



**U.S. Department of the Interior  
Office of Inspector General**

# **AUDIT REPORT**

**LOW INCOME HOUSING PROGRAM GRANTS,  
VIRGIN ISLANDS HOUSING AUTHORITY**

**REPORT NO. 00-I-625  
AUGUST 2000**

## EXECUTIVE SUMMARY

### Low Income Housing Program Grants, Virgin Islands Housing Authority Report No. 00-I-625 August 2000

#### BACKGROUND

The Virgin Islands Housing Authority is a public housing corporation that operates under the provisions of the U.S. Housing Act of 1937 (42 U.S.C. §1401) and the Virgin Islands Code (29 VIC Chapter 1). The Authority is responsible for planning, financing, constructing, maintaining, and managing 32 public housing communities, containing 4,253 public housing units, in the Virgin Islands. The Authority received funding from three different sources--the U.S. Department of Housing and Urban Development (HUD), the Government of the Virgin Islands, and rental payments from tenants. As of September 30, 1999, the Authority had received from HUD \$16 million of the \$21.3 million operating subsidy and \$2.7 million of the \$4.3 million Section 8 housing assistance subsidy for fiscal year 1999<sup>1</sup> and a \$2.1 million grant to relocate 296 families who lived in the Donoe public housing community on St. Thomas. The Authority also received \$498,000 of \$600,000 appropriated by the Government of the Virgin Islands for fiscal year 1999 and rental income from its public housing units totaling \$3.7 million for fiscal year 1999 (through August 31, 1999).

#### OBJECTIVE

The objective of the audit was to determine whether (1) the Authority complied with grant terms and applicable laws and regulations; (2) charges made against grant funds were reasonable, allowable, and allocable pursuant to the grant agreement provisions; and (3) funds received through electronic transfers were appropriately deposited to and accounted for in the Authority's financial management system.

#### RESULTS IN BRIEF

The Authority administered the operating subsidy and Section 8 Program grants in accordance with grant terms and applicable laws and regulations. Specifically, charges made against the grant funds generally were reasonable, allowable, and allocable pursuant to grant agreement provisions; procurement actions were made in accordance with the Authority's procurement guidelines; and allotments received through electronic funds transfer were appropriately deposited to the Authority's bank account. However, we found that internal controls could be improved with regard to processing purchase orders, recording electronic

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<sup>1</sup>The Authority's fiscal year is from January 1 through December 31.

fund transfers, reconciling bank accounts, authorizing and supporting overtime charges, maintaining purchase order logs, and computing Section 8 rental assistance payments. As a result, a contractor received 14 duplicate payments totaling \$145,307; HUD contributions of \$1.1 million were excluded from the Authority's Statement of Operating Receipts and Expenditures report; three electronic funds transfers totaling \$339,158 were not recorded in the Authority's financial management system; bank overdraft charges totaled \$2,628; unsupported overtime costs totaled \$3,757; and 877 purchase orders for an undeterminable amount were not included in the Authority's purchase order log. We also found that the Authority made overpayments and underpayments totaling \$125 per month in the computation of the Section 8 rental assistance payments to 6 of 45 participants reviewed.

## **RECOMMENDATIONS**

We made eight recommendations to the Executive Director of the Housing Authority to correct the internal control weaknesses disclosed by the audit.

## **AUDITEE COMMENTS AND OIG EVALUATION**

The Executive Director of the Housing Authority, in response to the draft report, concurred with the eight recommendations. Based on the response, we consider seven recommendations resolved and implemented and one recommendation resolved but not implemented.



# United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
Washington, D.C. 20240

AUG 24 2000

## AUDIT REPORT

Mr. Conrad E. Francois, II  
Executive Director  
Virgin Islands Housing Authority  
Post Office Box 7668  
St. Thomas, Virgin Islands 00801

Subject: Audit Report on Low Income Housing Program Grants, Virgin Islands Housing Authority (No. 00-I-625)

Dear Mr. Francois:

This report presents the results of our review of low income housing program grants, consisting of an operating subsidy and the Section 8 Program, administered by the Virgin Islands Housing Authority. The objective of the audit was to determine whether (1) the Authority complied with grant terms and applicable laws and regulations; (2) charges made against grant funds were reasonable, allowable, and allocable pursuant to the grant agreement provisions; and (3) funds received through electronic transfers were appropriately deposited to and accounted for in the Authority's financial management system.

### BACKGROUND

The Virgin Islands Housing Authority is a public housing corporation that operates under the provisions of the U.S. Housing Act of 1937 (42 U.S.C. §1401) and the Virgin Islands Code (29 V.I.C. Chapter 1). The Authority is governed by a Board of Commissioners, consisting of nine members--five appointed by the Governor of the Virgin Islands and four elected by adult public housing residents. The Authority's day-to-day operations are managed by an Executive Director, who serves at the pleasure of the Board of Commissioners. The Authority is responsible for planning, financing, constructing, maintaining, and managing 32 public housing communities, containing 4,253 public housing units, in the Virgin Islands. To assist in this endeavor, the Authority receives an annual subsidy from the U.S. Department of Housing and Urban Development (HUD) for the operation and maintenance of these units. As of September 30, 1999, the Authority had received all of the \$23.4 million subsidy for fiscal year 1998<sup>1</sup> and \$16 million of the \$21.3 million subsidy for fiscal year 1999.

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<sup>1</sup>The Authority's fiscal year is from January 1 to December 31.

In addition, the Authority manages the Section 8 Housing Assistance Payment Program, which was established by Section 8(0) of the U.S. Housing Act of 1937 (42 U.S.C. §1437). The purpose of the Section 8 Program is to assist eligible families in paying rent for decent, safe, and sanitary housing. Section 8 Program guidelines require participants to contribute toward their rental payment the greater of 10 percent of gross income, 30 percent of adjusted gross income, or a minimum of \$25 per month. To determine a family's eligibility, the total family household income must be 80 percent or less of the median income for the area as determined by HUD. As of October 1999, 747 families participated in the Section 8 Program, and the Authority had a waiting list of 1,915 eligible families, with an average waiting period of 5 years. The Authority received annual contributions from HUD to fund the Section 8 Program. As of September 30, 1999, the Authority had received \$3.7 million of the \$4.2 million contribution for fiscal year 1998 and \$2.7 million of the \$4.3 million contribution for fiscal year 1999.

In fiscal year 1999, the Authority also received funding from HUD totaling \$2.1 million to relocate 296 families who lived in the Donoe public housing community on St. Thomas. The families were being relocated to private housing units under the Section 8 Program because the Donoe community was being demolished. The Authority also received an annual appropriation from the Government of the Virgin Islands to assist in the operation of water delivery and water treatment programs, elderly health programs, and community service programs at the public housing units. Although the Authority was appropriated \$845,500 for fiscal year 1998 and \$600,000 for fiscal year 1999, the Authority received only \$450,000 for fiscal year 1998 and \$498,000 for fiscal year 1999 from the Government. Further, the Authority received rental income from its public housing units totaling \$5.3 million in fiscal year 1998 and \$3.7 million in fiscal year 1999 (through August 31, 1999).

## **SCOPE OF AUDIT**

The scope of our audit included a review of the Authority's receipt and expenditure of the operating subsidy and Section 8 Program grants during fiscal years 1998 and 1999 (through September 30). To accomplish our audit objective, we reviewed applicable laws and regulations for grant administration and procurement actions; grant-related receipts and expenditures, primarily for personnel, equipment, and supplies; and eligibility requirements for the Section 8 Program. In addition, we expanded the scope of our review to include payments made to a contractor who performed vacant unit rehabilitation under the Comprehensive Grant Program (a HUD-funded grant) during fiscal year 1999. The audit was conducted during the period of September 1999 through March 2000 at the Authority's central office on St. Thomas and at the following public housing communities on St. Thomas: Contant Knolls, Donoe, Oswald Harris Court, Paul M. Pearson Gardens, Bovoni, Tutu Highrise, Michael J. Kirwan Terrace, Lucinda Millin Home for the Aged, and the Anna's Retreat Community Center.

The Authority received, through electronic funds transfer, weekly allotments from HUD for the operating subsidy and monthly allotments from HUD for the Section 8 Program to cover grant-related expenditures. Because funds were received either weekly or monthly based on a predetermined allotment, the provisions of the Cash Management Improvement Act of

1990 to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the use of those funds by the Authority for program purposes were not applicable to the HUD grants. Therefore, that part of our original audit objective, determining the Authority's compliance with the Act, was not accomplished.

Our review was made, as applicable, in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

Our review included an evaluation of internal controls to the extent we considered necessary to accomplish the audit objective. The internal control weaknesses identified were related to the financial administration of grants and the determination of Section 8 Program housing assistance payments. The control weaknesses are discussed in the Results of Audit section of this report. The recommendations, if implemented, should improve the internal controls in these areas.

## **PRIOR AUDIT COVERAGE**

During the past 5 years, neither the General Accounting Office nor the Office of Inspector General has issued any audit reports on the Authority's management of Federal grants. However, related audit reports were issued as follows:

- In April 1992, the Office of Inspector General issued the report "Billing and Collection Functions, Virgin Islands Housing Authority, Government of the Virgin Islands" (No. 92-I-752). The report stated that the Authority did not adequately control the tenant recertification process, the collection of delinquent accounts receivable, tenant files, and petty cash funds. The Authority concurred with the report's 10 recommendations to address these issues and provided sufficient information for us to consider all of the recommendations resolved and implemented.

- In June 1992, the Office of Inspector General issued the report "Vacancies and Rent Abatements, Virgin Islands Housing Authority, Government of the Virgin Islands" (No. 92-I-935). The report stated that (1) the Authority allowed approximately 400 housing units to remain vacant while awaiting repairs for more than 3 years and that, as a result, the Authority lost \$2.6 million in potential rental income for the period of 1975 to 1991 and (2) the Virgin Islands Legislature unnecessarily granted \$2.2 million to the Authority in conjunction with a blanket rent abatement enacted after Hurricane Hugo. The Authority concurred with the report's three recommendations to address these issues and provided sufficient information for us to consider all of the recommendations resolved and implemented.

- In June 1999, an independent accounting firm issued the single audit report on the Authority for the fiscal years ended December 31, 1994, 1995, 1996, and 1997. The report stated that the independent auditors were unable to issue an opinion on the financial statements because (1) they could not obtain sufficient documentation to support adjustments

to the General Fund cash account, interfund balances, supplies and parts inventories for the St. Croix branch, income and expense reports, and balance sheet and income and expense reports for the Section 8 program and (2) the Authority did not perform bank reconciliations in a timely manner or maintain complete accounting records relating to the financial condition and operations. The report also identified reportable conditions and material weaknesses related to internal controls and compliance with laws and regulations applicable to HUD grant funds.

- In November 1999, an independent accounting firm issued the single audit report on the Authority for the fiscal year ended December 31, 1998. The report stated that, in the independent auditors' opinion, the financial statements presented fairly, in all material respects, the financial position of the Authority in conformance with accounting practices, policies, and procedures prescribed by HUD. In addition, the report stated that the Authority had resolved prior findings related to internal controls and compliance and was taking action to resolve new findings related to (1) the reconciliation of financial reports to HUD financial reports, (2) the filing of pertinent documents in employee personnel files, and (3) the accuracy of tenant accounts receivable records.

## **RESULTS OF AUDIT**

The Authority administered the operating subsidy and Section 8 Program grants in accordance with grant terms and applicable laws and regulations. Specifically, charges made against the grant funds generally were reasonable, allowable, and allocable pursuant to grant agreement provisions; procurement actions were made in accordance with the Authority's procurement guidelines; and allotments received through electronic funds transfer were appropriately deposited to the Authority's bank account. However, we found that the administration of the operating subsidy and Section 8 Program grants could be improved by ensuring that (1) purchase orders are canceled after payment to avoid making duplicate payments; (2) amounts received through electronic funds transfers are accurately recorded in the Authority's financial management system and on financial reports; (3) bank accounts are promptly reconciled; (4) overtime charges are properly authorized and adequately supported by source documentation; and (5) grant-related documents such as purchase order logs are accurate, current, and complete. Uniform administrative rules for Federal grants awarded by HUD are established in 24 CFR 85, and the Authority's Personnel Procedural Manual contains the procedures for the approval and documentation of overtime work performed in both emergency and nonemergency circumstances. The Authority, however, did not (1) have adequate controls to avoid paying duplicate invoices submitted by contractors, (2) monitor electronic funds transfers from HUD, (3) have sufficient qualified personnel to timely perform bank reconciliations, (4) adhere to overtime guidelines contained in the Authority's Personnel Procedural Manual, and (5) reconstruct records lost from its financial management system. As a result, a contractor received 14 duplicate payments totaling \$145,307; HUD contributions of \$1.1 million were excluded from the Authority's Statement of Operating Receipts and Expenditures report; three electronic funds transfers totaling \$339,158 were not recorded in the Authority's financial management system; bank overdraft charges totaled \$2,628; unsupported overtime costs totaled \$3,757; and 877 purchase orders for an undeterminable amount were not included in the Authority's purchase

order log. We also found that the Authority made overpayments and underpayments totaling \$125 per month in the computation of the Section 8 rental assistance payments to 6 of 45 participants reviewed.

## **Grant Administration**

According to 24 CFR 85.20(b)(2), "Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities." This section also states, "These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income." Further, 24 CFR 85.20(b)(6) states, "Accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

**Duplicate Payments.** In March 1999, a contractor was awarded a contract for vacant unit rehabilitation<sup>2</sup> on St. Croix. We reviewed 88 payments totaling \$926,000 made to this contractor during fiscal year 1999. On April 29, 1999, the contractor submitted an unnumbered invoice totaling \$5,994 for rehabilitation of a vacant unit at a housing community, which the Authority paid on May 14, 1999 from the operating subsidy grant. On May 11, 1999, the contractor submitted an unnumbered invoice totaling \$5,994 for rehabilitation of the same vacant unit, which the Authority paid on May 28, 1999 from the operating subsidy grant. We found that the Authority did not cancel purchase orders in its financial management system after the related invoices were paid and that the Authority routinely printed duplicate copies of purchase orders from its financial management system to process requests for payment. Therefore, the Authority did not have an internal control mechanism to detect duplicate requests for payment. We also determined that during August and September 1999, the same contractor submitted 13 duplicate unnumbered invoices totaling \$139,313 under the Comprehensive Grant Program (a HUD-funded grant), that were paid by the Authority. In total, we identified 14 duplicate payments totaling \$145,307 to this contractor. In March 2000, we discussed this matter with the Authority's Comptroller, who told us that the Authority's Internal Auditor would conduct a detailed review of payments made to this contractor. In April 2000, the Authority's Executive Director, as a result of a Housing Police investigative review, dismissed several Authority employees who were involved in the duplicate payments and initiated action to recover the duplicate payments.

**Electronic Funds Transfers.** The Authority had one combined savings/checking account for the operating subsidy and two passbook savings and two checking accounts for the Section 8 Program. The Authority did not reconcile the Section 8 Program checking accounts during fiscal year 1998 and did not reconcile the accounts in fiscal year 1999

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<sup>2</sup>Contracts to rehabilitate vacant units were awarded based on a contractor's bid for individual tasks such as the repair or the replacement of windows, doors, walls, and cabinets. Therefore, while per unit dollar amounts were established for individual tasks, a total contract amount was not established.



(through September 30, 1999) until November 1999. Authority officials told us that there was insufficient qualified staff to perform the bank reconciliations on a monthly basis.

Regarding the savings/checking account for the operating subsidy, we found that 66 electronic funds transfers totaling \$39.4 million for the period of January 1998 through September 1999 were appropriately deposited to the savings account but were not always included in the Authority's financial reports submitted to HUD or appropriately recorded in the Authority's financial management system. Specifically, the Authority's Statement of Operating Receipts and Expenditures report for the period ending December 31, 1998, which was submitted to HUD in February 1999, showed HUD contributions totaling \$22.3 million. However, actual HUD contributions for the period ending December 31, 1998 totaled \$23.4 million, or a difference of \$1.1 million. We found that (1) the Authority prepared the Statement of Operating Receipts and Expenditures report on the cash basis of accounting but did not include \$900,000 of HUD contributions received during fiscal year 1998 pertaining to a prior period and (2) the Authority, in February 1998, received an electronic funds transfer totaling \$1.8 million but recorded only \$1.6 million of that amount in its financial management system, or \$200,000 less than the amount received. As a result, the Authority was not aware that the \$200,000 was available for expenditure.

Regarding the passbook savings accounts for the Section 8 Program, 77 electronic funds transfers totaling \$6.4 million were made for the period of January 1998 through September 1999. Of that amount, we reviewed 20 electronic funds transfers totaling \$2.5 million, and found that the funds were appropriately deposited to the passbook savings accounts but were not always recorded in the Authority's financial management system. Specifically, in January and April 1999, the Authority received two electronic funds transfers totaling \$139,158 that were not recorded in the Authority's financial management system. Consequently, the Authority also was not aware that the \$139,158 was available for expenditure.

We found that the Authority did not receive a bank statement for the two passbook savings accounts and did not have the passbooks. Instead, the Authority relied on facsimile copies of transactions provided by the bank. A Section 8 Program employee told us that because of the inadequate reproduction of the transaction lists sent by facsimile, she could not always determine the accurate passbook bank balances to transfer funds from the passbooks to the checking accounts to make payments. As a result, the checking accounts were sometimes overdrawn. During our review of the Section 8 Program bank accounts, we found that the Authority incurred overdraft charges during fiscal years 1998 and 1999 totaling \$2,628 for checking accounts that were overdrawn.

**Overtime Issues.** The Authority's Personnel Procedural Manual states, "Requests for non-emergency overtime shall be made by the immediate supervisor and approved by the department head prior to the performance of the overtime." In addition, the Manual states that "non-emergency overtime not approved in advance shall be considered not authorized." The Authority used an overtime slip to document the request for and the approval of overtime, and time cards processed through a punch clock were used to document employee hours worked. We reviewed payroll records, overtime slips, and time cards for a sample of

25 employees for five pay periods in fiscal year 1998 and five pay periods in fiscal year 1999, for a total of 250 records, of which 28 contained overtime hours. We found that 3 of the 28 records containing overtime hours were processed correctly. For the remaining 25 records, we found 7 instances where employee time cards did not reflect overtime hours worked and overtime slips were not approved prior to the performance of overtime, 6 instances where the time cards reflected that overtime hours were worked but for which overtime slips were not approved prior to the performance of the overtime, 4 instances where employee time cards and overtime slips were not prepared, 4 instances where overtime slips were correctly prepared but for which time cards did not reflect that overtime hours were worked, and 4 instances where overtime slips and employee time cards did not reflect the same number of overtime hours. For these 25 overtime records, we determined that the costs for unsupported overtime totaled \$3,757 during fiscal years 1998 and 1999.

**Purchase Order Logs.** The Authority provided us with the purchase order logs for St. Thomas and St. Croix for fiscal years 1998 and 1999. The purchase order logs listed 6,285 purchase orders totaling \$11.7 million. Based on our review, we determined that 877 additional purchase orders for an undetermined amount were not included in the logs. Because the logs of purchase orders were not complete, there was no assurance that all purchases were properly accounted for. An Authority official told us that purchase orders processed by the financial management system for the period of June 1998 through January 1999 were lost because of computer failures and could not be reprinted. Furthermore, we found that the same purchase order numbers were shown on both the St. Thomas and the St. Croix purchase order logs and that the financial management system did not have a mechanism to distinguish between purchase orders initiated on St. Thomas and St. Croix. In addition, because purchase order numbers were duplicated for St. Thomas and St. Croix transactions, an Authority official told us that when purchase orders were updated, the updated information was not always posted to the correct purchase order. As of March 2000, the Authority was selecting a new accounting software package to correct these issues.

In order to improve the Authority's administration of Federal grants, we believe that the Authority should (1) establish the practice of canceling purchase orders in its financial management system after payment is made and stop printing duplicate copies of purchase orders; (2) promptly reconcile all bank accounts, verify that allotments received through electronic funds transfer are appropriately recorded in the Authority's financial management system and included in financial reports submitted to HUD, and stop using passbook savings accounts for the Section 8 Program by closing out these accounts and establishing statement savings accounts; (3) approve overtime requests and process overtime payments in accordance with its internal policies and procedures; and (4) maintain accurate, current, and complete information on its financial management system regarding purchase orders and establish a separate numbering system for purchase orders initiated on St. Thomas and St. Croix.

## Section 8 Program Assistance Payments

The Authority's Section 8 Program personnel did not always ensure that payments for housing assistance, including utility allowances, were properly determined. The types of income sources to be considered when making assessments as to the amount of assistance payments for participants in the Section 8 Program are specified in 24 CFR 5.609. Also, 24 CFR 887.361(a) contains requirements concerning the computation of housing assistance payments, such as utility allowances. The participants did not always receive the correct amount of housing assistance payments because Section 8 Program personnel did not (1) consider all sources of income when making assistance payment assessments, even though this information was available to them; (2) always compute an allowance for utilities; and (3) use the correct worksheets to determine utility allowances, as required.

**Assistance Payment and Utility Allowance Computations.** In order to determine whether assistance payment assessments and utility allowances were computed correctly, we selected a sample of 45 participants of the Section 8 Program as of September 1999. These 45 participants received monthly housing assistance payments (including utility allowances) totaling \$28,846. Based on our review, we determined that 6 of the 45 participants did receive incorrect housing assistance payments totaling \$125 per month, or \$1,500 per year. The incorrect payments included five underpayments totaling \$94 and one overpayment of \$31.

Regarding assistance payment assessments, we found, for example, that a participant received a monthly housing assistance payment for the rental of a 4-bedroom unit that was \$31 per month more than it should have been. This occurred because the Authority calculated the participant's asset income based on the \$4,000 balance of one savings account but did not consider the \$11,000 balance in a second savings account that the participant had.

Regarding utility allowances, we found, for example, that although a participant's lease agreement for a 2-bedroom unit stated that water charges were not included in the monthly rental, the Authority did not provide the participant with a utility allowance for water. Based on our review, we determined that the participant should have received additional assistance of \$24 per month to pay for water utility bills. In another example, a participant received a utility allowance that was \$22 per month less than it should have been because the Authority erroneously calculated the allowance using a utility worksheet for fiscal year 1994 instead of the worksheet for fiscal year 1998.

In order to assist the Authority's Section 8 Program personnel in determining assistance payment amounts and utility allowances, the Authority should ensure that (1) all sources of income are reviewed when making assistance payment assessments, (2) eligible participants receive utility allowances that are correctly computed, and (3) utility worksheets are updated and correctly used in accordance with 24 CFR 887.361(a).

## **Recommendations**

We recommend that the Executive Director of the Virgin Islands Housing Authority:

1. Ensure that duplicate payments made to a contractor for vacant unit rehabilitation on St. Croix are recovered.
2. Establish the practice of canceling purchase orders when invoices are paid and discontinue the practice of printing duplicate purchase orders as part of the vendor payment process.
3. Promptly reconcile all bank accounts, verify that allotments received through electronic funds transfers are appropriately recorded in the Authority's financial management system and included in financial reports submitted to HUD, and change the passbook savings accounts for the Section 8 Program to a statement savings account.
4. Submit to HUD an amended Statement of Operating Receipts and Expenditures report for the period ending December 31, 1998 to reflect the \$23.4 million in HUD contributions received in fiscal year 1998.
5. Review unsupported overtime and make appropriate adjustments for any overtime that was not worked.
6. Ensure that nonemergency overtime is requested and approved in accordance with the Authority's Personnel Procedural Manual.
7. Update the Authority's purchase order logs to reflect purchase order activity that occurred during the period of June 1998 through January 1999 and establish a separate numbering system for purchase orders initiated on St. Thomas and St. Croix.
8. Require Section 8 Program personnel to include all income sources when making assessments of assistance payment amounts, ensure that participants who are eligible for utility allowances receive the allowances in the correct amount, and use utility allowance computation worksheets that are updated in accordance with 24 CFR 887.361(a).

## **Virgin Islands Housing Authority Response and Office of Inspector General Reply**

In the July 26, 2000 response (Appendix 2) to the draft report from the Executive Director of the Virgin Islands Housing Authority, the Authority expressed concurrence with all of the recommendations. Based on the response, we consider Recommendations 1, 2, 3, 4, 5, 6, and 8 resolved and implemented and Recommendation 7 resolved but not implemented. Accordingly, the unimplemented recommendation will be forwarded to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

Since the report's recommendations are considered resolved, no further response to the Office of Inspector General is required (see Appendix 3).

Section 5(a) of the Inspector General Act (5 U.S.C. app. 3) requires the Office of Inspector General to list this report in its semiannual report to the U.S. Congress. In addition, the Office of Inspector General provides audit reports to the Congress.

Sincerely,

A handwritten signature in black ink, appearing to read "Roger La Rouche". The signature is fluid and cursive, with the first name "Roger" being the most prominent.

Roger La Rouche  
Acting Assistant Inspector General  
for Audits

## CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding</u>	<u>Questioned Costs</u>	<u>Funds To</u>
	Cost	Be Put To
	Exceptions*	Better Use*
	<u>Costs*</u>	
Grant Administration		
Duplicate Payments	\$145,307	
Electronic Funds		\$339,158
Bank Overdraft Charges		2,628
Overtime Charges	<u>                    </u>	<u>                    </u>
		<u>\$3,757</u>
Total	<u>\$145,307</u>	<u>\$341,786</u>
	<u>\$3,757</u>	

\* Amounts represent Federal funds

**Virgin Islands Housing Authority**

Post Office Box 7668  
Charlotte Amalie  
St. Thomas, U.S. Virgin Islands 00801  
Telephone (809) 775-2741  
Office of the Executive Director

July 26, 2000

Mr. Roger La Rouche  
Acting Assistant Inspector General  
for Audits  
United States Department of the Interior  
Office of Inspector General  
Washington, DC 20240


Dear Mr. La Rouche:

Transmitted is Response to Findings on Draft Audit Report on Low Income Housing Program Grants for the Virgin Islands Housing Authority, Assignment No. V-IN-VIS-010-99-M, dated June 12, 2000.

If further information is required, please do not hesitate to let us know.

Thank you for your assistance.

Sincerely,

  
Conrad E. Francois, II  
Executive Director

CEF/cas

Encl.

C: Arnold E. VanBeverhoudt, Jr.  
Manager, Insular Areas Region Audits

**Virgin Islands Housing Authority**  
**Response to Audit Findings**  
**Assignment No. V-IN-VIS-010-99-M (Dated June 12, 2000)**

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The following are in response to the findings as reported on Schedule of Findings.

**Finding #1**

**Recommendation:**

Ensure that duplicate payments made to a contractor for vacant unit rehabilitation on St. Croix are recovered.

**Response:**

The Virgin Islands Housing Authority concurs with the finding and recommendation. On October 12, 1999, the Authority notified the contractor about the duplicate payments and demanded payment in the amount of \$145,307.02. The contractor has agreed to allow the Authority to withhold the overpaid amount from existing payables.

**Finding #2**

**Recommendation:**

Establish the practice of canceling purchase orders when invoices are paid and stop the practice of printing duplicate purchase orders as part of the vendor payment process.

**Response:**

The Authority concurs with the finding and recommendation. The Authority has selected a new accounting software package that will be Purchase Order driven. Installation of the new software will commence within a few months. In the interim, the Authority has discontinued the practice of using a copy of the Purchase Order. Payments to vendors will require Purchase Order with original signatures and new color-coded receiving report document bearing the original signature of the contracting officer, and signed in the appropriate area on the document by the person receiving the goods or services.

**Finding #3**

**Recommendation:**

Promptly reconcile all bank accounts, verify that allotments received through electronic funds transfers are appropriately recorded in the Authority's financial management system and included in financial reports submitted to HUD, and change the passbook savings accounts for the Section 8 Program to a statement savings account.



**Virgin Islands Housing Authority**  
**Response to Audit Findings**  
**Assignment No. V-IN-VIS-010-99-M (Dated June 12, 2000)**

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**Response:**

The Authority concurs with the finding, but offers the following clarification:

1. Regarding the Statement of Revenue and Expenditure submitted to HUD, a revised report reflecting an additional \$900,000.00 related to prior period was submitted to HUD. Additionally in February 1998, subsidy of \$1,800,000.00 was recorded as Comprehensive Grant, and receipt of Comprehensive Grant of \$1,589,372.00 was recorded as subsidy resulting in an understatement of \$211,121.00 of subsidy and an over statement of Comprehensive Grant. These transactions were corrected December 1999 on JV#99-123.
2. Regarding two electronic fund transfers totaling \$139,158.00, representing Section 8 subsidy for the months of January and April 1999, those amounts were incorrectly recorded in cash account #1111.010 rather than the investment account #1162.00. The corrections were made in June and September 1999.
3. Regarding the two passbook saving accounts, the Authority is in the process of converting them to statement saving accounts.

**Finding #4**

**Recommendation:**

Submit to HUD an amended Statement of Operating Receipts and Expenditures report for the period ending December 31, 1998, to reflect the \$23.4 million in HUD contributions received in fiscal year 1998.

**Response:**

The Authority concurs with the finding and recommendation. An amended Statement of Operating Receipts and Expenditures reflecting the correct amount of subsidy received for the period ending December 31, 1998 is presently being prepared for submission to HUD.

**Finding #5**

**Recommendation:**

Review unsupported overtime and make appropriate adjustments for any overtime that was not worked.

**Virgin Islands Housing Authority**  
**Response to Audit Findings**  
**Assignment No. V-IN-VIS-010-99-M (Dated June 12, 2000)**

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**Response:**

The Authority concurs with the finding and recommendation. The Office of the Comptroller is currently reviewing supporting documentation for overtime paid to individuals cited in the audit. Upon completion of the review, appropriate actions will be taken.

**Finding #6****Recommendation:**

Ensure that non-emergency overtime is requested and approved in accordance with the Authority's Personnel Procedural Manual.

**Response:**

The Authority concurs with the finding and recommendation. On July 25, 2000, a memorandum was sent to all department heads informing them of the requirement of the Authority's Personnel Procedural Manual as it pertains to non-emergency overtime work.

The Authority will effectively control overtime payment to employees as stated in the Personnel Procedural Manual. All requests for non-emergency overtime will require approval by the immediate supervisor and approved by the department director prior to the performance of the overtime.

**Finding #7****Recommendation:**

Update the Authority's Purchase Order logs to reflect activity during the period of June 1998 through January 1999 and establish a separate numbering system for Purchase Orders initiated on St. Thomas and St. Croix.

**Response:**

The Authority concurs with the finding, but offers the following clarification:

1. Hard copies of the Purchase Orders, including the Purchase Orders missing from the electronic Purchase Order log are on file in the Authority's Office of Procurement. These Purchase Orders are being used as source documents to complete the log.
2. All missing Purchase Orders are currently being reentered. The electronic Purchase order log will be completely updated by September 30, 2000.

**Virgin Islands Housing Authority**  
**Response to Audit Findings**  
**Assignment No. V-IN-VIS-010-99-M (Dated June 12, 2000)**

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3. The Authority has selected a new accounting software package. Installation of the new software will commence early September 2000 to be completed within a year. The new software will correct all the deficiencies cited in the existing software.

**Finding #8**

**Recommendation:**

Require Section 8 Program personnel to include all income sources when making assessments of eligibility, ensure that participants who are eligible for utility allowances receive the allowances in the accordance with 24 CFR 887.361(a).

**Response:**

Section 8 personnel have reviewed the files and are in the process of recalculating utility allowances.

The Authority will review its files to ensure that all sources of income are reviewed when determining eligibility for continued participation under the Section 8 program, and that accurate utility allowances are computed as appropriate. The Utility Schedules will be updated as required by HUD to ensure that all participants who are eligible for utility allowance receive the allowance in the correct amount.

## STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
1, 2, 3, 4, 5, 6, and 8	Implemented.	No further action is required.
7	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. However, documentation regarding completion of the electronic purchase order log and the installation of the new accounting software should be provided to our office.

**ILLEGAL OR WASTEFUL ACTIVITIES  
SHOULD BE REPORTED TO  
THE OFFICE OF INSPECTOR GENERAL**

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