



U.S. Department of Housing and Urban Development
District Office of the Inspector General
Office of Audit
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Issue Date September 30, 2008

Audit Report Number 2008-AT-0803

MEMORANDUM FOR: Ron Larkin, Acting Director, Office of Public Housing, 4APH

James D. McKay

FROM: James D. McKay, Regional Inspector General for Audit, 4AGA

SUBJECT: Corrective Action Verification
Housing Authority of the City of Cuthbert, Georgia
Public Housing Programs
Audit Report 2004-AT-1001

We completed corrective action verification for audit recommendation 1A as requested by your office. The purpose of the corrective verification was to determine whether the Housing Authority of the City of Cuthbert (Authority) implemented recommendation 1A and expended its funds in accordance with HUD regulations.

Scope and Methodology

Our corrective action verification focused on recommendation 1A from audit report 2004-AT-1001, issued January 15, 2004. We reviewed the audit report and associated supporting documentation, as well as the U.S. Department of Housing and Urban Development (HUD) management decisions and the supporting documentation used by HUD to monitor the recommendation. We interviewed the staff of the Atlanta Office of Public Housing and the Authority. We also reviewed Authority files, general ledgers, cash receipt and disbursement records, journal vouchers, and applicable HUD regulations. Our review of expenditures was limited to determining that the Authority used the funds provided by HUD under its contract with the Authority to fund contract-related projects. Our review covered the period January 1, 2004, through May 31, 2008.

Background

On January 15, 2004, we issued audit report 2004-AT-1001 on the Authority's public housing programs. Finding 1 of the report noted that the Authority advanced \$792,802 of its low-income funds to the Southwest Georgia Housing Development Corporation (Development Corporation) to pay development expenses. As of June 2003, the Development Corporation still owed the Authority \$327,326. These transactions occurred because the executive director served in conflicting roles and the board of commissioners did not establish controls to monitor the nonprofit and ensure transactions complied with Federal regulations. The report included six recommendations. At the request of the Office of Public Housing, we focused our verification on recommendation 1A. We recommended that the Atlanta Office of Public Housing

- 1A. Require the Authority to collect \$327,326 due from the Development Corporation and discontinue advancing funds.

The May 12, 2004, proposed management decision from the Atlanta Office of Public Housing stated that for recommendation 1A,

- A repayment agreement shall be prepared between the two agencies, approved by the board of commissioners, stating the final amount due the Authority. The repayment agreement must state the amount, terms, and conditions. The final amount shall be determined from the single audit for the fiscal year ending December 31, 2003, subject to adjustment by HUD, if applicable. The target date will be July 31, 2004, with a final action date of December 1, 2004. The repayment agreement will be for a three-year period ending December 31, 2006.
- The Authority's board shall adopt a resolution stating that the Authority has discontinued the practice of advancing funds without prior written approval from HUD. The target date will be July 31, 2004, with a final action date of December 1, 2004.

On May 14, 2004, our office concurred with the proposed management decision; however, we changed the final action date for task one to December 31, 2006, to coincide with the three-year repayment plan. On December 20, 2006, our office agreed to an extension of the final action date to December 31, 2008.

Results of Review

The Authority did not comply with its HUD-approved agreement to obtain repayment of \$327,326 advanced to one of its affiliates, the Development Corporation, and did not stop advancing funds until November 2004, although it agreed it would stop by June 2004. The Authority collected sporadic payments from the Development Corporation after the agreement was executed, leaving a current balance of \$224,494. Based on the payment history, the Authority's agreement to have the balance paid off by December 31, 2008, does not appear

feasible. The executive director stated that an assisted living facility was the Development Corporation's main source of funds to pay off its debts, but the facility was only 50 percent occupied. We examined the revenue and expenses of the assisted living facility for the period January 1 to May 31, 2008, and noted that the facility averaged a net loss of \$5,600 per month. Therefore, the Authority cannot pay the \$224,494 as agreed.

In addition to the \$224,494, we verified two other receivables of \$148,305 and \$126,609 advanced by the Authority to the Development Corporation. The first receivable represents the sale to the Development Corporation of three houses that the Authority purchased. The Authority purchased three houses that it planned to renovate and sell as affordable housing. As a result of the prior audit, the Authority realized that it could not operate this type of enterprise and sold the houses to the Development Corporation. The Authority previously sold one of the houses to the Development Corporation, establishing a receivable of \$39,171 at the time of the prior audit. The subsequent sale of the remaining two houses increased the receivable to \$148,305 as of July 2004. Although the Development Corporation received rental income from the houses, it did not use the income to reduce the payable to the Authority.

The second receivable represents advances to the Development Corporation for salaries and payroll taxes of the Development Corporation's assisted living facility, The Willows, during its initial operation. From October 2003 to November 2004, the Authority advanced \$388,479 to the assisted living facility. The Development Corporation reimbursed the Authority \$261,870, leaving a balance owed to the Authority of \$126,609.

The Authority made the advances after the issuance of the audit report informing the Authority that it could not advance funds without prior HUD approval. The Authority advanced \$36,657 after its board of commissioners passed a resolution on June 21, 2004, stating that the Authority would advance no more funds. The Development Corporation has not made any payments to reduce the Willows balance since November 2004.

Also, the Authority paid a law firm \$9,000 to lobby the Georgia state legislature to eliminate barriers to developing affordable housing in rural Georgia. These expenditures violated section C.1 of Office of Management and Budget Circular A-87 since they were not reasonable and necessary for the operation of the Authority. We found the other expenditures and their allocations to be appropriate.

Because the Authority did not implement the agreed-upon actions, we will revise recommendation 1A from our previous audit report 2004-AT-1001 to reflect the current outstanding balance. We recommend your office continue to work with the Authority to collect \$224,494 from the Development Corporation and reimburse its operating fund.

We will open recommendations 1A, 1B, and 1C under this report for the additional advances and improper expenditure as follows:

- 1A. Require the Authority to collect \$274,914 from the Development Corporation and reimburse its operating fund.
- 1B. Apply appropriate sanctions if the Authority does not comply with its payback agreement.
- 1C. Require the Authority to reimburse its operating fund \$9,000 from nonfederal sources.

Auditee's Response

We discussed our results with the Authority and HUD officials during the review. We provided a copy of the draft report to the Authority on September 9, 2008, for its comments and discussed the report with the Authority officials at the exit conference on September 18, 2008. The Authority provided written comments on September 18, 2008. The Authority agreed with the amount of receivables due from the Development Corporation and stated it would work with the HUD office to establish a repayment plan. However, the Authority did not agree that the contract with the legal firm was a lobbying contract. The Authority stated that the contract was a consultant contract and was necessary and reasonable for its operations.

The complete text of the Authority's response and our evaluation of the response are included in the appendix to this report.

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 review.

Appendix

OIG Evaluation of Auditee Comments



WEST GEORGIA CONSORTIUM HOUSING AUTHORITY

P.O. Box 403
Phone: 229-732-2128

968 Blakely Street
Cuthbert, Georgia 39840
Fax: 229-732-2912

September 18, 2008

Mr. James McKay, Regional Inspector General
U. S. Department of Housing and Urban Development
Region 4 Office of the Inspector General
Office of Audit, Box 42
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

Subject: Draft Response to Draft Audit Report

Dear Mr. McKay:

After review of the corrective action verification for audit recommendation conducted by your office, the following comments are provided:

- Items 1A and 1B on the draft OIG report show a balance of \$499,408.96. Our records and audits agree with this amount.
- Although not in the originally intended amounts, SWGHDC has paid a total of \$102,831.45. As the audit recognized, it is financially infeasible for SWGHDC to make payments currently and we will propose another repayment plan.
- The assisted living facility's financial condition has prevented meeting the original repayment plan. Under the circumstances, we requested HUD waive the amount due as not being in the interest of the Authority. However, this was declined. We will work with HUD to develop a repayment plan.
- The Audit states that the Cuthbert PHA failed to stop advances once notified and Board action taken. At the time, we operated multiple PHA's and other programs. Funding for these programs was from HUD, USDA, Georgia DCA and financial institutions; we were using a "fee accountant" for our accounting process and an outside auditor with a small firm. Once the issue was discovered an experienced Chief Financial Officer was hired, and a larger, more experienced Audit firm was put in place. While no excuse is acceptable; we feel that the reason was inadvertent; the fee accountant at the time felt that the funds were previously committed and irreparable harm would be done to the assisted living facility if a change was made. Once discovered, measures were put in place to prevent this from happening in the future.
- Georgia law prohibited the crossing of political boundaries with a bond issue; this renders bonds as unusable in rural Georgia because the issue would be too small. The law was changed by the Georgia House and Senate with no votes against and

Comment 1

Comment 2

Comment 3

signed by the Governor. The effort of putting together a bond issue requires the experienced work of attorneys, bankers and others in the Atlanta area. As the issuer, the Housing Authority feels that they need to have expert advice in the process. Any bond development, while not creating new public housing, does provide affordable Housing Choice Vouchers from the Georgia Department of Community Affairs which can be used at all of the sites and the PHA will realize some non HUD income in the process of issuing GAHRA has a lobbyist, [REDACTED] who helped with the process. [REDACTED] was hired as a consultant and remains as one as we move forward to try to improve the housing opportunities in the poorest, most underserved counties in Georgia, if not the Nation. Over the years, our housing authority has hired consultants for any number of reasons when an expert is needed for an issue that goes beyond our area of expertise. Because of this we consider the expense reasonable and necessary.

Comment 4

- It has been and should continue to be noted that we originally asked HUD for permission to use Capital Funds for development and never got an answer of any kind. That over 80 jobs were created in the poorest corner of Georgia, many of them for our Public Housing residents. That housing and educational opportunities for our elderly and poor has been greatly improved

Comment 5

- We agree, now that we have a HUD response, that utilization of funds for the non-profit should have been avoided. We do not agree with HUD's position that our use did not provide uplift to the residents and did not promote self-sufficiency. The job creation for our residents and the additional educational opportunities are what we should be doing – albeit using a different funding source. The use of the funds never held back the upgrade of our housing units. Regrettably we've never had a representative from the Atlanta HUD office to visit our sites and or see what has actually been done to help our residents

Please let us know should you have any questions concerning our comments.

Sincerely,



Walter Mattox
Executive Director

Auditee Comments and OIG's Evaluation

Refer to OIG Evaluation

- Comment 1 The Authority agreed with the amount owed from the Development Corporation and has agreed to work with HUD in developing a repayment plan. We concur with the Authority's position to develop a repayment plan with HUD.
- Comment 2 We concur with the Authority's position that it hired a Chief Financial Officer and an audit firm, and put measures in place to prevent advances from happening in the future.
- Comment 3 The Authority referred to the contract as a consultant contract, however, the statement of work is to specifically influence legislation on the state level. At our request, HUD's Region IV Office of General Counsel confirmed the contract was a lobbying contract. Regardless, any expense associated with the issuance of bonds would not be an allowable expense because it is not necessary for the operation of the project. Expenses associated with the issuance of bonds are usually paid for from bond proceeds.
- Comment 4 The Authority's request for permission to use capital funds for development activities and the effect on the residents of using operating funds for these activities was not part of our review.
- Comment 5 HUD's position that the Authority's use of funds did not provide uplift to the residents and did not promote self-sufficiency was not part of our review.