



**Hoboken Housing Authority
Hoboken, NJ**

Recovery Act Capital Fund Program



Issue Date: January 4, 2013

Audit Report Number: 2013-NY-1002

TO: Sonia Burgos, Director, Office of Public and Indian Housing, Newark, NJ, 2FPH

//SIGNED//

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

SUBJECT: The Hoboken Housing Authority, Hoboken, NJ, Generally Administered the
Recovery Act Capital Fund Program in Accordance With Regulations

Enclosed is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG), final results of our review of the Hoboken Housing Authority, Hoboken, NJ officials' administration of the Recovery Act Capital Fund Program, the objectives of which were to determine whether Authority officials administered the Recovery Act Capital Fund program in accordance with the Recovery and Reinvestment Act of 2009 and HUD requirements.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 212-264-4174.

Attachment



January 4, 2013

**The Hoboken Housing Authority, Hoboken, NJ,
Generally Administered the Recovery Act Capital Fund
Program in Accordance With Regulations.**

Highlights

Audit Report 2013-NY-1002

What We Audited and Why

We audited the Hoboken, NJ, Housing Authority's administration of its Recovery Act Capital Fund program. We selected the Authority based on a risk assessment, which considered the Authority's funding, the U.S. Department of Housing and Urban Development's (HUD) risk analysis, and prior OIG audits. HUD's risk assessment rated the Authority as high risk, and the Authority was rated substandard physical by HUD's Public Housing Assessment System. The audit objectives were to determine whether Authority officials obligated and expended the capital funds in accordance with the Recovery Act and HUD regulations and complied with Recovery Act reporting requirements.

What We Recommend

We recommend that HUD instruct Authority officials to provide supporting documentation for the obligation of \$8,903 in Recovery Act capital funds or take appropriate action to recapture the funds in accordance with the Recovery Act, and ensure that their revised Actual Modernization Cost Certificate and LOCCS reconcile with the corrective action taken for the misclassification of \$83,642 in costs.

What We Found

Authority officials generally administered the Recovery Act Capital Fund program in accordance with regulations. Specifically, they established and implemented adequate controls to ensure that their funds awarded under the Recovery Act were obligated and expended as required. However, there was inadequate support that \$8,903 was obligated in a timely manner and \$9,000 was expended for an eligible cost, and \$83,642 of costs were misclassified.

TABLE OF CONTENTS

| | |
|---|----|
| Background and Objectives | 3 |
| Results of Audit | |
| Finding 1: Authority Officials Generally Administered the Recovery Act Capital Fund Program in Accordance With Regulations | 4 |
| Scope and Methodology | 7 |
| Internal Controls | 8 |
| Appendixes | |
| A. Schedule of Questioned Costs and Funds To Be Put to Better Use | 10 |
| B. Auditee Comments and OIG's Evaluation | 11 |

BACKGROUND AND OBJECTIVES

The Hoboken Housing Authority is a nonprofit corporation created in 1949 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 Hoboken, NJ. The Authority is governed by a seven-member board of commissioners, of which one is appointed by the mayor, five by the city council, and one by the New Jersey Department of Community Affairs as delegated by the governor. The Authority's board of commissioners appoints the executive director, who manages the day-to-day operations of the Authority.

On February 17, 2009, the President signed the American Recovery and Reinvestment Act of 2009 (Public Law 111-5). The Recovery Act provided \$4 billion (\$3 billion for formula grants and \$1 billion for competitive grants) for public housing agencies to carry out capital and management activities, including the modernization and development of public housing. The Recovery Act required that funds be obligated within 1 year of the date on which funds became available to an authority for obligation, 60 percent of the funds be expended within 2 years, and 100 percent be expended within 3 years of such date. The Authority had obligated 100 percent of the \$2,780,883 in Recovery Act funds awarded prior to the March 17, 2010 deadline, and had expended more than \$1.9 million (71 percent) of the funds by August 2010, and 100 percent by June 30, 2011, which was ahead of the expenditure deadline of March 17, 2012.

In addition to the \$2,780,883 in Recovery Act formula capital funds the Authority received in 2009, it also received approximately \$2.2 million and \$1.9 million in annual formula capital funds in 2010 and 2011, respectively. The Authority also administered the HUD-funded Low Rent Housing program, for which it operated 1,357 units located in 5 developments, and the Housing Choice Voucher program, for which it administered 326 vouchers.

The objectives of the audit were to determine whether Authority officials obligated and expended their capital funds in accordance with the Recovery Act and HUD regulations, and complied with Recovery Act reporting requirements.

RESULTS OF AUDIT

Finding: Authority Officials Generally Administered the Recovery Act Capital Fund Program in Accordance With Regulations

Authority officials generally administered the Recovery Act Capital Fund program in accordance with regulations. Specifically, they established and implemented adequate controls to ensure that their Recovery Act capital funds were obligated and expended as required. However, we observed there was inadequate support that \$8,903 was obligated in a timely manner, \$9,000 was expended for an eligible cost, and \$83,642 in costs was misclassified. As a result, Authority officials lacked assurance that the questioned amounts were disbursed for eligible costs.

Unsupported Obligation Amount

Authority officials reported in HUD's Line of Credit Control System (LOCCS)¹ that they had obligated the more than \$2.7 million in Recovery Act capital funds awarded to the Authority by March 8, 2010, prior to the Recovery Act deadline of March 17, 2010. However, support was lacking that \$8,903 had been obligated as required. Section 1201 of the Recovery Act required public housing authorities to obligate 100 percent of funds awarded within 1 year of the date on which the funds became available to the authority for obligation, and Office of Public and Indian Housing Notice PIH-2009-12 required that authorities obligate 100 percent of the grant within 1 year of the effective date of the annual contributions contract amendment that awarded the funds. Authority records listed 21 contracts totaling more than \$2.7 million to support the reported obligation. However, Authority officials acknowledged that a \$9,800 contract listed was used to obligate fiscal year 2008 capital funds, and the contract(s) to obligate the questioned \$8,903² could not be located. This condition occurred because of a weakness in the Authority's tracking for obligation of Recovery Act funds. Consequently, Authority officials lacked assurance that they complied with the Recovery Act obligation requirement.

Unsupported Expense

Authority officials drewdown \$9,000 for painting expenses, for which there was no contract. In addition, without a contract with a detailed scope of work a

¹ LOCCS is HUD's disbursement system, which public housing authorities use to drawdown approved funds and through which HUD monitors authorities' obligations and expenditures.

² While the ineligible contract was for \$9,800, there were valid obligations for \$2,771,981, thereby leaving \$8,903 (\$2,780,883 awarded less \$2,771,980) unobligated.

determination cannot be made as to whether the cost was properly classified as routine maintenance or a capital expense. Regulations at 24 CFR 968.112 provide that routine maintenance or replacement costs are ineligible Capital Fund Program expenses. Further, services should be procured via an executed contract so that it is clear what service is expected and HUD Handbook 7485.1 paragraph 10-8(a), states that a valid contract requires execution both by the contractor and the public housing agency. Consequently, the Authority lacked assurance that the \$9,000 was expended for eligible and reasonable expenses. This condition occurred because of an error in maintaining adequate documentation.

Costs Were Misclassified

Authority officials erroneously charged \$74,642 in architect and engineering costs (budget line item 1430), referred to as soft costs, to dwelling structures (budget line item 1460), referred to as hard costs. Regulations at 24 CFR (Code of Federal Regulations) 968.105 define soft costs as nonphysical improvement and hard costs as physical improvement costs classified in development accounts 1450 through 1475. As a result of the error, \$74,642 was unavailable to be expended for dwelling and structure costs. This condition occurred, according to Authority officials, because they mistakenly interpreted these costs to be construction services and, thus, charged them to dwelling structures, which were related to a contract for an energy audit of water, electricity, and gas consumption.

In addition, Authority officials incorrectly completed and submitted to HUD their Actual Modernization Cost Certificate (form HUD-53001)³. Authority officials reported costs based upon budgeted amounts as opposed to actual costs incurred. As a result, disbursements for fees and costs (budget line item 1430) were understated by \$83,642, and disbursements for dwelling structures (budget line item 1460) were overstated by the same amount.

Authority officials acknowledged the erroneous submission and on September 18, 2012, filed an amended Actual Modernization Cost Certificate and final Annual Statement/Performance and Evaluation Report (form HUD-50075.1). On September 26, 2012, HUD Newark field office officials agreed to amend the budget line items in LOCCS to reflect the actual expenses and required Authority officials to include the approved cost certificate in the Authority's next fiscal year audit, the report for which is required to be submitted within 9 months after the beginning of next fiscal year cycle. Upon review of the report, HUD officials will provide a final closeout package containing a copy of the HUD-approved executed cost certificate and closeout letter.

³ Regulations at 24 CFR 968.125 require that authority officials undertake modernization activities as approved by HUD in the budget, annual statement, or 5-year plan, and Regulations at 24 CFR 968.145(A) and (B) require that upon completion of the activities funded in a modernization program, the officials submit to HUD a form HUD-53001 to initiate the fiscal closeout of any modernization grants.

Conclusion

Authority officials generally obligated and expended Recovery Act capital funds in accordance with regulations. However, errors in documentation lessened HUD's assurance that \$8,903 was obligated in a timely manner, \$9,000 was expended for eligible activities, and costs of \$83,642 were properly reported. Authority officials had begun to take action to address these issues.

Recommendations

We recommend that the Director of the HUD Newark Office of Public Housing instruct Authority officials to

- 1A. Provide documentation to support that the \$8,903 was properly obligated, and if proper documentation is not provided, take action to recapture the funds in accordance with the provisions of the Recovery Act.
- 1B. Provide documentation to support that the \$9,000 disbursement for painting costs was eligible as a capital fund expense. If documentation cannot be provided, the cost should be repaid from non-Federal funds.
- 1C. Ensure that the Authority's revised Actual Modernization Cost Certificate and LOCCS reconcile with the corrective action taken for misclassification and reporting of \$83,642 in costs.

SCOPE AND METHODOLOGY

The review focused on whether Authority officials administered the Recovery Act Capital Fund program in accordance with applicable regulations. To accomplish this objective, we

- Reviewed Recovery Act Capital Fund program regulations and requirements contained in the Recovery Act and HUD regulations, notices, and guidance.
- Obtained an understanding of the Authority's financial and administrative controls.
- Interviewed HUD field office and Authority staff and the Authority's fee accountant.
- Reviewed the Authority's financial and management data in the Federal Audit Clearing House and HUD's Public and Indian Housing Information Center system and LOCCS.
- Reviewed the Authority's HUD-approved annual plans for fiscal years 2009, 2010, and 2011 and the Authority's Recovery Act Capital Fund budget, Actual Modernization Cost Certificates, financial data schedules, contract files, and general ledger.
- Reviewed HUD monitoring and independent public accountant audit reports.
- Selected a nonstatistical sample of 10 of the 21 contracts Authority officials reported as being used to obligate Recovery Act capital funds totaling \$1.6 million, or 57 percent, of the more than \$2.7 million in funds obligated to test whether the funds were obligated in a timely manner. The first eight contracts were selected based upon multiple contracts awarded to a contractor, and the ninth and tenth was selected as the lowest priced contract.
- Using a random number generator, selected a nonstatistical sample of \$811,521 in Recovery Act capital fund drawdowns, representing 29 percent of the more than \$2.7 million reported as expended, to test whether funds were properly drawn down for eligible costs in accordance with procurement regulations.

The review generally covered the period March 1, 2009, through April 1, 2012, and was extended as needed to accomplish our objectives. We performed our fieldwork from July through September 2012 at the Authority's administrative offices at 400 Harrison Street, Hoboken, NJ, and at 220 Adams Street, Hoboken, NJ.

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 objectives.

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 of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.
- Reliability and validity of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in the reports.

We assessed the relevant controls identified above.

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

Significant Deficiencies

We evaluated internal controls related to the audit objectives in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the Hoboken Housing Authority's internal control as a whole.

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 | \$8,903 | |
| 1B | \$9,000 | |
| 1C | | <u>\$83,642</u> |
| Total | <u>\$17,903</u> | <u>\$83,642</u> |

- 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, Authority officials obtained HUD approval to amend the Authority's Capital Fund budget line items to ensure that costs erroneously classified were properly classified without exceeding budgetary limits, thus ensuring that these funds would 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 Hoboken
400 Harrison Street, Hoboken, NJ. 07030
(201) 798-0370
FAX (201) 798-0164

December 17, 2012

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

Dear Mr. Moore,

The Hoboken Housing Authority (the Authority) strives to be at the forefront of public housing. The current administration has come a long way in creating the organization that it is today. Currently we are recovering and rebuilding from Super Storm Sandy. We have reformed, reengineered and restructured our agency to produce the best operational results for HUD and our residents. We have implemented many internal controls to administer our grants throughout the years and recently received from HUD a fiscal management compliance satisfaction letter with regards to an independent assessment that was conducted on the Authority last year. With the ARRA funding of \$2,780,883, the Authority improved and enhanced the life styles of existing and new tenants. Long standing vacancies were eliminated, elevators were made more efficient and modernized, outdated bathrooms and kitchens were updated. Roofs were replaced as well as laundry and community rooms were renovated. We were able to take units that were offline for three and four years and renovate them so they can be leased to new families and generate a greater revenue stream for the Authority. Our allocation and obligation was based on the five year plan that was inherited and my administration carried out these capital improvements proficiently.

Comment 1

Ref to OIG Evaluation

Auditee Comments

Comment 2

The Authority has had turnover in its administration with retirement and resignation. The ARRA funding once allocated and obligated for the improvements we needed I delegated the administering primarily to our Modernization Coordinator and Controller whom worked together with our fee accountant. The contracting was handled by the Modernization Coordinator and bookkeeping was maintained by the Controller. Approvals were obtained from the Executive Director. At the time when the OIG came in for its audit fieldwork, both of the individuals who administered had left the Authority.

In response to the unsupported obligation amount, the Authority acknowledges that support was unable to be produced for a \$9,000 modernization contract. As for the obligation of the \$8,903 for capital improvements we sustain that it was also properly obligated. However, this is not to say that proof did not exist. The Authority places the utmost importance on following the proper procedures to obligate funds, including creating valid purchase orders and contracts. Once created, all necessary approvals are obtained to ensure that funds are being spent on appropriate expenditures. It believes that in the transition of the employees who handled the procurement and record keeping function, this document was misplaced. These are aged records that we relied on those custodians of the record to maintain. However, we have been challenged with locating the contract due to these persons no longer being with us. Also, I have reached out to the contractor to ask for his help in locating their copy, but to no avail yet as he informed me they were in storage somewhere since they're old files.

Comment 3

In regards to the unsupported expense, as stated above the documentation supporting the \$9,000 for painting of units is deemed to have been misplaced during the transition of employees. As these costs were incurred as part of the renovation of units, the Authority elected to capitalize these costs as opposed to expense as part of routine maintenance.

Comment 4

The determination of the classification of costs was made by the Controller and reviewed by the Fee Accountant. When the Authority became aware of the misclassification of costs related to the completed Energy Audit, the Authority filed an amended Actual Modernization Cost Certificate with closeout budget document. As part of the upcoming fiscal year audit, the Authority will have the cost certificate audited in order to close out the program.

Presently we have been relocated from our offices due to flooding and contamination caused by Super Storm Sandy. Our administrative staff has been split up into two offices. Records have been destroyed due to water damage. All of our files have been boxed up and sent to different storage areas. This has brought on additional challenges in retrieving documentation as these files could be destroyed or damaged. We will not be able to know until we move back *into* our office.

Sincerely,

//SIGNED//

Carmelo G. Garcia, MSIS, IM, SPHM, SHRM

CC: John Harrison
Diego Ramos
Eloisa Villalobos
Emil Kotherithara

OIG Evaluation of Auditee Comments

- Comment 1** The report acknowledged that the Authority officials generally established and implemented adequate controls to ensure that the funds were obligated and expended for eligible activity in accordance with HUD regulations.
- Comment 2** Authority officials acknowledged that documentation was lacking to support the \$9,000 contract; they stated that the \$8,903 was obligated in a timely manner and note that locating these documents has been challenging because two responsible individuals no longer work at the Authority and the damage caused by Super Storm Sandy. Nevertheless, this issue will be addressed during the audit resolution process with HUD officials.
- Comment 3** Authority officials acknowledged that support could not be located for the \$9,000 modernization contract. Without a contract, scope of work or detailed invoice for the services rendered, we cannot determine the nature of the expenses and conclude as to whether the cost was properly classified. Therefore, this issue will be addressed during the audit resolution process with HUD officials.
- Comment 4** Authority officials' comments are responsive to our recommendation.