Issue Date August 4, 2011	
Audit Report Number 2011-NY-1011	

TO: Balu Thumar, Acting Director, Office of Public Housing, Newark, New Jersey Field Office, 2FPH

Edgar Moore

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

SUBJECT: The Housing Authority of the City of Elizabeth, Elizabeth, NJ, Had Weaknesses in Its Capital Fund Program's Financial Controls

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the City of Elizabeth, New Jersey's, (Authority) administration of its capital fund program (CFP) in support of the U.S. Department of Housing and Urban Development (HUD) Office of the Inspector General's (OIG) goal to contribute to improving HUD's execution and accountability of fiscal responsibilities. We selected the Authority based upon a risk assessment, which considered HUD's designation of the Authority as moderate risk, the size of its CFP and the lack of recent CFP oversight by either HUD or OIG. The audit objectives were to determine whether Authority officials (1) obligated and expended capital funds in accordance with HUD regulations, and (2) implemented a financial management system in compliance with program requirements.

What We Found

Authority officials did not always obligate or expend capital funds in accordance with program regulations, nor implement a financial management system in compliance with program requirements. Specifically, Authority officials obligated and expended funds without adequate supporting documentation, and did not ensure that CFP financial monitoring and reporting was complete and accurate. We attribute these conditions to Authority officials' unfamiliarity with HUD regulations and weaknesses in the Authority's financial controls over its CFP. Consequently, approximately $1.8 million was improperly recorded as obligated in HUD's Line Of Credit Control System (LOCCS), $95,626 was drawn down without adequate documentation, reclassification of $394,487 in administrative costs to other budget line items was unsupported, and the status of CFP funds was not effectively monitored.

What We Recommend

We recommend that the Acting Director of HUD's New Jersey Office of Public Housing, instruct Authority officials to ensure that the $1.8 million of CFP funds are properly obligated, provide adequate supporting documentation for the $95,626 of CFP drawdowns, provide documentation to adequately support reclassification of administrative costs of $394,487 to other budget line items, and strengthen financial controls over the administration of its CFP funds.

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 our review with Authority officials during the audit and at an exit conference held on July 13, 2011. Authority officials provided their written comments at the exit conference and generally agreed with the draft report findings and have promised to take action responsive to the recommendations. The complete text of the Authority'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

The City of Elizabeth, New Jersey Housing Authority (Authority) is a non-profit corporation created in 1938 under federal and state housing laws as defined by state statute for the purpose of engaging in the development, acquisition and administrative activities of the low-income housing program, and other programs with similar objectives for low and moderate income families residing in the City of Elizabeth. The Authority is governed by a seven member board of commissioners, and the day-to-day operations of the Authority are managed by an executive director appointed by the board of commissioners.

The Authority is responsible for the development, maintenance and management of public housing for low and moderate income families residing in Elizabeth, New Jersey. The Authority received funds under HUD's low-rent, capital fund, shelter plus, Hope IV, and housing choice voucher programs; and operates 1,023 low-rent and 281 subsidized mixed finance units. The Authority received an average of $2.5 million annually through the capital fund program in fiscal years 2008 through 2010. Capital fund program funds are used for repairs, major replacements, upgrading and other non-routine maintenance work to maintain the Authority's units in a clean, safe and good condition.

The objectives of the audit were to determine whether Authority officials (1) obligated and expended capital fund program funds in accordance with HUD regulations, and (2) implemented a financial management system in compliance with program requirements.

RESULTS OF AUDIT

Finding: The Authority Had Weaknesses in its Capital Fund Program's Financial Controls

Authority officials did not always obligate or expend capital funds in accordance with program regulations, nor implement a financial management system in compliance with program requirements. Specifically, Authority officials obligated and expended funds without adequate supporting documentation, and did not ensure that CFP financial monitoring and reporting was complete and accurate. We attribute these conditions to Authority officials' unfamiliarity with HUD regulations and weaknesses in the Authority's financial controls over its CFP. Consequently, approximately $1.8 million was improperly recorded as obligated in HUD's Line of Credit Control Systems (LOCCS), $95,626 was drawndown without adequate documentation, reclassification of $394,487 in administrative costs to other budget line items was unsupported as to its eligibility, and the status of CFP funds was not effectively monitored.

Improperly Reported Obligation of Funds

Authority officials improperly reported obligating $1.8 million of CFP funds based upon budgeted amounts, inadequate supporting documents, and in an untimely manner. HUD PIH handbook 7485.1, REV-4, chapter 10, section 10-8 defines funds obligated as the cumulative amount of modernization commitments as evidenced by a contract execution, which is defined as execution of the contract by both the contractor and the authority. Regulations at 24 CFR 905.120(a)(1) require that 90 percent of CFP funds be obligated within 24 months of becoming available to an authority, and Regulations at 24 CFR 968.112 and HUD Public and Indian Housing notice 2007-09 impose limits on the amount of funds that can be charged to soft costs.[1]

Authority officials reported in LOCCS that all of the Authority's approximately $2.6 million in 2009 CFP funds were obligated as of May 2010. However, upon our request in January 2011 for documentation to support the reported obligation, Authority officials advised that $1.3 million, or 51 percent, should have been reported as obligated, and that LOCCS would be adjusted to reduce reported obligations by $1.2 million. As a result, $1.2 million is still available for other obligations. Authority officials attributed this error to a computer error; nevertheless, they have until September 14, 2011 to obligate these funds in a timely manner.

[1] Regulations at 24 CFR 968.105 defines hard costs as physical improvement costs in development accounts 1450 through 1475 and soft costs as non-physical improvement costs, which exclude any costs in development account 1450 through 1475.

Obligations of 2008 CFP funds were not properly made. Regulations at 24 CFR 905.120(a)(1) require that 90 percent of CFP funds be obligated within 24 months of becoming available to an authority. While Authority officials reported in LOCCS that more than $2.4 million had been obligated, Authority records disclosed that less than $2.3 million had been obligated. In addition, $200,000 was obligated based upon a Board-approved budgeted amount for a contract as opposed to an actual executed contract, $52,379 lacked adequate documentation to support the obligation, and $421,843 was obligated for 4 contracts ranging from 4 days to 6 months after the required obligation deadline of June 12, 2010. Consequently, $608,992 ($853,645 not properly obligated minus $244,653- the allowance for 10 percent of the $2.4 million 2008 CFP grant) was not properly obligated.

Further, a 2009 HUD review of the Authority's obligation of CFP funds awarded under the American Recovery and Reinvestment Act also found that Authority officials obligated those funds based upon budgeted amounts as opposed to actual contracts. As a result, the Authority had to adjust LOCCS to reduce reported obligations by 16 percent.

Unsupported Drawdown of Funds

Authority officials drew down $95,626 without adequate supporting documentation. Regulations at 24 CFR 85.20(b)(2) provide that accounting records be adequately maintained to identify the source and use of funds, and Appendix A, section C (1) of 2 CFR part 225 requires that allowable costs be adequately documented. A drawdown of $13,635 was made from the 2005 CFP and two draw downs of $70,121 and $11,870, respectively, were made from the 2007 CFP funds without evidence of either an invoice or canceled checks, or an entry to the general ledger. Authority officials said that these drawdowns were made to close-out the grants, although there was no documentation. We attribute these unsupported drawdowns to internal control weaknesses over the Authority's accounting system.

Weaknesses in CFP Financial Reporting and Monitoring

The Authority's financial records did not always reconcile with LOCCS, and year–end adjustments were not adequately supported. Regulations at 24 CFR 85.20(b)(2) and (6) provide that housing authorities must maintain adequate accounting records regarding obligated and unobligated balances, and that accounting records must be supported by source documents. While the Authority's financial records reported expenses of $190,272 for administrative costs related to the 2007 CFP funds, LOCCS reported that $232,554 had been drawn down related to these funds, which is the maximum amount generally allowed for administrative costs. Authority officials could not account for the $42,282 difference.

In addition, year-end adjustments to reclassify costs among CFP budget line items were not adequately supported. The Authority reclassified a total of $394,487 from administrative costs to other line items as follows:

CFP Year	Amounts Reclassified					
	Administrative Costs	Management Improvement	Fees and Costs	Dwelling Structures	Non-Dwelling Structures	Inter-Company Account
2007	($ 74,254)	$74,254	-	-	-	
2008	($162,430)	$43,578	-	$41,424	$77,428	
2009	($157,803)		$57,306	$57,306		$43,191
Total	($394,487)	$117,832	$57,306	$98,730	$77,428	$43,191

Authority officials said that these reclassifications were made to reconcile the Authority's records with that reported in LOCCS. LOCCS reported that 10 percent of the funds were drawn down; however, without these reclassification entries, the Authority's administrative cost charges would have exceeded the 10 percent regulatory limitation.[2] In addition, there was no documentation to support that the costs that were reclassified were allowable charges to the line items to which they were charged. These entries to reclassify expenses to other budget line items should have supporting documentation as per regulations at 24 CFR 85.20(b)(2), which require that accounting records be adequately maintained to identify the source and use of funds, and appendix A, section C(1), to 2 CFR Part 225, which requires that allowable costs be adequately documented. Further, without these reclassifications, the Authority's administrative costs would have exceeded the ten percent regulatory limitation by $272,784 ($31,972, $83,009 and $157,803 for 2007, 2008 and 2009, respectively).

Authority officials explained that $114,612 of the $157,803 reclassified in the 2009 CFP funds should have been charged to fees, costs, and dwelling structure because it represented payroll and benefit costs for construction inspectors; however, there were no timesheets to substantiate these costs. HUD PIH Notice 2007-9, supplement, section 5-3 requires a timesheet to substantiate construction supervisors' time and only actual documented costs pertaining to construction activities can be charged as a direct expense. If the costs are not substantiated by time sheets then they should have been charged to the capital fund program

[2] Regulations at 24 CFR Part 968.112 provide that costs charged to the administrative cost budget line item may not exceed 10 percent of the total grant, and under HUD's asset management-based accounting, an Authority does not need supporting documents for the costs incurred up to this limit if the funding was provided from a 2007 or later year's grant.

management fee. Authority officials could not provide an explanation or documentation to support the other reclassifications.

Authority officials also lacked an effective system to track and monitor CFP obligations. While Authority officials maintained an excel file as a contract register, they did not clearly track which years CFP funds were being used to obligate and expend contract amounts. In addition, contract copies and purchase orders did not identify the source of the funding. Some contracts were funded from multiple years' CFP funds and/or by various Authority programs; and officials could not readily identify contracts funded from a particular CFP fund year. For example, after receiving a list of contracts reported to have been funded from the 2008 CFP, similar information was requested for the 2007 and 2009 CFP; however, this required Authority officials to revise multiple times the 2008 data previously provided to avoid duplicate and erroneous reporting of the use of the three years' funding. We attribute this deficiency to Authority officials' failure to establish adequate controls over the Authority's financial system. Since regulations generally require that CFP funds be obligated and expended within two and four years, respectively, from the date funds become available, it is important that housing authorities be able to efficiently track the source and use of each year's funding.

Conclusion

Authority officials obligated and expended capital funds without adequate supporting documentation, and did not ensure that CFP financial reporting and monitoring was accurate and complete. We attribute these conditions to Authority officials' unfamiliarity with HUD regulations and weaknesses in the Authority's financial controls over its CFP. Consequently, approximately $1.8 million was improperly recorded as obligated in HUD's Line Of Credit Control Systems (LOCCS), $95,626 was drawn down without adequate documentation, reclassification of $394,487 in administrative costs to other budget line items were unsupported, and the status of CFP funds was not effectively monitored.

Recommendations

We recommend that the Acting Director of the New Jersey Office of Public Housing instruct Authority officials to

1A. Ensure that the $1,239,832 of 2009 CFP funds that were erroneously reported as obligated in LOCCS are properly obligated by September 14, 2011 in accordance with regulations at 24CFR 905.120(a)(1), thus ensuring that the funds are put to better use. If funds are not properly obligated, appropriate action should be taken to recapture the funds in accordance with 24 CFR 905.120.

1B. Provide documentation to support that $608,992 of the Authority's 2008 CFP funds was properly obligated. If proper documentation is not provided, or obligations cannot be supported, appropriate action should be taken to recapture the funds in accordance with 24 CFR 905.120.

1C. Strengthen controls over the obligation of CFP funds to better ensure that funds are properly supported by contracts and executed in a timely manner before being recorded as obligated.

1D. Provide adequate support for the $95,626 in unsupported drawdowns. If adequate support cannot be provided, reimbursement to the program should be made from non-federal funds.

1E. Reconcile the $42,282 difference between the Authority's financial records and the amount reported in LOCCS for the 2007 CFP administrative costs, and if the amount is reallocated to a budget line item other than administrative costs, enure that there is proper support for such adjustment.

1F. Provide documentation to support the reclassification of $394,487 of administrative costs to other budget line items so that HUD can determine whether the reclassification was proper. If adequate support cannot be provided, reimbursement to the program should be made from non-federal funds.

1G. Strengthen procedures so that the source and use of CFP funds can be tracked to ensure more effective compliance with regulations at 24 CFR 85.20(b)(2).

SCOPE AND METHODOLOGY

The review focused on whether Authority officials obligated and expended capital funds in accordance with HUD regulations, and implemented a financial management system in compliance with program requirements. To accomplish our objectives, we

- Reviewed HUD CFP regulations and program requirements.

- Obtained an understanding of the Authority's financial and management controls.

- Interviewed HUD field office staff, Authority officials, and the Authority's independent public accountant.

- Reviewed the Authority's financial and management data in LOCCS, HUD's Financial Assessment Submission-Public Housing (FASS-PH), and HUD's Public and Indian Housing Information Center (PIC) system. Assessment of the reliability of the data in these systems was limited to the data sampled, which was reconciled to the Authority's records.

- Reviewed the Authority's performance evaluation reports, budgets, financial data schedules, procurement records, contract files and general ledgers; as well as HUD's approved annual plans. .

- Reviewed HUD monitoring reports, a Government Accountability Office (GAO) report and independent public accountant audit reports.

- Analyzed the Authority's CFP 2007 through 2009 obligations and disbursements.

- Selected, a sample of $2.8 million in CFP drawdowns, representing 63 percent of the $4.5 million for hard and soft cost budget items drawn down during the audit period, to reconcile to the general ledger and supporting documentation. The sample selection was not statistically based, but identified the highest drawdowns in the categories selected, and therefore, the results are not projected to the universe.

- Reconciled transfers to the Authority's low rent operations to the general ledgers.

- Reconciled the 2007 to 2009 CFP administrative cost drawdowns per the Authority's general ledgers to LOCCS, to ensure compliance with regulations.

The audit generally covered the period from July 1, 2008 through December 31, 2010. We extended the period as needed to accomplish our objectives. We performed our audit fieldwork from January 2011 through April 2011 at the Authority's office located at 688 Maple Avenue, Elizabeth, New Jersey.

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

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

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

Significant Deficiencies

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

- The Authority did not obligate and expend its capital funds in accordance with HUD regulations, and lacked effective controls to ensure that its CFP financial information and monitoring was accurate, current and complete. (Refer to Finding)

APPENDIXES

Appendix A

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

Recommendation number	Unsupported 1/	Funds to be put to better use 2/
1A		$1,239,832
1B	$608,992	
1D	95,626	
1E	42,282	
1F	394,487	
Total	$1,141,387	$1,239,832

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this case, if the Authority implements our recommendations to ensure that over $1.2 million in funds are properly obligated, HUD will be ensured that $1,239,832 will be put to better use.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

HOUSING AUTHORITY
OF THE
CITY OF ELIZABETH
688 MAPLE AVENUE
ELIZABETH NEW JERSEY 07202-2690
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OFFICE OF THE
EXECUTIVE DIRECTOR

July 13, 2011

Mr. Edgar Moore
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of the Inspector General
26 Federal Plaza Room 3430
New York, New York 10278-0068

Dear Mr. Moore:

Comment 1

Attached please find the Housing Authority of the City of Elizabeth's (HACE) response to the Capital Fund Program draft audit report submitted on June 20th, 2011. These comments are provided in anticipation of the Exit Conference scheduled for Wednesday, July 13th, 2011. HACE requests that these comments be reviewed and documented to further clarify various issues that remained unclear to the auditor at the completion of the review. We respectfully request that these revisions be considered prior to the issuance of your final report.

The Housing Authority prides itself on maintaining its "Mission" of serving the needs of low-income, very low-income and extremely low-income families in our jurisdiction. HACE provides and facilitates the availability of safe, decent and affordable housing in a safe and secure environment, improves neighborhoods and the quality of life for the residents of the City of Elizabeth. In order to fulfill this mission HACE must preserve its aging stock of dwelling units through timely maintenance and modernization projects utilizing the Capital Fund Program. HACE has established policies and procedures to ensure compliance with HUD regulations for the Capital Fund Program. We have carefully considered the recommendations presented in your report and will implement them where appropriate in order to improve HACE's existing internal controls and accounting procedures to ensure that we are fully compliant with CFP regulations in the future.

HACE looks forward to discussing this report with you at the Exit Conference.

Sincerely,

William D. Jones
Executive Director

Attachment

Ref to OIG Evaluation **Auditee Comments**

Recommendation 1A

Comment 2

As of May 2010, the housing authority reported in HUD's eLOCCS system that it had fully obligated its 2009 Capital Fund Program grant ($2,569,067). At the time the Authority was preparing documentation requested by the Inspector General's auditors, housing authority staff determined that $1,354,448 was mistakenly included as obligated for kitchen renovations at Mravlag Manor. During that period, the authority was also performing kitchen renovations at its Ford-Leonard and O'Donnell-Dempsey projects under another capital fund grant, and the Director of Finance mistakenly included those contracts as obligated for the kitchens at Mravlag Manor. Therefore, at the time that the OIG completed their audit approximately $1.3 million of 2009 CFP grant funds were unobligated. The housing authority has until September 14, 2011 to obligate those funds. As of this date, the Director of Modernization is coordinating the preparation of invitations to bid on the Mravlag Manor kitchen renovation project with the Authority's Architect. Based on the architect's cost estimate, costs for the project will exceed $2 million. $1.3 million will be funded with unobligated funds of the 2009 CFP and the balance will be funded with CFP 2010 grant funds. The contract will be awarded in August, prior to the September 11, 2011 deadline to obligate 2009 capital funds.

Recommendation 1B

The OIG report also states that $853,645 of 2008 CFP grant funds were improperly obligated. Specifically, the OIG auditor reported that $200,000 was obligated based on a Board-approved budgeted amount. The amount in question pertains to an amount of $200,000 that was reported as obligated for Framan Mechanical Contractors (contract # 09C-26). Framan was awarded a contract in the amount of $3,485,000 on February 9, 2010 to perform heating and hot water upgrades at NJ 3-6 under the Authority's ARRA grant. By May of 2010 the Authority became aware based on discussions with the contractor and the authority's architect that the actual costs of the Framan contract would exceed the contract amount due to change orders. Therefore, housing authority personnel obligated $200,000 of 2008 CFP funds to supplement the ARRA grant funds in order to complete the Framan contract.

Comment 3

The OIG audit reported that $421,843 of contracts were obligated subsequent to the required obligation date of June 12, 2010 for the 2008 capital fund program. The contracts in question were as follows:

Recchia Contracting	Repave parking areas – Mravlag Manor	$ 42,334
Paul J. DeMassi	A&E – Masonry Façade – Kennedy Arms	22,500
Edgewater	Ground Improvements - Ford-Leonard	37,030
C. Dougherty	Heat & Hot Water Upgrade – O'Donnell Dempsey	319,979
		$ 421,843

During 2009 and 2010, the housing authority's modernization staff was focused on obligating and expending ARRA grant funds. With the large infusion of funds provided by the stimulus grant, management was aggressive in pursuing projects that it did not previously have sufficient funding to consider. Due the large nature of contracts awarded under the ARRA grant, the authority wanted to ensure that sufficient funds were available to supplement those ARRA projects where necessary. Thus, management shifted its attention to address needs identified in its ARRA grant budget.

The OIG report indicated that $52,379 of obligations for the 2008 CFP grant lacked adequate documentation. The items that the auditor is referring to represent expenditures related to

Ref to OIG Evaluation	**Auditee Comments**

miscellaneous contracts funded primarily by the ARRA grant where additional funds were needed to complete the ARRA work item. Therefore, these funds were obligated and expended from the 2008 CFP grant. The items in question are listed below. In our opinion, the obligation and expenditure for these items are properly supported.

Comment 3

AMP	Contractor	Contract / PO #	Contr/PO Date	Amount Obligated	Total Obligation for Work Itemn	Total Contract/ P.O. Amount	COMMENTS
NJ3-1	Consultant	1430					
	Musial Group	20503	9/29/2009	879.26		17,550.00	Balance of PO ($16,670.64) is obligated under the ARRA Grant
	Paul Dennis Assoc	20348	6/2/2009	199.59		5,000.00	$4,800.41 is obligated under ARRA. This budget lineitem was used since all ARRA funds available were expended.
	Aparri & Assoc.	10C-03	3/10/2010	30,000.00		30,000.00	Misc. Engineering - all sites
	LAN Assoc	08C-10	2/10/2009	2,376.00		51,630.00	Balance of contract ($49,254) is obligated under CFP 2007
	AlexSoffianti	09C-20	9/17/2009	6,737.50		67,500.00	$60,762.50 is obligated under ARRA. This budget lineitem was used since all ARRA funds available were expended.
	Hudson Blueprint	20525	10/8/2009	8,500.00		17,000.00	T&M purchase order for both 2008 and 2009 CFP programs - 50% obligated under each program year
	Whitman MEP	09C-16	10/7/2009	621.87		60,500.00	$59,878.13 is obligated under ARRA. This budget lineitem was used since all ARRA funds available were expended.
	ALSA/SPAET	09C-18	9/15/2009	1,843.00		54,000.00	$52,157 is obligated under ARRA. This budget lineitem was used since all ARRA funds available were expended.
	ALSA/SPAET	09C-15	7/17/2009	1,222.20	52,379.42	38,500.00	$37,277.80 is obligated under ARRA. This budget lineitem was used since all ARRA funds available were expended.

Comment 4

Recommendation 1C

HACE has established policies and procedures to ensure compliance with HUD regulations for the Capital Fund Program. We have carefully considered the recommendations presented in your report and will implement them where appropriate in order to improve HACE's existing internal controls and accounting procedures to ensure that we are fully compliant with CFP regulations in the future.

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Recommendation 1D

Comment 5

The auditor reported that the housing authority made a drawdown of $13,635.84 from the 2005 capital fund program that was not supported by an invoice, canceled check, or other supporting documentation. The auditor also states that an entry is not made in the general ledger to support the drawdown. We respectfully disagree with this finding. The drawdown was made at the completion of the 2005 capital fund program. Cumulative entries in the capital fund program were equal to the total amount of the grant authorized and drawdowns were less than total expenditures recorded in the general ledger by $13,635.84. Therefore, that amount was drawn from LOCCS to close the grant. In order to determine the specific items in the general ledger that were being drawn, housing authority personnel would have had to compare all previous draws against the general ledger. Due to the relative immateriality of the amount in question, that task was not performed. The Authority general ledger reflects cumulative expenditures of $2,129,495, which agrees with the funds drawn down under the grant.

Similarly, the OIG audit reports that two draw downs of $70,121 and $11,870 were made from the 2007 CFP grant without sufficient supporting documentation. Again, in order to close the grants, funds were drawn down based on cumulative grant as compared to cumulative drawdowns. The amount expended but not drawn down was requisitioned to close the grant. A detailed review of general ledger costs vs. drawdowns will be performed to provide HUD with the proper detailed invoices or other supporting documentation to support these drawdowns.

Recommendation 1E

Comment 6

The report indicates that authority officials could not properly account for a difference of $42,282 between administrative costs reported on LOCCS ($232,554) and the amount recorded in the general ledger ($190,272). The amount drawn down represents the 10% administrative fee that can be paid by the CFP to the central office cost center under HUD's asset management model. Based upon a preliminary review of the general ledger, it appears that the difference of $42,282 is a result of entries made to the 1410 general account in error. Those entries should have been credited to the 27301408 account in the general ledger, but were erroneously credited to account 27301410. Thus, it appears that line item 1410 of the CFP budget is overfunded by $42,282 and line item 1408 is underfunded. After completing our research, the appropriate entries will be made to bring each general line item into agreement with LOCCS.

Recommendation 1F

Comment 7

The audit report indicates that amounts were reclassified among capital fund grant programs 2007, 2008 and 2009 (including the interfund account with the public housing program). Further, the report states that these reclassifications were also made between various line items within the CFP grants (i.e. administration, management improvements, fees & costs, dwelling structures and non-dwelling structures. The majority of these reclassifications entries were made to correct the recording of payroll and benefits of various employees. Under the capital fund program, the housing authority employees who serve as social services coordinators whose salaries and benefits are properly chargeable to account 1408 and also employees who serve as construction inspectors whose salaries and benefits are properly chargeable to account 1460, since they are direct costs of the projects undertaken within the CFP programs. As was explained to the auditor, when the PHA adopted project-based accounting / asset management, salaries were charged directly to line items 1460 and 1408 for these employees. Due to

Ref to OIG Evaluation **Auditee Comments**

errors made in the initial recording of salaries and benefits, these salaries were charged to incorrect accounts. The entries made to correct these errors are supported by payroll journals and invoices/other direct charges for employee benefits. We believe that documentation previously supplied is adequate to support these reclassification entries. We will provide documentation to HUD's field office representatives as recommended by the OIG report (page 9).

Recommendation 1G

Comment 8

The OIG recommends that the Housing Authority of the City of Elizabeth (HACE) strengthen procedures so that the source and use of CFP funds can be tracked to ensure more effective compliance with regulations at 24 CFR 85.20(b)(2). We believe that the internal control systems in effect at HACE are sufficient to properly comply with the regulations noted above. However, we agree that the recommendations made by the OIG auditors can help us improve upon our established procedures and control systems, particularly in the area of tracking obligations. Therefore, we will review our internal control policies and procedures related to the capital fund program and make the improvements recommended.

OIG Evaluation of Auditee Comments

Comments 1 The auditee comments were reviewed and discussed during the exit conference, at which Authority officials agreed that there were weaknesses in the controls over the obligation of CFP funds. At that time, Authority officials did not provide any additional documentation to address the findings, and they did not opt to revise their comments.

Comment 2 Authority officials acknowledged that $1.3 million of the 2009 CFP funds had been erroneously recorded as obligated, but stated that they have plans to award a contract in August 2011, which will ensure that the 2009 CFP funds are obligated prior to the September 11, 2011 deadline. A copy of an executed contract will have to be provided to HUD during the audit resolution process so HUD can determine whether the funds were obligated in accordance with HUD regulations.

Comment 3 Authority officials maintain that the 2008 CFP funds questioned were properly obligated, and list the relevant purchase orders and contract numbers. However, the actual supporting documents have not been made available, and will have to be provided to HUD during the audit resolution process so a determination can be made as to whether the questioned items were properly obligated in compliance with HUD regulations. During the exit conference, we acknowledged that, since regulations at 24 CFR 905.120(a)(1) require that 90 percent of CFP funds be obligated within 24 months of becoming available to an authority, the amount of unsupported 2008 CFP obligations would be $608,992 rather than $853,645; therefore the report was adjusted accordingly.

Comment 4 Authority officials agreed that controls over the obligation of CFP funds can be strengthened and are planning to develop a tracking system to better monitor the obligation of capital funds by grant year and line item. During the audit resolution process, HUD will need to evaluate the extent to which this system is achieving the intended control.

Comment 5 Authority officials maintain that the amounts questioned were supported because the amounts had been expended, but not drawndown; therefore, the amounts drawndown in question were made to close the applicable grants. However, Authority officials could not provide the supporting documents. Authority officials have agreed to perform a detailed review of the general ledger vs. drawdowns in order to provide HUD during the audit resolution process with detailed invoices or other supporting documents to support the drawdowns questioned.

Comment 6 Authority officials stated that it appears that the $42,282 is a result of entries erroneously made to budget line 1410 instead of budget line 1408. Officials are researching applicable entries made to the two budget line items, after which they have agreed to make appropriate entries to reconcile each budget line item with LOCCS. During the audit resolution process HUD will need to determine if the costs questioned were eligible management improvement costs (line item 1408) in accordance with regulations at 24 CFR 968.112 and if the costs were incurred for asset management projects (AMP) and not for central office cost center (COCC) as required by HUD PIH notice 2007-9 supplement, section 5.5.

Comment 7 Authority officials stated that the reclassification entries were made to correct previous erroneous entries and that adequate supporting documentation had been provided. However, supporting documentation, such as timesheets to substantiate that the costs were appropriately charged to budget line item fees, costs, and dwelling structure, was not provided. Authority officials agreed to provide such documentation to the HUD field office as part of the audit resolution process.

Comment 8 Authority officials have agreed to strengthen procedures to better track the source and use of CFP funds and thereby assure compliance with regulations at 24 CFR 85.20(b)(2). During the audit resolution process, HUD will need to evaluate the extent to which the strengthened procedures will provide such assurance.