



Pineville Housing Authority, Pineville, MO

Public Housing Program

**Office of Audit, Region 7
Kansas City, MO**

**Audit Report Number: 2015-KC-1009
September 30, 2015**



To: Frances Cleary, Director, Office of Public Housing, 7APH
From: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA
Subject: //signed//
The Pineville Housing Authority Mismanaged Its Public Housing Program

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 Pineville 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 Web site. 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 913-551-5870.



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Highlights

What We Audited and Why

We audited the Pineville Housing Authority based on issues with the Authority's practices identified during our internal review of the U.S. Department of Housing and Urban Development's (HUD) administration of the community service and self-sufficiency requirement (report number 2015-KC-0001). Our audit objective was to determine whether the Authority operated its public housing program in accordance with HUD requirements.

What We Found

The Authority did not operate its public housing program in accordance with HUD requirements. Specifically, it did not properly procure \$38,626 in goods and services, used \$1,233 of public housing funds for ineligible expenses, could not support that it used \$31,147 on allowable expenses, did not properly admit or recertify tenants, did not properly account for and report the fringe benefits it provided to employees, and did not maintain auditable books and records.

What We Recommend

We recommend that HUD's Kansas City Office of Public Housing require the Authority to provide adequate documentation to support that the \$38,626 spent for improperly procured goods and services was spent at the most competitive prices, repay its program \$1,233 for ineligible expenses, provide adequate support that it spent \$31,147 on allowable expenses, conduct a 100 percent review of its tenant files for compliance with requirements, implement appropriate inventory and records management systems, and account for and report all taxable income of its employees to the Internal Revenue Service. We also recommend that HUD determine whether the Authority is capable of properly implementing HUD requirements and consider remedies to address the default of its annual contributions contract.

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Background and Objectives

The Pineville Housing Authority is located in Pineville, MO, a rural town in southwest Missouri. The Authority is governed by a five-member board of commissioners appointed by the mayor of Pineville. The board of commissioners employs the executive director, who manages Authority operations, and two employees, a maintenance man and an administrative assistant. The Authority also employed several part-time maintenance assistants during our review period, but none were employed at the time of our review.

The executive director also manages the Anderson and Lanagan Housing Authorities. All three housing authorities shared the same staff, used the same credit cards, operated under identical policies and procedures, and used the same waiting list to select applicants for housing. Since all three authorities shared staff, policies, a waiting list, and many of the same financials, we conducted audits of the Anderson (see report 2015-KC-1010) and Lanagan (see report 2015-KC-1011) Housing Authorities concurrently with this assignment. The Authority's administration building and records are located at 500 Tatum Street, Anderson, MO.



The Authority has two individual programs: a low-rent public housing program and a Public Housing Capital Fund program. The low-rent program consists of 30 dwelling units. Funding is provided based on dwelling rents paid by the tenants and Public Housing Operating Fund payments received from the U.S. Department of Housing and Urban Development (HUD). Under the Capital Fund program, HUD provides funding for the modernization and improvement of the low-rent program. These resources allow the Authority to provide capital improvements for the dwelling structures and assist in their operations.

Pineville Housing Authority funding

	2013	2014
Operating subsidies	\$54,941	\$61,140
Capital Fund program	\$30,162	\$30,662
Totals	\$85,103	\$91,802

HUD regulations allow full flexibility for small public housing agencies. Public housing agencies that operate less than 250 units and are not designated as troubled and operate and maintain their public housing in a safe, clean, and healthy condition may use any amounts for eligible activities, regardless of whether the funding was provided from Operating Fund or Capital Fund payments.

Our objective was to determine whether the Authority operated its public housing program in accordance with HUD requirements.

Results of Audit

Finding 1: The Authority Did Not Comply With Procurement Requirements

The Authority did not properly procure goods and services. The executive director did not understand the requirements in the Authority's procurement policy. As a result, the Authority was unable to support that it procured \$38,626 in goods and services at the most reasonable price, restricted competition, and placed Federal funds at risk.

The Authority Improperly Procured Goods and Services

The Authority did not properly procure its lawn maintenance contract, which was the only contract it awarded during our audit period. In addition, it hired and paid at least six vendors without following procurement procedures or executing a contract and purchased a truck without board approval and without obtaining quotes.

Improperly Procured Lawn Care Contract

The Authority failed to maintain all required documentation, did not perform a cost analysis, and did not justify why it did not select the lowest responsive bidder for its lawn care contract.

HUD required the Authority to maintain procurement records sufficient to detail the significant history of a procurement action; however, the Authority's procurement file did not contain the bid from the vendor that was awarded the contract, the rationale for selecting the contractor, or the contract. The Authority eventually located the contract but could not produce the bid.

The Authority did not perform the required cost analysis for its lawn care contract. HUD required the Authority to perform a cost analysis in connection with every procurement action and conduct an independent cost estimate before receiving bids or proposals. The Authority did not perform a cost analysis or conduct an independent cost estimate before it received bids for the contract.

The Authority awarded its lawn care contract to a contractor that was not the lowest, most responsive bidder. The Authority received four bids ranging from \$330 per month to more than \$830 per month. It selected the second lowest bidder for its contract at \$550 per month without providing justification. The executive director stated that the Authority selected the higher priced contractor because several of the Authority's board members had used that particular service and could attest to the quality of service. The Authority spent \$4,675 on this contract.

Paid Vendors Without Contracts

The Authority hired and paid at least six vendors on a recurring basis without following procurement requirements or executing a contract. The Authority's procurement policy required it to obtain at least three quotes or publicly advertise for bids for small purchases between \$2,000 and \$100,000. The Authority's board of commissioners was also required to approve all purchases of \$10,000 or greater.

The Authority spent the following amounts (see table 1) during our audit period without entering into contracts, obtaining three quotes, publicly advertising, or obtaining board approval for the services.

Table 1: Improperly procured services

Purchase	Purchase type	Amount spent (2013-2014)
Accounting service	Monthly service	\$5,905
Exterminator	Monthly service	\$2,830
Satellite service	Annual contract and as needed	\$4,910
Annual audit	Annual expense	\$3,300
Maintenance service	Recurring as needed	\$3,862
Heating and air service	Recurring as needed	\$6,204
Total		\$27,011

The Authority also purchased a maintenance truck before receiving board approval and without obtaining quotes. The maintenance truck was a shared purchase among the Anderson, Lanagan, and Pineville Housing Authorities. The executive director purchased the truck on June 16, 2014, but did not receive board approval for the purchase until June 19, 2014. The total purchase price was \$19,250, and the Authority's share of the purchase was \$6,940.

The Executive Director Did Not Understand Requirements

The executive director did not understand the requirements in the Authority's procurement policy. She did not believe that all HUD regulations applied to the Authority since it was a small housing authority in a small town. The Authority's procurement policy was consistent with HUD requirements.

However, the executive director explained that HUD requirements did not consider the unique situations of a small town. She further stated that the Authority did not do contracting since it was so small. For example, the executive director believed that local audit firms in her small town would charge much more than the audit firm that usually conducted the Authority's audits so she did not solicit bids for the audit.

The executive director explained that HUD requirements did not consider the unique situations of a small town.

The executive director also did not know what a cost estimate was or its purpose. When we asked whether the Authority conducted a cost estimate for the lawn service procurement, the executive director did not understand what a cost estimate was. She further stated that she evaluated the pricing of the contracts based on past experience and did not keep her rationale in writing.

The Authority May Have Overspent for Goods and Services

The Authority was unable to support that it procured \$38,626 in goods and services at the most reasonable price, all interested parties may not have had an equal opportunity to participate in Authority business, and the procurement violations placed Federal funds at risk. Federal procurement requirements help to ensure that purchases are made through full and open competition at the most reasonable prices.

By failing to advertise or obtain quotes and failing to select the lowest bidder, the Authority did not always obtain the lowest price. It also did not have an adequate basis for evaluating the prices it paid because it did not complete cost estimates. It had no basis for evaluating the prices it paid for its maintenance truck or the various services since it did not obtain quotes.

The Authority did not allow all interested parties an equal opportunity to participate in Authority business. It restricted competition for its lawn maintenance contract when it failed to select the lowest bidder. The Authority also restricted competition when it noncompetitively procured goods and services without advertising or obtaining quotes.

The Authority's failure to execute contracts for its procurements also placed the Federal funds the Authority spent at risk since the purchases were not subject to the required contract provisions, such as antikickback requirements, the Davis-Bacon Act, access to records relating to the contract, and the retention of records.

Conclusion

The Authority was unable to support that it procured more than \$38,626 in goods and services at the most reasonable price, restricted competition, and placed Federal funds at risk because the executive director did not understand the requirements in the Authority's procurement policy.

Recommendations

We recommend that the Director of HUD's Kansas City Office of Public Housing

- 1A. Require the Authority to provide adequate documentation to support that the \$38,626 spent for improperly procured goods and services was spent at the most competitive prices. Any amounts determined to be ineligible should be reimbursed from non-Federal funds to its program or to HUD as the field office deems appropriate based on the funding source.
- 1B. Require the Authority's executive director to obtain appropriate procurement training.
- 1C. Monitor the Authority's expenditures after training to ensure that the executive director understands and correctly applies procurement requirements.

Finding 2: The Authority Made Ineligible and Unsupported Expenditures

The Authority used public housing funds for ineligible and unsupported expenses. This condition occurred because the Authority did not have adequate controls over expenditures. As a result, it did not have \$1,233 in public housing funds available for the purposes intended, and HUD could not be assured that the Authority spent \$31,147 in public housing funds for allowable purposes.

The Authority Had Ineligible and Unsupported Expenditures

The Authority used public housing funds for ineligible and unsupported expenses. According to Federal regulations, costs charged to a Federal program are allowable only if the costs are necessary, reasonable, and allocable to the program. Regulations at 24 CFR (Code of Federal Regulations) 905.310(b) also required the Authority to maintain detailed disbursement records to document eligible expenditures. The Authority made ineligible and unsupported payments on its Authority credit cards and made ineligible and unsupported direct payments to vendors and individuals (see table 2).

Table 2: Ineligible and unsupported expenditures

Credit cards	Ineligible	Unsupported
American Express	\$536.56	\$675.48
Visa	\$25.49	\$2,380.40
Home improvement stores	\$551.67	\$22,107.32
Credit card total	\$1,113.72	\$25,163.20
Direct payments		
Executive director	-	\$513.50
Payments to individuals	-	\$2,250.00
Warehouse club	\$75.00	-
No detailed receipts	-	\$852.53
Maintenance purchases	\$44.55	\$2,368.26
Direct payments total	\$119.55	\$5,984.29
Totals	\$1,233.27	\$31,147.49

Ineligible and Unsupported Credit Card Payments

The Authority paid \$1,114 for ineligible expenses and \$25,163 for unsupported expenses charged on its Authority credit cards. The Authority had an American Express card and a Visa credit card that its executive director and maintenance man used to make purchases. The Authority also maintained credit cards with three home improvement store chains. These credit cards were shared among the Anderson, Lanagan, and Pineville Authorities.

The executive director used an Authority-provided American Express credit card to purchase items such as lottery tickets, meals at restaurants, meals for tenant meetings, and groceries for needy tenants. Ineligible costs from these purchases totaled \$537. In addition, many of the items charged to the American Express card were missing receipts or did not include an itemized receipt that showed what was purchased. Unsupported costs from these purchases totaled \$675.

The Authority's maintenance man used an Authority-provided Visa credit card to purchase items such as lottery tickets, snack foods, and grocery items. Ineligible costs from these purchases totaled \$25. In addition, many of the items charged to the Visa card were missing receipts or did not include an itemized receipt that showed what was purchased. Unsupported costs from these purchases totaled \$2,380.

The Authority made many purchases on its home improvement store credit cards. The maintenance man often made several trips to the home improvement store per day and frequently purchased drinks and snack foods using the Authority's credit card. In addition, the executive director used the Authority's home improvement store credit card to purchase gift cards that she claimed were Christmas gifts for her staff. Ineligible costs from these purchases totaled \$552. The Authority also allowed its maintenance man to use the home improvement store credit card to make personal purchases. The executive director claimed that the maintenance man would then reimburse the Authority but could not produce records showing that repayment (see finding 5). The Authority could not support maintenance expenses since it did not tie them to work orders, unit numbers, or the Authority. The remaining \$22,107 in purchases on home improvement store credit cards was unsupported since the Authority could not justify the expenditures.

Ineligible and Unsupported Direct Payments

The Authority paid vendors and individuals \$5,984 for unsupported expenses and \$120 for ineligible expenses.

The Authority made \$514 in unsupported payments to the executive director. The Authority issued checks to the executive director for travel expenses, but it did not maintain details or receipts to show what was included in the travel expenses. The executive director used her Authority-owned vehicle for travel and her Authority credit card for gas but reimbursed herself for mileage when she traveled. She stated that she viewed this payment as compensation for the inconvenience of travelling. She also used her Authority credit card to pay for food when she traveled while also receiving per diem for food.

The Authority made unsupported payments to individuals totaling \$2,250. It paid individuals for work performed at the Authority without an invoice or agreement between these individuals and the Authority showing work performed, an agreed-upon price, terms, etc. These individuals were often tenants who needed work, Authority employees' relatives, or people the Authority staff knew.

The Authority purchased an annual membership at a warehouse club store. The membership included cards for its executive director, administrative assistant, and two of the executive director's children, and another individual not employed at the Authority. The executive director

claimed that the Authority received partial reimbursement for the membership but could not produce documentation to support this claim. The executive director did not submit eligible expenses for reimbursement from the warehouse club store during our audit period. The \$75 spent on the memberships was ineligible.

The Authority often paid its vendors from statements, showing only the total amount due instead of detailed invoices that showed the items or services purchased. Unsupported costs from these payments totaled \$853.

In addition to purchasing maintenance supplies via credit card, the Authority made maintenance purchases from catalogs and the local hardware store. The maintenance man would also spend Authority funds on snack food and drink purchases from the local hardware store. Ineligible costs from these purchases totaled \$45. The Authority could not support maintenance expenses since it did not tie them to work orders, unit numbers, or the Authority. The \$2,368 in purchases from maintenance supply catalogs and the local hardware store were unsupported since the Authority could not justify the expenditures.

The Authority Had Inadequate Controls

The Authority did not have adequate controls over expenditures. Specifically, it did not implement a credit card policy, fully understand requirements, and establish a control environment that held individuals accountable for their internal control responsibilities.

The Authority did not implement a credit card policy that it required its users of Authority credit cards to agree to. The executive director stated that there was a verbal understanding that the credit cards were supposed to be for Authority purposes only, but this verbal understanding was not effective and did not provide sufficient accountability since the executive director disregarded the policy when she allowed the maintenance man to make personal purchases on Authority credit cards. A credit card policy would officially establish the types of purchases allowable, address the personal use of the credit cards, and convey the necessity to maintain receipts for all credit card purchases.

The Authority did not fully understand requirements relating to its expenditures. For example, The executive director did not understand

- What expenses were considered eligible tenant services. She believed that it was allowable to provide meals and attendance prizes to tenants who attended tenant council meetings; however, HUD requirements permit the Authority to provide only light refreshments. Entertainment items such as lottery tickets and groceries for needy tenants are not allowable.
- Why it was not allowable for her to receive mileage reimbursement when she traveled with the Authority-owned vehicle.
- The liability issues associated with hiring individuals to do work around the Authority. She stated that she had a verbal understanding that if employees got hurt while working, the Authority would not assume liability, but there was no written agreement.

The Authority also did not establish a control environment that held individuals accountable for their internal control responsibilities. The executive director and a member of the board of

commissioners signed all checks, but the board member signing the checks was not provided all pages of the credit card statements. The Authority provided the board member only the first page, which showed the total amount due. The lack of accountability resulted in these problems going unnoticed.

Funds Were Not Used as Intended

The Authority did not have \$1,233 in public housing funds available for the purposes intended, and HUD could not be assured that the Authority spent \$31,147 in public housing funds for allowable purposes.

The Authority also subjected itself to potential liability issues when it hired individuals to work at the Authority without written agreements regarding injuries or accidents on Authority property. This issue also could have potential Davis-Bacon Act implications regarding prevailing wage rates.

Allowing employees to make personal purchases on Authority credit cards also placed the Authority at risk because purchases on Authority credit cards were not subject to sales tax. Using those tax benefits for personal gain could cause the Authority to lose this benefit.

Conclusion

The Authority used public housing funds for ineligible and unsupported expenses because it did not have adequate controls over expenditures. Without adequate policies and knowledge of expenditure requirements, the Authority spent at least \$1,233 in public housing funds on ineligible items and could not support that it used \$31,147 for allowable purposes.

Recommendations

We recommend that the Director of HUD's Kansas City Office of Public Housing

- 2A. Require the Authority to repay \$1,233 for ineligible expenses from non-Federal funds to its program or to HUD as the field office deems appropriate based on the funding source.
- 2B. Require the Authority to provide adequate support that it spent \$31,147 on allowable expenses. Any amount determined to be ineligible should be repaid from non-Federal funds to its program or to HUD as the field office deems appropriate based on the funding source.
- 2C. Require the Authority to obtain appropriate training on eligible uses of program funds, including items that can be charged to tenant services, travel expenses, and hiring practices.
- 2D. Require the Authority to adopt an appropriate credit card policy that formally establishes guidelines for using Authority credit cards and accountability for misuse of the cards.
- 2E. Require the Authority to establish an internal control policy that provides adequate oversight of expenditures and the need for detailed supporting documents before signing checks.

Finding 3: The Authority Improperly Admitted and Recertified Tenants

The Authority did not properly conduct admissions or recertifications of tenants for all five files reviewed. The executive director was not fully aware of the requirements. She believed that her personal knowledge of tenants excused her from following HUD and Authority guidance, and the Authority lacked formalized processes. As a result, eligible tenants were denied housing, ineligible tenants received subsidized housing, and tenants paid the wrong amounts for rent.

The Authority Did Not Properly Admit and Recertify Tenants

The Authority did not properly conduct admission or annual recertifications of tenants for any of the 5 files reviewed of 28 occupied units. The Authority

- Improperly maintained its waiting list,
- Improperly admitted overincome tenants,
- Failed to complete required verifications,
- Inconsistently performed background checks,
- Failed to update its flat rents,
- Improperly documented utility allowances,
- Failed to maintain complete leases in its files, and
- Improperly determined community service status.

Waiting List Improperly Maintained

The Authority improperly maintained its public housing waiting list. The waiting list establishes the order in which housing offers are made to qualified individuals. Setting up and maintaining the waiting list properly is essential to carrying out public housing admissions in accordance with HUD's civil rights and program regulations. The Authority's waiting list was a stack of applications for public housing that included the date and time of application. The stack of applications included applicants for the Anderson, Lanagan, and Pineville Housing Authorities. We found one tenant, the executive director's daughter, who entered the waiting list on January 15, 2014, and was admitted to public housing on May 1, 2014, although there were 25 applications on the waiting list before she applied. The executive director stated that those 25 applicants would have been contacted to determine their continued interest in public housing before moving down the waiting list. The Authority sometimes noted this contact on the applications, but there was often no documentation showing why the Authority did not admit applicants to public housing before moving on to other people on the waiting list.

Generally, the executive director admitted only tenants who were elderly or disabled and generally did not accept applications from families with children (Pineville site 2 accepted children). This practice violated the Fair Housing Act and Age Discrimination Act, which protect housing applicants from discrimination because of disability, age, and the presence of children.

Overincome Tenants Improperly Admitted

The Authority admitted at least one applicant into its public housing that was over the income limit. HUD allowed public housing agencies with less than 250 units to lease units to tenants

who were overincome as long as there were no eligible applicants on the waiting list and the overincome tenant agreed to vacate the unit should an eligible applicant enter the waiting list. The Authority allowed the overincome applicant to enter and remain in public housing when there were other applicants on the waiting list.

Verifications Not Completed

The Authority did not properly verify the identity of applicants for all five files reviewed. HUD required housing authorities to verify the identity and eligibility of applicants. The Authority did not require applicants to provide proof of their Social Security number, citizenship, or immigration status and did not obtain information to verify identity (such as a driver's license).

The Authority did not verify previous rental history or assets owned for any of the five files reviewed. HUD required public housing agencies to verify an applicant's past performance in meeting financial obligations such as rent and to verify an applicant's assets as part of income determination.

The Authority did not always obtain Enterprise Income Verification system reports before annual recertification. When the Authority did obtain reports, it failed to use the updated income information during the recertification process. The Authority used outdated income data for four files reviewed. HUD required public housing agencies to verify income to determine initial program eligibility and properly determine rent during recertifications.

Inconsistent Background Checks

The Authority did not conduct criminal background checks on all adult occupants for three files in our sample. In addition, when the Authority did conduct a background check, it maintained the report in its entirety in the tenant file. HUD required public housing agencies to conduct criminal background checks on all tenants and destroy background checks to protect personally identifiable information.

Flat Rent Amounts Not Updated

The Authority did not properly update its flat rent amounts. Regulations at 24 CFR 960.253 required that public housing agencies evaluate flat rent amounts annually. The Authority's flat rent for a one-bedroom unit was \$164 from 1996 to 2013. In 2013, the Authority adjusted the amount to \$250. In 2014, HUD issued Office of Public and Indian Housing (PIH) Notice PIH-2014-12, which required public housing agencies to set flat rent at 80 percent of fair market rent. The 2014 fair market rent for McDonald County, MO, was \$444 for a one-bedroom unit, making the appropriate flat rent \$355 for a one-bedroom unit.

No Documentation of Utility Allowance Determination

The Authority did not document how it determined utility allowances. HUD regulations at 24 CFR 965.507 required that public housing agencies review their schedule of utility allowances annually. The Authority did not conduct annual updates of its utility allowance and was unable to show how it determined its utility allowance.

Leases Not Maintained in Files

The Authority did not maintain a complete copy of the lease in any of the five files reviewed. HUD required public housing agencies to maintain a copy of the lease in the tenant files. The

Authority maintained only the front pages of the lease, which showed the tenant's name, unit, and rent, and the last page showing the signatures.

Community Service Status Not Properly Determined

The Authority did not properly determine the community service and self-sufficiency requirement status for one file reviewed. Notice PIH-2009-48 required that public housing agencies verify that families complied with the requirement or verify that family members were eligible for an exemption from the requirement. The Authority did not ensure that tenants certified exemptions annually or that community service activities were documented in the tenant files.

The Authority Was Not Aware of Some Requirements and Disregarded Others

The executive director was not fully aware of the requirements and believed that her personal knowledge of tenants excused her from following HUD and Authority guidance, and the Authority lacked formalized processes.

The executive director was not fully aware of HUD requirements. She was not aware of HUD's Notice PIH-2014-12 and its requirement to set flat rent at 80 percent of fair market rent. She also believed that if she complied with the requirement and increased flat rent, it would cause all of her flat-rent tenants to pay the full amount. However, an increase in the flat rents would likely cause many of her flat-rent tenants to become income based and would not require them to pay the full flat-rent amount.

The executive director also believed that the Authority was designated as elderly and disabled housing and HUD allowed the Authority to lease 5 percent of its units to individuals who were not elderly or disabled. HUD staff stated that the Authority was not designated as strictly elderly and disabled housing and there was no such 5 percent requirement.

The executive director believed that her personal knowledge of tenants excused her from following HUD and Authority guidance. She stated that if she had a good referral or had other personal knowledge of an applicant, she did not conduct a criminal background check or perform other verifications before admission. In one instance, an applicant disclosed that she owned a home on her application for housing, but there was no other information in the tenant file regarding the asset. When we asked the executive director about the home, she stated that the applicant sold the home for as much as she owed on it, but she did not require the applicant to submit documentation to support the claim. In another case, the Authority did not run a credit check on an applicant's spouse. The executive director explained that the applicant stated that his spouse had never had credit so she concluded that a credit check was not required.

The executive director believed that her personal knowledge of tenants excused her from following HUD and Authority guidance.

The Authority lacked formalized processes for administering its public housing program, which led to inconsistent and inadequate implementation of program requirements. Tasks were conducted differently, depending on whether the executive director or the administrative assistant conducted them. For example, the executive director stated that the administrative

assistant consistently took notes regarding followup communications with applicants but the executive director did not. A formalized process for evaluating applicants would have also helped to ensure that the Authority adequately determined community service and self-sufficiency requirement status, maintained complete copies of leases in files, performed appropriate verifications, and allowed overincome tenants to reside in a public housing unit only when allowable. This lack of formalized processes also contributed to the problem with the Authority's calculation of fair market rents and utility allowances.

The figure below shows the Authority's process for calculating fair market rents and utility allowances, which did not provide an adequate explanation of how the Authority made these calculations.

P Wallain	1 Bd - 260 - Royalatche
1 Bd - 260 -	2 Bd 300 -
May -	1 Bd - 350 - 1.50 AC
	2 Bd -
SWC -	1- 250 - electric 82
Thacker	2- 350 - electric 127.00 115 3- 400 - water-elect affed 200 -
Indian Grove	245.00 - all-electric
2 Bd	\$475.595 - 455 -
	420 - Liberty Station 115
Open Land Strip	2 Bd - 440.00 all-electric
RiverView	640.00 wt-pd - 1B 540
Noel -	1- 250 = gas/elect 93. 2- 300 - " " 104 3- 450 - " " 143 - 2- 142 - all-electric 3- 215 - " "

The Wrong Tenants Received Housing, and Tenants Paid Incorrect Rents

Eligible tenants were denied housing, ineligible tenants received subsidized housing, and tenants paid the wrong amounts for monthly rent.

The Authority's failure to properly establish and maintain a waiting list for its public housing program and remove overincome tenants caused eligible tenants to be denied housing, applicants

to receive housing in the wrong order, and families to be denied the opportunity to apply for housing.

The Authority's failure to properly identify applicants and conduct reviews of applicants' criminal history may have caused ineligible tenants to receive subsidized housing. Since the Authority did not consistently take steps to verify the identity of applicants, it did not have meaningful assurance of whom it admitted into public housing. Even in cases in which the Authority did run a background check, if an applicant applied for public housing with false information, a background check may not have caught it. In addition, ineligible tenants received housing when those who were noncompliant with the community service requirement had their leases renewed.

The Authority's failure to verify income, assets, and expenses and update flat rents and utility allowances caused tenants to pay the wrong amounts for monthly rents since these items all factor into rent determination. In addition, the Authority's failure to update its flat rents allowed overincome tenants housing for substantially less than fair market rent.

Conclusion

The Authority improperly admitted and recertified tenants because its executive director was not fully aware of the requirements and believed that her personal knowledge of tenants excused her from following HUD and Authority guidance. Without implementing HUD requirements and the civil rights laws in the Fair Housing Act and Age Discrimination Act, the Authority may continue to deny housing to eligible applicants and provide subsidized housing to ineligible tenants.

Recommendations

We recommend that the Director of HUD's Kansas City Office of Public Housing

- 3A. Require the Authority to stop denying applicants an opportunity to apply for housing based on age, disability, and familial status.
- 3B. Require the Authority to update its waiting list in an auditable format that ensures that applicants are admitted in the correct order.
- 3C. Determine whether the households living in the Authority's public housing units received housing in accordance with the program's requirements and if not, consider a referral to HUD's Office of Fair Housing and Equal Opportunity.
- 3D. Require the Authority to follow the criteria set forth in 24 CFR 960.503 to replace the overincome tenants with eligible tenants.
- 3E. Require the Authority to adjust its flat rents to comply with HUD requirements.
- 3F. Require the Authority to document the determination of its utility allowance.
- 3G. Require the Authority to develop a formalized process, such as a checklist, for accepting applications, admitting tenants, and conducting reexaminations that

would help to ensure that it follows HUD requirements for its public housing program.

- 3H. Require the Authority's executive director to obtain appropriate training regarding public housing occupancy requirements.
- 3I. Require the Authority to conduct a 100 percent review of its tenant files to ensure that tenants' rents are accurate; the proper income, asset, and identity verifications are complete and documented in the file; all eligibility criteria have been met; complete copies of leases are documented in the files; community service and self-sufficiency requirement status is properly determined; and background checks are properly noted but not filed in the tenant files.
- 3J. Monitor the Authority after the recommended training and tenant file reviews are complete to ensure the executive director understands and properly implements public housing occupancy requirements.

Finding 4: The Authority Did Not Comply With Internal Revenue Service Requirements

The Authority did not properly account for and report the fringe benefits it provided to its employees. This condition occurred because the Authority did not have policies in place governing fringe benefits or the personal use of Authority-owned vehicles. As a result, the Authority subjected its employees to potential tax problems.

The Authority Did Not Account for or Report Fringe Benefits

The Authority did not properly account for and report the fringe benefits it provided to its employees. It allowed its executive director and maintenance man to use Authority-owned vehicles for personal use without accounting for taxable fringe benefits. It also did not report as income cash medical insurance stipends it paid to its employees or the value of lodging provided to the executive director. The Internal Revenue Service requires employers to report all fringe benefits they provide to employees, including the value of employer-provided vehicles, cash stipends, and lodging on business premises, unless the law specifically excludes it.

Personal Use of Authority-Owned Vehicles

The Authority allowed its executive director and maintenance man to use Authority-owned vehicles for personal use, but it did not account for or report the value of personal use of the vehicles. The Authority paid for all vehicle expenses, including gas and maintenance. Internal Revenue Service requirements detail methods used to value personal use of employer-provided vehicles. Under the cents-per-mile rule, employees are required to keep a record of their personal mileage, and the employer determines the value by multiplying the personal miles by the Internal Revenue Service standard mileage rate, which was 56 cents per mile for calendar year 2014. The value of the fringe benefit is subject to employment taxes, and the employer must report the benefit on Internal Revenue Service Form W-2, Wage and Tax Statement.

Cash Stipends Not Reported

The Authority paid its employees a quarterly cash stipend instead of providing medical insurance, but it did not report these cash stipends to the Internal Revenue Service as income. The Internal Revenue Service requires employers to report cash stipends as taxable income on Internal Revenue Service Form W-2, Wage and Tax Statement. The amount of this stipend was approximately \$2,000 per year per employee.

Executive Director Residing at the Authority

In June 2014, the Authority's board of commissioners allowed the executive director to move into a public housing unit rent free in lieu of a pay raise. HUD allowed this action, and the Authority did not receive an operating subsidy for the executive director's unit. However, the Internal Revenue Service requires employers to report the value of lodging on business premises since it is subject to employment taxes. The Authority did not report the value of the benefit on Internal Revenue Service Form W-2, Wage and Tax Statement.

Policies Were Not in Place

The Authority did not have policies or agreements in place that addressed the fringe benefits from personal use of Authority-owned vehicles, Authority-provided housing, or cash stipends for

medical insurance. These forms of pay for service would typically be outlined as part of an employment contract, but the Authority did not have employment contracts with its employees. It operated on verbal agreements.

The Authority allowed its executive director and maintenance man to use Authority-owned vehicles for personal use but did not implement a vehicle use policy. Such a policy would require employees to keep track of mileage they incur for personal use, which would allow the Authority to determine the value of the fringe benefit.

There Were Potential Tax Problems

The Authority subjected its employees to potential tax problems. Since the Authority did not account for or report the fringe benefits it paid to its employees, it understated its employees' taxable income reported on Internal Revenue Service Form W-2, Wage and Tax Statement. This practice may have subjected its employees to an additional tax liability.

Conclusion

The Authority did not properly account for and report the fringe benefits it provided to its employees because it did not have policies in place governing fringe benefits. If the Authority does not stop providing fringe benefits to its employees or report the value of the fringe benefits as taxable income, it will continue to subject its employees to potential tax problems.

Recommendations

We recommend that the Director of the Kansas City Office of Public Housing require the Authority to

- 4A. Either stop allowing its staff to use Authority-owned vehicles for personal use or comply with Internal Revenue Service requirements to establish the value of the benefits and report the value as taxable income.
- 4B. Either stop issuing cash stipends to employees for medical insurance or comply with Internal Revenue Service requirements to report the amounts paid as taxable income.
- 4C. Either stop allowing the executive director to reside in a public housing unit or comply with Internal Revenue Service requirements to report the value of lodging as taxable income.
- 4D. Require the Authority to enter into written employment contracts with its staff that outline the various forms of pay for service.
- 4E. Develop and implement written policies governing employee use of Authority-owned vehicles.

Finding 5: The Authority Did Not Maintain Auditable Books and Records

The Authority did not maintain auditable books and records. This condition occurred because the Authority did not have effective management. As a result, it was not in compliance with its annual contributions contract and could potentially be taken over by HUD.

Books and Records Were Not Auditable

The Authority did not maintain auditable books and records. Section 15(A) of the Authority's annual contributions contract with HUD required it to maintain complete and accurate books of account to permit timely and effective audit. Specifically, the Authority did not keep inventory records or track maintenance purchases, retain records of the disposition of its maintenance truck, keep adequate records of its travel expenses, always maintain credit card receipts, maintain complete bank records, track tenant services expenses, and adequately document its tenant files.

Inventory Records and Maintenance Purchases

The Authority did not have records showing how it used maintenance purchases and did not maintain equipment and supply listings. The Authority's maintenance man made many purchases using lines of credit with major home improvement store chains and local suppliers. He would often make several trips to the home improvement store a day and consistently made purchases outside work hours on the weekends. The Authority could not justify most of these purchases because it did not tie the purchases to specific work orders, units, or the Authority (since the credit cards were shared among the Anderson, Lanagan, and Pineville Housing Authorities).

Many of the purchases were for tools and maintenance supplies. The Authority did not keep equipment or supply listings to show what it had on hand. The executive director also allowed the maintenance man to store Authority-owned equipment, such as trailers, at his personal residence. Without adequate supply listings, Authority management did not have a working knowledge of what items the Authority should have in its inventory. During our review, we also inspected the maintenance shed and found that it was not organized and it was difficult to safely move around the shed due to clutter.



We were able to physically locate only 8 of 24 items selected for review during an inventory spot check. The Authority claimed that two of the remaining items were broken, nine were not located because the maintenance man was not available during our inspection (and the executive director could not locate them), and five were personal purchases by the maintenance man for which the executive director claimed the maintenance man had reimbursed the Authority. The maintenance man partially paid for one of the items on a non-Authority credit card at the time of purchase, but the Authority could not produce documentation showing that it had received reimbursement for the personal purchases. Since no records were kept of these personal purchases, we were unable to determine how many more personal purchases the maintenance man may have made.

Maintenance Truck Disposition Records

The Authority did not keep records of its disposition of a maintenance truck in 2014. The only record available regarding the sale was a bank deposit slip from November 2014 that noted a currency deposit for "Sale of Pickup - \$300." The Authority did not keep a bill of sale or other record of the sale, including the identity of the purchaser of the truck, so we were unable to verify the sale price of the truck. Regulations at 24 CFR 85.32(d)(1) required the Authority to maintain records of the disposition of the property, including the date of disposal and the sales price of the property.

The following deposit slip shows the only record available for review regarding the disposition of the truck.

PRODUCT DEPOSIT RECORD COPY		80-45-1012
HOUSING AUTHORITY FOR THE CITY OF PINEVILLE P.O. BOX 386 • 500 TATUM STREET ANDERSON, MO 64831		
usbank. All of us serving you®		
DATE 11-25-14		
DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL		
CURRENCY	DOLLARS	CENTS
COIN	20	00
CHECKS (OR EACH SEPARATELY)	0	00
<i>Sale 247.44 USD</i>		
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Credit Card Receipts

The Authority did not consistently maintain credit card receipts to support its purchases. It used an American Express card and a Visa credit card, which its executive director and maintenance man used to make purchases. The Authority did not maintain receipts for \$675 of \$4,694 total purchases on the American Express card and \$2,323 of \$10,338 total purchases on the Visa card. Many of the missing receipts were for gas, and the executive director stated that if the machine was out of paper, she often did not go inside to get a receipt. In other cases, usually vehicle maintenance, the Authority maintained a credit card receipt showing the vendor and amount charged but did not maintain an itemized invoice showing the work completed or what vehicle was serviced (see finding 2).

Bank Records

The Authority did not maintain all pages of bank statements and credit card statements in its records. The Authority's accounting service received the bank statements for its checking account each month and then forwarded the statements to the Authority. In several cases, the bank statements the Authority received were missing pages. It was not until we noted the missing pages that the Authority knew they were missing. Since the Authority did not use online banking services, these incomplete statements were the only source of bank statement review for the Authority. The Authority was also not able to locate all of the credit card statements in our review period. It was eventually able to obtain missing pages and statements for our review from the bank and credit card issuers.

Tenant Services

The Authority did not track its spending on tenant services so it was not able to show whether it remained under the \$25 per unit annually that HUD allowed it to spend on eligible tenant services items.

Tenant Files

The Authority did not have complete records in its tenant files. Section 7.11 of the Public Housing Occupancy Guidebook stated that tenant files must contain verification of information, including name, birthdate, Social Security number, citizenship status, disabilities, income, assets, income deductions, rent computations, and a form HUD-50058. The Authority did not always maintain documentation verifying this information in its tenant files. For example, the tenant files noted a tenant's name, birthdate, and Social Security number, but the Authority did not verify this information by reviewing driver's licenses, birth certificates, or Social Security cards (see finding 3).

The Authority stored its previous tenant files, applications, and background checks in a storage area attached to its community room. This storage area remained unlocked during our time on site, although the Authority often rented out the community room outside normal operating hours. In addition to the tenant and applicant information, it stored its past financial data in the same space.

Ineffective Management

The Authority did not have effective management. The Authority's executive director displayed a pattern of ineffective management practices as shown in the previous findings. These management practices often relied on the word of employees that lacked an appearance of objectivity and integrity and generally allowed the executive director to conduct business in a way that left no audit trail.

The executive director admitted that her memory was poor and she often had to rely on her staff to fill in gaps in her memory. For example, when we asked about repayments for personal purchases, the maintenance man told the executive director that he paid the Authority back for an item, and she stated that if he said he repaid the money, he must have done so. The maintenance man that the executive director relied on to inform her of personal purchases was her son-in-law, who had previously been convicted of stealing.

The executive director stated that repayments for personal purchases were made by putting money into "petty cash." When we asked whether the Authority tracked these additions on petty cash vouchers, the executive director stated that usually she recorded when she put money into petty cash but not always. The petty cash vouchers for our audit period did not contain notes regarding additions to petty cash.

The executive director did not think it was important to obtain receipts for all credit card purchases. For example, she stated that if an automated fuel pump was out of paper, she would sometimes leave without a receipt since it was inconvenient to go into the store and obtain a copy.

The executive director believed that it was appropriate to accept a check from the Authority covering travel expenses for both herself and her assistant. She explained that she cashed the check and divided the money. This process left no audit trail to prove that the administrative assistant had received any of her travel money. The executive director also thought it was appropriate to write herself a check for "van detailing" without obtaining supporting documentation for the alleged transaction.

The executive director stated that she did not track tenant services expenditures to ensure that they remained under the threshold. She believed that there was usually tenant services money remaining, although she did not track it.

The executive director relied on her own judgment and that of others to make decisions that violated HUD requirements. She believed that it was acceptable to not obtain a criminal background check if she knew an applicant or knew someone who vouched for the applicant's background. In addition, she would not always require tenants to show proof of items, such as income deductions or the disposition of assets, if she believed she could trust the person.

Noncompliance with Annual Contributions Contract

The Authority was not complying with its annual contributions contract and could potentially be declared in default and taken over by HUD. The Authority's failure to maintain auditable books

and records violated the requirements established in its annual contributions contract with HUD. Section 17 of the contract contained provisions regarding defaults and stated that if the Authority substantially defaulted on the contract, HUD would be entitled to remedies, including receivership, until defaults were cured.

Conclusion

The Authority was not complying with its annual contributions contract and was at risk of receivership because it did not have effective management. The Authority's executive director needs training regarding inventory and record keeping, and the Authority should be monitored to ensure that it implements sound business practices that comply with HUD requirements. If the Authority is unable to show that it can properly implement HUD requirements, HUD should consider other options, such as receivership, to address the noncompliance with the annual contributions contract.

Recommendations

We recommend that the Director of HUD's Kansas City Office of Public Housing

- 5A. Require the Authority to immediately implement practices to ensure that personally identifiable information of its tenants and applicants remains properly safeguarded at all times.
- 5B. Require the Authority's executive director to obtain appropriate training regarding inventory and record keeping requirements to supplement the training recommended in the other findings.
- 5C. Monitor the Authority to ensure that it implements appropriate records management systems.
- 5D. Determine whether Authority management is able to properly implement HUD requirements and consider remedies that may be required to address any noncompliance with the annual contributions contract.

Scope and Methodology

Our audit period generally covered January 1, 2013, through December 31, 2014. We performed our audit work from March through August 2015. We conducted onsite work at the Authority's administrative offices located at 500 Tatum Street, Anderson, MO.

To accomplish our objective, we

- Reviewed applicable laws and regulations and HUD's guidance;
- Reviewed the Authority's policies and procedures;
- Interviewed Authority staff;
- Interviewed HUD staff responsible for oversight of the Authority;
- Reviewed board minutes and resolutions;
- Reviewed the Authority's audited financial statements covering our review period; and
- Reviewed physical records maintained by the Authority, including bank records, invoices, credit card statements, receipts, check vouchers, tenant files, and inventory items the Authority purchased.

We reviewed the only procurement that the Authority conducted during our audit period for compliance with HUD's procurement requirements and the Authority's procurement policy. This sole procurement was shared with the Anderson and Lanagan Housing Authorities.

During our 24-month audit period, we reviewed bank statements and check vouchers to determine that the Authority spent \$265,596 from its bank account. We selected expenditures totaling \$158,037, which represented 59.5 percent of the funds spent. We chose items that we believed had a higher probability of having been misspent. For each month in our audit period, we selected credit card expenditures, payments to employees, payments to individuals who were not employees, payments to vendors for which the Authority maintained house accounts (examples include the local grocery store and hardware store), and recurring expenses (examples include extermination service, accounting service, and maintenance service). We did not select payments for utilities, taxes, insurance, or background checks. We also excluded government fees, refunds of security deposits, and utility reimbursements for zero-income tenants. We reviewed transactions for eligibility and adequate support and identified vendors with which the Authority should have entered into contracts.

We did not use a statistical sample to select expenditures for review because we were looking for specific examples of noncompliance and taking a representative statistical sample would have included items that we believed to have a lower risk of being misspent. The results of our review sample apply only to the items reviewed and cannot be projected to the entire universe.

We selected a nonstatistical sample of 5 of 28 tenant files for review for compliance with admission and recertification requirements, including verification of eligibility, income determination, and rent calculation. We chose the first five unit numbers from the tenant listing.

We reviewed the Internal Revenue Service Form W-2 for all employees during our audit period to determine whether the Authority reported all pay for services performed as taxable income.

We did not rely on computer-processed data to form our conclusions. We used information from HUD's Public and Indian Housing Information Center system for background purposes only.

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

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:

- Policies and procedures that have been implemented to reasonably ensure that procurement activities, payments to vendors, public housing program administration, record keeping, and income reporting activities comply with applicable laws and regulations.
- Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- The Authority did not have adequate controls in place to ensure that procurement activities complied with applicable laws and regulations (finding 1).
- The Authority did not have adequate controls in place to ensure that its expenditures complied with applicable laws and regulations (finding 2).
- The Authority did not have adequate controls in place to ensure that it properly admitted applicants from its waiting list, verified eligibility of applicants, and properly conducted reexaminations (finding 3).

- The Authority did not have controls in place to ensure that it reported all income to the Internal Revenue Service as required (finding 4).
- The Authority failed to put into place effective management to maintain auditable records (finding 5).

Appendices

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A		\$38,626
2A	\$1,233	
2B		\$31,147
Totals	\$1,233	\$69,773

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

LeAnn Martin
Executive Director



MR. ROBERT HOSKIN
U.S. DEPARTMENT OF HUD
REGIONAL INSPECTOR GENERAL

Dear Mr. Hosking:

This audit was conducted for the years of 2013 and 2014. In September 2014 HUD from the Kansas City field office came here to meet with the boards of Anderson, Pineville and Lanagan regarding the issues brought up in our annual audit.

Comment 1

Comment 2

Comment 3

Comment 4

Comment 5

Comment 6

Comment 7

Comment 8

Comment 9

Based upon our Procurement policies we have complied with the issues they brought up. I do know what a cost estimate is and do them for contracting.

The housing authorities now have a Credit card policy for all credit cards effective in October 2014.

The signing of checks was also changed in October 2014. The board does not sign a check unless the invoice is with it.

The Director has set up a process of documenting that will help in the future keep track of contracting and cost estimates.

We have never denied anyone the right to apply for housing.

We will be cleaning up the garage and inventorying supplies. In the near future.

We received \$1000.00 for the 1995 pickup. The engine burned up it cost prohibitive to repair. Each Housing received their percentage; \$460.00 Anderson; \$300.00 Pineville and \$240.00 Lanagan.

The maintenance man Mike Jackson is my son-in-law he has been employed by us for 9 years and done an outstanding job. He has never been in trouble since or during the past 20 years.

The administrative assistant has been here 19 years; it is not her responsibility to correct the decisions of the Director. She has always done an excellent job.

I have been employed by the housings for 29 years. The recommendations made by OIG were in part wrong in regards to some things; on many others we had already implemented the changes.

LeAnn Martin

Executive Director

P.O. BOX 396 • ANDERSON, MISSOURI 64831 • 417-845-6351 • FAX 417-845-7057

OIG Evaluation of Auditee Comments

- Comment 1 HUD's visit in September 2014 was in response to a board member complaint to HUD regarding the positional responsibilities of the board of directors and the executive director and was not in response to the Authority's annual audit.
- Comment 2 The Authority's policy and HUD requirements required the Authority to document the history of each procurement, perform independent cost estimates, select the lowest bidder for sealed bid contracts, and obtain at least three quotes or publicly advertise for bids for small purchases between \$2,000 and \$100,000. As evidenced in finding one of our report, the Authority did not conduct its procurements in compliance with these requirements.
- Comment 3 We acknowledged in finding 2 of our report that the Authority implemented a verbal understanding that the credit cards are for Authority purposes, but as explained in our report, this is not a sufficient control over credit cards since it isn't written, doesn't describe specific allowable (or unallowable) uses of the card, documentation requirements, or any penalties for misuse of the card. The Authority will need to provide its proposed written credit card policy to HUD, and HUD will determine if the policy adequately addresses our recommendation.
- Comment 4 We acknowledge the importance of the presence of an invoice prior to board members signing checks but would like to also emphasize the importance of the review of the complete copy of an invoice. For example, when paying a credit card statement, signers of checks should review all the transactions covered by the statement to ensure purchases are for allowable expenses. The Authority will need to provide its proposed written internal control policy to HUD, and HUD will determine if the policy adequately addresses our recommendation.
- Comment 5 While we do not know the specifics of the documentation process the executive director set up, it would be beneficial to officially implement these procedures in writing and involve the Authority's board of commissioners in the process.
- Comment 6 As explained in finding 3 of our report, the executive director believed that the Authority was designated as elderly and disabled housing, with the exception of Pineville site 2. HUD staff confirmed that the Authority was not designated as elderly or disabled. During the exit conference, the executive director continued to state her belief that she could only admit up to 5 percent of individuals not elderly or disabled since the Authority had always been designated for elderly and disabled households. This illustrates that individuals who the Authority did not consider elderly or disabled were denied the opportunity for housing.
- Comment 7 We acknowledge the Authority's claim that the sale price of the truck was \$1,000. However, the point in finding 5 was that there were no records available for review regarding the disposition of the 2005 truck besides a bank deposit slip.

This was not sufficient to show the amount the truck was sold for, or the purchaser of the truck.

- Comment 8 While there is no technical violation of conflict of interest requirements by hiring a son-in-law, it is still a relationship that gives the appearance of a lack of objectivity, whether or not this lack of objectivity actually exists. As such, the Authority should give extra care to ensuring transactions related to this employee are thoroughly documented to show expenses are both reasonable and necessary to conduct the Authority's business.
- Comment 9 While the Authority did implement some changes in response to HUD's review, implementation of OIG's recommendations will more thoroughly help the Authority improve its management of HUD programs.

Appendix C

Criteria

Procurement

24 CFR 85.36 – Procurement

(b)(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

(d)(2) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price.

24CFR85.36 (f)(1) Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals.

Pineville Housing Authority Procurement Policy

Section 4.1(E) For small purchases in excess of \$2,000 but not exceeding \$100,000, no less than three price quotations shall be obtained where practicable. If cases where the housing authority has difficulty in obtaining an acceptable number of price quotes through direct solicitation of contractors and vendors, it shall publicly advertise the procurement, if there is reason to believe that the action would result in greater competition. Award shall be made to the offeror providing the lowest acceptable quotation, unless justified in writing based on both price and non-price factors. If non-price factors are used, they shall be disclosed to all those solicited. The names, addresses, and/or telephone numbers of the offerors and persons contacted, and the date and amount of each quotation shall be recorded and maintained as a public record.

Section 4.1(F) The Board of Commissioners shall authorize any procurement that entails an obligation of \$10,000 or greater, unless an emergency situation exists, as deemed by the Executive Director. In that case, the Executive Director shall take the necessary action to abate the emergency condition, and then advise the Board on the details of the procurement transaction at the next meeting of the Board of Commissioners.

Expenditures

24 CFR 905.310 – Disbursements from HUD

(b) The PHA shall maintain detailed disbursement records to document eligible expenditures (e.g., contracts or other applicable documents), in a form and manner prescribed by HUD.

Office of Management and Budget Circular A-87

Section (C)(2) *Reasonable costs.* A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to:

- a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
- b) The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.
- c) Market prices for comparable goods or services.
- d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.
- e) Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

Notice PIH 2013-21 (HA) Guidance on the Use of Tenant Participation Funds

Section 7. Allowable and Unallowable Activities. The following is not a comprehensive list of allowable and unallowable activities. However, this represents a starting framework that PHAs [public housing agency] may use in establishing their TP [tenant participation] policies and for RCs [resident council] to assess the suitability of requests for the use of TP funds.

Unallowable Activities

Any activity outside the scope of the PHA policy and HUD regulatory requirements behind TP funds and activities. Unallowable expenses also include any activities prohibited by laws related to fair housing and non-discrimination. In addition, the Office of Management and Budget's (OMB) Circular A-87 prohibits the use of federal funds, including TP funds, for the following:

- Purchase of alcoholic beverages
- Entertainment, where the dedicated purpose of the event falls under the following categories:
 - Amusement (trips to theme parks, county fairs, etc.)
 - Diversions (theatre, movies, sports events, etc.)
 - Social activities (parties, bowling nights, etc.)

- Any directly associated costs for the events in the categories above (tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities)
- Organized fund raising costs, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions, regardless of the purpose for which the funds will be used.

Part A of the Consolidated Annual Contributions Contract

Section 19 – Conflict of Interest.

(A)(1) In addition to any other applicable conflict of interest requirements, neither the Authority nor any of its contractors or their subcontractors may enter into any contract, subcontract, or arrangement in connection with a project under this ACC [annual contributions contract] in which any of the following classes of people has an interest, direct or indirect, during his or her tenure or for one year thereafter:

- (i) Any present or former member or officer of the governing body of the Authority, or any member of the officer's' immediate family. There shall be excepted from this prohibition any present or former tenant commissioner who does not serve on the governing body of a resident corporation, and who otherwise does not occupy a policymaking position with the resident corporation, the Authority or a business entity.

Admissions, Recertifications, and Waiting List

24 CFR 960.253 – Choice of rent

(b) Flat rent.

- (1) The flat rent is based on the market rent charged for comparable unit in the private unassisted rental market. It is equal to the estimated rent for which the PHA could promptly lease the public housing unit after preparation for occupancy.
- (2) The PHA must use a reasonable method to determine the flat rent for a unit. To determine the flat rent, the PHA must consider:
 - (i) The location, quality, size, unit type and age of the unit; and
 - (ii) Any amenities, housing services, maintenance and utilities provided by the PHA.
- (3) The flat rent is designed to encourage self-sufficiency and to avoid creating disincentives for continued residency by families who are attempting to become economically self-sufficient.
- (4) If the family chooses to pay a flat rent, the PHA does not pay any utility reimbursement.
- (5) The PHA must maintain records that document the method used to determine flat rents, and also show how flat rents are determined by the PHA in accordance with this method, and document flat rents offered to families under this method.

24 CFR 960.503 – Occupancy by overincome families

A PHA that owns or operates fewer than two hundred fifty (250) public housing units, may lease a unit in a public housing development to an overincome family (a family whose annual income exceeds the limit for a low income family at the time of initial occupancy), in accordance with its PHA annual plan (or supporting documents), if all the following conditions are satisfied:

- (a) There are no eligible low income families on the PHA waiting list or applying for public housing assistance when the unit is leased to an overincome family;
- (b) The PHA has publicized availability of the unit for rental to eligible low income families, including publishing public notice of such availability in a newspaper of general circulation in the jurisdiction at least thirty days before offering the unit to an overincome family;
- (c) The overincome family rents the unit on a month-to-month basis for a rent that is not less than the PHA's cost to operate the unit;
- (d) The lease to the overincome family provides that the family agrees to vacate the unit when needed for rental to an eligible family; and
- (e) The PHA gives the overincome family at least thirty days' notice to vacate the unit when the unit is needed for rental to an eligible family.

HUD's Public Housing Occupancy Guidebook

Section 1.0 General Provisions.

Public Housing Agencies (PHAs) are subject to civil rights requirements. This chapter gives a general overview of the civil rights requirements of PHAs that specifically apply to admissions and occupancy. Each chapter in the Guidebook also contains references to civil rights requirements wherever appropriate.

Federal civil rights laws prohibit discrimination against applicants or residents based on one or more of the following classifications:

- Race;
- Color
- National origin;
- Sex
- Age
- Disability;
- Religion; or
- Familial status (families with children under the age of 18).

Chapter 3. Waiting List Administration

The waiting list is the mechanism used to implement a PHA's preference system and, thus, establishes the order in which housing offers are made to qualified applicants. Setting up and maintaining the waiting list properly is essential to carrying out public housing admissions in accordance with HUD's civil rights and program regulations and the PHA's policies.

Section 7.1 What Must Be Verified

PHAs are required to verify information relating to eligibility, assets, income, and deductions from income, admission preferences, and compliance with applicant selection criteria. Examples include:

Eligibility for admission, such as:

- Income, assets and asset income (24 CFR 5.609);
- Divested assets (24 CFR 5.609);
- Family composition (24 CFR 5.403);
- Social Security numbers (24 CFR 5.216);
- Citizenship or Eligible Immigration Status (24 CFR 5.508); and
- Required criminal history review (24 CFR 960.204).

Deductions (24 CFR 5.617), such as:

- Family members (other than head or spouse) under age 18;
- Age, or disability of family head or spouse;
- Disability of family members other than head or spouse;
- Full time student status of family members other than head or spouse;
- Child care costs;
- Disability assistance expenses (working families only); and
- Unreimbursed medical costs (Elderly and Disabled Families only).

Standards for Applicant Selection Criteria (24 CFR 960.203), such as:

- Documented ability to abide by PHA lease requirements;
- Landlord references;
- Home visits;
- Credit checks;
- Previous history of tenancy, rent paying, caring for a home;
- Utility history; and
- Criminal history of all adult family members.

Section 7.11 File Documentation

Each applicant and tenant file must contain verification of the information listed below.

- Names, relationship to head, birth date, social security number and citizenship or eligible immigration status of all family members;
- Names, status in the household, birth date, social security number and citizenship or eligible immigrations status of Line-in Aides and foster children;

- Disabilities;
- Amounts and sources of income of all family members;
- Net Family Assets;
- Deductions from income (for rent computation);
- Rent computation;
- Admission preferences (if any);
- Screening information (tenant history, credit history, home visit record, verification of criminal history); and
- HUD 50058 form.

The PHA must establish a system of records management that ensure that any criminal record received by the PHA from law enforcement agencies is (1) maintained confidentially; (2) not misused or improperly disseminated; and (3) destroyed once the purpose for which the record was requested has been accomplished. Criminal records must not be filed in the applicant or tenant files. Instead, the file should document that a criminal background check was conducted, that the applicant passed the check or did not pass the check, and the source of the information.

Section 9.1 General Leasing Policy

There are several general requirements related to the leasing process, including who must sign the lease and the process of reviewing the terms of the lease with the household. The lease must be executed by the tenant and the PHA. Many PHAs require all other adult members of the family accepted as residents to execute the lease because in some states lease enforcement actions may only be brought against individuals who have signed the lease.

Before the family executes the lease, either occupancy staff or the housing manager should review the terms of the lease with the resident and answer any questions new residents may have before its execution. Staff should be sensitive to any special communications needs of new residents with disabilities and/or limited English proficiency. For instance, it may be necessary to provide a sign language interpreter for a hearing-impaired individual who requests one. Whenever possible, all the adult members of the household should be present during the review of the lease. A copy of the signed lease should be provided to the resident and a second copy should be maintained in the resident's file.

Section 14.3 Utility Allowances

The PHA must establish fair and reasonable utility allowances for individually metered utilities. The objective in establishing an allowance is to estimate as closely as possible a reasonable consumption of utilities by an energy-conscious household. In making the determination of what consumption is to be attributed to an energy conscious household, a PHA should distinguish between necessary appliances and luxury appliances. A PHA must be mindful of additional utility use by individuals with disabilities due to the need and use medical equipment or other needs. This distinction should reflect local usage and custom patterns. The utility allowance is generally determined by or in consultation with the supplier of utilities following an energy audit.

PHAs are required to review their schedule of allowances annually, revise them if needed, as discussed below, and make them available for inspection by the residents. According to the regulations at 24 CFR 965.502, not later than 60 days before the proposed effective date of the revision, the PHA must inform the residents of the planned allowances, surcharges and revisions. Residents must be provided with an opportunity to make comments during a period no longer than 30 days before the proposed effective date of the revised schedule. The schedule of allowances or surcharges is not subject to HUD approval before becoming effective by the PHA.

Notice PIH 2014-12 (HA), Changes to Flat Rent Requirements – 2014 Appropriations Act

Section 2. Applicability, background, and HUD interpretation of new statutory requirements. This notice applies to PHAs that operate a public housing program. It also applies to families residing in, or applicants to the public housing program.

Moving to Work (MTW) PHAs operating a public housing program can exercise flexibility in regards to establishing flat rents, in accordance with the terms of their respective MTW Agreement and approved Annual MTW Plan. If an MTW PHA has not exercised flexibility via the Annual MTW Plan, then the policies set forth in this Notice will apply to the MTW PHA.

Currently, PHAs are required to establish flat rents based on the market rent of comparable units in the private, unassisted rental market. Paragraph (2)(B)(i) of Section 3(a) of the United States Housing Act of 1937 (the Act), as amended by Section 210, establishes new parameters that PHAs must use when determining the flat rent amounts. Specifically, flat rents must now be:

- Set at no less than 80 percent of the applicable Fair Market Rent (FMR); and

Section 210 also establishes that PHAs may, but are not required to lower flat rents to 80% of the applicable FMR in years when the FMR decreases from the previous year. This provision applies to the FMRs published for fiscal year 2015 and beyond. If a PHA must increase their flat rents to comply with the statutory changes, the increase shall be considered a significant amendment to the PHA Annual Plan. Please review Section 8 of this Notice which provides a detailed explanation regarding significant amendments for flat rent changes.

PHAs shall comply with the new flat rent requirements by June 1, 2014. The Department will consider PHAs to be in compliance with the new requirements if non-qualified agencies have initiated the process to amend their PHA Annual Plan, and qualified agencies have initiated the public hearing process by no later than June 1, 2014. PHAs should begin applying the new flat rent schedules to households they are recertifying and new applicants by October 31, 2014.

If a new flat rent amount for a unit will increase a family's existing rental payment by more than 35 percent, then the new flat rent amount shall be phased in as necessary to ensure that the family's existing rental payment does not increase by more than 35 percent annually.

Notice PIH 2009-48 (HA), Administering the Community Service and Self-Sufficiency Requirement

Section 4. *Statutory/Regulatory Requirements for Administering CSSR:* Community Service is “The performance of voluntary work or duties that are a public benefit, and that serve to improve the quality of life, enhance resident self-sufficiency, or increase resident self responsibility in the community. Community service is not employment and may not include political activities.”

Community service volunteer work and economic self-sufficiency requirements mandate that each nonexempt adult household member (18 years or older) shall either contribute 8 hours per month of community service within his or her community, or participant in an economic self-sufficiency program for 8 hours per month (see 24 CFR 960.603(a)). The requirements can also be met by a combination of 8 hours of community service and participation in an economic self-sufficiency program. At least 8 hours of activity must be performed each month (see 24 CFR 960.603(a)). An individual may not skip a month and then double up the following month, unless special circumstances warrant it. The PHA will determine whether to permit a deviation from the schedule (see 24 CFR 960.605).

Section 14. *Documentation of CSSR Completion:* At each regularly scheduled rent re-examination, each non-exempt family member presents a signed certification on a form provided by the PHA of CSSR [community service and self-sufficiency requirement] activities performed over the previous twelve (12) months. Each PHA develops a standardized form with places for signature confirmation by supervisors, instructors, or counselors certifying the number of hours contributed. Supporting documentation will be requested of the resident to verify CSSR participation or exempt status. Copies of the certification forms and supporting documentation must be retained in PHA files. PHAs must obtain verification of CSSR completion administered through outside organizations.

Fringe Benefits

Internal Revenue Service Publication 15(b)

Section 1: *Are Fringe Benefits Taxable?*

Any fringe benefit you provide is taxable and must be included in the recipient's pay unless the law specifically excludes it.

Section 2: *Fringe Benefit Exclusion Rules*

You can exclude the value of lodging you furnish to an employee from the employee's wages if it meets the following tests.

On your business premises. For this exclusion, your business premises is generally your employee's place of work.

For your convenience. Whether or not you furnish lodging for your convenience as an employer depends on all the facts and circumstances. You furnish the lodging to your employee for your convenience if you do this for a substantial business reason other than to provide the employee with additional pay. This is true even if a law or an employment contract provides that the lodging is furnished as pay.

Condition of Employment. Lodging meets this test if you require your employees to accept the lodging because they need to live on your business premises to be able to properly perform their duties.

Section 3: *Cents-Per-Mile Rule*

Under this rule, you determine the value of a vehicle you provide to an employee for personal use by multiplying the standard mileage rate by the total miles the employee drives the vehicle other than use in your trade or business. This amount must be included in the employee's wages or reimbursed by the employee.

Internal Revenue Service Notice 2013-54

Section II(B) Employer Payment Plans

Revenue Ruling 61-146 holds that if an employer reimburses an employee's substantiated premiums for non-employer sponsored hospital and medical insurance, the payments are excluded from the employee's gross income under Code § 106. This exclusion also applies if the employer pays the premiums directly to the insurance company. An employer payment plan, as the term is used in this notice, does not include an employer-sponsored arrangement under which an employee may choose either cash or an after-tax amount to be applied toward health coverage.

Internal Revenue Service Publication 5137 (1-2014)

Section 1 Types of Tax Treatment of Fringe Benefits

The IRC [Internal Revenue Code] may provide that a fringe benefit is nontaxable, partially taxable, or tax-deferred. These terms are defined below.

Taxable – Includible in gross income, not excluded under any IRC section. If the recipient is an employee, this amount is includible as wages and reported on Form W-2, Wage and Tax Statement, and generally is subject to Federal income tax withholding, social security (unless the employee has already reached the current year social security wage base limit), and Medicare. For example, bonuses are always taxable because they are income under section 61 and no IRC section excludes them from taxation.

Fringe benefits that do not meet any statutory requirements for exclusion are fully taxable. Although there are special rules and elections for certain benefits, in general, taxable fringe benefits are reported as wages on Form W-2 for the year in which the employee received them.

Internal Revenue Service Publication 15

Section 5: Wages and Other Compensation

Wages subject to federal employment taxes generally include all pay you give to an employee for services performed. The pay may be in cash or in other forms. It includes salaries, vacation allowances, bonuses, commissions, and fringe benefits.

Inauditable Records

24 CFR 85.32 – Equipment

(d) *Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, at a minimum, meet the following requirements:

- 1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- 2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- 3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- 4) Adequate maintenance procedures must be developed to keep the property in good condition.
- 5) If the grantee or subgrantee is authorized to sell the property, proper sales procedures must be established to ensure the highest possible return.

(e) *Disposition.* When original or replacement equipment acquired under a grant or subgrant is no longer needed for the original project or program or for other activities currently or previously supported by a Federal agency, disposition of the equipment will be made as follows:

- 1) Items of equipment with a current per-unit fair market value of less than \$5,000 may be retained, sold or otherwise disposed of with no further obligation to the awarding agency.
- 2) Items of equipment with a current per unit fair market value in excess of \$5,000 may be retained or sold and the awarding agency shall have a right to an amount calculated by multiplying the current market value or proceeds from sale by the awarding agency's share of the equipment.
- 3) In cases where a grantee or subgrantee fails to take appropriate actions, the awarding agency may direct the grantee or subgrantee to take excess and disposition actions.

24 CFR 964.150 – Funding Tenant Participation

(a) *Funding duly elected resident councils and jurisdiction wide resident councils.*

- 1) The Authority shall provide funds it receives for this purpose to the duly elected resident council at each development and/or those jurisdiction-wide councils eligible to receive the

resident portion of the tenant services account to use for resident participation activities. This shall be an addition to the Performance Funding System (PFS), as provided by 24 CFR part 990, to permit HAs [PHA] to fund \$25 per unit per year for units represented by duly elected resident councils for resident services, subject to the availability of appropriations. Of this amount, \$15 per unit per year would be provided to fund tenant participation activities under subpart B of this part for duly elected resident councils and/or jurisdiction-wide councils and \$10 per unit per year would be used by the Authority to pay for costs incurred in carrying out tenant participation activities under subpart B of this part, including the expenses for conducting elections, recalls or arbitration required under 24 CFR 964.130 in subpart B. This will guarantee the resources necessary to create a bona fide partnership among the duly elected resident councils, the Authority, and HUD. Were both local and jurisdiction-wide councils exist, the distribution will be agreed upon by the HA and the respective councils.

Part A of the Consolidated Annual Contributions Contract

Section 5 - Covenant to Develop and Operate.

The Authority shall develop and operate all projects covered by the ACC in compliance with all the provisions of this ACC and all applicable statutes, executive orders, and regulations issued by HUD, as they shall be amended from time to time, including but not limited to those regulations promulgated by HUD at Title 24 of the Code of Federal Regulations, which are hereby incorporated into the ACC by reference as if fully set forth herein, and as such regulations shall be amended from time to time. The Authority shall also ensure compliance with such requirements by any contractor or subcontractor engaged in the development or operation of a project covered under this ACC.

Section 9 – Depository Agreement and General Fund.

(C) The Authority shall maintain records that identify the source and application of funds in such a manner as to allow HUD to determine that all funds are and have been expended in accordance with each specific program regulation and requirements. The Authority may withdraw funds from the General Fund only for: (1) the payment of the costs of development and operation of the projects under ACC with HUD; (2) the purchase of investment securities as approved by HUD; and (3) such other purposes as may be specifically approved by HUD. Program funds are not fungible; withdrawals shall not be made for a specific program in excess of the funds available on deposit for that program.

Section 15 – Books of Account, Records, and Government Access.

(A) The Authority must maintain complete and accurate books and account for the projects of the Authority in such a manner as to permit the preparation of statements and reports in accordance with HUD requirements, and to permit timely and effective audit.

Section 17 – Notices, Defaults, Remedies.

(B) Upon the occurrence of a substantial default by the Authority, as determined by HUD in accordance with the ACC, HUD shall be entitled to any or all of the remedies set forth in paragraphs (E), (F), and (H) below. A substantial default is a serious and material violation of

any one or more of the covenants contained in this ACC. Events of substantial default shall include, but shall not be limited to, any of the following occurrences: (1) failure to maintain and operate the project(s) under this ACC in a decent safe, and sanitary manner; (2) the disposition or encumbrance of any project or portion thereof without HUD approval; (3) failure of the Authority to comply with any civil rights requirements applicable to the Authority and the project(s); (4) abandonment of any project by the HA, or if the powers of the HA to operate the project(s) in accordance with the provisions of the this ACC are curtailed or limited to an extent that will prevent the accomplishment of the objectives of this ACC; (5) failure to carry out modernization or development in a timely, efficient and effective manner; and (6) termination of tax exemption (either real or personal property) on behalf of a project covered under this ACC.

(E) Upon the occurrence of a substantial default, or the expiration of any applicable cure period provided by HUD, the Authority shall: (1) convey to HUD title to the project(s) as demanded by HUD if, in the determination of HUD (which determination shall be final and conclusive), such conveyance of title is necessary to achieve the purposes of the Act; or (2) deliver possession and control of the project(s) to HUD.

(F) Nothing contained in the ACC shall prohibit or limit HUD from the exercise of any other right or remedy existing under applicable law, or available at equity. HUD's exercise or non-exercise of any right or remedy under this ACC shall not be construed as a waiver of HUD's right to exercise that or any other right or remedy at any time.