light of the noted federal per diem rates and in light of the post travel reimbursements received by the Authority of unexpended advances. The Board has already adopted a resolution amending the Travel Policy reducing the per diem rate. Further reduction in the travel rate and strict adoption of the language in the Federal Travel Regulation Manual is now under consideration. The current revised policy clarifies the requirement that all travel expenditures be documented for review and analysis. Lastly, we will obtain travel expense vouchers for the travel in question.

Comment 5

Finding #5

Ref to OIG Evaluation

Auditee Comments

Response:

We disagree with the findings that the authority did not always follow its HUD-approved program waiting list procedures for the following reason.

We followed the rules for allocations permitted in the Designated Housing Plan (DHP) originally committed in 2002, and then renewed and approved by HUD on July 16, 2007. The Authority had two disabled (non-elderly) residents residing in our high-rises. As a general rule this is a situation that usually works well. However the two disabled residents in question caused problems so serious that it jeopardized the property's operation and the quality of life for our elderly residents. Given the speed with which we had to resolve this serious problem, we could not rely on the standard section 8 wait list as a solution.

Under Rhode Island law we could not legally deny these two disabled residents access to these apartments, nor could we evict them for their actions (per our legal counsel) so we relied on the guidelines of the DHP that granted us 35 new section 8, HCV set asides. Using two of our allotted HCV set asides, and working with the RI Disability Law Center Inc (RIDLC) and the Rhode Island Legal Services who represented the two disabled residents, we were able to find other housing for these two individuals that provided a more closely supervised living environment with supportive services. This was unquestionably an equitable solution that was in the best interest of the elderly residents in our high-rises and the two disabled residents in question, and we believe the Authority acted within the spirit of the HUD guidance. If the above response is not sufficient to resolve the issue, we are looking for guidance to deal with these situations. Would you suggest that we revise our administrative plan or is it preferable to contact HUD on a case by case basis when we feel that the safety of our tenants is at stake?

Finally you have correctly stated that we did in fact provide housing to a homeless person which we housed in our property that typically has a very short (less than one month) waiting list. This action will not be repeated without HUD's approval.

OIG Evaluation of Auditee Comments

Comment 1:

The Authority agreed with our comments detailing the creation of a separate nonaffiliated development corporation and those related to the portion of public housing fund advances. However, the Authority raised questions regarding the amounts and responded that the advances were paid from the revolving fund (central bank account), and never classified which program advanced the funds. Therefore, the Authority feels that the advances could have been considered voucher funds.

The Authority's statements are factually incorrect. Although the central revolving account commingled all program funds, the expenditures from the account were coded as to which general ledger and corresponding HUD program was charged. Therefore, the Authority is factually incorrect when stating that the funds could all be considered as having coming from the voucher program. In addition, the Authority is factually incorrect by stating that all but \$2,608 of the funds was repaid by the end of 2004. In fact, expenditures were made and specifically charged to the public housing program for Blackstone Valley Housing Development Corporation (Blackstone) through August 2007. In addition, the Authority improperly provided a \$20,000 interest-free loan from its public housing program to Blackstone in early 2005 to support its initial operations. The authority's response did not dispute this fact. Therefore, the Authority did use public housing funds for Blackstone.

Furthermore, the Authority's response indicates that pre-2004 voucher reserve funds were available to use for Blackstone. We concur that that this was the case, and took no exception to the initial \$85,000 of these funds loaned as start up costs for Blackstone. However, the Authority used a total of \$109,944 in Section 8 funds (\$85,000 promissory note and \$24,944 in payments) to pay Blackstone operating expenses. Since the 2004 and 2005 Appropriations Acts, Congress restricted the use of administrative fees that were subsequently moved into the administrative fee reserve account at year-end, and the Authority improperly used \$18,749 out of the \$109,944 advanced. The remaining balance \$91,195 (\$85,000 promissory note and \$6,195 in payments) was paid from the FY 2002 and 2003 Section 8 operating reserve, to which we took no exception.

In summary, the Authority stated that it would cease the use of federal funds for non-program expenses and will repay the \$2,608 from nonfederal sources, which will satisfy our recommendation. The Authority also requested that although they were not in perfect alignment with HUD intended directives, that we consider not requesting that HUD consider taking administrative sanctions because they achieved success in furthering their public housing mission. We agreed that HUD encouraged this type of activity to supplement the development of low-income housing. However, the Authority failure to follow HUD rules and regulations governing use of public housing and Voucher program funds is reportable and as such administrative action or sanctions should be considered by

HUD. Our recommendation was changed to reflect that administrative action or sanctions should be considered by HUD.

Comment 2:

The Authority agreed that during our audit the Authority did not establish a supportable basis for its cost allocations between its federal programs. The Authority charged \$587,000 for administrative salaries (management and finance) and could not support the indirect rate of 12 percent charged for other Voucher program administrative costs totaling \$67,855.

The Authority response stated that the Authority has done an after the fact analysis to determine a source for the 12 percent administrative cost allocation. The analysis was based on management interviews and assessments of total administrative overhead costs incurred related to HUD's current Asset Management project to revamp public housing's financial management and reporting guidelines.

In addition, the Authority's response indicates that the salary costs it allocated were associated with administering the program and none of the \$587,000 in management and finance salaries questioned should be charged to the voucher program. We find these statements unreasonable since the Authority indicates that many in management were involved with the administration pertaining to the program. The Authority must support and show that the salary costs of employees who work on multiple activities or programs were for the administration of the specific program charged. Generally, the support includes personnel activity reports or equivalent documentation that reflects distribution of the actual activity or time allocation of each employee for each program. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support.

Our review determined that the Authority did not have a written cost allocation method that clearly defined and supported the allocation of percentages of costs charged to federal programs and the Authority's response agrees. Therefore, our recommendations remain unchanged and the Authority needs to work with HUD program officials to develop and implement an equitable and fully supported allocation plan.

In addition, the Authority's response to our finding of inappropriate borrowing between federal programs indicates that public housing "possessed adequate and available funds and did not go without" is not acceptable. The fact remains that the Authority violated HUD regulations by lending these funds for other than the program purposes for which they were appropriated. Finally, the Authority's response states that the audit report is factually incorrect by stating that the cause for this condition was that the "Authority did not see the need for establishing accounting controls over program borrowing because it only borrowed fund between federal programs." Based on the Authority's response that refers to this issue as an "administrative task of transferring funds between the program accounts that did not take place," we stand by our original statements as to the cause of this condition. Therefore, our recommendations remain unchanged.

Comment 3:

The Authority stated that it complied with CFR 85.36; however, it will take steps to better document its procedures. We disagree that the Authority always complied with CFR 85.36. Our evaluation of the Authority's response to each procurement deficiency cited in the report follows:

HQS Inspections:

The Authority agreed that the Authority should not have extended the original HQS inspection contract for services beyond the 2-year period and did not dispute that because of our audit, the Authority did solicit a request for proposal for Voucher program housing inspections in September 2007.

The fact that the same firms were rehired because of the solicitation and the prices did not change significantly is not a relevant. Because the Authority did not resolicit the contract when it initially expired, the Authority suppressed competition and violated CFR 85.36.

Legal Services:

We agree that the Authority publicly advertised for the pre-July 2006 period, as well as, for current periods for legal services and defined the criteria in the specifications for which proposals were submitted. However, for legal contracts awarded before July 2006, the Authority could not show a detailed history of the procurement and for the current attorney services and the Authority did not have a detailed history of the procurement to support the selection or signed contracts. Although a proposal matrix was provided to us during the audit, the only information contained in the matrix was a summary of the date the proposals were received from the respondents, the types of legal services (i.e. General Counsel, Tenant Evictions, Labor relations) to be provided, and the hourly rates bid for these services. The detailed proposals were not maintained and no detailed analysis of the proposals was provided. Therefore, our finding and recommendations remain unchanged.

The Authority response stated that in the future all proposals will be retained in accordance with record retention policies and the Authority is in process of obtaining an engagement letters and/or contracts from the hired attorneys. We consider these proposed corrective actions responsive to our recommendations.

Fee Accountants:

The Authority response indicated that it did document the procurement with an advertisement for bids defining criteria and subsequent award for a 2005 contract in the best interest of the Authority with pricing considered. However, the Authority did not provide a copy of the advertisement nor did it dispute the fact that it entered into a sole source contract for fee accountant services for the period January 2005 through

December 2006. In addition, the Authority did not dispute that this contract was extended for an additional year to 2007 and continued to retain and pay \$2,000 per month for the fee accountant services although the contract had expired well over a year earlier. Also, from January 1, 2005, to July 2, 2007, approximately \$57,000 was paid to the fee accountants from the sole source procurement that far exceeded the Authority's small purchase maximum of \$25,000. Therefore, the Authority's response is factually incorrect by stating that "this was a small purchase as defined in CRF 85.36" and that the advertisement "went above and beyond the requirement."

In summary, since the Authority's response did not provide any additional documentation, our findings and recommendations remain unchanged.

Leased Equipment:

The Authority's response stated that factual correction should be made to the report amount to adjust the total lease costs down to \$85,200, by excluding the maintenance costs included in the lease. We agree, and revised the report amount; however, this change does not affect our conclusion and recommendation.

In addition, the Authority's response stated, "budget concerns may have driven the lease/buy decision." In our opinion, budget concerns should not have driven this decision because necessary funds could have been borrowed and the purchase option might still have been more economical.

The Authority's response that it leased copiers in 2005 and found evidence of lease/purchase analysis that seemed to indicate a 5% lease interest rate is not relevant. That lease was entered into before the time-period of our audit scope. Our analysis only covered those copy machines that were leased beginning in 2006.

Although the Authority agreed that our equipment cost assumptions utilized in calculating our \$13,000 potential savings were reasonable for the cash on cash analysis, the Authority stated that our analysis did not consider potential interest earnings on "cash made available by not purchasing" that would have reduced the potential savings.

We agree that we did not include potential interest earnings in our analysis. However, the Authority's response correctly concluded that leasing normally carries a premium over purchasing, when considering all factors. Furthermore, the Authority agreed to perform lease versus purchase analysis on future acquisitions, which we consider response to our recommendation. Therefore, our finding and recommendation remain unchanged.

Comment 4:

The Authority stated that an advanced check was never issued to one of the commissioners accounting for \$1,050 of the \$5,950 cash advanced. Based on the records

provided during the audit, we determined that the total advanced was \$5,950 per purchase requisitions. Since the Authority's response did not contain further documentation to support their statement our audit position remains unchanged.

In addition, the Authority response stated that unexpended advances totaling \$1,982 were returned to the Authority following their trips, thereby reducing the amount requiring support or reimbursed from \$5,950 to \$2,918. Since the Authority's response did not include the details and supporting documentation, we could not verify the amounts returned. However, if the Authority can provide the documentation, we agree that these unexpended advances could reduce the \$5,950 we reported as unsupported.

In summary, these commissioners did not file expense reports for the trips in questioned. Therefore, our finding and recommendations for this condition remain unchanged. Also, the Authority agreed to obtain travel expense vouchers for the travel in question, which we consider responsive to our recommendation. Finally, the Authority agreed that the established per diem rates were excessive and has already initiated corrective action.

We commend the Authority's actions to date and encourage the Authority to work with HUD's Office of Public Housing to resolve the audit recommendations.

Comment 5:

The Authority disagreed with the finding that it did not always follow its HUD-approved program waiting list procedures because they stated they "followed the rules for allocations permitted in the Designated Housing Plan (DHP) originally committed in 2002, and then renewed and approved by HUD on July 16, 2007," which granted 35 new section 8, HCV set asides. In addition, Authority's response stated that: "Under Rhode Island law we could not legally deny these two disabled residents access to these apartments, nor could we evict them for their actions (per our legal counsel) so we relied on the guidelines of the DHP that granted us 35 new section 8, HCV set asides."

As stated in the report finding, this condition occurred because the executive director decided to put the safety of the tenants first and provide housing to a homeless person without HUD approval. While we recognize that these were difficult circumstances, the Authority should have obtained HUD approval since these actions on were contrary to the requirements of its approved Admissions and Continued Occupancy Policy (ACOP) and the Voucher program (waiting list procedures). Therefore, our recommendation remains unchanged and the Authority needs to work with HUD's Office of Public Housing when extraordinary circumstances (or emergency situations) arise that may require actions contrary to its approved waiting list procedures.

Appendix C

SELECTED CRITERIA FOR THE VOUCHER PROGRAM

Consolidated Annual Contributions Contract, Section 11(A), Use of Program Receipts: The HA [housing authority] must use program receipts to provide decent, safe, and sanitary housing for eligible families in compliance with the U.S. Housing Act of 1937 and all HUD requirements. Program receipts may only be used to pay program expenditures.

24 CFR [*Code of Federal Regulations*] 982.54, Administrative Plan: “(a) The PHA [public housing authority] must adopt a written administrative plan that establishes local policies for administration of the program. (b) The PHA must revise the administrative plan if needed to comply with HUD requirements. (c) The PHA must administer the program in accordance with the PHA administrative plan.”