



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

June 21, 2013

MEMORANDUM NO:
2013-FW-1802

Memorandum

TO: Gregory J. Jungman
Program Center Coordinator, Office of Public Housing, 6IPH

//signed//

FROM: Gerald Kirkland
Regional Inspector General, 6AGA

SUBJECT: The Idabel Housing Authority, Idabel, OK, Did Not Comply With HUD Requirements

INTRODUCTION

In accordance with our regional plan to review public housing programs and because of weaknesses identified by the U.S. Department of Housing and Urban Development (HUD), we reviewed the Housing Authority of the City of Idabel, OK. Our objectives were to determine whether the Authority's investment in and operation of non-public-housing units complied with HUD requirements and whether those activities adversely impacted the management of its public housing programs.

METHODOLOGY AND SCOPE

We performed the review at our offices in Fort Worth, TX, and Oklahoma City, OK, and at the Authority's offices in Idabel, OK, from January through April 2013. The review period included January 1, 2009, through December 31, 2012. We expanded the scope as necessary to accomplish our objectives.

To accomplish our objectives, we performed the following related to the Authority's programs:

- Reviewed and obtained an understanding of
 - Relevant laws and program regulations and
 - The Authority's policies and procedures.

- Reviewed and analyzed
 - The Authority's audited financial statements for its fiscal years ending June 30, 2009, through June 30, 2011;
 - Prior HUD monitoring reviews;
 - The Authority's 5-year and annual plan for its fiscal year beginning July 2010;
 - The Authority's annual plan and operating budget for its fiscal year beginning July 2012; and
 - The Authority's administrative and financial operations activities.
- Interviewed the Authority's management and staff and HUD staff to obtain an understanding of the Authority's background, grants, and operations.
- Reviewed applicable Authority board minutes.
- Analyzed the Authority's compliance with its annual contributions contract with HUD related to spending HUD funds, maintaining public housing property, and safeguarding cash.
- Assessed the reliability and validity of the data in the Authority's accounting system as it related to our objectives. Based on our testing, we determined that the information was sufficiently reliable to support our objectives.
- Selected a nonstatistical sample of 19 expenditures that totaled \$467,676, which was 11 percent of the \$4 million total amount expended during the review period. The sample items included high-dollar amounts as we considered those amounts as high risk. We did not project the results to the population.
- Estimated the payroll costs that the Authority failed to charge to its nonprofit instrumentality, Community Frameworks, Inc., during the period January 1, 2009, through December 31, 2012.
- Conducted a site visit of each of the Authority's five public housing developments and visited a sample of its public housing units. The Authority's contractor inspected all of the public housing units in July 2012 and reported the results to the Authority. We selected a nonstatistical sample of 6 of the 200 units from 3 of the 5 public housing developments. We used the Authority contractor's inspection report and selected units that indicated serious deficiencies and issues related to structural damage, pest infestations, safety, and sanitation concerns. For each of the five Authority developments, we toured the property grounds to note the exterior conditions and obtained comments from Authority staff about problems and property upgrades needed to ensure decent, safe, and sanitary conditions.
- Conducted a site visit of the Authority's non-public-housing units. We selected a nonstatistical sample of 3 of the 50 units (1 occupied unit and 2 vacant units).

BACKGROUND

The Authority incorporated under the laws of the State of Oklahoma on September 2, 1965. The Authority operates under the governance of a five-member board of commissioners. The board oversees the executive director, who manages the Authority's day-to-day operations. The Authority owns and manages 200 low-rent public housing units. HUD provided operating subsidies and capital funds to the Authority for it to manage, maintain, operate, and improve its public housing developments. Table 1 summarizes the operating and capital funds that HUD provided the Authority from 2009 through 2012.

Table 1: Idabel Housing Authority grant awards

Fiscal year¹	Operating funds	Capital funds
2009	\$492,575	\$283,121
2010	522,259	281,058
2011	527,839	239,760
2012	520,554	212,181

The Authority created a nonprofit instrumentality, Community Frameworks, Inc., to provide affordable home financing for low- to moderate-income individuals. Community Frameworks purchased and managed Sunnybrook Apartments, a 50-unit complex that had no public housing units. The Authority and Community Frameworks have the same board members, executive director, and administrative and maintenance staff.

RESULTS OF REVIEW

In violation of its contract with HUD, in April 2003, the Authority, through Community Frameworks, purchased Sunnybrook without HUD approval.² The Authority inappropriately used more than \$180,000 in HUD funds to subsidize Sunnybrook's operations. The purchase, management, and unsupported use of HUD funds negatively impacted the quality of the Authority's public housing units. Further, the units at Sunnybrook were not well maintained. Also in violation of requirements,³ the Authority's funds on deposit exceeded the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Share Insurance Fund maximum insurable amount. After we notified HUD officials of the deficiency, the Authority took necessary action to ensure that its deposited funds were protected. These conditions occurred because Authority officials chose to ignore the requirements of the contract and did not have the controls that it needed to operate its public housing programs in accordance with HUD requirements. As a result, the Authority did not protect HUD's interest; spent more than \$180,000 on unsupported costs; and did not maintain its public housing units in a decent, safe, and sanitary condition.

¹ The Authority's fiscal year is from July 1 through June 30.

² Although Community Frameworks is the owner of record of Sunnybrook, it is an instrumentality of the Authority; therefore, we use the Authority as the owner of Sunnybrook throughout the remainder of the report for ease of understanding.

³ Office of Public and Indian Housing (PIH) Notice PIH 96-33 (HA), issued June 4, 1996

We recommend that HUD require the Authority to dissolve itself from its non-public-housing units and repay its public housing program \$180,379, which it spent on unsupported activities. Additionally, HUD should provide technical assistance to the Authority on compliance with its contract, including proper allocation of costs and maintenance of its public housing units.

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 Authority Used HUD Funds for Sunnybrook Expenses

From January 1, 2009, through December 31, 2012, the Authority inappropriately used more than \$180,000 of its public housing funds for Sunnybrook expenses. Because of a variety of reasons, including a low occupancy rate, Sunnybrook did not earn sufficient rental income to consistently make its mortgage payments and maintain the property. Thus, the Authority used its public housing funds to pay Sunnybrook expenses and did not allocate operating costs, such as salary expenses of Authority employees, to Sunnybrook. HUD required the Authority to use the public housing funds only for public housing units that were under its contract with HUD⁴ and allocate its costs to its various operations.⁵ In addition, part A, section 11, of the contract required the Authority to spend its operating funds only for costs that were included on a HUD-approved operating budget. Sunnybrook had no public housing units included under the Authority's contract, and the Authority's HUD-approved budget did not include Sunnybrook costs.

Sunnybrook had no employees; thus, the Authority managed the property using its staff. However, from the time that the Authority purchased Sunnybrook in April 2003 until August 2012, it did not allocate administrative and maintenance salaries to Sunnybrook. The Authority also did not allocate office and maintenance supplies or audit or other operating costs between its public housing units and Sunnybrook. Rather, it charged all of these costs to its public housing programs. Further, the Authority did not have a management agreement with Sunnybrook. In July 2012, in response to the fiscal year 2008⁶ through 2011 audit findings, the Authority's fee accountant prepared a questionable payroll cost allocation plan based on incomplete payroll information. The plan was questionable because the fee accountant used incomplete time sheets, work order summaries, and spreadsheets prepared by staff instead of the payroll records required by Federal regulations.⁷ The Authority did not begin charging payroll to Community Frameworks until August 2012. Further, the new payroll cost allocation plan was not approved by HUD as required. As of February 5, 2013, the Authority was allocating only salary costs to Sunnybrook. Therefore, the Authority should implement appropriate policies and procedures for its operations to follow requirements and allocate all costs appropriately, to include preparing a payroll cost allocation plan based on complete payroll records.

⁴ 24 CFR (Code of Federal Regulations) 990.125

⁵ 2 CFR 225, appendix B, section 26c

⁶ The fiscal year 2009 audited financial statements reported that this was a prior-year finding from 2008.

⁷ 2 CFR 225, appendix B, section 8h

Using an allocation based on occupancy,⁸ we estimated that the Authority should have allocated \$130,976⁹ of its salary costs to Sunnybrook for January 2009 through December 2012. The Authority's records showed that it allocated \$3,304 in salaries from August to December 2012 to Sunnybrook, which was shown as a receivable from Sunnybrook. In addition to the \$127,672 that the Authority failed to allocate to Sunnybrook,¹⁰ the Authority's December 31, 2012, general ledger showed that Sunnybrook owed the Authority \$52,707. Therefore, the Authority inappropriately used at least \$180,379 in public housing funds for Sunnybrook expenses.¹¹ The Authority should support or repay the \$180,379 to its public housing program. Repayment should be from non-Federal funds.

The Quality of the Authority's Public Housing Properties Deteriorated Significantly Following the Purchase of Sunnybrook

The Authority failed to maintain and operate its public housing properties in a decent, safe, and sanitary manner after purchasing Sunnybrook. The purchase and management of Sunnybrook and unsupported use of HUD funds for Sunnybrook operations negatively impacted the quality of the Authority's public housing units. Shortly before the Authority purchased Sunnybrook, physical inspections rated its public housing properties as excellent. Following the Sunnybrook purchase in April 2003, the condition of the public housing properties deteriorated significantly. The following chart shows the inspection scores of the properties before and after the Authority purchased Sunnybrook.¹²

⁸ To be conservative, we used the actual occupancy of Sunnybrook and full occupancy of the Authority's public housing units.

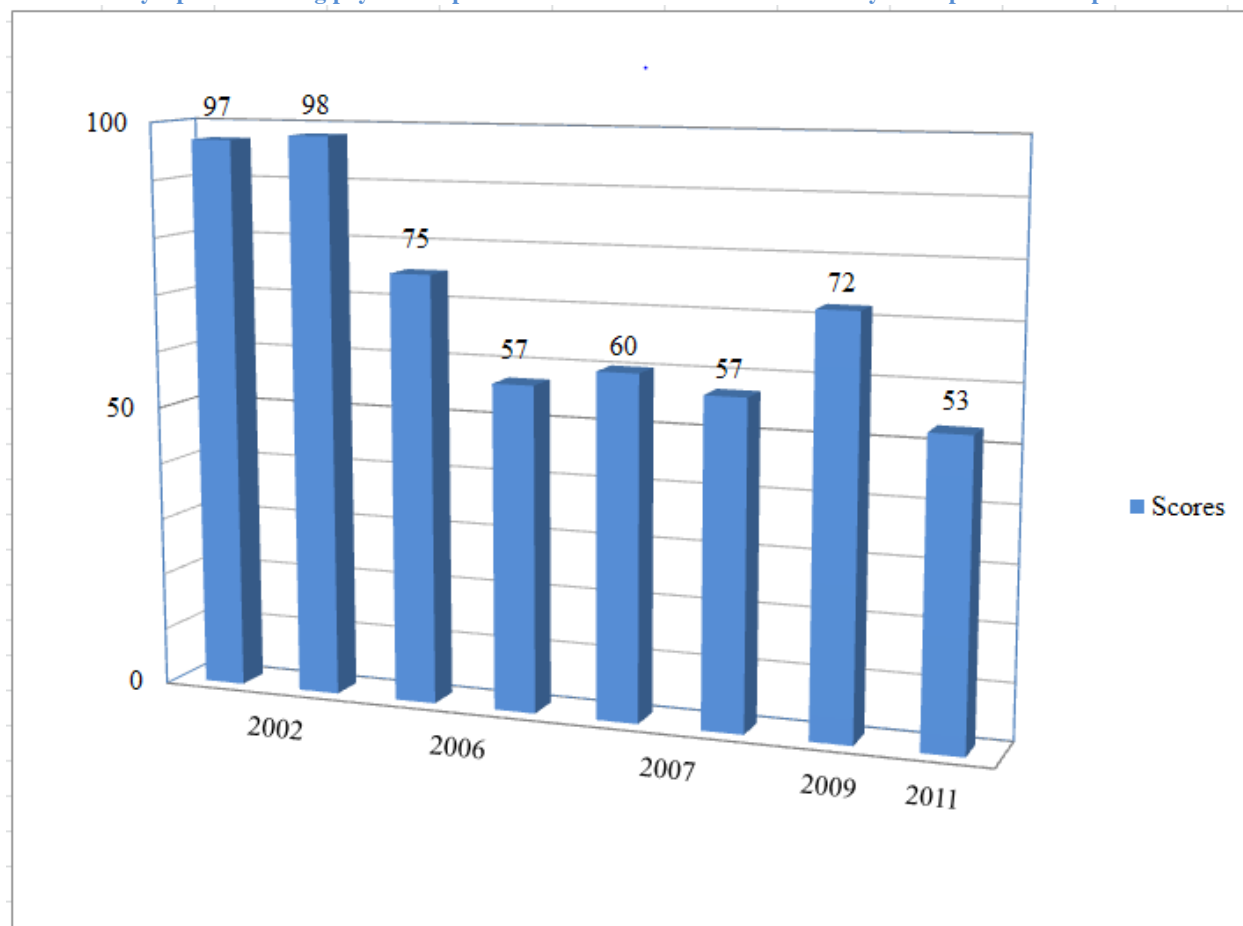
⁹ Calculated by dividing the average 26 Sunnybrook occupied units by 226 total units and multiplying by \$1,138,482 in total payroll costs for the review period

¹⁰ The \$127,672 is the difference between the \$130,976 total salaries and the \$3,304 allocated amount.

¹¹ Any regulations that may have exempted the Authority from these requirements did not apply because the Authority did not keep its public housing units in a safe, clean, and healthy condition as required.

¹² There were two inspection reports for calendar years 2002, 2006, and 2007; each report showed the results for about half of the units. There were no inspection reports for calendar years 2003, 2004, 2005, 2008, and 2010.

The Authority's public housing physical inspection results before and after the Sunnybrook purchase in April 2003



HUD's latest physical inspection on August 30, 2011, rated the Authority's public housing properties as poor. Of the 24 inspected occupied units, 8 (33 percent) had life-threatening issues. The following describes some of the deficiencies found at occupied units:

1. Safety violations inside the properties, including missing and inoperable smoke detectors, exposed electrical wires, mold and mildew, ventilation issues, lack of emergency exits, roach infestations, and broken windows;
2. Structural and building damage, including damaged entry doors, holes in exterior walls, and missing building siding; and
3. Inoperable or damaged appliances, such as stove range burners and a kitchen exhaust fan.

At least four of the five inspected properties had health or safety deficiencies.

Our site visits to the public housing properties confirmed that four of five developments had drainage or sewer issues, three needed sidewalk or road repairs, and one had sodding issues. The pictures in figures 1 through 4 show some of the conditions at the Authority's public housing developments. As of December 31, 2012, the Authority had approximately \$885,000 on deposit with financial institutions. Since the Authority used its HUD-funded resources to fund Sunnybrook, it did not have those resources available to manage or repair its public housing

properties as required by its contract. The Authority should seek technical assistance from HUD on ways to improve the condition of its properties.



Figure 1: Missing smoke detector -- recently vacated unit



Figure 2: Insect infestation -- recently vacated unit



Figure 3: Damaged front door – occupied unit



Figure 4: Damaged tile floor – vacant unit

Sunnybrook Was Not Well Maintained

The Authority may need significant non-Federal funds to upgrade and make repairs to Sunnybrook. In February 2013, after using HUD funds for minor repairs, Sunnybrook did not have the funds to make most major repairs. It had received more than \$61,000 in insurance proceeds to fix the roofs in September 2011. However, the Authority had not used the funds to repair the roofs, which were substandard. The property also showed evidence of vandalism. Further, there were safety issues that caused concerns including cracked sidewalks and unsound railing on the second floor of an apartment building. In addition, there was a missing safety railing on a sidewalk that had an approximate 4-foot drop to the parking lot (see figure 6). Figures 5 through 8 show some safety and other poor unit conditions at Sunnybrook.



Figure 5: Unsafe second floor railing



Figure 6: Missing safety railing



Figure 7: Roof damage

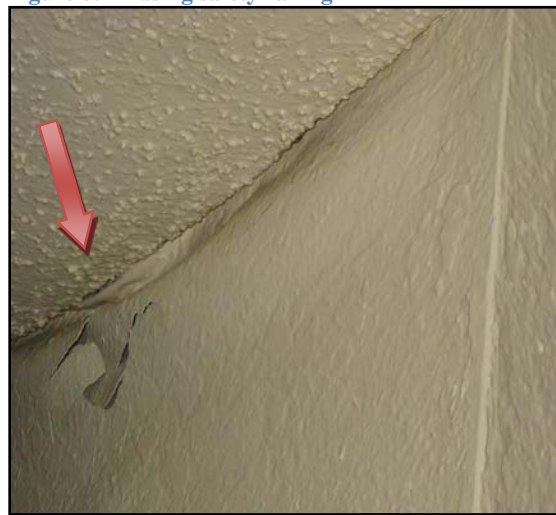


Figure 8: Buckling ceiling

The Authority did not have adequate controls in place to manage its public housing programs and Sunnybrook. We recommend that HUD require the Authority to dissolve itself from its non-public-housing units and repay its public housing program the more than \$180,000 that it spent on unsupported activities. If the Authority does not dissolve itself from its non-public-housing units, it should implement the necessary controls to ensure adequate separation and allocation of its resources to comply with HUD requirements. Further, it should develop a plan to improve the living conditions and increase occupancy.¹³

The Authority Took Action to Insure Its Deposits

The Authority had funds in its checking account that exceeded the maximum insurable amount of either FDIC or the National Credit Union Share Insurance Fund. This condition occurred because the Authority did not have policies and procedures in place to ensure that it secured its

¹³ Since these are not public housing units, we did not include this as a controlled recommendation. However, due to the instrumentality relationship, the condition of the units could reflect poorly on the Authority, especially since the Authority managed the property.

funds. The contract required the Authority to enter into general depository agreements with its banks and follow those agreements. The agreements protected both HUD and the Authority.

Because of the transaction account guarantee program and the Dodd-Frank deposit insurance provision, all of the funds in the Authority's non-interest-bearing transaction accounts were insured through December 31, 2012.¹⁴ After that date, FDIC insured funds that were equal to or less than \$250,000 as required by 12 CFR 330. As of December 31, 2012, the Authority had \$885,465 in its checking account, \$250,000 of which was insured on January 1, 2013. However, the Authority did not protect HUD's or its interests for the remaining balance of \$635,465, which was not insured after December 31, 2012. After we notified HUD officials of the uninsured funds in April 2013, they made sure that the Authority took the necessary actions to protect these funds and comply with requirements.

The Authority violated its annual contributions contract when it purchased Sunnybrook and inappropriately used HUD funds to subsidize the property. Since the purchase of Sunnybrook, the condition of the Authority's public housing units deteriorated significantly. The Authority placed its HUD funds at risk because it used its resources for Sunnybrook instead of its public housing properties. Further, after December 31, 2012, the Authority's cash deposits exceeded the maximum insurable amount by \$635,465.

RECOMMENDATIONS

We recommend that the program center coordinator, Office of Public Housing, Oklahoma City, OK,

- 1A. Perform inspections of all of the Authority's public housing units and ensure that the Authority makes all needed repairs, particularly those that are emergency health and safety violations.
- 1B. Provide technical assistance to the Authority on compliance with its annual contributions contract, to include proper allocation of costs and maintenance of its public housing units.

We also recommend that the program center coordinator require the Authority to

- 1C. Dissolve itself from its instrumentality and non-public-housing units or implement the necessary controls to separate and allocate resources between its public housing programs and Sunnybrook.
- 1D. Support or repay its public housing programs \$180,379 for HUD funds inappropriately used for Sunnybrook. Repayment should be from non-Federal funds.

¹⁴ Source: FDIC Web site at <http://www.fdic.gov>: Implementation of the Dodd-Frank Deposit Insurance Provision

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported 1/
1D.	\$180,379

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

*Idabel Housing Authority
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Idabel, OK 74745
580/286-9444
580/208-2136 fax*

Gerald Kirkland
U.S. Dept. of Housing and Urban Development
Office of Inspector General
809 Taylor Street, Suite 13A09
Fort Worth, TX 76102

Dear Gerald:

It was a pleasure visiting with you by telephone conference along with [REDACTED] and Greg Jungman.

When we purchased Sunnybrook Apartments the Director of the Hugo Housing Authority came and met with the Board of Commissioners and myself. He had previously started a non-profit, purchased apartments in Hugo and helped us through the process. We were confident that with his expertise he was giving us the guidance we needed.

We have always utilized Inmate Labor and Community Service people as much as possible to off set the cost for labor on make ready units and kept our material cost separate. We now have an allocation cost plan that was prepared by our fee accountant and is also being approved by our HUD field office.

We have always performed annual inspections on our housing authority units. We did the inspections in house until 2012 and they are now being contracted out. We are continuously trying to improve our scores. According to the U.S.I.G. National Average Property Scores since 1999. The Average scores by property size shows our Housing Authority score compares to other properties of similar size. I would also like to add we had HUD officials that came to inspect our properties after we was scored substandard and said the inspection did not show a true picture of our properties. Over the years they have changed the process and regulations many times. There were several years that HUD/ or their contractors did not do our inspections. We now have inspections through REAC every other year.

Some of the Housing Authority issues reported for site repairs are under warranty work with our last CFP Contractor and are being addressed. We have also had roofs repaired at Sunnybrook from hail damage and was paid for by insurance proceeds.

The Housing Authority is in the process of trying to sell Sunnybrook Apartments. They have been placed on the market and we will continue this avenue to sell the

Comment 1

Comment 2

Comment 3

Comment 4

Comment 1

Comment 5

Comment 1
Comment 3

apartments and pay the funds back to the Housing Authority as advised. We will continue to work closely with our local HUD office to make sure all guidelines and regulations are being met.

We feel the amount calculated that Community Frameworks owes the Housing Authority did not take into consideration the work provided by the inmates and the community service people that worked in empty apartments getting them ready to rent. We have had a contract with Department of Corrections since 1997. We have always had three to five inmates working for us. Until 2010 the inmates could be dropped off at an apartment and left by their selves. The inmates are picked up at 8:00 am and are dropped off at 5:00 p.m. They did most of our Make Ready units at Sunnybrook until that time. It would be greatly appreciated if you would take that into consideration and reduce the amount owed.

If any additional information is needed please let me know.

Sincerely,

[\\signed\\](#).

Dana Baird
Executive Director

OIG Evaluation of Auditee Comments

- Comment 1** The Authority did not provide documentation to support its assertion.
- Comment 2** The Authority maintained that it kept the material costs separate. However, its audit reports stated that the Authority used HUD funds for the maintenance materials and other indirect costs of Sunnybrook.
- Comment 3** We appreciate that the Authority is working towards getting its cost allocation plan approved by the HUD field office. The Authority must make sure that it complies with HUD regulations for using HUD funds only for HUD-approved properties, and it properly allocates the costs of all resources used for its non-public housing properties to those properties.
- Comment 4** We acknowledge the Authority's willingness to strive to improve its housing inspection scores. The Authority stated it contracted for annual housing inspections for all its units. Based on our site visits approximately 7 months after the most recent annual inspections, it did not appear that the Authority made all the needed repairs, particularly those that were emergency health and safety violations, in a timely manner.
- Comment 5** The Authority stated that it spent insurance proceeds received due to hail damage to repair roofs at Sunnybrook. However, it did not provide documentation to support its statements. Further, based on a site visit, the Sunnybrook property had visible roof damage at the time of review, which was 17 months following receipt of insurance proceeds (see figure 7).