



Issue Date	April 7, 2010
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Audit Report Number	2010-NY-1010
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TO: Mirza Negron Morales, Director, Office of Public Housing, 2APH

*John P. Harrison*

For

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

SUBJECT: New Rochelle Municipal Housing Authority, New Rochelle, NY, Had Control Weaknesses in Its Low-Rent Housing Program

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the New Rochelle Municipal Housing Authority's (Authority) administration of its low-rent housing program as part of the Office of Inspector General's (OIG) strategic plan goals to improve the U.S. Department of Housing and Urban Development's (HUD) fiscal accountability for its assisted housing programs. We selected the Authority because of its designation as high risk in the most recent HUD field office risk assessment and an overall Public Housing Assessment System<sup>1</sup> score of 69.

The audit objectives were to determine whether the Authority administered its low-rent housing program in accordance with applicable regulations. Specifically, we reviewed whether the Authority (1) properly determined tenant eligibility; (2) ensured that program units were decent, safe, and sanitary; and (3) administered procurement, payroll, and financial management processes in accordance with HUD regulations and its own policy.

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<sup>1</sup> HUD uses the Public Housing Assessment System to monitor and rate the performance (on a scale of 100 points) of housing authorities in the areas of financial condition (30 points), management operations (30 points), physical condition (30 points), and residents' satisfaction (10 points).

## What We Found

The Authority had weaknesses in the administration of its low-rent program. Specifically, it did not (1) properly determine tenant eligibility; (2) ensure that program units were decent, safe, and sanitary, and (3) support rent charged to an employee-tenant. Consequently, the Authority lacked assurance that all low-rent program tenants were properly certified; tenants resided in units that were decent, safe, and sanitary; and an employee-tenant was charged the correct rent.

The Authority had weaknesses in its administration of the procurement, payroll, and financial management functions. Specifically, it (1) executed contracts contrary to HUD and its own policy, (2) did not maintain adequate support for payroll, and (3) improperly expended and loaned funds among programs contrary to regulation. These weaknesses occurred because Authority officials did not establish adequate controls over the procurement and payroll processes and were unfamiliar with HUD financial management regulations. Consequently, the Authority lacked assurance that services were obtained at the most economical and efficient price, payroll costs were eligible and adequately supported, and funds were always expended in accordance with HUD regulations.

## What We Recommend

We recommend that the Director, Office of Public Housing, New York, instruct the Authority to (1) strengthen controls over low-rent tenant certification and unit inspection procedures to ensure that tenant eligibility is properly determined and adequately documented, and that annual inspections of low-rent units are conducted; (2) establish procedures for the approval and calculation of rents; (3) provide documentation to justify the rent charged to an employee-tenant or pay the \$57,252 that should have been collected; (4) strengthen controls to ensure compliance with HUD procurement, payroll, and financial management regulations; and (5) repay from non-Federal funds the \$38,355 expended for ineligible costs.

For each recommendation 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 discussed the results of the audit with the auditee during the audit and at an exit conference on February 16, 2010. We provided a draft report on February 2, 2010 and requested written comments by February 26, 2010, which we received on March 1, 2010. The auditee generally disagrees that it had systemic weaknesses in the administration of its programs.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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The New Rochelle Municipal Housing Authority (Authority) was established in 1941 as a public governmental agency under New York State law to provide decent, safe, and sanitary housing for low-and moderate-income persons and families. The Authority is governed by a seven-member board of commissioners, five of whom are appointed by the city manager and two of whom are elected by Authority residents. The executive director, who supervises the daily management of the Authority, was appointed by the board of commissioners in March 1991. The Authority's main office is located at 50 Sickles Avenue, New Rochelle, NY.

The Authority administers Low-Rent Public Housing, Housing Choice Voucher, Public Housing Capital Fund (Capital Fund), Resident Opportunities and Self-Sufficiency (ROSS), and Family Self-Sufficiency grant programs funded by the U.S. Department of Housing and Urban Development (HUD). The Authority manages 543 low-rent public housing units, which are contained in four developments: the Hartley Houses, which has 240 units among five buildings; the Bracey Apartments, which has 100 units among two buildings; La Rochelle Manor, a single-building complex that has 91 units; and Queens City Tower, a single-building complex that has 112 units. The Authority also owns and manages two rental properties. During the audit period July 1, 2005, through June 30, 2007, the Authority received \$2.5 million to administer 543 low-rent program units, \$4.2 million to administer 196 housing choice vouchers, \$1.8 million in Capital Fund program funds, \$402,879 in ROSS programs funding, and \$200,000 to fund a coordinator position for its Family Self-Sufficiency program.

Our audit objectives were to determine whether the Authority administered its low-rent housing program in accordance with applicable regulations. Specifically, we reviewed whether the Authority (1) properly determined tenant eligibility; (2) ensured that program units were decent, safe, and sanitary; and (3) administered procurement, payroll, and financial management processes in accordance with HUD regulations and its own policy.

## RESULTS OF AUDIT

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### Finding 1: The Authority Had Weaknesses in the Administration of Its Low-Rent Program

The Authority had weaknesses in the administration of its Low-Rent program. Specifically, it did not properly (1) determine tenant eligibility; (2) ensure that program units were decent, safe, and sanitary; and (3) support rent charged to an employee-tenant. Consequently, the Authority lacked assurance that all Low-Rent program tenants were properly certified; tenants resided in units that were decent, safe, and sanitary; and an employee-tenant was charged the correct rent. We attribute these weaknesses to inadequate controls and unfamiliarity with HUD regulations to verify and document tenant eligibility, conduct annual unit inspections, correct unit inspection deficiencies, and authorize rents.

#### Tenant Eligibility Inadequately Documented

The Authority did not adequately document the verification of Low-Rent program tenant eligibility. Regulations at 24 CFR (Code of Federal Regulations) 960.259 and the Authority's admissions and continued occupancy policy, sections 12.0 and 12.2, require that the Authority verify information related to eligibility and occupancy and determine and maintain documentation regarding family assets, annual income, citizenship, and other factors that affect the determination of tenant rent. However, documentation of these issues was inadequate in six of ten tenant files reviewed. The table below highlights the factors for which documentation was lacking in the six files.

Table 1: Factors for which tenant eligibility was inadequately documented

Tenant	Assets	Income	Citizenship	Social Security card
1	x			
2	x			
3	x			x
4	x			
5			x	x
6		x		

Upon our notification of these inadequacies, Authority officials obtained the missing income, citizenship, and Social Security documentation for two of the six tenant files and a third tenant no longer resides at the Authority. While the missing asset/income documentation for the remaining three files was not obtained, we are not taking a monetary exception. We attribute the documentation deficiencies to inadequate controls over the Authority's tenant eligibility verification process because it had not established procedures in its admissions and continued occupancy policy to follow up on missing eligibility documents. Authority officials

stated that they followed up with phone calls and letters to obtain missing documents; however, these efforts and their results were not documented in the files.

In addition, Authority officials did not effectively use HUD's Enterprise Income Verification system or another third-party verification method to verify households that reported zero income. The Authority's admissions and continued occupancy policy, section 12.2, requires that the Authority verify zero-income status households and obtain recurring gift letters to document income that would be a gift. Review of files disclosed four zero-income reported households that were paying the minimum \$50 rent. One of the four zero-income reported households receives Title V<sup>2</sup> income that is exempt from determining income eligibility and the Authority did not provide evidence that the remaining three zero-income household's income had been documented as required by HUD. As a result, Authority officials could not ensure that three of the four zero-income tenants were paying the appropriate rent. This condition occurred because Authority officials did not perform appropriate income verifications. Upon notification, Authority officials verified income using HUD's Enterprise Income Verification system and assisted tenants in securing financial assistance. Through these actions, one of the three zero-income tenants for whom income was not documented was approved to receive government assistance, resulting in the tenant being charged \$2,616 in annual rent instead of the \$600 minimum annual rent, thus reducing the rental subsidy by \$2,016 per year. On January 14, 2010, the Authority received a current recurring gift letter from a second zero income tenant. The third zero-income tenant was awaiting approval for assistance from a government entity.

### **Unit Inspections and Reinspections Not Conducted as Required**

Regulations at 24 CFR 902.43(a)(4), subpart D, require that units be inspected, and 24 CFR 5.705 stipulates that these inspections must be performed annually. Further, the Authority's admissions and continued occupancy policy, section 17.2, provides that Authority officials must annually inspect all units. However, not all Authority units were always inspected annually. Authority officials did not conduct unit inspections in two of its four developments in fiscal year 2006, and no occupied units in another development were inspected in fiscal year 2008. This condition occurred because the Authority did not ensure that there was adequate staff to conduct the inspections. Consequently, Authority officials could not ensure that all low-rent program units were decent, safe, and sanitary.

In addition, corrective actions to address inspection deficiencies were not always documented in a timely manner. In two of ten tenant files sampled, deficiencies were discovered on November 6, 2007, but work orders were not created until April 2009, when we notified Authority officials that corrective actions had not been

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<sup>2</sup> Title V—Community Service Employment for Older Americans provides that funds received by eligible individuals from programs established in this title are not considered income for purposes of determining eligibility to participate in any housing for which Federal funds may be available.

documented. According to the Authority's admissions and continued occupancy policy, section 17.2, work orders are required to be submitted and completed to correct any deficiencies. This condition occurred due to Authority officials' failure to create work orders for inspection deficiencies noted. As a result, Authority officials lacked assurance that inspection deficiencies in all low-rent program units were addressed in a timely manner.

### **Rent Inappropriately Charged to a Tenant**

Authority officials lacked proper documentation to support a \$400 monthly rent charged to a tenant who was also an employee. HUD Public Housing Occupancy Handbook 7465.1, REV-2, Section 6.3(a)(2), for resident employees provides that employees who are required to live in public housing as a condition of their job may be charged some reasonable rent, although that rent can be a flat amount not related to the person's income. Additionally, section 6.3(2)(c) provides that public housing applicants who work or expect to work for an authority are subject to the same admission requirements as other applicants and the authority may not lower their rent as compensation for their employment.

An employee became a resident after being an employee of the Authority for many years, and in September 1992 the Authority's board of commissioners authorized, dependent upon HUD approval, charging the employee a flat monthly rent of \$400 as compensation for assisting with evening and weekend tenant activities. On January 12, 1993, the Authority requested HUD's approval (and included a description of job duties for the employee-tenant). On March 8, 1993, HUD requested additional information before approving the \$400 monthly rent for the employee-tenant. However, Authority officials lacked documentation showing that they responded to HUD's request or that HUD ultimately approved the arrangement as the board requested. Further, Authority officials said that no employee had ever been required to reside at the Authority as a condition of his/her job and that the employee-tenant's \$400 monthly rent had not been reviewed since its approval by the board in 1993. Consequently, from July 1, 2005 to December 31, 2009, while the employee-tenant would have paid \$78,852 based upon HUD's scheduled rent guidelines, the rent paid was \$21,600. Accordingly, we consider the \$57,252 (\$78,852-\$21,600) as unsupported subsidy during this period. Currently the correct annual rent for this tenant is expected to be \$19,452 (\$1,621 income based rent x 12). We attribute this condition to a lack of controls to follow up on HUD's request for more information and the fact that the Authority's admissions and continued occupancy policy does not provide guidance for establishing rents for employee-tenants.

### **Conclusion**

Weaknesses in the Authority's Low-Rent public housing program administrative procedures created a lack of assurance that tenants were eligible for the program; units were decent, safe, and sanitary; and tenants were charged appropriate rents. We



attribute this condition to inadequate procedures to verify and document tenant eligibility, conduct annual unit inspections, and ensure that rents were properly authorized.

## Recommendations

We recommend that the Director, Office of Public Housing, New York, instruct the Authority to

- 1A. Provide support of tenant eligibility for the three tenants whose files were reviewed that lacked the required income and asset documentation.
- 1B. Strengthen controls over tenant recertification to ensure that all tenant eligibility and zero-income household documents are obtained and maintained as assurance that tenants are eligible and charged the appropriate rent.
- 1C. Provide documentation to support the rent adjustment made for the zero-income tenant reviewed, which resulted in an annual rental subsidy reduction of \$2,016, thus ensuring that this subsidy savings will be put to better use, and determine the proper rent and quantify any future annual savings for the other zero-income tenant once a government assistance amount is documented.
- 1D. Strengthen controls to ensure that annual unit inspections are conducted in accordance with HUD regulations and that deficiencies found are adequately corrected, documented, and maintained.
- 1E. Provide documentation to support that the \$400 rent charged to the employee-tenant is appropriate and if it is not, repay from non-Federal funds the \$57,252 in rent that should have been collected for the period July 1, 2005, to December 31, 2009, and adjust future rents accordingly, thus putting \$19,452 to better use annually.
- 1F. Strengthen controls for the approval of rents for employee-tenants and ensure that procedures are incorporated into the Authority's admissions and continued occupancy policy.



## Finding 2: The Authority Had Weaknesses in the Administration of its Procurement, Payroll, and Financial Management Functions

The Authority had weaknesses in the administration of its procurement, payroll, and financial management functions. Specifically, it (1) executed contracts contrary to HUD and its own policy, (2) did not maintain adequate support for payroll, (3) improperly expended \$38,355, and loaned funds among programs contrary to regulation. These weaknesses occurred because Authority officials did not establish adequate controls over the procurement and payroll process and were unfamiliar with HUD financial regulations. Consequently, the Authority lacked assurance that services were obtained at the most economical and efficient price, payroll costs were eligible and adequately supported, and funds were always expended for eligible expenses.

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### **Procurement Actions Improperly Executed**

The Authority did not comply with HUD procurement regulations and its own procedures in its administration of the procurement function. Regulations at 24 CFR 85.36(c) require that procurement actions provide full and open competition, and 24 CFR 85.36(f)(1) requires that a cost or price analysis be prepared in connection with every procurement action. Regulations at 24 CFR 85.36(d)(3)(iv) provide that awards will be made to the responsible firm having the proposal that is the most advantageous to the program. Further, the Authority's procurement policy provides that competitive bid is the recommended method for procuring professional services that exceed the small purchase threshold of \$200. In addition, 24 CFR 85.36(h)(3)(i) requires that a grantee's contracts contain contract provisions. Examples include administrative, contractual, or legal remedies for violation or breach of contract terms and applicable sanctions, penalties, and termination for cause clauses designed to protect the interest of the grantee.

As indicated in the table below, of the 22 procurement actions reviewed, Authority officials executed 12 totaling \$ 1,003,481 without preparing a cost or price analysis and in 8 cases did not obtain competitive bids or quotes, and/or obtain a written contract.

Table 2: Deficiencies In Procurement Actions

Procurement action	Contract amount	Cost or price analysis not prepared	Competitive bids or quotes not obtained	Written contract not obtained
1	79,200	X	X	
2	<sup>3</sup>	X	X	
3	302,400	X		
4	93,858	X	X	
5	83,000 <sup>5</sup>	X	X	X
6	117,069 <sup>5</sup>	X	X	X
7	48,800 <sup>5</sup>	X	<sup>4</sup>	X
8	53,589 <sup>5</sup>	X	X	X
9	12,250 <sup>5</sup>	X	<sup>4</sup>	X
10	95,250 <sup>5</sup>	X	X	X
11	20,291 <sup>5</sup>	X	<sup>4</sup>	X
12	97,774 <sup>5</sup>	X	X	X
Total	\$1,003,481	12	8	8

We attribute these weaknesses to inadequate administrative controls in the Authority's procurement procedures and Authority officials' unfamiliarity with HUD's and their own procurement policy. As a result, Authority officials lacked assurance that they obtained the best price for services contracted for and that the Authority would be fully protected in the event of nonperformance of intended contract terms.

### Inadequate Payroll Controls

Controls over the Authority's payroll function were inadequate. Office of Management and Budget (OMB) Circular A-87, attachment B, section 11(h)(5), provides that personnel activity reports or equivalent documentation must account for the total activity for which each employee is compensated and be signed by the employee. Further, 24 CFR 85.20(2)(a) and (c) require public housing authorities to establish internal controls, including but not limited to documenting procedures, separation of duties, and maintaining adequate records.

The payroll register for the period December 6 through December 19, 2008, did not reconcile with the hours recorded on each employee's time and attendance record. For example, while the time and attendance record for three employees did not document that they worked on December 2, 2008, they were paid for that day a total of \$539, and for another six employees, the time and attendance record did not record a time in and/or time out totaling \$2,859 in payroll. In addition, 16 of 18 employee time cards

<sup>3</sup> No annual amount was documented; the retainer specified hourly rates ranging from \$150 to \$325 per hour.

<sup>4</sup> Competitive bids or quotes not required. According to the Authority's procurement policy, competitive proposals are the preferred method for procuring professional services that exceeds the small purchase threshold. Small purchases are considered anything above the petty cash ceiling \$200 but not exceeding \$50,000.

<sup>5</sup> Represents amounts disbursed during our audit period July 1, 2005, through June 30, 2007. No contract was on file.

were not signed. Further, the Authority lacked an adequate segregation of duties because the employee who processed payroll also processed their own payroll.

### **Improper Expenditures and Account Maintenance**

The Authority disbursed \$38,355 from its low-rent operating account in 2004 as an advance to pay predevelopment costs related to a joint project with the City of New Rochelle (City). The project, which was intended to be funded through the City's HOME Investment Partnerships Program (HOME), was for construction of 79 units of affordable housing on land owned by both the City and the Authority. The Authority believed that it would be reimbursed for its advances from the City's HOME program; however, in June 2005, the City was notified that HUD did not consider costs charged to the project to be eligible HOME costs and requested that the City repay costs previously charged to the project. While the City reimbursed HUD in August 2006, the City has not reimbursed the Authority.

OMB Circular A-87, attachment A, section (C)(3), provides that any cost allocable to a particular Federal award or cost objective may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons. Further, HUD's Low-Rent Technical Accounting Guidebook 7510.1, section II-15, provides that an authority may use pooled funds for any expenditure chargeable to authority programs which have funds on deposit; however, funds may not be withdrawn for a program in excess of the amount on deposit for that program.

The Authority maintained two general ledgers: one in which low-rent, Capital Fund, ROSS grant, and its business activity were recorded and one for its Housing Choice Voucher and State/local program activity. Activity among these programs was not reconciled until year-end when the Authority's annual financial data schedule was compiled as part of the annual audit. As of June 30, 2007, the Authority reported interprogram due to/from amounts of \$93,480 as follows: \$7,680 and \$24,500 due the low-rent program from its business activity and Housing Choice Voucher program, respectively, and \$19,654, \$4,146, and \$37,500 due the Capital Fund, ROSS, and State/local programs, respectively, from the low-rent program. Therefore, the Authority improperly transferred funds among its many programs.

### **Conclusion**

Weaknesses in the administration of the procurement, payroll, and financial management functions lessened the Authority's assurance that services were obtained at the most economical and efficient price, payroll costs were adequately supported, and funds were properly expended. As a result, the Authority lacked assurance that expenditures were properly supported and that it obtained the most economical price for services. In addition, HUD funds were spent for ineligible

purposes, and inadequate accounting controls caused the Authority to inappropriately use program funds to cover shortages in other programs.

## Recommendations

We recommend that the Director, Office of Public Housing, New York, instruct the Authority to

- 2A. Strengthen procurement controls to ensure that procurement actions comply with HUD regulations and its own policy.
- 2B. Strengthen controls over payroll processing to ensure that employees properly account for time worked, employee time records are signed, and adequate segregation of duties is established in compliance with OMB Circular 87.
- 2C. Reimburse from non-Federal sources the low-rent program operating account for the ineligible expenditure of \$38,355.
- 2D. Strengthen controls to ensure that low-rent program operating funds are used for only eligible expenses.
- 2E. Reimburse the applicable programs for the various interprogram receivables and payables, thus ensuring that \$93,480 is put to better use.
- 2F. Strengthen procedures to ensure that accounts are maintained in accordance with HUD regulations.

## SCOPE AND METHODOLOGY

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To accomplish our objectives, we

- Reviewed applicable Code of Federal Regulations requirements; Federal Registers; OMB Circulars A-87 and A-133; Public Housing Occupancy Handbook 7465.1, REV-2; HUD's Low-Rent Technical Accounting Guidebook 7510.1; and HUD's fair market rents.
- Reviewed the Authority's procurement policy, admissions and continued occupancy policy, board meeting minutes, and selected contracts to document policies and procedures affecting the Authority's programs.
- Interviewed HUD Office of Public Housing staff and reviewed HUD files on the Authority to obtain an understanding of Authority operations.
- Analyzed the Authority's audited financial statements, general ledger, expense accounts, bank reconciliations, bank statements, and cancelled checks for fiscal years 2006 and 2007.
- Interviewed Authority staff and reviewed tenant files, personnel and payroll records, tenant rental history, and administrative files to obtain an understanding of Authority operations and controls.
- Selected a nonstatistical sample of disbursements from the 2005 through 2007 low-rent and Capital Fund programs to determine whether the Authority expended funds in accordance with HUD regulations.
- Selected a sample of 10 public housing tenant files to assess whether the Authority properly determined tenant eligibility and rental subsidy and ensured compliance with HUD inspection regulations. In addition, we conducted follow-up inspections for a sample of six units to ensure that corrective action had been taken for prior inspections.
- Selected a sample of 22 procurement actions to determine whether the Authority complied with HUD procurement regulations and its own procedures in its administration of the procurement function

We performed on-site work from November 2008 through September 2009 at the Authority's main office, located at 50 Sickles Avenue, New Rochelle, NY. The audit period was from July 1, 2005, through June 30, 2007, and was expanded as necessary.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# INTERNAL CONTROLS

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

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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.

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## Relevant Internal Controls

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

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

We assessed the relevant controls identified above.

A 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 audit, we believe that the following items are significant weaknesses:

- The Authority lacked adequate procedures and controls ensuring compliance with HUD regulations when it did not maintain documentation to support reexaminations and confirmation of tenant eligibility and did not always conduct required annual unit inspections (see finding 1).
- The Authority did not comply with its own and HUD's procurement regulations, had inadequate controls over its payroll process, and disbursed grant funds for ineligible expenses (see finding 2).



## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

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Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1C.			\$2,016
1E.		\$57,252	19,452
2C.	\$38,355		
2E.			<u>93,480</u>
	<u>\$38,355</u>	<u>\$57,252</u>	<u>\$114,948</u>

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, subsidies of \$2,016 and \$19,452 will be put to better use the first year after the tenants' rent is adjusted, and \$93,480 will be available for appropriate programs when interprogram loans are repaid.


## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

	<b>NEW ROCHELLE MUNICIPAL HOUSING AUTHORITY</b>	
ELISA SINGER CHAIRPERSON	50 SICKLES AVENUE NEW ROCHELLE, N.Y. 10801 TELEPHONE: 235-1717 - 636-7050 FAX: 235-1781 e-mail: nrmha@nrmha.org	STEVEN D. HORTON EXECUTIVE DIRECTOR
RICHARD H. SMITH VICE CHAIRPERSON		IRA GOLDENBERG COUNSEL
SHIRLEY OAKLEY SECRETARY		
SHEILA E. SMALL TREASURER		
DR. EDWARD A. WOODS COMMISSIONER	March 1, 2010	
ROBERT MALONEY COMMISSIONER		

Mr. Edgar Moore  
Regional Inspector General for Audit  
U.S. Department of HUD  
26 Federal Plaza  
New York, NY 10278

**Re: Audit of Housing Authority Administration of the Low Rent  
Public Housing Program**

Dear Mr. Moore:

In the space below please find the response of the Housing Authority to the above captioned Draft Audit Report.

**Finding 1** indicates that the Housing Authority had weaknesses in the administration of the Low Rent Program and that consequently, the Authority lacked assurance that all low rent program tenants were properly certified; or that tenants resided in units that were decent, safe, and sanitary.

The Housing Authority views this characterization as too broad to be effectively applied to agency operations, particularly when the facts of the audit's specific observations are reviewed in detail. Time and space constraints preclude a point-by-point response to all observations in an audit spanning 13 months. However, the Housing Authority looks forward to reviewing the audit report recommendations in detail with the local Field Office.

**Finding 2** indicates that the Housing Authority had weaknesses in procurement, payroll and financial management. However a detailed review of many of these transactions reveal no systemic weaknesses.

**Comment 1**

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments

Comment 2

For example in the area of procurement, many of the vendors cited are national firms that cater specifically to the public housing industry. In the case of two of the deficiencies cited, Action 1, \$62,340 and Action 3, \$77,154, these firms, the [REDACTED] respectively, operate under a HUD procurement waiver. In other cases, the transactions reflect current work performed pursuant to previously procured services; Action 5, [REDACTED] \$12,245 and Action 4, [REDACTED] for example.

Comment 3

**Finding 2** further indicates weaknesses in payroll procedures due to a lack of segregation in duties because the employee charged with processing payroll prepares their own as well. However, this employee receives a set annual salary determined through collective bargaining. The payroll they process for themselves solely reflects this salary over the course of 26 bi-weekly payments. The Housing Authority maintains that this does not constitute a systematic weakness in controls.

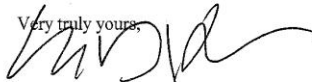
Comment 4

**Finding 2** also indicates potential weakness through "improper account maintenance" and sites \$93,480 in inter-program to/from expenses. This practice is not an internal weakness, but is in fact the Agency's tracking and monitoring various program activity that flow through one general fund. The Housing Authority will, however, strive for more timely reimbursements of these funds to their appropriate programs.

The Housing Authority wishes to thank the Office of Inspector General for your interest in our programs, for the professionalism of your staff and for your efforts to improve our operation. The Housing Authority is prepared to work with the Field Office to implement any appropriate recommendations designed to improve service to our residents and community stakeholders.

Thank you for your attention in this matter.

Very truly yours,



Steven D. Horton  
Executive Director

SDH/adf

## Appendix B

### OIG Evaluation of Auditee Comments

**Comment 1** Authority officials stated that the characterization is too broad to be effectively applied to agency's operations and they look forward to reviewing the recommendations with the field office. Our conclusion is based upon testing of the Authority's procedures that disclosed instances of noncompliance with HUD regulations 24 CFR (*Code of Federal Regulations*) Part 960.259 and its own policy, "Authority's Admissions and Continued Occupancy Policy", sections 12.0 and 12.2, that require the Authority to properly certify tenant eligibility and occupancy, and ensure that tenants reside in units that are decent, safe, and sanitary.

**Comment 2** While Authority officials could not provide a procurement waiver during the audit, information obtained subsequent to the exit conference disclosed that two vendors have a HUD procurement waiver for obtaining competitive bids. Accordingly, we removed these two procurement actions from finding 2 along with the vendor names in the auditee comments.

In addition, Authority officials stated that procurement in two other cases represented work performed pursuant to previously procured services. While Authority officials could not provide documentation to support that a cost or price analysis was prepared for these services, we have removed one procurement as an exception because information provided disclosed that this procurement should be classified as a sole source procurement since the vendor was the only company that could provide the support for the system the Authority uses.

**Comment 3** Authority officials stated that the employee charged with processing payroll also prepares their own payroll. Regulations at 24 CFR (*Code of Federal Regulations*) 85.20, Part (2) (a) and (c) provides that internal controls be established, including but not limited to separation of duties. Therefore, the lack of a reconciliation of employee hours worked, signatures on employee timesheets, and proper segregation of duties does represent a systemic weakness.

**Comment 4** Authority officials state that the inter-program due to/from expenses account represents the Agency's tracking and monitoring of various program activity that flow through one general fund. However, HUD's Low-Rent Technical Accounting Guidebook 7510.1, section II-15 provides that, while an authority may use pooled funds for any expenditure chargeable to authority programs, which have funds on deposit, funds may not be withdrawn for a program in excess of the amount on deposit for that program. Accordingly, the use of funds appropriated to one program to pay expenses of another is contrary to HUD policy.