Issue Date March 1, 2011	
Audit Report Number 2011-KC-1002	

TO: Donald J. Lavoy, Deputy Assistant Secretary for Field Operations, PQ

//**signed**//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: The East St. Louis, IL Housing Authority Drew Capital Funds for Unsupported and Ineligible Expenses

HIGHLIGHTS

What We Audited and Why

We audited the East St. Louis Housing Authority's (Authority) Public Housing Capital Fund program. We selected the Authority for an audit based upon a citizen complaint that the Authority drew down capital funds without adequate support. Our audit objective was to determine whether the Authority had proper support for its capital fund draws.

What We Found

The Authority drew down grant funds for ineligible items and without adequate support. Specifically, it made unsupported draws, excessive administration draws, draws for force account labor without prior approval, draws above the invoiced amount, and duplicate draws. As a result, the U.S. Department of Housing and Urban Development (HUD) had no assurance that $171,687 in capital funds was properly spent.

What We Recommend

We recommend that HUD require the Authority to provide adequate support for the $90,534 drawn for unsupported costs or repay the funds. Additionally, we recommend that HUD require the Authority to repay the $81,153 in ineligible draws and calculate and repay additional ineligible draws outside our audit period. Finally, we recommend that HUD require the Authority to develop and implement procedures for assembling and maintaining adequate documentation before submitting vouchers.

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 provided the draft report to the Authority on December 17, 2010, and held an exit conference on December 22, 2010. The Authority provided its written response, dated January 4, 2011, and generally disagreed with our audit findings, primarily our assertion that the Authority needed to support its use of the management fee. After further review, we agree with the Authority's position and have removed this part of the finding from our final report.

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 OBJECTIVE

The East St. Louis Housing Authority (Authority) provides housing to low-income families, the elderly, and people with disabilities in St. Clair County, IL. The Authority operates 22 developments consisting of 2,073 public housing units.

The Authority has been under an administrative receivership with the U.S. Department of Housing and Urban Development (HUD) since 1985. Administrative receivership is a process whereby HUD declares a public housing authority in substantial default of its annual contributions contract and takes control of the authority. For the Authority, a HUD representative who works in the Chicago Office of Public Housing acts as the board.

The Authority receives annual formula-based funding under HUD's Public Housing Capital Fund program. These funds may be used for development, financing, modernization, and management improvements. HUD awarded the Authority more than $3 million under the program each year between 2005 and 2009. The Authority draws its capital fund grants from HUD by submitting vouchers to HUD's Line of Credit Control System. During the period January 1 through December 31, 2009, the Authority drew down nearly $2.2 million from the 2005 through 2008 grants.

HUD's regulations for the program are established at 24 CFR (Code of Federal Regulations) Parts 905 and 968.

Our audit objective was to determine whether the Authority had proper support for its capital fund draws.

RESULTS OF AUDIT

Finding: The Authority Drew $171,687 in Unsupported and Ineligible Costs From Its Capital Fund Grants

The Authority drew down grant funds for ineligible items and without adequate support. It had inadequate internal controls, and management circumvented the normal process in an attempt to meet the disbursement deadline. As a result, HUD had no assurance that $171,687 in capital funds was properly spent.

Unsupported and Ineligible Draws

The Authority drew down grant funds for ineligible items and without adequate support. Specifically, it made unsupported draws, excessive administration draws, draws for force account labor without prior approval, draws above the invoiced amount, and duplicate draws.

<u>Unsupported Draws</u>
The Authority submitted its final draw from the 2005 capital fund without first ensuring that it had related expenses to assign to that draw. Instead of compiling supporting expenses and requesting that amount, it requested the entire remaining balance of the grant.

In addition, of the 48 vouchers the Authority submitted during 2009, 4 included expenses that were not adequately supported. These expenses were supported by internal Authority documents, such as journal entries or pay requests, but without source documents such as invoices. Regulations at 24 CFR 85.20 require that grantees maintain records which adequately identify the source and application of funds. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, and contract and subgrant award documents.

<u>Administration Draws</u>
The Authority made excessive administration draws from the 2008 capital fund. It drew for administration expenses related to an intern after the full 10 percent administration limitation had been reached.

<u>Unapproved Force Account Labor Draws</u>
The Authority drew for force account labor costs without prior approval. Force account labor is defined as labor provided by Authority employees. HUD's regulations state that an authority may undertake capital fund activities using force account labor only when specifically approved by HUD in its budget or

annual statement. The Authority used force account labor to install air conditioning cages using 2006 and 2008 program year funds without obtaining HUD approval. The Authority's annual plan for fiscal year 2008 included the air conditioner cages, which it purchased through an invitation for bid during the summer of 2008. However, the plan did not specify that these cages would be installed using force account labor. These labor costs included salaries paid to the employees, employer-funded taxes, and Estamp benefits payments made to the local carpenters' union on behalf of these employees.

Draw Exceeding Invoiced Amounts

The Authority drew capital funds to pay a contractor more than the amount of the contractor's invoice. In two instances, it recalculated the vendor's invoice to a higher amount. The recalculations were to add 25 percent profit and overhead to the supervisor's pay. The Authority then drew down and paid that higher amount. It is not a standard business practice to increase the amount of a contractor's invoice.

Duplicate Draws

The Authority drew for the same invoices and salary costs more than once. In one case, it drew for the same unit turnover invoice twice before later identifying the duplication and correcting for it by offsetting a future draw. In other cases, it drew for the construction inspector's salary and benefits for the same pay period more than once and did not identify the duplications.

The Authority also made duplicate draws for employee benefits. It drew capital funds to pay employee benefit costs that had already been funded through employee payroll deductions and other draws against the capital fund for the employer-funded portions. Specifically, when it drew salary and benefits for each biweekly pay period, the draw included the employer portion of health benefits. Then the Authority duplicated this request when it drew for payments that it made to the health, vision, and dental insurance companies.

Inadequate Controls

The Authority had inadequate internal controls, and management circumvented the normal process in an attempt to meet the disbursement deadline.

The Authority had inadequate internal controls to ensure proper draws. It did not have written policies and procedures related to capital fund disbursements. It also did not have a standardized method for compiling and maintaining source documentation to support each expense included on each voucher. In addition, the system in place during our audit period did not prevent entry of the same invoice number more than once. The disorganized state of the draw documentation allowed the Authority to lose track of which invoices it had claimed on previous vouchers. Further, the Authority did not monitor how much it had drawn by line item to avoid exceeding its budget.

In addition, the Authority's management circumvented the normal process in an attempt to meet the disbursement deadline. While the amount to be claimed was typically determined by adding up the expenses to charge to the capital fund, in one case, the Authority requested the remaining grant balance without considering what expenses it might have to assign to the voucher.

$171,687 Improperly Drawn

HUD had no assurance that $171,687 in capital funds was properly spent. See the following table showing the improper amounts drawn in 2009.

Capital fund year	Unsupported amount	Ineligible amount	Description
2005-2008	$90,534		Missing source documentation
2008		$3,992	Administration draw exceeding the 10 percent limitation
2006/2008		$58,127	Force account labor and benefits
2007		$300	Payments above the invoiced amount
2005/2008		$4,382	Duplicate draws for construction inspector salary
2005-2008		$14,352	Duplicate draws for construction inspector benefits
Total	$90,534	$81,153	

While the attempted final draw for the 2005 capital fund is not included in the unsupported and ineligible amounts listed above, it had a negative impact. Because the request was submitted 1 day after the disbursement cutoff for the grant, HUD did not disburse the funds and flagged the voucher for review. The Authority then determined that it could only support part of the amount requested, so HUD disbursed the amount that it could support. The Authority's failure to prepare its drawdown request properly led to the forfeiture of the remaining $500 that could have been used to improve its housing stock.

The majority of the unsupported amount that was missing source documentation related to a single draw in February 2009. During our audit, the Authority attempted to support the draw and determined that it could not support more than $80,000. Therefore, it offset this amount against a July 2010 draw.

Regulations at 24 CFR 905.120 require the Authority to obligate its capital funds within 24 months after they are made available. The Authority must forfeit any amounts exceeding 10 percent of the original award not obligated by the deadline.

In addition, it must expend the entire grant within 48 months. Since these unsupported and ineligible costs relate to older grant years that have reached obligation and disbursement deadlines, the Authority stands to forfeit more of its capital funds as a result of this finding.

Recommendations

We recommend that the Deputy Assistant Secretary for Field Operations require the Authority to

1A. Provide support for the $90,534 drawn for unsupported costs or return the funds to HUD subject to the 90 percent limitation on the obligation period and repay the remaining amount to the project from non-Federal funds. This support includes verifying that the Authority appropriately reimbursed the $80,716 via voucher 092-519938.

1B. Return the $81,153 in ineligible draws to HUD subject to the 90 percent limitation on the obligation period and repay the remaining amount to the project from non-Federal funds.

1C. Identify the amounts drawn for unapproved force account labor and benefits and for duplicate health, vision, and dental insurance expenses outside our audit period and return the funds to HUD subject to the 90 percent limitation on the obligation period and repay the remaining amount to the project from non-Federal funds.

1D. Develop and implement procedures to assemble and maintain adequate documentation before submitting vouchers.

SCOPE AND METHODOLOGY

To accomplish our audit objective, we

- Interviewed HUD and Authority staff;
- Reviewed independent public accountant reports;
- Reviewed the Authority's policies and procedures; and
- Reviewed Federal regulations, HUD handbooks, and HUD notices.

To perform our review, we obtained reports from HUD's Line of Credit Control System to identify the amount of each voucher submitted by the Authority during 2009. Each voucher represented a drawdown request from the Authority against the specified year's capital fund grant. We analyzed the data and concluded that the data were sufficiently reliable for our purposes of sample selection. We compiled the amounts of the vouchers from January 1 through December 31, 2009, from the program years 2005 through 2008 capital fund grants. In 2009, the Authority submitted 52 vouchers totaling more than $2.3 million and received disbursements for 48 of the vouchers totaling more than $2.1 million (the remaining 4 vouchers were cancelled).

We reviewed the supporting documentation for each of the 48 paid vouchers. We reviewed whether each item included in the draw was supported by proper documentation and whether each item was an allowable expense under the Public Housing Capital Fund program. We also compared the items across the different draws to determine whether the same expense was requested for reimbursement more than once.

We performed our audit between March and October 2010 at the Authority's office at 700 North 20th Street, East St. Louis, IL. Our audit generally covered the period January 1 through December 31, 2009.

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

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Controls to ensure proper capital fund draw requests.

We assessed the relevant controls identified above.

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

Significant Deficiency

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

- The Authority did not have adequate internal controls over its capital fund draws.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A		$90,534
1B	$81,153	

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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

THE HOUSING AUTHORITY OF THE CITY OF EAST ST. LOUIS

700 N. 20th Street
East St. Louis, IL 62205
(618) 646-7100
TDD 800 545-1833, ext. 471

January 4, 2011

Mr. Ronald J. Hosking
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Region VII Office of Audit
Gateway Tower II – 5th Floor
400 State Avenue
Kansas City, Kansas 66101-2406

Dear Mr. Hosking:

This letter is in response to the draft audit report provided by the Office of the Inspector General (OIG) containing the findings of its audit of the East St. Louis Housing Authority (ESLHA). While the ESLHA appreciates any/all comments provided by OIG, as stated in the exit conference, we must disagree with some of the findings identified in the report.

Listed below are the responses to the findings outlined in the Audit Report:

1. The Authority drew $922,674 in unsupported and ineligible costs from its Capital Fund Grants

   a. The Authority drew down grant funds for ineligible items and without adequate support. It misunderstood the requirements for administration costs. In addition, it had inadequate internal controls, and management circumvented the normal process in an attempt to meet the disbursement deadline. As a result, the Authority did not have $922,674 available in its capital fund for use in the development, financing, modernization, and management improvements of its projects.

ESLHA's Response

Pursuant to HUD guidelines and Federal Register notice entitled, "Public Housing Operating Fund Program; Guidance on implementation of Asset Management", (71FR52710). Prior to the implementation of asset management, and beginning with Federal Fiscal Year (FFY)2007 Grants – PHAs are not permitted to draw down any unobligated funds pertaining to Administrative Costs (BLI 1410) of open Capital Fund Program grants as Capital Fund Program management fee.

For FFY 2006 and prior grants, a PHA should continue to charge actual expenses. For FFY 2007 and subsequent year grants, the PHA shall charge a management fees commencing the start of its first year under project-based budgeting and accounting, PIH 2006-33 states: For April 1, PHAs, the initial compliance year is the PHA fiscal year

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Ref to OIG Evaluation | **Auditee Comments**

Comment 1

April 1, 2008 – March 31, 2009. Because the ESLHA is required to practice Asset Management this is an eligible draw.

Comment 2

Comment 3

Attached to this letter is a pdf file that will verify the amount of $162,765.27 paid to [redacted] Construction Bonding Company. We learned from the subcontractors that [redacted] had filed bankruptcy without making payment for goods and services provided. We contacted our Legal Counsel [redacted] to handle the process. Payments were made through the Bonding Company and the retainage that was left in the project. The attached pdf file will serve as documentation to support the draw of $162,765.27. The $80,716.07 was deemed out OIG's range of scope, therefore, not allowing them to review all necessary supporting documentation. The $80,716.07 was over drawn in the period in which they reviewed however the error was identified by staff and reduced a future LOCCS that offset the over LOCCS. The LOCCS representing the $80,716.07 is attached for your review.

b. The Authority also made excessive administrative draws from the 2008 capital fund. It drew for administration expenses related to an intern after the full 10 percent administration limitation had been reached.

ESLHA's Response

Comment 4

The ESLHA agrees that we drew in excess of the 10% in BLI 1410 from the 2008 capital fund for expenses related to the intern. These funds ($3,992) have been returned to HUD. ESLHA is in the process of submitting a budget revision to HUD for approval of redistributing the returned funds.

c. The Authority submitted its final draw from the 2005 capital fund without first ensuring that it had related expenses to assign to that draw. Instead of compiling supporting expenses and requesting that amount, it requested the entire remaining balance of the grant.

ESLHA's Response

Comment 5

ESLHA's book of account showed that all the funds for the 2005 capital fund program had been expended. We requested the funds per our book of account however, during the reconciliation analysis we discovered an error of $500.53 therefore the request was canceled and reissued for the correct amount and HUD reduced the grant by the same amount. ESLHA have since added accounting staff to ensure all grant disbursements is maintain according to regulations.

d. The Authority drew for force account labor costs without prior approval. Force account labor is defined as labor provided by Authority employees. HUD's regulations state that an authority may undertake capital fund activities using force account labor only when specifically approved by HUD in its budget or annual statement. The Authority used force account labor to install air conditioning cages using 2006 and 2008 program year funds without obtaining HUD approval. These labor costs included salary paid to the employees, employer-funded taxes, and Estamp benefits payments made to the local carpenters' union on behalf of these employees.

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Ref to OIG Evaluation **Auditee Comments**

ESLHA's Response

Comment 6

The ESLHA do not agree with the finding. The approved annual plan for 2008 has funds allocated for the installation of cages. Since the work was not performed by the regular maintenance crew it should not be classified as force account labor Per 24CFR968.105. This work was performed by union carpenters therefore we should not be required to refund those dollars. ESLHA labeled this work as force account labor and we have instructed staff to reclassify as laborers from the carpenters union.

e. The Authority drew capital funds to pay a contractor more than the amount of the contractor's invoice. In two instances, the Authority recalculated the vendor's invoice to a higher amount. The recalculations were to pay 25 percent profit and overhead on the supervisor's pay. The Authority then drew down and paid the higher amount. It is not a standard business practice to increase the amount of a contractor's invoice.

ESLHA's Response

Comment 7

ESLHA is responsible for verifying the correctness of the invoice and confirming the goods and/or services have been received. If a discrepancy is identified in the invoice, it is our practice to notify the vendor of the discrepancy and resolve the problem by making the required adjustment to the invoice. Due to the nature of these transactions, the contractor is informed that an adjustment is being made to correct any mathematical errors in their billings. It is our business practice to send a copy invoice showing the invoice was adjusted.

f. The Authority drew for the same invoices and salary costs more than once. In one case it drew for the same unit turnover invoice twice before later identifying the duplication and correcting for it by offsetting a future draw. In other cases, it drew for the construction inspector's salary and benefits for the same pay period more than once and did not identify the duplications.

ESLHA's Response

Comment 8

The ESLHA did in fact draw for the construction inspector's salary and benefits for the same pay period more than once. This was a result of a data conversion error and was not detected.

g. The Authority also made duplicate draws for employee benefits. It drew capital funds to pay employee benefit costs that had already been funded through employee payroll deductions and other draws against the capital fund for the employer-funded portions. Specifically, when it drew salary and benefits for each biweekly pay period, the draw included the employer portion of health benefits. Then the Authority duplicated this request when it drew for payments that it made to the health, vision, and dental insurance companies.

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Ref to OIG Evaluation **Auditee Comments**

ESLHA's Response

Comment 9

For several months ESLHA did in fact duplicate draws for the employer's portion of benefits. The problem was detected by management, that duplicate expenses were being recorded for the benefits; staff was informed of the errors and educated on the proper processing procedures. Since the 2008 capital fund program remains open and ESLHA continue to incur benefit costs, ESLHA is requesting to offset the remaining benefit costs until the duplicate draws of $14,352 is satisfied.

h. The Authority misunderstood the requirements for administrative costs. In addition, it had inadequate internal controls, and management circumvented the normal process in an attempt to meet the disbursement deadline. The Authority believed that with the implementation of asset management it could treat the administrative draw as a management fee without separately accounting for the related direct costs. While asset management regulations allow housing authorities to charge a management fee of up to 10 percent, the rule state that fees must be assessed to the AMPs based on benefits received by that AMP; moreover, documentation supporting the earning of such fees by the COCC must be maintained and available.

ESLHA's Response

The ESLHA did not misunderstand the requirements for administrative costs. The Capital Fund Management Fee is a program management fee for services provided to the capital fund program. These management services may include some of the following:

(1) Long Term Capital Planning
(2) Capital Budgeting
(3) Construction Monitoring
(4) Compliance and Reporting

Comment 10

PIH Notice 2007-9 (HA) Updated Changes in Financial Management and Reporting for Public Housing Agencies Under the New Operating Fund Rule (24 CRF part 990). This notice updates and revises the guidance contained in the original PIH notice 2006-33. One of the major changes was deletion of the payment of Capital Fund management fee based on disbursements. Instead PHAs will earn their Capital Fund management fees in the first year of program award.

i. The Authority had inadequate internal controls to ensure proper draws. It did not have written policies and procedures related to capital fund disbursements. It also did not have a standardized method for compiling and maintaining source documentation t support each expense included on each voucher. In addition, the system in place during our audit period did not prevent entry of the same invoice number more than once like the current system is supposed to. The disorganized state of the draw documentation allowed the Authority to lose track of which invoice it had already claimed on previous vouchers. Further, the Authority did not monitor how much it had drawn by line item to avoid exceeding its budget.

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Ref to OIG Evaluation **Auditee Comments**

Comment 11

ESLHA's Response

ESLHA has written policies and procedures dated December 20, 1993 and revised on January 21, 2010, 'Policy and Procedures for Processing Modernization Pay Request'. Capital Fund payments are directly related to contractual activities, this establishes the method for the preparation, review and approval of payment request for the modernization department. ESLHA was aware before this audit the need to enhance maintaining all documentations to support each voucher. We have since, increased the accounting staff to meet these requirements.

The ESLHA purchased a new software package in October, 2009 to streamline the process and produce more intelligent data; hence, we have encountered several glitches in the system, one being the ability to flag duplicate invoice numbers as it relates to vendor payments. ESLHA, continually working with the company to enhance and correct the system, we are currently scheduled for extensive training as well as upgrading the current system. Programmers and trainers are scheduled to be on the premises in early January, 2011to address ESLHA concerns.

The ESLHA did exceed its budget line for account 1410, however, PIH Notice 96-90 HUD understands from time to time there will be mistakes with drawdown's of funds and have make provisions and given directions to correct these mistakes. In addition, section 3-1, 2 of this notice states, "Soft edits are limits placed on certain BLIs that prevent the HA from being paid when certain thresholds are exceeded, but do not prevent the HA from completing its payment request. Paragraph 3-2 C of this notice states, "BLI 1410 Administration. There is soft edit of 10 percent of the grant amount or the FO-entered BLI amount, whichever is greater. The FO has the authority to approve an amount exceeding 10percent of this BLI.

With the above explanation, we request the Office of Inspector General to reconsider its findings and rewrite its reports to reflect the information contained in this letter.

Sincerely,

Elizabeth Tolliver
Executive Director

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OIG Evaluation of Auditee Comments

Comment 1 After further review, we agree with the Authority's position. We have removed the unsupported management fee from the finding.

Comment 2 The Authority submitted additional documentation, including a copy of the payment bond and subcontractor invoices, supporting the draw of $162,765. Considering this additional documentation, we removed this portion of the finding.

Comment 3 We clarified in the report that $80,716 was offset against a future voucher outside our audit period. While we did not review this voucher as part of our audit, we noted that it included significant amounts for force account labor as well as invoices that were more than 2 years old. Accordingly, HUD should review this documentation to ensure that the offset represents appropriate repayment. The appropriateness of a significant portion of the offset is dependent upon HUD's decision regarding the Authority's use of force account labor as discussed in comment 6.

Comment 4 HUD should verify that the Authority properly returned the funds.

Comment 5 In addition to the $501 error referenced in the Authority's comments, we identified 18 ineligible duplicate items totaling $5,309 included in the support the Authority provided for the voucher in question. These duplicate amounts are included in the totals in the report and are made up of payroll periods previously drawn in other vouchers, benefit periods previously drawn in other vouchers, and employee benefits funded through employee and employer contributions included in other salary and benefit draws from the capital fund. There was also an item unsupported by source documentation; this item is also included in the report.

Comment 6 We disagree with the Authority that since the work was not performed by regular maintenance crew it should not be classified as force account labor. Regulations at 24 CFR 968.105 define force account labor as "Labor employed directly by the PHA [public housing agency] on either a permanent or a temporary basis"; therefore, the Authority need not employ the workers permanently for them to classified as force account labor. The Authority accounted for the wages and benefits of these laborers in the same manner as it did for its other full-time staff, as these workers filled out, signed as "employee," and submitted timecards to the Authority and were included on the Authority's Labor Distribution Report by Department by Employee.

Further, documentation related to the procurement of the physical cages estimates the total cost of the project "using manufacturing from the low bidder and installation from ESLHA [Authority] carpenters" and lists the names of the two carpenters that are disputed by the Authority as force account labor. Additionally, in an internal Recommendation to Award Contract document, dated July 22, 2008, the Authority stated “we have decided to consider the price of manufacturing only and allow the Housing Authority employees to execute installation.” The recommendation was approved by the executive director on July 25, 2008.

Comment 7 On the invoices in which the Authority recalculated the vendor’s invoice to a higher amount, the Authority did not correct mathematical errors made by the vendor. Instead, it applied overhead and profit percentages to line items excluded by the vendor on the original invoice.

Comment 8 We contend that the Authority must verify amounts to be drawn to ensure that it does not draw for the same expenses more than once.

Comment 9 The assertion that the Authority detected duplicate benefits and that the period was a matter of “several months” contradicts the events that transpired during the audit. The Authority’s accountant provided us with a spreadsheet indicating that some benefits were being charged to the capital fund as late as July 2010, the latest date on the spreadsheet. If management detected the duplicate draws before being notified by us, it did nothing to return the ineligible duplicates. We recommend that HUD require the Authority to identify duplicate benefit payments outside our audit period and return the funds; the $14,352 indicated in the report and the Authority’s comments represent only the amount of duplicates occurring during our audit period and, therefore, do not fulfill the recommendation.

Comment 10 As stated in comment 1, we have removed the management fee from our finding. Accordingly, we removed the language about the Authority’s misunderstanding the requirements.

Comment 11 The “Policy and Procedures for Processing Modernization Pay Request” provided to us by the Authority covered only submission of payments from the Authority to its vendors and made no reference to capital fund draw requests. We do not believe this policy to be sufficient to ensure proper draw requests.

Appendix C

INELIGIBLE AND UNSUPPORTED COSTS DETAIL

Unsupported expenses			
Fund year	**Voucher number**	**Amount**	**Description**
2006	092-448931	$3,815.99	No source documentation
2006	092-448931	$417.54	No source documentation
2006	092-448931	$80,716.07	See OIG note 1
2006	092-448931	$39.99	No source documentation
2006	092-448931	$1,700.00	No source documentation
2007	092-477852	$751.60	No source documentation
2007	092-487873	$2,287.00	No source documentation
2008	092-487874	$794.95	No source documentation
2005	092-489495	$10.59	No source documentation
		$90,533.73	

OIG note 1: This draw for $113,366 was made in February 2009 and included a note, dated March 2009, stating that there was an incorrect calculation and the amount should not have been drawn. While we were conducting our audit, in July 2010, the Authority attempted to support $109,133 of this amount by compiling expenses. It compiled $28,417 in expenses (which we reviewed and found $17,875 in ineligible force account expenses, $1,740 unsupported, and $8,802 supported). The Authority showed the remaining $80,716 as a reduction to a voucher submitted in July 2010, but we were not assured that this was proper. The voucher on which it was offset was outside our audit period and contained ineligible force account labor/benefit charges and two large charges for invoices dated in 2008. Since these were also outside our audit period, we do not know whether those expenses were previously drawn.

Administration draw			
Fund year	**Voucher number**	**Amount**	**Description**
2008	092-490794	$3,992.00	Intern – see OIG note 2
		$3,992.00	

OIG note 2: $3,992 was charged to line item 1410 in excess of the 10 percent budget maximum.

Payments above the invoiced amount			
Fund year	**Voucher number**	**Overpayment**	**Description**
2007	092-490978	$100.01	See OIG note 3
2007	092-490978	$200.00	See OIG note 3
		$300.01	

OIG note 3: When the Authority recalculated these invoices, it moved the supervisor's pay of $400 and $800 from where the contractor placed it below the subtotal to above the subtotal to apply the 25 percent profit and overhead to the supervisor's pay, resulting in overpayments compared to the invoiced amount.

Force account labor and benefits				
Fund year	**Voucher number**	**Amount**		**Description**
2006	092-331138	$151.80	PPE* 12/24/08	Force account labor
2006	092-331138	$789.30	PPE 12/24/08	Force account labor
2006	092-331138	$1,062.52	PPE 12/24/08	Force account labor
2006	092-331138	$424.97	PPE 12/24/08	Force account labor
2006	092-331138	$1,942.87	PPE 12/31/08	Force account labor
2006	092-442087	$971.43	PPE 1/07/09	Force account labor
2006	092-442087	$971.44	PPE 1/07/09	Force account labor
2006	092-445463	$1,607.48	PPE 1/14/09	Force account labor
2006	092-445463	$546.43	PPE 1/14/09	Force account labor

Fund year	Voucher number	Amount		Description
2006	092-445463	$274.68	PPE 1/14/09	Force account labor
2006	092-445463	$971.43	PPE 1/21/09	Force account labor
2006	092-445463	$485.72	PPE 1/21/09	Force account labor
2006	092-445463	$485.72	PPE 1/21/09	Force account labor
2006	092-445463	$485.71	PPE 1/28/09	Force account labor
2006	092-445463	$242.86	PPE 1/28/09	Force account labor
2006	092-445463	$242.86	PPE 1/28/09	Force account labor
2006	092-445463	$728.58	PPE 1/28/09	Force account labor
2006	092-445463	$728.58	PPE 1/28/09	Force account labor
2006	092-446838	$1,214.29	PPE 2/04/09	Force account labor
2006	092-446838	$1,214.30	PPE 2/04/09	Force account labor
2006	092-447425	$607.14	PPE 2/11/09	Force account labor
2006	092-447425	$607.15	PPE 2/11/09	Force account labor
2006	092-447425	$242.86	PPE 2/11/09	Force account labor
2006	092-447425	$485.72	PPE 2/11/09	Force account labor
2006	092-447425	$485.72	PPE 2/11/09	Force account labor
2006	092-448131	$728.58	PPE 2/18/09	Force account labor
2006	092-448131	$728.58	PPE 2/18/09	Force account labor
2006	092-448131	$485.71	PPE 2/18/09	Force account labor
2006	092-449054	$698.71	PPE 2/25/09	Force account labor
2006	092-449054	$637.03	PPE 2/25/09	Force account labor
2006	092-449054	$1,092.85	PPE 2/25/09	Force account labor
2006	092-451388	$485.71	PPE 3/05/09	Force account labor
2006	092-451388	$182.15	PPE 3/05/09	Force account labor
2006	092-451388	$182.15	PPE 3/05/09	Force account labor
2006	092-451388	$971.44	PPE 3/05/09	Force account labor
2006	092-451388	$121.43	PPE 3/05/09	Force account labor
2006	092-451388	$485.71	PPE 3/05/09	Force account labor
2006	092-451388	$2,428.59	PPE 3/11/09	Force account labor
2006	092-462007	$15.43	PPE 4/29/09	Force account labor
2008	092-462007	$485.71	PPE 4/29/09	Force account labor
2006	092-448131	$6,699.89	4/2008 per GL	Benefits/Estamps
2006	092-448131	$2,910.89	3/2008 per GL	Benefits/Estamps
2006	092-448131	$2,884.66	4/2008 per GL	Benefits/Estamps
2008	092-448931	$2,983.68	December-08	Benefits/Estamps
2006	092-448931	$3,646.72	January-09	Benefits/Estamps
2006	092-448931	$3,149.44	February-09	Benefits/Estamps
2006	092-448931	$3,315.20	March-09	Benefits/Estamps
2006	092-448931	$1,191.58	May-09	Benefits/Estamps
2006	092-448931	$1,332.66	June-09	Benefits/Estamps
2006	092-448931	$2,256.00	PPE 6/17/09	Benefits/Estamps
2006	092-487874	$55.32	PPE 10/21/09	Benefits/Estamps
		$58,127.38		

*PPE = pay period ending;

OIG note 4: The force account labor costs were supported by timesheets signed by the employee and his supervisor and the payroll register.

Duplicate draws for construction inspector salary				
Fund year	**Voucher number**	**Amount**		**Description**
2008	092-487874	$1,728.66	PPE 10/23/09	Included on this same voucher twice
2005	092-489495	$1,728.65	PPE 5/3/09	Already drawn on voucher 092-462007
2005	092-489495	$81.31	PPE 4/5/09	Already drawn on voucher 092-455852
2005	092-489495	$116.16	PPE 5/3/09	Already drawn on voucher 092-462007
2005	092-489495	$268.37	PPE 4/5/09	Already drawn on voucher 092-455852
2005	092-489495	$383.38	PPE 5/3/09	Already drawn on voucher 092-462007
2005	092-489495	$43.22	PPE 5/17/09	Already drawn on vouchers 092-462424 and 092462427
2005	092-489495	$10.80	PPE 5/17/09	Already drawn on vouchers 092-462424 and 092462427
2005	092-489495	$21.61	PPE 5/17/09	Already drawn on vouchers 092-462424 and 092462427
		$4,382.16		

Duplicate draws for construction inspector benefits				
Fund year	**Voucher number**	**Amount**		**Description**
2007	092-445465	$76.27	1/1/09-1/31/09	Dental insurance
2007	092-445465	$10.61	1/1/09-1/31/09	Vision insurance
2007	092-446839	$1,199.47	2/01/09-2/28/09	Health insurance
2007	092-446839	$4.94	2/1/09-02/28/09	Vision insurance
2007	092-447426	$1,199.47	1/01/09-1/31/09	Health insurance
2007	092-447426	$10.61	1/1/09-1/31/09	Vision insurance
2008	092-451390	$1,199.47	3/1/09 - 3/31/09	Health insurance
2008	092-451390	$76.27	3/01/09 - 3/31/09	Dental insurance
2008	092-451390	$4.94	3/01/09 - 3/31/09	Vision insurance
2008	092-456849	$1,199.47	4/1/09 - 4/30/09	Health insurance
2008	092-456849	$76.27	4/1/09 - 4/30/09	Dental insurance
2008	092-456849	$4.94	4/1/09 - 4/30/09	Vision insurance
2008	092-462007	$1,199.47	5/1/09 - 5/31/09	Health insurance
2008	092-462007	$4.94	5/1/09 - 5/31/09	Vision insurance
2008	092-463632	$76.27	6/01/09 - 6/30/09	Dental insurance
2008	092-463632	$10.61	6/01/09 - 6/30/09	Vision insurance
2008	092-487874	$1,199.47	APCK 292070	Health insurance
2008	092-487874	$76.27	APCK 292067	Dental insurance
2008	092-487874	$10.61	APCK 292071	Vision insurance
2008	092-487874	$1,199.47	11/1/2009	Health insurance
2008	092-487874	$10.61	11/1/2009	Vision insurance
2008	092-487874	$10.61	12/4/2009	Vision insurance
2005	092-489495	$1,199.47	5/01/09-5/30/09	Health insurance
2005	092-489495	$76.27		Dental insurance
2005	092-489495	$4.94	5/1/09-5/30/09	Vision insurance
2005	092-489495	$1,199.47	6/01/09-6/30/09	Health insurance
2005	092-489495	$76.27		Dental insurance
2005	092-489495	$10.61	6/01/09-6/30/09	Vision insurance
2008	092-490794	$1,199.47	12/01-12/30/09	Health insurance

Fund year	Voucher number	Amount	Description
2007	092-490978	$1,635.62	Health insurance
2005	092-489495	$23.83	5/1/09 Insurance already drawn in 092-462007
2005	092-489495	$20.46	5/1/09 Insurance already drawn in 092-462007
2005	092-489495	$23.83	6/1/09 Insurance already drawn in 092-467141
2005	092-489495	$20.46	6/1/09 Insurance already drawn in 092-467141
		$14,351.76	

OIG note 5: These benefits were funded by employee payroll deductions as well as employer-funded benefits that were drawn along with the inspector's payroll.