



Richmond Redevelopment and Housing Authority, Richmond, VA

Central Office Cost Center Fees



To: Catherine D. Lamberg, Director, Office of Public Housing, Richmond Field Office, 3FPH
//signed//

From: David E. Kasperowicz, Regional Inspector General for Audit, Philadelphia Region, 3AGA

Subject: The Richmond Redevelopment and Housing Authority, Richmond, VA, Did Not Always Charge Eligible and Reasonable Central Office Cost Center Fees

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 Richmond Redevelopment and Housing Authority's central office cost center fees.

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 215-430-6734.



Audit Report Number: 2016-PH-1005

Date: August 17, 2016

The Richmond Redevelopment and Housing Authority, Richmond, VA, Did Not Always Charge Eligible and Reasonable Central Office Cost Center Fees

Highlights

What We Audited and Why

We audited the fees that the Richmond Redevelopment and Housing Authority charged to its U.S. Department of Housing and Urban Development (HUD) housing programs for central office cost center services based on issues identified during our prior audit of the Authority.¹ Our audit objective was to determine whether the Authority charged fees to its HUD housing programs for central office cost center services that were eligible, reasonable, and supported in accordance with applicable HUD requirements.

What We Found

The Authority did not always charge fees to its HUD housing programs for central office cost center services that were eligible and reasonable in accordance with HUD requirements. Specifically, it charged HUD funds (1) \$507,800 for an information technology fee that was duplicative and (2) \$5 million based on an hourly maintenance fee rate that was unreasonable for the services provided. It also made ineligible transfers of HUD funds to its central office cost center. These conditions occurred because the Authority lacked oversight and controls. As a result, the Authority improperly used \$507,800 in HUD funds for ineligible expenses and could not show that \$5 million in fees paid with HUD funds was reasonable for the services provided.

What We Recommend

We recommend that HUD require the Authority to (1) reimburse its public housing projects \$507,800 from non-Federal funds for the ineligible duplicative information technology fee, (2) provide documentation to show that the hourly maintenance fees totaling \$5 million were reasonable for the services provided or reimburse its public housing projects from non-Federal funds for any amount that it cannot support, and (3) continue its efforts and develop and implement procedures and controls to improve its operations.

¹ Audit Report 2015-PH-1008, The Richmond Redevelopment and Housing Authority, Richmond, VA, Did Not Comply With HUD Requirements When Procuring Services, issued September 30, 2015

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Background and Objective

The Richmond Redevelopment and Housing Authority was established in 1940. The Authority's mission is to be the catalyst for quality affordable housing and community revitalization for the City of Richmond, VA. The Authority is governed by a board of commissioners consisting of nine members appointed by the city council. The board appoints a chief executive officer to manage the day-to-day operations of the Authority. In January 2015, the board announced the resignation of its chief executive officer and selection of a new chief executive officer. The Authority is located at 901 Chamberlayne Parkway in Richmond, VA.

The Authority is the largest public housing agency in Virginia, serving nearly 10,000 residents. It manages more than 4,000 units under its public housing program. In fiscal year 2015, the Authority received \$18.2 million in public housing operating subsidies and \$6.6 million in public housing capital funds. The U.S. Department of Housing and Urban Development (HUD) provides operating funds annually to public housing agencies for the operation and management of public housing. It provides capital funds annually to public housing agencies for the development, financing, and modernization of public housing developments and for management improvements.

In 2005, HUD required public housing agencies with more than 250 units to convert to asset management and establish a central office cost center. The cost center generates revenue by using a fee-for-service approach and engaging in business activities. In October 2007, the Authority established its cost center. During the period October 2012 to September 2015, the Authority's cost center generated revenue totaling more than \$24.2 million by charging the following 11 fees to its housing programs.

No.	Fees	Amount
1.	Property management	\$7,212,437
2.	Maintenance	4,927,176
3.	Capital management	2,458,087
4.	Resident services	2,158,148
5.	Call center	1,788,569
6.	Tenant selection	1,439,134
7.	Asset management	1,237,920
8.	Housing Choice Voucher program management	1,022,595
9.	Bookkeeping	946,770
10.	Public safety	538,246
11.	Information technology	507,800
	Total	24,236,882

Our objective was to determine whether the Authority charged fees to its HUD housing programs for central office cost center services that were eligible, reasonable, and supported in accordance with applicable HUD requirements.

Results of Audit

Finding: The Authority Did Not Always Charge Fees to Its HUD Housing Programs for Central Office Cost Center Services That Were Eligible and Reasonable in Accordance With HUD Requirements

The Authority did not always charge fees to its HUD housing programs for central office cost center services that were eligible and reasonable in accordance with HUD requirements. Specifically, it charged HUD funds (1) \$507,800 for an information technology fee that was duplicative and (2) \$5 million based on an hourly maintenance fee rate that was unreasonable for the services provided. It also made ineligible transfers of HUD funds to its central office cost center. These conditions occurred because the Authority lacked oversight and controls. As a result, the Authority improperly used \$507,800 in HUD funds for ineligible expenses and could not show that \$5 million in fees paid with HUD funds was reasonable for the service provided.

The Authority's Information Technology Fee Was Duplicative

The Authority improperly charged its public housing projects \$507,800 for an information technology fee that was duplicative. Regulations at 24 CFR (Code of Federal Regulations) 990.280(d) required the Authority to charge each project using a fee-for-service approach when it chose to centralize functions that directly supported a project. It was also required to charge each project for the actual services received and only to the extent that such amounts were reasonable. During fiscal years 2013 and 2014, the Authority charged its public housing projects an information technology fee for expenses related to providing and supporting computers used by the public housing projects. However, it also charged the same expenses as a component of the call center fee. This condition occurred because the Authority lacked oversight and control to prevent it from charging duplicative central office cost center fees. As a result, the Authority's use of \$507,800 in public housing funds was ineligible because it charged HUD funds for a duplicative information technology fee. In September 2015, the Authority reviewed all financial operations, recognized that the information technology fee was duplicative, and stopped charging the fee.

The Authority Charged an Unreasonable Maintenance Fee Rate

The Authority charged HUD funds \$5 million based on an hourly maintenance fee rate that was unreasonable for the services provided. Regulations at 24 CFR 990.280(d) required the Authority to charge each project for the actual services received and only to the extent that such amounts were reasonable. The supplement to HUD's Financial Management Handbook 7475.1, REV, CHG-1, also required the Authority to document how it determined that the fee was reasonable. It charged a \$95 per hour rate for all maintenance services provided to its housing programs regardless of the type of services. These services ranged from heating, ventilation, and air conditioning work to general labor like moving furniture and trash pickup. To determine the hourly rate, the Authority obtained hourly rate quotes from three different vendors in the local

area for each of the following services: heating, ventilation, and air conditioning; plumbing; and electrical work. It took the average of all the quotes to establish the \$95 per hour rate. Clearly, the \$95 per hour rate for general labor services appeared to be excessive, and information contained in RSMeans² suggests that the \$95 per hour rate for heating, ventilation, and air conditioning work may have been excessive as well. This condition occurred because the Authority lacked controls to ensure that the maintenance fee it charged was reasonable. As a result, it could not show that \$5 million in fees paid with HUD funds was reasonable for the service provided.

During the audit, the Authority began to address the reasonableness of the \$5 million in maintenance fees that it charged to HUD funds during the audit period. The Authority established a fee schedule based on RSMeans cost data indexed for the local area and planned to apply those rates to all work orders it used to charge the \$5 million to HUD funds to determine how much of the \$5 million it charged was reasonable. As of June 2016, the Authority had not completed this process. Also, for future maintenance services, the Authority informed us that it planned to use its new fee schedule and update the rates annually to reflect RSMeans rate changes.

The Authority Made Ineligible Transfers of HUD Funds

The Authority made ineligible transfers of HUD funds from its public housing project accounts to its central office cost center to cover expenses not associated with the projects. Regulations at 24 CFR 990.280(b)(4) stated that project-specific operating expenses included but were not limited to direct administrative cost, utilities costs, maintenance costs, tenant services, protective services, general expenses, nonroutine or capital expenses, and other HUD-identified costs that were project specific for management purposes. The Authority made the transfers from HUD funds monthly to cover the budget shortfalls of its cost center. During our prior audit of the Authority,³ its general ledger showed a balance due to its public housing projects from the central office cost center beginning with fiscal year 2012. This general ledger account had a balance of \$6.7 million as of September 2015. The Authority stated that there were no loan agreements or terms for repayment supporting the transfers. This condition occurred because the Authority lacked oversight and control to prevent it from making improper transfers of funds between accounts. As a result, the Authority's use of as much as \$6.7 million in public housing funds was ineligible because it improperly transferred the funds to pay for expenses not associated with the operation of its public housing units. In September 2015, the Authority stopped its improper practice of transferring public housing project funds to its central office cost center for expenses unrelated to the operation of the projects.

The fiscal year 2014 report by the Authority's independent auditors disclosed that the Authority used \$4.9 million in public housing operating funds to pay for salaries and other vendor payables on behalf of the cost center. The report contained a recommendation for the Authority to work with HUD to determine the full extent of any unallowable expenditures and establish a

² RSMeans is North America's leading supplier of construction cost information, to include facilities maintenance and repair cost data, which is indexed by locality. RSMeans is recognized by HUD as an acceptable index for estimating facilities maintenance and repair costs.

³ See footnote 1.

repayment agreement if necessary. In July 2016, the Authority entered into a repayment agreement after HUD determined that it needed to repay \$6.1 million for unallowable expenditures that resulted from its ineligible transfers of HUD funds.

The Authority Received Technical Assistance To Improve Its Operations

In September 2015, the Authority began receiving technical assistance from a HUD-funded contractor to improve its operations. The assistance included reviewing and updating policies and procedures for the administration of all HUD programs. The assistance also included training on various topics, such as the budget planning process, accounting procedures, and internal controls. The Authority was scheduled to receive technical assistance from the contractor through September 2016.

Conclusion

The Authority did not always charge fees to its HUD housing programs for central office cost center services that were eligible and reasonable in accordance with HUD requirements. This condition occurred because the Authority lacked oversight and controls to prevent it from (1) charging duplicative central office cost center fees, (2) charging an unreasonable maintenance fee, and (3) making improper transfers of funds between accounts. As a result, the Authority improperly used \$507,800 in HUD funds for ineligible expenses and could not show that \$5 million in fees paid with HUD funds was reasonable for the service provided. To address these and other issues, HUD hired a contractor in September 2015 to provide technical assistance to the Authority.

Recommendations

We recommend that the Director of HUD's Richmond Office of Public Housing require the Authority to

- 1A. Reimburse its public housing projects \$507,800 from non-Federal funds related to the ineligible duplication of the information technology fee.
- 1B. Provide documentation to show that fees it charged for maintenance services totaling \$4,927,176 were reasonable or reimburse its public housing projects from non-Federal funds for any amount that it cannot support.
- 1C. Continue its efforts and develop and implement controls to prevent the duplication of central office cost center fees.
- 1D. Continue its efforts and develop and implement controls to ensure that maintenance fees are reasonable.
- 1E. Continue its efforts and develop and implement procedures to prevent it from making improper transfers of funds between accounts.

Scope and Methodology

We conducted the audit from October 2015 through June 2016 at the Authority's office located at 901 Chamberlayne Parkway, Richmond, VA, and our office located in Richmond, VA. The audit covered the period October 2012 through September 2015.

To accomplish our objective, we reviewed

- Relevant background information;
- Applicable regulations, HUD handbooks, and the Authority's policies and procedures;
- The Authority's fiscal years 2013 and 2014 audited financial statements;
- RSMMeans labor rates for calendar years 2011 through 2015; and
- Accounting and housing unit records provided by the Authority to support fees charged to its HUD housing programs.

We conducted interviews with responsible employees of the Authority and HUD staff located in Richmond, VA.

To achieve our audit objective, we relied in part on the Authority's computer-processed data. We used the data to review journal vouchers and occupancy reports the Authority used to support the fees it charged to its HUD housing programs. Although we did not perform a detailed assessment of the reliability of the data, we did perform limited testing and found the data to be adequate for our purposes.

During the audit period, the Authority charged the following 11 fees to its HUD housing programs: (1) property management, (2) bookkeeping, (3) asset management, (4) Housing Choice Voucher program management, (5) capital management, (6) maintenance, (7) call center, (8) information technology, (9) resident services, (10) tenant selection, and (11) public safety. We reviewed monthly journal entries and supporting documentation for the audit period of October 2012 to September 2015 to determine whether the fees charged were eligible, reasonable, and supported in accordance with HUD and Federal requirements. We reviewed 100 percent of the fees the Authority charged during the audit period. Therefore, we did not need to draw a sample or project our audit results.

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:

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that the use of resources is consistent with laws and regulations.

We assessed the relevant controls identified above.

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

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The Authority lacked oversight and controls to prevent it from (1) charging duplicative central office cost center fees, (2) charging an unreasonable maintenance fee, and (3) making improper transfers of funds between accounts.

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$507,800	
1B		\$4,927,176

- 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

Board of Commissioners
Robley S. Jones, Chairman

Samuel S. Young, Jr.
Marilyn B. Olds
Elliott M. Harrigan
Jonathan Coleman
Robert J. Adams
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Neil S. Kessler
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July 12, 2016

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Office of Audit, Region 3
100 Penn Square East, Suite 10205
Philadelphia, PA 19107-3380
Attn: David E. Kasperowicz, Regional Inspector General for Audit

RE: Richmond Redevelopment and Housing Authority (the "Authority")

Dear Mr. Kasperowicz,

Thank you for allowing the Authority the opportunity to provide written comments to the HUD Office of Inspector General's ("OIG") report on the recent audit of the Authority's Central Office Cost Center records for the period October 2012 to September 2015. The Authority recognizes that the fees its Central Office Cost Center ("COCC") charges to its public housing operations must be eligible, reasonable, and supported in accordance with applicable HUD regulations.

As described in its letter to you dated September 16, 2015, the Authority is in the midst of an organizational "reset." In recent years, a combination of reduced funding, operational difficulties, and staff turnover has brought to light a number of organizational challenges. Please know that the Authority is addressing these challenges head-on. Significant among these efforts is the Authority's comprehensive review and modification of its asset management system. With HUD subsidy for Public Housing predicted to remain underfunded for the foreseeable future, it is important, now more than ever, to ensure that the Authority is operating its Public Housing Program in a prudent and financially-sound manner.

In response to the OIG's recommendations, the Authority offers the following comments:

- 1A. The Authority concurs with the OIG's finding of ineligible duplication of the information technology fee and will reimburse its public housing projects \$507,800 from non-Federal funds. The Authority will work with the Director

Comment 1

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 2

Comment 3

Comment 3

Comment 3

Comment 4

Mr. David Kasperowicz
July 12, 2016
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of HUD's Richmond Office of Public Housing to execute reasonable terms for this repayment.

- 1B. The Authority is compiling documentation for the Director of HUD's Richmond Office of Public Housing to confirm that fees charged for maintenance services totaling \$4,927,176 were reasonable. The Authority will reimburse its public housing projects with non-Federal funds for any amount that it cannot support.
- 1C. The Authority will continue its efforts to develop and implement controls to prevent the duplication of COCC fees.
- 1D. The Authority will continue its efforts to develop and implement controls to ensure that maintenance fees are reasonable.
- 1E. The Authority has implemented budget procedures requiring that each of its component programs and operations break even financially. Furthermore, in September 2015, the Authority took the painful but necessary step of eliminating 17 positions, most of which were housed within the COCC, in order to help right-size its operations. The Authority will continue its efforts to develop and implement procedures to prohibit budget deficits and prevent ineligible transfers of funds between accounts.
- 1F. The Authority has executed a repayment plan agreement with HUD providing for the reimbursement of ineligible transfers of public housing operating funds to the COCC.

The Authority is grateful for this opportunity to respond to the OIG's recommendations. In the wake of the Authority's recent tribulations, a number of operational and financial changes have been implemented. The Authority is confident that these changes will help it to more efficiently and effectively serve its core mission.

Very Truly Yours,



T.K. Somanath
Chief Executive Officer

OIG Evaluation of Auditee Comments

- Comment 1 The Authority stated that it will work with the Director of HUD's Richmond Office of Public Housing to execute reasonable terms for the repayment of the ineligible duplication of the information technology fee. These actions meet the intent of our recommendation. As part of the audit resolution process, HUD will need to execute a repayment agreement with the Authority to reimburse its public housing projects \$507,800 from non-Federal funds.
- Comment 2 The Authority stated that it was compiling documentation for the Director of HUD's Richmond Office of Public Housing to confirm that fees charged for maintenance services totaling approximately \$5 million were reasonable. The Authority also stated that it would reimburse its public housing projects with non-Federal funds for any amount that it cannot support. These actions meet the intent of our recommendation. As part of the audit resolution process, HUD will need to determine whether the documentation supports the fees charged or direct the Authority to reimburse its public housing projects from non-Federal funds for any amount that it cannot support.
- Comment 3 The Authority stated that it will continue its efforts to develop and implement (1) controls to prevent the duplication of central office cost center fees and ensure that maintenance fees are reasonable, and (2) procedures to prohibit budget deficits and prevent ineligible transfers of funds between accounts. These actions meet the intent of our recommendations. As part of the audit resolution process, the Authority will need to demonstrate to HUD that it has developed and implemented these controls and procedures.
- Comment 4 The Authority stated that it had executed a repayment agreement with HUD providing for the reimbursement of ineligible transfers of public housing operating funds to the central office cost center. On July 14, 2016, we obtained from HUD a copy of the executed repayment agreement that was dated July, 6, 2016. The repayment agreement was for \$6.1 million, which is the amount that HUD determined was unallowable after reviewing documentation provided by the Authority. Accordingly, we updated the final audit report and removed recommendation 1F.