



# Cuyahoga Metropolitan Housing Authority, Cleveland, OH

## Public Housing Program



**To:** Marguerite Irby, Acting Director of Public Housing Hub, 5DPH

**From:** //signed//  
Kelly Anderson, Regional Inspector General for Audit, 5AGA

**Subject:** The Cuyahoga Metropolitan Housing Authority, Cleveland, OH, Generally Administered Its Public Housing Program in Accordance With HUD's and Its Own Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Cuyahoga Metropolitan Housing Authority's public housing program.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at (312) 913-8499.



**Audit Report Number: 2018-CH-1004**

**Date: August 28, 2018**

**The Cuyahoga Metropolitan Housing Authority, Cleveland, OH, Generally Administered Its Public Housing Program in Accordance With HUD's and Its Own Requirements**

# Highlights

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## What We Audited and Why

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We audited the Cuyahoga Metropolitan Housing Authority's public housing program based on an anonymous complaint to our hotline. Our objective was specific to the allegations in the complaint and was to determine whether the Authority (1) engaged in nepotism when hiring staff, (2) used program funds for inappropriate or unreasonable travel expenses, (3) failed to comply with the U.S. Department of Housing and Urban Development's (HUD) and its own requirements regarding conflicts of interest, and (4) misappropriated fixed assets.

## What We Found

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The Authority generally administered its program in accordance with HUD's and its own requirements. Specifically, we determined that the complainant's allegations regarding the Authority's (1) use of nepotism when hiring staff, (2) misuse of program funds for travel expenses, (3) noncompliance with HUD's and its own conflict-of-interest requirements when selecting vendors, and (4) misappropriation of fixed assets were unsubstantiated.

## What We Recommend

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This report contains no recommendations.

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# Background and Objective

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The Cleveland Metropolitan Housing Authority was established in 1933 by the State of Ohio Board of Housing. Its name was changed to the Cuyahoga Metropolitan Housing Authority in 1971. The Authority is governed by a five-member board of commissioners appointed in accordance with division C of section 3735.27 of the Ohio Revised Code. The Authority's mission is to create safe, quality, affordable housing opportunities and improve the quality of life for the communities it serves.

The public housing program was established to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. The Quality Housing and Work Responsibility Act of 1998 established the Public Housing Capital Fund and Public Housing Operating Fund programs under sections 9(d) and 9(e) of the United States Housing Act of 1937, respectively. Annually, the U.S. Department of Housing and Urban Development (HUD) allocates capital funds to public housing agencies to provide assistance for capital and management activities, including the development, financing, and modernization of public housing; addressing deferred maintenance needs; and management improvements. The Operating Fund program provides assistance to public housing agencies for the operation and management of public housing, including procedures and systems to maintain and ensure efficient management, routine preventive maintenance, energy costs associated with public housing, and the costs of repaying debt incurred to finance the rehabilitation and development of public housing units.

We received an anonymous hotline complaint and conducted an audit to determine whether there was sufficient information to substantiate the complaint. The complainant alleged that the Authority engaged in nepotism, misused HUD program funds for travel expenses, had conflicts of interest between the Authority's staff and its vendors, and misappropriated its fixed assets.

Our objective was specific to the allegations in the complaint and was to determine whether the Authority (1) engaged in nepotism when hiring staff, (2) used the program funds for inappropriate or unreasonable travel expenses, (3) failed to comply with HUD's and its own requirements for conflicts of interest, and (4) misappropriated fixed assets.

# Results of Audit

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## **Finding: The Authority Generally Administered Its Program in Accordance With HUD's and Its Own Requirements**

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The Authority generally administered its program in accordance with HUD's and its own requirements. Specifically, we determined that the complainant's allegations regarding the Authority's (1) use of nepotism when hiring staff, (2) misuse of program funds for travel expenses, (3) noncompliance with HUD's and its own conflict-of-interest requirements when selecting vendors, and (4) misappropriation of fixed assets were unsubstantiated.

### **The Authority Did Not Engage in Nepotism**

We identified six potential conflict-of-interest relationships with the Authority's executive and management staff and board of commissioners. However, we determined that the potential conflicts of interest were properly disclosed in accordance with the Authority's conflict-of-interest requirements.

### **Program Funds Were Used for Reasonable Travel Expenses**

We reviewed travel expenses incurred by the Authority's chief executive officer, board members, executive, and management staff for the period January 1, 2016, through November 30, 2017. The Authority provided agendas for the trainings and conferences attended by its board members and executive and management staff, along with receipts for the related travel expenses. Based on our review of the information, we determined that the travel destinations and related expenses, paid using program funds, appeared reasonable.<sup>1</sup>

### **The Authority Did Not Have Apparent Conflicts of Interest With Its Vendors**

We obtained a list of vendors, which the Authority awarded contracts for goods or services in 2016 and 2017 and a list of companies included in the Authority's internal audit reports that obtained assets the Authority disposed of through auction, to identify potential conflict-of-interest relationships with its management and staff. We determined that the Authority did not purchase or enter into purchase agreements with vendors with which the Authority's management or staff had apparent conflicts of interest.

### **The Authority Appropriately Accounted for Its Fixed Assets**

We selected 20 of the Authority's 376 fixed assets<sup>2</sup> to review how the Authority tracked its assets and to conduct a physical observation. Of the 20 fixed assets, we were able to verify the existence of 11. For the remaining nine, the Authority provided documentation showing that (1)

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<sup>1</sup> Federal regulations at 2 CFR (Code of Federal Regulations) 200.403 state: "Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards: (a) be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles and (g) be adequately documented."

<sup>2</sup> See the Scope and Methodology section.

one of its fixed assets was offsite for repairs and (2) eight fixed assets had been disposed of and its tracking system had been updated to reflect the changes. Therefore, the Authority was able to account for the 20 assets.

### **Conclusion**

The Authority generally administered its program in accordance with HUD's and its own requirements. Specifically, we determined that the complainant's allegations regarding the Authority's (1) use of nepotism when hiring staff, (2) misuse of program funds for travel expenses, (3) noncompliance with HUD's and its own conflict-of-interest requirements when selecting vendors, and (4) misappropriation of fixed assets were unsubstantiated.

### **Recommendations**

The report contains no recommendations.

# Scope and Methodology

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We performed our onsite work between January and April 2018 at the Authority's office located at 8120 Kinsman Road, Cleveland, OH, and our offices in Columbus, OH, and Chicago, IL. Our review covered the period January 1, 2016, through November 30, 2017.

To accomplish our objective, we interviewed HUD program staff and the Authority's employees. In addition, we obtained and reviewed the following:

- Applicable laws; the Federal Register; Federal regulations at 2 CFR (Code of Federal Regulations) Part 200; HUD's regulations at 24 CFR Parts 905 and 990; HUD Handbook 7460.8, REV-2; the Capital Fund Guidebook; the Ohio Revised Code; and the 2017 Ohio Sunshine Laws manual.
- The Authority's accounting records, annual audited financial statements, internal audit department reports, bank statements, contract and procurement files, policies and procedures, board meeting minutes, program annual contributions contract and amendments with HUD, credit card statements and supporting invoices, training and meeting agendas, travel expense reports, payroll reports, lists of employees, conflict-of-interest disclosure forms, 5-year and annual plans, budgets, and lists of fixed assets.
- HUD's files for the Authority.

We reviewed the agendas for trainings and conferences attended by the Authority's board members and executive and management staff. We also reviewed all 476 travel expense transactions for the period January 1, 2016, through November 30, 2017. The expenses were reviewed to determine whether they were supportable and reasonable. In addition, we reviewed the destinations for the incurred travel to ensure that they were also reasonable. The total purchases represent 100 percent of the purchase transactions that occurred during the period; therefore, no projection to the universe was warranted.

We used Lexis Nexis® Accurint®<sup>3</sup> to search for possible relatives of the Authority's 65 commissioners and executive and management staff. We compared the possible relatives identified in the Accurint reports to a list of the Authority's employees and associated payroll reports to determine whether there were any potential conflicts of interest. We also reviewed the Authority's conflict-of-interest disclosure forms for staff members who had been identified as possible relatives of the Authority's board and executive and management staff.

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<sup>3</sup> LexisNexis® Accurint® for Government enables government agencies to locate people, detect fraud, uncover assets, verify identity, perform due diligence, and visualize complex relationships. It helps enforce laws and regulations; fight fraud, waste, and abuse; and provide essential citizen services.

We used Lexis Nexis® Accurint® and searched the Ohio Secretary of State's business search website to obtain information on possible owners and people associated with vendors that do business with the Authority. Due to the volume of vendors that do business with the Authority, we limited our searches to the 115 vendors included in the Authority's construction and purchasing contract logs for 2016 and 2017 and companies included in the Authority's internal audit reports for the disposition of assets through auction. We compared the information obtained to names of the Authority's staff to determine whether there were any potential conflicts of interest.

As of February 23, 2018, the Authority maintained a list of 29,043 fixed assets with acquisition costs totaling more than \$755 million. We focused our review on fixed assets that were readily accessible to the Authority employees. After excluding appliances, buildings, and land, 376 fixed assets with acquisition costs totaling more than \$8.2 million remained. We selected a nonrepresentative sample of 20 of the 376 fixed assets with acquisition costs totaling \$162,371 to observe. We used a nonrepresentative sample because we knew enough about the population to identify a relatively small number of items of interest, usually because they were likely to be misstated or otherwise have a high risk; therefore, the results of our review only pertain to the items we tested and were not projected to the universe. Of the 20 fixed assets, 10 were identified as belonging to the Authority's property maintenance department with acquisition costs totaling \$55,089, and the other 10 were identified as belonging to two asset management projects with acquisition costs totaling \$107,281. On March 1, 2018, we visited the Authority's property maintenance department and the two asset management projects to verify that the unique asset tag number on the list for the fixed asset matched the actual fixed asset.

We relied in part on data maintained by the Authority in its accounting system. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes.

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

# Internal Controls

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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:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations – Policies and procedures that management has implemented to provide reasonable assurance that resource use is consistent with laws and regulations.

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.

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

# Appendixes

## Appendix A


### Auditee Comments and OIG's Evaluation

#### Ref to OIG Evaluation

#### Auditee Comments

#### Comment 1

EXECUTIVE OFFICE

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August 14, 2018

[REDACTED]

[REDACTED]

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Office of Inspector General  
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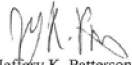
**RE: Comment to the Draft Audit Report**  
**Audit Report No.: 2018-CH-100X**

Dear [REDACTED]

As we discussed, we request one change to the Draft Audit Report for purposes of clarity. The Auditee, the Cuyahoga Metropolitan Housing Authority, requests that the second sentence under the heading "The Authority Did Not Engage in Nepotism" on Page 4 of the Draft Audit Report be revised to read:

However, we determined that the potential conflicts of interest were properly disclosed in accordance with the Authority's conflict-of-interest requirements. Apart from this change, the Authority has no other comment to the Audit Report. Thank you for your kind attention to this matter and for your professionalism and courtesy throughout this process.

Sincerely yours,

  
Jeffery K. Patterson  
Chief Executive Officer

cc: [REDACTED]

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Jeffery K. Patterson, Chief Executive Officer, Cuyahoga Metropolitan Housing Authority

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## **OIG Evaluation of Auditee Comments**

Comment 1 The Authority requested that we include the word “potential” to the second sentence of the paragraph under the heading “The Authority Did Not Engage in Nepotism.” We considered the Authority’s request and updated the report to reflect this change.