



# Columbus Metropolitan Housing Authority, Columbus, OH

## Public Housing Operating and Capital Fund Grant Programs



**To:** Brian D. Murray, Director of Public Housing Hub, 5DPH

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

**Subject:** The Columbus Metropolitan Housing Authority, Columbus, OH, Did Not Always Comply With HUD's Requirements Regarding the Administration of Its Public Housing Operating and Capital Fund Programs

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 Columbus Metropolitan Housing Authority's Public Housing Operating and Capital Fund programs.

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

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

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



**Audit Report Number: 2018-CH-1006**

**Date: September 18, 2018**

**The Columbus Metropolitan Housing Authority, Columbus, OH, Did Not Always Comply With HUD's Requirements Regarding the Administration of Its Public Housing Operating and Capital Fund Programs**

## Highlights

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### What We Audited and Why

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We audited the Columbus Metropolitan Housing Authority's Public Housing Operating and Capital Fund programs based on an anonymous complaint to our hotline. Our audit objective was to determine whether the Authority administered its programs in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements.

### What We Found

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The Authority invested Federal funds in non-HUD-approved investment accounts and did not properly record the proceeds from the sale of a public housing property. As a result, HUD and the Authority lacked assurance that nearly \$21 million in Federal funds was protected. Also, nearly \$14 million in sales proceeds may not have been available for the intended purposes.

In addition, the Authority could not support the source of funds for a loan to an affiliated entity. As a result, HUD and the Authority lacked assurance that \$261,990 in Federal funds was available for program purposes.

The Authority did not comply with HUD's procurement requirements for one contract. It also used non-Federal funds to pay Capital Fund expenses and inappropriately used capital funds as reimbursement. As a result, HUD and the Authority lacked assurance that more than \$263,000 in capital funds used to pay for the contract was reasonable and that the Authority did not incur and pay expenses before the obligation start date of its Capital Fund grants.

### What We Recommend

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We recommend that the Director of HUD's Cleveland Office of Public Housing require the Authority to procure and use HUD-approved investment accounts for Federal funds, ensure that sales proceeds are maintained in a restricted account, support the source of funds for the loan and the reasonableness for one contract or reimburse its program from non-Federal funds, and implement adequate procedures and controls to address the findings cited in this audit report.

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# Background and Objective

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The Columbus Metropolitan Housing Authority was created under the laws of the State of Ohio on May 8, 1934. The Authority is governed by five-member board of commissioners appointed by the Common Pleas Court, the mayor, the Franklin County Commissioners, and the Probate Court. The board appoints the executive director. The executive director has general supervision over the administration of the Authority's business and affairs, subject to the direction of the board of commissioners.

The Authority administers the public housing program, funded by the U.S. Department of Housing and Urban Development (HUD). Public housing was established to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. The Public Housing Operating Fund provides subsidies to public housing agencies to assist in funding the operating and maintenance expenses of the developments. The Public Housing Capital Fund program provides funds to public housing agencies to modernize public housing developments. As of August 2018, the Authority had 1,049 public housing units and received nearly \$2.8 million in operating subsidies and more than \$1.9 million in Capital Fund grants.

The Authority was selected for review based on an anonymous complaint received by the Chicago Office of Audit and then routed to the HUD, Office of Inspector General (OIG), hotline. The complaint alleged that the Authority (1) did not maintain written financial policies and procedures, (2) did not have internal controls, (3) inappropriately obligated and used Capital Fund grant funds, (4) reported operating deficits in HUD's systems when it had a cash surplus, and (5) contracted out its asset management functions.

The allegations in the complaint were generally not substantiated, with the exception of the inappropriate obligation and use of the Authority's Capital Fund grant funds (finding 3). We also determined that the contracting of the Authority's asset management functions was allowable and the Authority needed to improve its internal controls. However, during the audit, we identified the following issues that were not part of the complaint: the Authority did not (1) maintain Federal funds in HUD-approved investment accounts, (2) correctly record the proceeds from the sale of one of its public housing properties in a restricted account, (3) maintain the source of funds for a loan made to an affiliated entity, (4) maintain documentation to support the reasonableness of one contract and the associated change order, and (5) appropriately draw down its Capital Fund program grant funds.

The objective of our audit was to determine whether the Authority managed its Public Housing Operating and Capital Fund grant programs in accordance with HUD's and its own requirements. Specifically, we wanted to determine whether the Authority (1) appropriately invested Federal funds, (2) appropriately recorded the proceeds for the sale of a public housing property, (3) maintained documentation to show the source of funds loaned to an affiliated entity, (4) complied with HUD's procurement requirements, and (5) complied with HUD's requirements when drawing down Capital Fund grant funds from HUD's Line of Credit Control System.

# Results of Audit

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## **Finding 1: The Authority Did Not Comply With HUD's Requirements for Investing Federal Funds and Recording Sales Proceeds**

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The Authority inappropriately invested Federal funds in non-HUD-approved investment accounts and did not properly record the proceeds from the sale of a public housing property. The weaknesses occurred because the Authority lacked a sufficient understanding of the Ohio Revised Code and HUD's requirements regarding investments. It also lacked a sufficient understanding of HUD's requirements regarding proceeds from the sale of a public housing property. As a result, HUD and the Authority lacked assurance that nearly \$21 million of the Authority's Federal funds was properly protected and not at risk. In addition, nearly \$14 million in sales proceeds may not have been available for the intended purposes.

### **The Authority Invested Funds in Non-HUD-Approved Investment Accounts**

The Authority maintained more than \$20.7 million in Federal funds<sup>1</sup> in State Treasury Asset Reserve of Ohio (STAR Ohio) investment accounts as of May 31, 2018. However, it did not obtain HUD's approval to use the accounts to invest Federal funds.<sup>2</sup> In addition, the Authority was unable to provide documentation showing that it had procured the services of STAR Ohio to manage the invested funds.

Further, the Authority's 2017 annual audited financial statements showed that the Authority's total cash and cash equivalents held with financial institutions, consisting of both active and interim deposits, were just under \$44.3 million. Of this balance, only about \$2.5 million was covered by the Federal Deposit Insurance Corporation, and the remaining \$41.8 million was uncollateralized. HUD's Office of Public and Indian Housing (PIH) Notice PIH-96-33, appendix A, number 6, limits the amount of funds invested in a municipal depository fund to no more than 30 percent of a housing agency's available investment funds. As of December 31, 2017, the Authority had more than \$22 million held in the STAR Ohio investment accounts. Therefore, it had invested nearly 50 percent<sup>3</sup> of its uncollateralized funds<sup>4</sup> held in a municipal depository fund.

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<sup>1</sup> Federal funds are defined as the funding from the Authority's various HUD programs.

<sup>2</sup> HUD's Cleveland field office's chief counsel issued a legal opinion regarding STAR Ohio's investment pool. The legal opinion determined that investing Federal funds with STAR Ohio was not appropriate unless a waiver was obtained from HUD before the funds were invested and the investment account was appropriately procured.

<sup>3</sup>  $\$22,006,889 / \$44,294,702 = 49.68$  percent

<sup>4</sup> Uncollateralized as defined by the Governmental Accounting Standards Board (covered by collateral pools held by third-party trustees under title [1] I, chapter 135.182, of the Ohio Revised Code in collateral pools securing all public funds on deposit with specific depository institutions but not in the Authority's name)

In addition, as of March 26, 2018, STAR Ohio's investment portfolio composition included a 42 percent investment in commercial paper.<sup>5</sup> HUD's Notice PIH-96-33, attachment A, number 6, states that public housing agencies may use municipal depository funds or local Government investment pools established by States, municipalities, units of local government or other political subdivisions to serve as an investment. However, the securities purchased by a fund must be on the HUD-approved list of investment securities. Commercial paper is not a HUD-approved investment.

According to the Authority's chief financial officer, based on previous discussions with and a report from HUD's PIH Quality Assurance Division, the Authority believed that investing Federal funds in STAR Ohio's investment account was allowable. However, the Authority's staff later determined that HUD's Quality Assurance Division's report was related to another issue. In addition, according to the chief financial officer, he believed that the staff was following practices that had been in place under the Authority's previous administration. The Authority planned to work with HUD's Cleveland field office to properly procure a new bank to manage its investments and to move its Federal funds into HUD-approved investment accounts.

### **The Authority Did Not Properly Record the Proceeds From the Sale of a Public Housing Property**

The Authority sold Bollinger Tower, a public housing property; however, it did not maintain the proceeds from the sale in a restricted account as required by HUD. On September 30, 2017, the Authority deposited sales proceeds totaling more than \$13.9 million into its central office cost center (COCC). On October 31, 2017, the Authority created a journal entry moving the funds from its COCC to another unrestricted account.

On May 16, 2018, the Authority's controller said that the funds were in a restricted account and would be used for affordable housing purposes in accordance with its agreement with HUD. However, the support provided showed that the Authority only changed the name of an account on its general ledger from unrestricted to restricted, instead of using an appropriately numbered restricted account and then creating journal entries to reclassify the funds to the restricted account. HUD agreed and emphasized that the restricted Bollinger Tower funds, which should be used to develop 300 affordable units, must be kept in a restricted general ledger account in accordance with generally accepted accounting principles. The Authority's decision to put the funds into an account normally used for unrestricted funds was not appropriate. In addition, the funds should be maintained in the Authority's own restricted account and clearly marked with their intended purpose.

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<sup>5</sup> The Government Finance Officers Association defines commercial paper (CP) as a short-term, unsecured promissory note issued by corporations typically used as a source of working capital, receivables financing, and other short-term financing needs. CP has maturities ranging anywhere from 1 to 270 days. Because of the short maturity, Federal law exempts CP from registration with the Securities and Exchange Commission. As an unsecured debt issued by companies, CP carries default risk for investors as compared to U.S. Treasury or U.S. Government agency or instrumentality debt.

According to the Authority's controller, the Authority did not have policies and procedures related to changing account designations or names because it would very rarely or almost never change account names or designations. Therefore, the Authority believed that changing the name of the account on its general ledger was sufficient to show that the funds were maintained in a restricted account.

#### Recording Sales Proceeds in HUD's Financial Data Schedule System

The Authority recorded the sales proceeds on line item 132 of HUD's Financial Data Schedule (FDS) system, which states "investments restricted," to record the proceeds of the sale. However, according to the definition for line item 132,<sup>6</sup> it is designated for restricted investments. It represents the fair market value of all investments that can be used, upon exchange, only for specific, designated purposes. In this case, the cash proceeds from the investment would be only for the same specified use as the initially invested cash. The restriction on the use of the funds must have been placed or imposed by the source of the funding. This account includes investments restricted for modernization and development under HUD public housing and Capital Fund grant projects.

In addition, slightly more than \$10.9 million of the more than \$13.9 million in sales proceeds was reported in FDS as part of the Authority's restricted COCC funds, and the remaining \$3 million was reported as part of its general public housing and Capital Fund program. According to HUD's FDS Reporting Brief number 4, when HUD funds are used to acquire program assets, HUD also controls the use of the sales proceeds for the assets. Therefore, the sales proceeds should have been recorded in a cash-restricted-modernization and development account, which is FDS line item 112, unless HUD removes the restriction. Thus, the proceeds from the sale of the Bollinger Tower property should not have been reported as part of the Authority's COCC but rather in the appropriate program category.

The Authority's controller believed that the proceeds from the sale should be reported on line 132 because the funds were invested in a STAR Ohio investment account. However, according to the Authority's controller, although the Authority's 2017 financial statements had been audited, the information reported in FDS needed to be revised for accuracy. The Authority has until September 2018 to submit a finalized FDS report to HUD.

#### **Conclusion**

The weaknesses described above occurred because the Authority lacked a sufficient understanding of HUD's requirements and the Ohio Revised Code regarding investing Federal funds. It also lacked a sufficient understanding of HUD's requirements regarding proceeds from the sale of public housing property. As a result of the Authority's inappropriate investment accounts with STAR Ohio, HUD and the Authority lacked assurance that more than \$20.7 million of the Authority's Federal funds were properly protected and not at risk. In addition, more than \$13.9 million in sales proceeds may not have been available for the intended purposes.

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<sup>6</sup> The PIH Real Estate Assessment Center's Financial Assessment Subsystem – Public Housing's (FASS-PH) line definition guide, updated July 2014, section IV, number 1.

## Recommendations

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

- 1A. Procure appropriate HUD-approved investment accounts and move all Federal funds from the STAR Ohio investment accounts to HUD-approved accounts to ensure that \$20,706,862<sup>7</sup> or the current balance of the STAR Ohio accounts is properly protected.
- 1B. Implement adequate procedures and controls to ensure that the Authority complies with HUD's requirements for its investments of Federal funds.
- 1C. Ensure that its staff is properly trained and familiar with HUD's requirements to ensure that it properly procures and invests Federal funds in HUD-approved investment accounts.
- 1D. Ensure that the proceeds from the sale of Bollinger Tower proceeds are moved into a separate HUD-approved restricted investment account and appropriately recorded in a restricted account in the general ledger.
- 1E. Implement adequate policies and procedures to ensure that future proceeds from the disposition or sale of public housing are appropriately recorded and reported in the Authority's books of record and annual audited financial statements and HUD's Financial Data Schedule system.
- 1F. Ensure that its staff is appropriately trained and familiar with HUD's requirements to ensure that proceeds from future dispositions or sales of public housing property or other HUD assets are appropriately recorded and reported.

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<sup>7</sup> The questioned costs in recommendation 1A include the questioned cost of \$13,970,306 for recommendation 1D. The two recommendations are separate from each other, and each recommendation requires its own action to ensure that the funds are appropriately invested (recommendation 1A) and appropriately accounted for in the Authority's books, HUD's FDS system, and the annual audited financial statements for the Authority (recommendation 1D).

## **Finding 2: The Authority Could Not Support the Source of Funds for a Loan to an Affiliated Entity**

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The Authority could not support the source of funds for a loan to Waggoner Senior Housing Partnership, an affiliated entity. This weakness occurred because the Authority, under its previous administration, did not maintain complete records. As a result, HUD and the Authority lacked assurance that \$261,990 in Federal funds was available for program purposes.

### **The Authority Could Not Provide Support Showing the Source of Funds for a Loan to an Affiliated Entity**

The Authority reported 11 related party loan transactions totaling more than \$20.4 million in note 4 of its 2016 annual audited financial statements. Of the 11 loans, 4 were development notes providing payments to the Authority from its affiliated entities for development services. The amounts owed on the notes were recorded on the Authority's financial statements as current or long-term notes receivable. Of the remaining seven loans, the Authority was able to provide documentation to support the source of the funds loaned to its related parties for six. Generally, the sources of loaned funds for the six loans included (1) Choice Neighborhood Initiative grant, (2) replacement housing factor, or (3) COCC funds.

For the remaining loan, the Authority could not provide support showing the source of funds. Specifically, in October 2002, the Authority entered into a promissory note with Waggoner Senior Housing Limited Partnership for the development of low-income housing totaling \$261,990. The Authority's staff provided a copy of the wire transfer from First Star Bank but was unable to provide information regarding the source of funds for the \$261,990 loan and whether the funds were Federal or non-Federal. As of July 2018, the Authority had received no payments on the loan. However, according to the Authority, when the affiliated entity makes payments on the loan, the payments should be used for affordable housing purposes. HUD requires that records and accounts be complete and accurate.<sup>8</sup>

According to the Authority, the loan was executed in 2002 under the Authority's previous administration. The Authority's current staff was not aware that supporting documentation for the loan was incomplete and was unsure how to apply the payments when received. However, the Authority intended to develop procedures to track future loans and payments.

### **Conclusion**

The weakness described above occurred because the Authority, under its previous administration, did not maintain complete records. As a result, HUD and the Authority lacked assurance that \$261,990 in Federal funds was available for program purposes.

### **Recommendations**

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

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<sup>8</sup> HUD Guidebook 7510.1, chapter 2, section II-3

- 2A. Determine the source of funds for the Waggoner Senior Housing note to ensure that the funds were loaned appropriately and that when payments are received, the payments are applied to the appropriate account. If the source of funds cannot be determined, the Authority should reimburse its program \$261,990 from non-Federal funds.
  
- 2B. Ensure that the newly developed procedures are sufficient and fully implemented to ensure that the source of funds loaned is properly tracked and that payments received are applied to the appropriate accounts.

## **Finding 3: The Authority Did Not Comply With HUD’s Procurement Requirements and Inappropriately Used Capital Funds**

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The Authority did not ensure that it prepared an independent cost estimate for a service contract and performed a cost analysis for the associated change order. It also used non-Federal funds to pay Capital Fund expenses and then inappropriately used capital funds to reimburse itself. The weaknesses occurred because the Authority did not comply with HUD’s and its own procurement policies. In addition, it disregarded HUD’s requirements for spending Capital Fund grant funds. As a result, HUD and the Authority lacked assurance that more than \$263,000 in Capital Fund expenses were reasonable and that the Authority did not incur and pay expenses before the obligation start date of its Capital Fund program grants.

### **The Authority Did Not Ensure That It Prepared an Independent Cost Estimate for One Contract**

We reviewed four of the Authority’s Capital Fund program contracts<sup>9</sup> totaling more than \$7.2 million for compliance with HUD’s and its own procurement requirements. For one of the four contracts reviewed, the Authority lacked adequate documentation to support that it obtained or prepared an independent estimate<sup>10</sup> to ensure that the cost of work items totaling \$258,412 was reasonable. The Authority received only one bid for the contract, which was for radon mitigation. In addition, it did not prepare a cost analysis for the associated \$4,899 change order to evaluate the increased cost of additional work as required.<sup>11</sup>

The Authority’s policies stated that an architect and engineering firm would review the change order, estimate costs, and provide a document (bulletin) summarizing the information to the Authority for review. However, there was no documentation to support that this process had occurred. According to the Authority’s construction manager, during the property’s radon testing, a contractor estimated that the installation of radon mitigation equipment in each unit would cost about \$2,000 - \$2,500. The Authority’s construction manager said that the Authority had “asked a few other companies” and found the estimate to be accurate. Therefore, the Authority estimated that the cost of the installation service contract would be \$237,500 (\$2,500 x 95 units) plus a 10 percent contingency totaling \$23,750 (\$237,500 x .10) for a total contract cost of \$261,250. However the cost estimate, as described by the Authority, was not supported. Thus, the Authority did not ensure that it prepared an independent cost estimate before the contract for radon mitigation services was executed.

Without an independent cost estimate identifying the quantity and cost of materials, labor, or any other pertinent information, the Authority had no baseline to determine the reasonableness of the cost of the contract. In addition, although there was no documentation to support its analysis of

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<sup>9</sup> See the Scope and Methodology section.

<sup>10</sup> HUD Handbook 7460.8, REV-2, section 3.2

<sup>11</sup> HUD Handbook 7460.8, REV-2, section 10.3

the change order, according to the Authority, the change order had been discussed during a weekly meeting.

### **The Authority Used Non-Federal Funds To Pay Capital Fund Expenses**

We reviewed all 11 of the Authority's Capital Fund program grant Line of Credit Control System (LOCCS)<sup>12</sup> voucher requests from November 1, 2015, through October 31, 2017, totaling more than \$3.9 million. The Authority maintained documentation, such as invoices and receipts, to support 100 percent of its voucher requests. However, it used non-Federal funds to pay for eligible Capital Fund expenses and then inappropriately reimbursed itself using its Capital Fund program grants.<sup>13</sup>

The Authority paid its vendors before drawing down Capital Fund grant funds. Of the 11 vouchers reviewed, 10 vouchers had 143 check requests totaling more than \$2.4 million. However, the dates on which the vendors were paid ranged between 2 and 518 days before the grant funds were deposited into the Authority's bank account. The Authority used non-Federal funds to pay the invoices and then used capital funds to reimburse itself. Additionally, one voucher had three check requests totaling \$10,569, which were paid between 38 and 100 days after capital funds had been received.<sup>14</sup> Therefore, although the Authority would draw down capital funds for bills that were due and payable, it did not always pay the applicable bills within 3 business days after the capital funds were deposited into the Authority's bank account.

Additionally, the Authority did not always properly report expenses and disbursements in LOCCS monthly. Because the Authority used capital funds to reimburse itself, the reported expenditures in the system would occasionally exceed its disbursements. According to HUD's requirements,<sup>15</sup> public housing agencies must ensure that reported expenditures do not exceed the reported disbursements in LOCCS.

The Authority's controller stated that the Authority used capital funds to reimburse itself because HUD did not always review voucher requests in a timely manner. Therefore, the Authority prepaid expenses to avoid the risk of adverse actions by its contractors and projects not moving forward in a timely manner. We spoke with representatives from HUD's Cleveland Office of Public Housing regarding the Authority's drawdowns. However according to HUD, lengthy disbursement reviews occurred only when the Authority requested budget modifications or revisions.

Additionally, according to the Authority's controller, the Authority's current staff was following processes that had been in place under the Authority's previous administration. The Authority had been working closely with the Cleveland field office and had been able to request the grant funds as the invoices were received for direct payment in accordance with HUD's requirements.

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<sup>12</sup> LOCCS is HUD's primary grant disbursement system that handles disbursements for the majority of HUD programs.

<sup>13</sup> HUD's Capital Fund Guidebook, section 7.9

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

## **Conclusion**

The weaknesses described above occurred because the Authority did not comply with HUD's and its own procurement policies. In addition, it disregarded HUD's requirements for spending Capital Fund grant funds. As a result, HUD and the Authority lacked assurance that more than \$263,000 in Capital Fund expenses was reasonable and that the Authority did not incur and pay expenses before the obligation start date of its Capital Fund program grants.

## **Recommendations**

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

- 3A. Support the reasonableness of the \$258,412 paid for contract M-1449 or reimburse its Capital Fund program from non-Federal funds.
- 3B. Support that the contract modification totaling \$4,899 for contract number M-1449 was reasonable. The amount that cannot be shown to be reasonable should be reimbursed to its Capital Fund program from non-Federal funds.
- 3C. Implement adequate procedures and controls to ensure that it complies with HUD's procurement requirements.
- 3D. Ensure that its staff is properly trained and familiar with HUD's requirements to ensure that documentation necessary to support the reasonableness of contract costs is obtained and maintained.
- 3E. Implement adequate procedures and controls to ensure that capital funds are drawn down and disbursed in accordance with HUD's requirements.
- 3F. Implement adequate procedures and controls to ensure that it properly reports its expenditures and disbursements in LOCCS in accordance with HUD's requirements.

# Scope and Methodology

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We performed our onsite audit work between November 2017 and July 2018 at the Authority's main office located at 880 East 11<sup>th</sup> Avenue, Columbus, OH. The audit covered the period November 1, 2015, through October 31, 2017, but was expanded as determined necessary as described below.

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

- Applicable laws; the Ohio Revised Code; Federal regulations at 2 CFR (Code of Federal Regulations) Parts 200 and 225; HUD's Regulations at 24 CFR Parts 85, 905, 970, and 990; Notices PIH-2007-9, PIH-2007-15, PIH-2016-14, and PIH-2016-21; HUD Handbook 7460.7, REV-2; HUD Handbook 7460.8, REV-2; Supplement to HUD Handbook 7475.1, REV-1; Capital Fund Guidebook; and Accounting Briefs 14 and 15.
- The Authority's accounting records; program bank statements; general ledger; policies and procedures; board meeting minutes for November 2015 through October 2017; organizational chart; independent audit reports for fiscal years 2015 through 2017; loan documents for loans made by the Authority to its affiliated entities; and Capital Fund grant obligations, contracts, drawdowns, and disbursements.

## **Finding 1**

We reviewed 100 percent of Authority's STAR Ohio Federally-funded investment accounts from November 1, 2015, through October 31, 2017. We also obtained the Authority's recent bank statements as of May 31, 2018, for its federally funded investments maintained in STAR Ohio investment accounts. We reviewed 100 percent of the investments because the STAR Ohio investment structure is not on HUD's approved list of investments. The results of our review cannot be projected as the results are applicable to the STAR Ohio investment accounts with Federal funds only.

We expanded our scope for finding 1 to May 31, 2018, to ensure we reported current information relevant to the Authority's investment accounts.

## **Finding 2**

We reviewed all 11 (100 percent) of the loans to the Authority's affiliates as shown on its 2016 annual audited financial statements. Because we looked at all 11 loans, no projection was necessary.

## **Finding 3**

During our audit scope, the Authority entered into 10 contracts for Capital Fund grant work items with three contractors totaling more than \$9 million. We selected the highest value contract from each of the three contractors. Additionally, we randomly selected another contract

for review, using the Excel function RANDBETWEEN. We randomly selected the fourth contract to provide an equal chance for the remaining seven contracts to be selected. As a result, we selected four contracts representing 78 percent (\$7,252,420 / \$9,270,403) of the total value of the 10 contracts. The results of our sample cannot be projected to the universe.

During our audit scope, the Authority submitted 11 Capital Fund voucher requests through LOCCS. The voucher requests totaled more than \$3.9 million. We reviewed all 11 (100 percent) to determine whether the requests were for eligible activities and properly supported. Because we looked at all 11 voucher requests, no projection is necessary.

#### **Data, Review Results, and Generally Accepted Government Auditing Standards**

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

We provided our review results and supporting schedules to the Director of HUD's Cleveland Office of Public Housing and the Authority's president and chief executive officer during the audit.

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

# Internal Controls

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

## Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial reporting – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

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

## Significant Deficiencies

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

- The Authority lacked a sufficient understanding of HUD's requirements and the Ohio Revised Code regarding investing Federal funds (finding 1).
- The Authority lacked a sufficient understanding of HUD's requirements for recording and reporting the proceeds from the sale of its public housing property (finding 2).

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs**

<b>Recommendation number</b>	<b>Ineligible 1/</b>	<b>Unsupported 2/</b>
1A	\$20,706,862	
2A		\$261,990
3A		258,412
3B		4,899
<b>Total</b>	<b>20,706,862</b>	<b>525,301</b>

- 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

#### Comment 1



September 11, 2018

Mrs. Kimberly Toler, Office of Audit (Region 5)  
US Department of Housing & Urban Development  
Office of Inspector General  
200 North High Street, Room 334  
Columbus OH 43215

Dear Mrs. Toler:

This letter is written pursuant to your August 20, 2018 letter regarding the draft audit report and our September 10, 2018 conference call.

We have completed our review of the findings in the draft audit report. The purpose of this letter is to inform you we do not dispute the findings. CMHA has already prepared remedial action plans with respect to the findings and will be working with the Cleveland Field Office to ensure the findings are properly closed out and policy and process changes are made to prevent recurrence of the issues reported in the draft audit report.

The Agency's response to the draft audit report and proposed action plans are attached.

We look forward to working cooperatively with your team and the Cleveland Field Office to demonstrate our resolve to address the matters contained in the draft audit report.

If you have any questions, please contact Matt Kudika at (614) 421-6216 or me at (614) 421-6401.

Sincerely,

A handwritten signature in black ink that reads "T S Williamson".

Thomas S. Williamson  
Chief Financial Officer

Attachments

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 2

Comment 2

Comment 2

Comment 2

Comment 2

**Columbus Metropolitan Housing Authority  
Response to Draft Audit Report  
September 11, 2018**

**Finding 1:** The Authority did not comply with HUD's requirements for investing federal funds and recording sales proceeds.

**Response:** The Authority does not dispute this finding. After more than a decade of maintaining funds on deposit with Star Ohio and after having consulted with Star Ohio representatives, The Authority was under the mistaken impression that Star Ohio was an acceptable repository for Federal Funds.

The following are comments to the HUD OIG recommendations:

**1A.** The Authority agrees with this recommendation. The Authority has moved federal funds held at Star Ohio to an approved depository institution. The financial institution was selected through our procurement process in 2016.

**1B.** The Authority agrees with this recommendation. The Authority will create policies and procedures that will evaluate the use of investment accounts in the future. Additionally, The Authority will work with consultants and HUD's Cleveland Office of Public Housing to obtain a list of acceptable investments options.

**1C.** The Authority agrees with this recommendation. The Authority will implement a training program to refresh accounting staff on all aspects of HUD requirements with respect to investment policy. Education will entail attending HUD related training seminars, attending housing conferences, cross training at the Authority and the use of a consultant to review topics in small group environment, which will allow a more detailed review of policies and procedures.

**1D.** The Authority agrees with this recommendation. The proceeds from the Bollinger sale have been transferred to US Bank from Star Ohio. US Bank was procured in 2016 to perform banking services for the Authority. Additionally, the Authority created a general ledger account "Restricted Cash – Affordable Housing – Bollinger". A journal entry was performed in the General Ledger that transferred the balance in the "Star Ohio – Restr. Affordable Hsg. Purp. – Bollinger" account to the "Restricted Cash – Affordable Housing – Bollinger" account.

**1E.** The Authority agrees with this recommendation. The Authority has implemented a procedure to evaluate each disposition or sale of public housing and where the proceeds may be deposited and tracked on the Authority's general ledger. All new policies and procedures will be added to the Authority's Policy and Procedures manual. When proceeds are received, the Authority will work with our third-party auditors to record the transaction appropriately in the audited financial statements and Financial Data Schedule system.

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 2

**1F.** The Authority agrees with this recommendation. The Authority will implement a training program to refresh accounting staff on all aspects of HUD requirements with respect to the receipt of proceeds from the disposition or sale of public housing property as well as how these transactions should be recorded in the general ledger. Education will entail staff attending HUD related training seminars and the use of a consultant to review topics in small group environment, which will allow a more detailed review of how to record transactions in year-end financial statements and Financial Data Schedule system.

**Finding 2:** The Authority could not support the source of funds for a loan to an affiliated entity.

**Response:** The Authority does not dispute the finding on the source of funds in the amount of \$261,990 for a loan to Waggoner Senior Housing Partnership, an affiliated entity.

The following are comments to the HUD OIG recommendations:

Comment 2

**2A.** The Authority agrees with this recommendation. The loan was executed in 2002 under the Authority's previous administration. The Authority is researching the origin of the funds that were lent to Waggoner Senior Housing in 2002. Additionally, no payments have been received on the loan as of the date of this response. When the affiliated entity makes payments on the loan, the Authority will maintain the funds in a restricted account that will be used for affordable housing purposes.

Comment 2

**2B.** The Authority agrees with this recommendation. The Authority has developed a procedure to track all documentation related to all lending transactions in the future and how the loan payments received will be recorded. All new policies and procedures will be added to the Authority's Policy and Procedures manual.

**Finding 3:** The Authority did not comply with HUD's procurement requirements and inappropriately used capital funds.

**Response:** The Authority does not dispute the finding on adequate documentation to support an independent estimate.

The following are comments to the HUD OIG recommendations:

Comment 2

**3A.** The Authority agrees with this recommendation. Independent Cost Estimates were performed by a qualified staff of The Authority by means of contractor estimates and third-party consultation, however, the communication was not sufficiently recorded due to the project being specific to one trade and only one bid received for the contract. The Authority will work with HUD to provide support for the reasonableness of the funds paid for contract M-1449.

Comment 2

**3B.** The Authority agrees with this recommendation. The Authority will work with HUD to provide support for the reasonableness of the funds paid for contract M-1449.

Comment 2

**3C.** The Authority agrees with this recommendation. CMHA has several adequate procedure and controls in place to ensure we comply with HUD's procurement requirements.

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments

Comment 2

3D. The Authority agrees with this recommendation. The Authority will implement a training program to refresh staff on all aspects of HUD requirements with respect to Procurement and Capital Fund policy. Education will entail staff attending HUD related training seminars, attending housing conferences, cross training at The Authority and the use of a consultant to review topics in small group environment, which will allow a more detailed review of policies and procedures.

Comment 2

3E. The Authority agrees with this recommendation. The Authority has implemented a procedure to ensure that capital funds are drawn down and disbursed in accordance with HUD 's requirements. All new policies and procedures will be added to the Authority's Policy and Procedures manual.

Comment 2

3F. The Authority agrees with this recommendation. The Authority has implemented a procedure to ensure that it properly reports its expenditures and disbursements in LOCCS in accordance with HUD's requirements. All new policies and procedures will be added to the Authority's Policy and Procedures manual.

## **OIG Evaluation of Auditee Comments**

Comment 1    The Authority stated that it does not dispute the findings and has prepared remedial action plans to address the findings and will work with the Cleveland Field Office to ensure that the findings are properly closed and that its policy and process changes are made to prevent recurrence of the issues cited in this report.

We appreciate the Authority's willingness to address the findings and recommendations cited in this report.

Comment 2    The Authority agreed with the recommendations associated with findings 1 through 3 cited in the audit report. We appreciate the Authority's willingness to address the findings and recommendations cited in this report.

## Appendix C

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### Federal and State Requirements

#### Finding 1

Ohio Revised Code, Title [1] I, State Government, chapter 135, section 182, states: “(C) The public depository shall designate a qualified trustee approved by the treasurer of state and place with such trustee for safekeeping the eligible securities pledged pursuant to division (B) of this section. The trustee shall hold the eligible securities in an account indicating the treasurer of state's security interest in the eligible securities. The treasurer of state shall give written notice of the trustee to all public depositors for which such securities are pledged. The trustee shall report to the treasurer of state information relating to the securities pledged to secure such public deposits in a manner and frequency as determined by the treasurer of state.”

HUD's Notice PIH-96-33, number 5, states that public housing agencies must require their depositories to continuously and fully (100 percent) secure all deposits regardless of type that are in excess of the \$100,000 insured amount. This may be accomplished by the pledging or setting aside collateral of identifiable U.S. Government securities as prescribed by HUD. The public housing agency has possession of the securities (or will take possession of the securities) or an independent custodian (or an independent third party) holds the securities on behalf of the public housing agency as a bailee (evidenced by a safe keeping receipt and a written bailment for a wire contract), and the securities will be maintained for the full term of the deposit. Such securities must be owned by the depository, and the manner of collateralization must provide the public housing agency with a continuing perfected security interest for the full term of the deposit in the collateral in accordance with applicable laws and Federal regulations. Such collateral should, at all times, have a market value at least equal to the amount of the deposits so secured.

HUD's Notice PIH-96-33, attachment A, number 6, states that a municipal depository fund or local government investment pool, which is established by States, municipalities, units of local government, or other political subdivisions to serve as an investment fund for public housing agencies is permitted. The securities purchased by a fund must be on the HUD-approved list of investment securities. Public housing agencies should have either an undivided or divided interest in securities comprising the fund. The fund should be under the control of the Investment Company Act of 1940, and its objective must be clearly stated. The investment objective of the fund should be to obtain as much income as possible consistent with the preservation and conservation of capital. The fund should disclose clearly the basis of earnings and how they are distributed. Public housing agencies should obtain a statement of potential default and risk and a clear demonstration that withdrawals from the funds will not be so restricted as to impair a public housing agency's day-to-day cash management needs. The management fee should be fixed at a reasonable amount, and management should be passive. Public housing agencies must limit the amount of funds invested in the fund to no more than 30 percent of their available investment funds. The fund must disclose the relationships of the investment advisor, manager, trustees, custodian, and transfer agent. Each financial advisory relationship must be evidenced by a written document executed before, upon, or promptly after the inception of the financial advisory relationship or promptly after the creation or selection of the issuer. If the issuer does exist or has not been determined at the time the relationship

commences, that written document should set forth the basis of compensation for the financial advisory services to be rendered.

HUD's regulations at 24 CFR 970.19(b) state that a public housing agency may pay the reasonable costs of disposition and of relocation of displaced tenants allowable under 24 CFR 970.21, from the gross proceeds of the disposition, as approved by HUD.

HUD's regulations at 24 CFR 970.19(e) state that a public housing agency should use net proceeds, including any interest earned on the proceeds (after payment of HUD-approved costs of disposition and relocation under paragraph (a) of this section), subject to HUD approval, as follows:

- “(1) Unless waived by HUD, for the retirement of outstanding obligations, if any, issued to finance original development or modernization of the project; and
- (2) To the extent that any net proceeds remain, after the application of proceeds in accordance with paragraph (e)(1) of this section, for:
  - (i) The provision of low-income housing or to benefit the residents of the public housing agency, through such measures as modernization of lower-income housing or the acquisition, development, or rehabilitation of other properties to operate as lower-income housing; or
  - (ii) Leveraging amounts for securing commercial enterprises, on-site in public housing developments of the public housing agency, appropriate to serve the needs of the residents.”

HUD's regulations at 24 CFR 970.19 (f) state that for dispositions for the purpose stated in 24 CFR 970.17(b), a public housing agency must demonstrate to the satisfaction of HUD that the replacement units are being provided in connection with the disposition of the property. A public housing agency may use sales proceeds in accordance with paragraph (e) to fund the replacement units.

The PIH Real Estate Assessment Center's Financial Assessment Subsystem – Public Housing's (FASS-PH) line definition guide, updated July 2014, section IV, number 1, states that line item 112 is designated for restricted cash that is only allowed to be spent for certain, specified modernization and development activities. The restriction on the use of funds is specified by the source of the funds, not the Authority. This account includes proceeds from the sale of property that had been acquired with HUD grants and other development funds, such as proceeds from the disposal of a public housing project.

The FASS-PH line definition guide, updated July 2014, section IV, number 1, states that line item 113 is designated for restricted cash purposes. The restriction on the use of funds has been imposed by the source of the funds.

The FASS-PH line definition guide, updated July 2014, section IV, number 1, states that line item 132 is designated for restricted investments. It represents the fair market value of all investments that can be used, upon exchange, only for specific, designated purposes. In this case, the cash proceeds from the investment would be only for the same specified use as the initially invested cash. The restriction on the use of the funds must have been placed or imposed

by the source of the funding. This account includes investments restricted for modernization and development.

### **Finding 2**

HUD Guidebook 7510.1, chapter 2, section II-2, states that the public housing agency must have records that adequately identify the source and application of funds provided for HUD-assisted activities. These records must contain information pertaining to program awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

HUD Guidebook 7510.1, chapter 2, section II-3, states that the public housing agency may maintain its own accounting records or it may contract for accounting services. In either case, it is the responsibility of the public housing agency to maintain financial records, which

- adequately identify the source and application of all program funds and HUD funds,
- provide the basis for budgetary control and monitoring of financial activities and the financial position of programs,
- contain the information necessary to determine compliance with budgetary and legal or contractual requirements,
- provide supporting documentation for transactions and an adequate audit trail, and
- provide the basis for preparation of required financial reports on a timely basis.

Books and accounts must be complete and accurate. The books of original entry must be kept current at all times, and postings must be made at least monthly to ledger accounts. All records and files must be stored appropriately, and all supporting documentation must be maintained in a safe and accessible location.

### **Finding 3**

Federal Regulations at 2 CFR 200.323(a) state that the non-Federal entity must perform a cost or price analysis in connection with every procurement action in excess of the simplified acquisition threshold including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, the non-Federal entity must make independent estimates before receiving bids or proposals.

HUD's Procurement Handbook 7460.8, REV-2, section 2A, states that the independent cost estimate is the public housing agency's estimate of the costs of the goods or services to be acquired under a contract or a modification. It serves as the yardstick for evaluating the reasonableness of the contractor's proposed costs or prices.

HUD's Procurement Handbook 7460.8, REV-2, section 2B, states that the independent cost estimate also helps the contracting officer determine the contracting method to be used. For example, if the costs can be estimated with a high degree of confidence in their accuracy, sealed bidding may be possible.

HUD's Procurement Handbook 7460.8, REV-2, section 2C, states that while the contracting officer is responsible for the preparation of the independent cost estimate, other personnel (for

example, the end user or budget and finance) are usually involved and may do most of the preparation. The public housing agency may develop the independent cost estimate using its own employees, outside parties (for example, consultants), or a combination of the two. If any outside party (whether compensated or not) assists in developing the independent cost estimate, the public housing agency must take appropriate steps to ensure that organizational conflicts of interest are avoided and that the outside party does not obtain any competitive advantage from its advance knowledge of the public housing agency's cost estimate.

HUD's Procurement Handbook 7460.8, REV-2, paragraph 2D.3, states that the contracting officer should prepare or have prepared an independent cost estimate commensurate with the purchase requirement. The level of detail will depend upon the dollar value of the proposed contract and the nature of the goods or services to be acquired. The independent cost estimate must be prepared before the solicitation of offers. In the requirements for independent cost estimates for purchases above the public housing agency's small purchase threshold, the level of detail will vary but should be commensurate with the size (that is, dollar value), complexity, and commercial nature of the requirement. Independent cost estimates are normally broken out into major categories of cost (for example, labor, materials, and other direct costs, such as travel, overhead, and profit). Commercially available products and services may require less detail, as the marketplace tends to provide current reliable pricing information for commercially available products. A public housing agency may also not need to break out components. Noncommercial type requirements and work designed specifically for the public housing agencies will require a much more extensive estimation and a detailed independent cost estimate.

HUD's Procurement Handbook 7460.8, REV-2, section 2E, states that the independent cost estimate serves as the primary in-house gauge of cost and price reasonableness but it should not be relied upon to the exclusion of other sources of pricing information. Market conditions may fluctuate between the time the independent cost estimate is prepared and the receipt of offers. For example, materials or labor costs may have increased or decreased. If a significant period has elapsed or the public housing agency knows that certain market conditions have changed, the contracting officer should request that an updated independent cost estimate be prepared to use in evaluating offers.

HUD's Capital Fund Guidebook, section 7.9, states that once funds are disbursed (that is, transferred from LOCCS to the public housing agency's bank account), the agency must pay the applicable bill(s) within 3 business days after the deposit is received. Public housing agencies cannot spend non-Federal funds first to pay the applicable bills and then use capital funds to reimburse themselves.

HUD's Capital Fund Guidebook, section 7.9, states that a public housing agency may submit a voucher only to disburse funds for bills due and payable for work that has already been performed or for items received. Public housing agencies cannot spend non-Federal funds first to pay the applicable bills and then use capital funds to reimburse themselves.

HUD's Capital Fund Guidebook, section 7.9, states that the public housing agency must ensure that reported Capital Fund expenditures do not exceed the disbursements made from LOCCS. This imbalance may be an indication that the agency has paid Capital Fund expenses from another restricted account, which is prohibited.