



Glen Cove Housing Authority, Glen Cove, NY

Public and Indian Housing Program Property Disposition Proceeds



To: Luigi D’Ancona, Director, Office of Public and Indian Housing, New York Field Office, 2APH

//SIGNED//

From: Kimberly S. Dahl, Regional Inspector General for Audit, 2AGA

Subject: Glen Cove Housing Authority, Glen Cove, NY, Did Not Always Use Property Disposition Proceeds in Accordance With Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General’s (OIG) final results of our review of the Glen Cove Housing Authority’s administration of its property disposition proceeds.

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 212-264-4174.



Audit Report Number: 2018-NY-1002

Date: January 19, 2018

Glen Cove Housing Authority, Glen Cove, NY, Did Not Always Use Property Disposition Proceeds in Accordance With Requirements

Highlights

What We Audited and Why

We audited the Glen Cove Housing Authority's administration of the disposition proceeds it received from selling properties. We selected the Authority for review because the U.S. Department of Housing and Urban Development's (HUD) New York Office of Public and Indian Housing ranked it as the third highest risk performer among 67 public housing providers in New York and because the audited financial statements and property disposition records showed that the Authority may have loaned a portion of its property disposition proceeds to its nonprofit entity. The objective of the audit was to determine whether the Authority used property disposition proceeds in accordance with applicable requirements, including its HUD-approved disposition application.

What We Found

The Authority did not always use proceeds generated from the sale of 19 properties in accordance with requirements. Specifically, it loaned more than \$900,000 to its nonprofit entity for activities that did not benefit its residents and disbursed \$169,975 in proceeds and \$10,804 in other Federal funds for costs that were not eligible or supported, such as Rental Assistance Demonstration conversion costs that require prior HUD approval. Further, it did not ensure that the disposition application and related documentation were maintained, and that it submitted required reports to HUD. We attributed these deficiencies to the Authority's desire to increase revenue and weaknesses in its controls. As a result, HUD and the Authority did not have assurance that proceeds were used and available for use as intended to benefit the Authority's residents, and HUD could not fully monitor the Authority's use of the proceeds.

What We Recommend

We recommend that HUD require the Authority to (1) obtain retroactive approval from HUD for the outstanding unauthorized loans and proceeds used for Rental Assistance Demonstration conversion costs or repay any amount for which it does not obtain approval, (2) provide documentation to show that proceeds were used for approved activities or repay any amount not supported, (3) repay proceeds and other Federal funds spent on ineligible activities, and (4) strengthen its controls to ensure that \$1 million in remaining proceeds and any funds to be repaid are put to better use to benefit the Authority's residents.

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Background and Objective

The U.S. Department of Housing and Urban Development's (HUD) public housing program was established to provide decent and safe rental housing for eligible low-income families, the elderly, and persons with disabilities. HUD provides operating and capital funds to local housing agencies that manage housing for low-income residents at rents they can afford. Operating funds help cover the operating and maintenance expenses of low-income housing units, and capital funds can be used for the development, financing, and modernization of public housing developments and management improvements.

The Glen Cove Housing Authority was established in 1955 as a nonprofit public benefit corporation to provide affordable housing for low-income families. The Authority is under the jurisdiction of HUD's New York Office of Public and Indian Housing and is governed by a five-member board of commissioners that appoints an executive director to supervise the Authority's day-to-day operations. The Authority owns and operates 212 affordable housing units known as the Daly and Kennedy Heights Home. Between 2011 and 2016, the Authority received \$4.26 million in public housing funds, including \$2.86 million in operating funds and \$1.4 million in capital funds.

Between 2011 and 2013, the Authority sold 19 two-family properties for \$3 million. Section 18 of the Housing Act of 1937 and regulations at 24 CFR (Code of Federal Regulations) Part 970 contain the requirements for the disposition of public housing units, including the requirement that HUD approve an application in which public housing agencies detail the planned use of the disposition proceeds. Before the sale of the 19 properties, HUD approved the Authority's disposition application and three modifications on December 19, 2006, April 28, 2010, May 24, 2010, and August 19, 2011. The Authority modified the application to change the method of sale, developer selected, sales price, and number of units to be sold. The approved uses of the property disposition proceeds included unit upgrades, construction of a childcare center and an indoor playground, and other uses that would benefit the Authority's residents in accordance with the Housing Act and regulations at 24 CFR 970.19(e).

Our objective was to determine whether the Authority used property disposition proceeds in accordance with applicable requirements, including its HUD-approved disposition application.

Results of Audit

Finding: The Authority Did Not Always Use Property Disposition Proceeds in Accordance With HUD Requirements

The Authority did not always use property disposition proceeds generated from the sale of 19 properties in accordance with applicable requirements, including its approved disposition application. Specifically, it loaned more than \$900,000 to its nonprofit entity for activities that did not benefit its residents and disbursed \$169,975 in property disposition proceeds and \$10,804 in other Federal funds for costs that were not eligible or supported. Further, it did not ensure that the disposition application and related documentation were maintained, and that it submitted required reports to HUD. We attributed these deficiencies to the Authority's desire to increase revenue and weaknesses in its controls. As a result, HUD and the Authority did not have assurance that the property disposition proceeds were used and available for use as intended to benefit the Authority's residents, and HUD could not fully monitor the Authority's use of the proceeds.

Proceeds Were Used To Make Unauthorized Loans

Contrary to requirements, the Authority loaned more than \$900,000 of the \$3 million in property disposition proceeds received to its nonprofit entity. According to the disposition application and modifications, the HUD-approved uses included unit upgrades, construction of a childcare center and an indoor playground, and other uses that would benefit the Authority's residents in accordance with the Housing Act and regulations at 24 CFR 970.19(e). However, the Authority loaned the funds to its nonprofit entity to use for the purchase and operating expenses of four properties located outside of the Authority's jurisdiction, which was not one of the HUD-approved uses. Three of the four properties were located nearly 100 miles from the Authority in New Jersey, and the fourth property was located approximately 11 miles from the Authority. Further, the Authority did not properly record the loans in its books and records and did not have an agreement in place to ensure that the nonprofit would repay the funds. This condition occurred because the Authority wanted to increase revenue through the purchase and development of the four properties, and because it did not have adequate controls in place to ensure that proceeds were used for eligible costs and that the loans were properly recorded. As a result, HUD and the Authority did not have assurance that the funds would be repaid and available to be used as intended. While the nonprofit repaid a portion of the loans in 2014 after selling one of the properties in New Jersey, it still owed \$815,398. According to the Authority's audited financial statements, the nonprofit entity operated at a loss during 2013, 2015, and 2016. Therefore, there could be an increased risk that the funds would not be repaid and the Authority would continue to loan proceeds without intervention.

Proceeds Were Not Always Used for Eligible and Supported Costs

Contrary to requirements, the Authority disbursed \$169,975¹ in property disposition proceeds and \$10,804 in other Federal funds for costs that were not eligible or supported. The Authority used more than \$1 million of the \$3 million in property disposition proceeds received in accordance with its HUD-approved disposition application and modifications. The proceeds were used for unit upgrades, an outdoor² playground, and other uses that would benefit the Authority's residents in accordance with the Housing Act and regulations at 24 CFR 970.19(e). However, a detailed review of its records showed that the Authority could not provide a breakdown of the proceeds used for each item or all source documentation and used some funds for ineligible costs. Specifically, the Authority (1) could not account for \$108,061 in property disposition proceeds disbursed; (2) could not show that it had obtained HUD approval for the use of \$61,545 in property disposition proceeds for Rental Assistance Demonstration conversion costs; and (3) used \$11,173 in Federal funds, including \$369 in property disposition funds and \$10,804 in tenant participation funds that were combined with non-Federal funds, for ineligible costs,³ such as charitable donations, holiday parties, nonprofit work, and a summer camp.

These issues occurred because the Authority did not have adequate controls in place, such as controls to ensure that proceeds were used for eligible costs and that accounting records and source documentation were properly maintained as required by 24 CFR 85.20(b)(2) (5) and (6). Its accounting records did not always clearly identify the sources and uses of funds, combined property disposition proceeds with other sources of funds, and did not include complete and organized bank records and supporting documentation. As a result, HUD and the Authority did not have assurance that \$169,606 in property disposition proceeds was used in accordance with requirements to benefit the Authority's residents, and that \$11,173 in property disposition proceeds and other Federal funds was available for its intended use.

The Disposition Application and Related Documentation Were Not Maintained

Contrary to its certification of compliance, the Authority did not maintain the original disposition application, modifications, and other relevant information, such as documentation related to consultations with residents, the value of the properties, the advertisement, request for proposals, and evaluation criteria scoring sheet related to the disposition of properties. The certification of compliance form indicated that such documentation was required to be available at all times at the Authority's primary place of business. However, the Authority stated that it had destroyed the documentation in accordance with its 7-year record retention policy. As a result, the Authority was not able to show the full history of the disposition activities, and HUD could not fully monitor the Authority's use of property disposition proceeds.

¹ This includes the \$108,601 in disposition proceeds not accounted for, \$61,545 used for unauthorized Rental Assistance Demonstration conversion costs, and \$369 used for ineligible costs.

² While the Authority's approved application discussed only the construction of an indoor playground, the construction of an outdoor playground was eligible because it would benefit the Authority's residents in accordance with the Housing Act and regulations at 24 CFR 970.19(e).

³ In addition to these costs not being eligible uses of property disposition proceeds, they were not eligible uses of tenant participation funds according to Office of Public and Indian Housing Notice 2001-3.

Required Reports Were Not Provided to HUD

Contrary to regulations at 24 CFR 970.35, the Authority did not provide HUD with required financial reports and records on its use of the property disposition proceeds. Regulations at 24 CFR 970.35(a)(3) and (4) required the Authority to provide HUD with financial reports showing how the property disposition proceeds were used by item and dollar amount, including closing costs for each property sold. This condition occurred because the Authority did not have adequate financial controls, including controls over the maintenance of accounting records needed to provide HUD with reports as required by 24 CFR 85.20(b)(2). As a result, HUD could not fully monitor the Authority's use of property disposition proceeds.

Conclusion

The Authority did not always use property disposition proceeds in accordance with applicable requirements, including its approved disposition application. Further, it did not ensure that the disposition application and related documentation were maintained and it submitted required reports to HUD. We attributed these deficiencies to the Authority's desire to increase revenue and weaknesses in its controls. As a result, HUD and the Authority did not have assurance that funds were used and available for use as intended to benefit the Authority's residents, and HUD could not fully monitor the Authority's use of the proceeds. If the Authority improves its controls, it will ensure that more than \$1 million in remaining property disposition proceeds and any outstanding loans and funds to be repaid will be put to its intended use to benefit the Authority's residents.

Recommendations

We recommend that the Director of HUD's New York Office of Public and Indian Housing require the Authority to

- 1A. Obtain retroactive approval from HUD for the \$815,398 in outstanding unauthorized loans made to its nonprofit entity or reimburse its Public Housing Operating Fund from non-Federal funds for any amount for which it does not obtain approval. If approval is obtained, HUD should also require the Authority to execute a loan agreement with the nonprofit entity and properly record the loans in its books and records.
- 1B. Provide documentation to show that \$108,061 in property disposition proceeds was used for the activities outlined in its HUD-approved disposition application and modifications or reimburse its Operating Fund from non-Federal funds for any amount not supported.
- 1C. Obtain retroactive approval from HUD for the \$61,545 in property disposition proceeds used for Rental Assistance Demonstration conversion costs or reimburse its Operating Fund from non-Federal funds for any amount for which it does not obtain approval.

- 1D. Reimburse its Operating Fund from non-Federal funds for \$11,173 spent on ineligible activities funded by \$369 in property disposition proceeds and \$10,804 in tenant participation funds.

- 1E. Strengthen its controls to ensure that \$1,074,979⁴ in remaining property disposition proceeds and any outstanding loans and other funds to be repaid will be put to better use as intended to benefit the Authority's residents. These controls include controls to ensure that proceeds are used in accordance with the HUD-approved disposition application, adequate supporting documentation is maintained, and the source and use of funds is properly recorded in the Authority's books and records and reported to HUD.

⁴ The \$1,074,979 in remaining disposition proceeds is comprised of proceeds not yet used and loan funds that have been repaid. If the Authority improves its controls, these funds will be put to better use as intended for the Authority's residents. Further, if the Authority or its nonprofit repay disposition proceeds in connection with recommendations 1A through 1D, it can put these funds to better use by ensuring that they are used in accordance with applicable requirements such as the HUD-approved disposition application.

Scope and Methodology

We conducted the audit from March through October 2017 at the Authority's office located at 140 Glen Cove Avenue, Glen Cove, NY. The review generally covered the period January 2011 through December 2016 and was expanded as necessary to include documents related to the Authority's disposition application and modifications as discussed below.

To accomplish our audit objective, we interviewed HUD staff and the Authority's staff, fee accountant, and attorney regarding the use of property disposition proceeds. We also reviewed

- Relevant background information.
- Applicable laws, regulations, notices, other HUD guidance, and Authority policies and procedures.
- The Authority's annual contributions contract with HUD.
- The Authority's audited financial statement.
- The original disposition application approved by HUD in December 2006 and subsequent modifications approved by HUD, along with other correspondence between the Authority and HUD regarding the use of property disposition proceeds.
- Records related to the receipt and use of property disposition proceeds, including board meeting minutes and resolutions, independent appraisal reports, notices of sale, requests for proposals, bids received, memorandums of contracts of sale, closing statements, bank statements, invoices, contracts, general ledgers, balance sheets, and trial balances.
- Records related to the nonprofit entity's use of loaned proceeds for the purchase and operating expenses of four properties located outside the Authority's jurisdiction as well as its rental income and operating expenses.

The Authority received more than \$3 million in proceeds from the sale of 19 properties. The Authority reported that it used approximately \$1.95 million in proceeds. We found that the Authority had used \$2.04 million but had received \$85,000 back from the nonprofit entity to which it loaned funds, so the net amount used was \$1.95 million. We requested and reviewed documentation for 100 percent of the \$2.04 million in gross proceeds used.

We relied in part on computer-processed data from HUD's Financial Assessment of Public Housing Agencies⁵ and Public and Indian Housing Information Center⁶ systems and data from the Authority's general ledgers and journal entry lists. We used these data for background

⁵ HUD's Financial Assessment of Public Housing Agencies maintains reviews of the annual financial statements submitted by more than 4,000 public housing agencies.

⁶ HUD's Public and Indian Housing Information Center system maintains data on public housing agencies, such as data on the developments and number of units.

information and to identify property disposition proceeds received and disbursed by the Authority. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequate for our purposes. The testing involved comparing the data in these systems and records to HUD and Authority records, including source documentation received from the Authority for all property disposition proceeds received and disbursed. We based our conclusions on the source documentation obtained from HUD and the Authority.

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:

- Programs operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Safeguarding resources - 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 Deficiency

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

- The Authority did not have adequate controls to ensure that it used property disposition proceeds in accordance with applicable requirements, including the HUD-approved disposition application, and controls over the maintenance of accounting records and source documentation.

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put To Better Use

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		\$815,398	
1B		108,061	
1C		61,545	
1D	\$11,173		
1E			\$1,074,979
Totals	11,173	985,004	1,074,979

- 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.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this case, if the Authority strengthens its controls, it will ensure that the \$1,074,979 in remaining property disposition proceeds and any outstanding loans and other funds to be repaid will be put to better use as intended to benefit the Authority's residents. These controls include controls to ensure that proceeds are used in accordance with the HUD-approved disposition application, adequate supporting documentation is maintained, and the source and use of funds are properly recorded in the Authority's books and records and reported to HUD.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Glen Cove Public Housing Authority

Chairman Robert Grabowski
Vice Chairperson Patricia Johnson

Eric T. Wingate
Executive Director

Commissioner Ben Williams
Commissioner Latisha Fowler
Commissioner Franklyn D. Mickens
Board Counsel Vincent T. Taranto, ESQ.
Board Counsel Keith Taranto, ESQ.

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December 19, 2017

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Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
26 Federal Plaza, Room 3430
New York, NY 10278-0068

Subject: Comments regarding the GCHA Not Always Use the Property Disposition Proceeds in Accordance with Requirements

As the Executive Director of the Glen Cove Housing Authority ("GCHA"), I reviewed the Inspector General's report on the GCHA's Use of Property Disposition Proceeds in Accordance with the requirements outline in the SAC approval and application filed in 2009.

I assume full responsibility for the use and expenditures of those funds during the last eight (8) years, and I agree with the findings presented to the Regional Director of HUD, Mr. Luigi D'Ancona.

I first presented the idea to dispose of the Lee Gray Court Property ("LGC") in 2007, to my staff and Board of Commissioners. The first application had the optimistic view that I could build a Day Care Center and an indoor playground on our existing property. As land prices escalated and government funding for the Day Care Center become unavailable, we were forced to adjust our original plan. In addition, the 2007 approved application saw the LGC Developer breach the Contract of Sale in the second year. We were successful in negotiating a financial settlement with resulted in the GCHA receiving compensation for the breach. Time was lost and the value of the LGC property declined. When we finally completed our second RFP, at a lower price, and sent our request to revise the SAC approval and application, my views on how we should use the proceeds had changed, based on the market.

I did not revise this part of the second application. The Board of Commissioners and I did issue internal documents that reflected these changes by resolution. I had several personal visits to HUD to discuss our new direction. I apparently and erroneously assumed we had the authority to use the funds in the manner of the revised plan. I now know I did not forward the correct forms to HUD and or SAC to change the use of the proceeds and for that I apologize.

As for the recommendations from the OIG Audit:

1A. I agree with the findings and will meet with the HUD Office and my HUD team to execute the proper documents and or forms needed to request the retroactive approval for the use of \$815,398.00 I used for the loan to Glen Cove Gardens Inc. which was part of our audits as receivables since 2011.

1B. I will provide additional documentation to show the use of property disposition proceeds for \$108,061.00 within the time frame allotted by HUD and the OIG.

1C. In my 2009 SAC approval, I did suggest that we would use the proceeds to enhance the property and enrich the lives of the tenants. Whereas I didn't specifically say I would use the proceeds for our RAD application, I believe RAD does enhance the property and will enrich the lives of the tenants. Nonetheless I will agree with the findings and will meet with the HUD Office and my HUD team to execute the proper documents and or forms needed to request the retroactive approval for the use of \$61,545 in property disposition proceeds.

Comment 1

Comment 2

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 2

ID. I have written a reimbursement check from nonfederal funds in the amount of \$369.00 and deposited the funds on December 20, 2017. I will send the documents to show the deposit to our property disposition proceeds account. As for the use of TPA funds in the amount of \$10,804.00, I will speak with my HUD representative to determine if there are any waiver(s) available for the use of these funds. If there are none, we will reimburse these funds in the time frame allotted by HUD and the OIG.

IE. During the exiting review we discussed several ways to strengthen the controls to insure we keep adequate records for the balance of \$1,074,979.00 in remaining disposition proceeds. We had suggested at our opening meeting to create a loan document between Glen Cove Gardens Inc. and the GCHA to secure repayment of the loan.

Regards,



Eric P. Wingate
Executive Director

OIG Evaluation of Auditee Comments

- Comment 1 The Authority provided background information related to changes in its planned uses of the property disposition proceeds. While it noted that it discussed the changes with HUD in person, it did not provide evidence of these meetings during our audit and acknowledged that it did not revise the uses of proceeds on its amended application or forward the correct forms to its local HUD field office or the Special Applications Center. We agree that the Authority did not properly request changes in the use of its property disposition proceeds. As discussed with the Authority, changes in the use of proceeds require written approval from HUD's Special Applications Center.
- Comment 2 The Authority agreed with the audit recommendations and noted how it planned to resolve each one. Specifically, the Authority planned to request retroactive approval for the \$815,398 in outstanding unauthorized loans and the \$61,545 in property disposition proceeds used for Rental Assistance Demonstration conversion costs. In addition, the Authority planned to provide documentation to support the use of \$108,061 in property disposition proceeds discussed in recommendation 1B, reimburse \$369 for property disposition proceeds used for ineligible costs discussed in recommendation 1D, and obtain a waiver for the remaining ineligible costs discussed in recommendation 1D or reimburse the funds. Lastly, the Authority planned to strengthen its controls to ensure that it keeps adequate records for the use of \$1,074,979 in remaining property disposition proceeds. The Authority's planned actions are responsive to our recommendations. As part of the normal audit resolution process, HUD will need to assess any documentation the Authority provides to resolve the recommendations.