



Issue Date	July 9, 2007
Audit Report Number	2007-KC-1006

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//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: The Mansfield Housing Authority of Mansfield, Missouri, Misspent Public Housing Funds and Did Not Fulfill Its Section 8 Program Contract Administrator Requirements

HIGHLIGHTS

What We Audited and Why

We audited the Mansfield Housing Authority (Authority) in response to a citizen complaint that the Authority misspent public housing funds and used Authority assets for personal use.

Our objective was to determine whether the Authority spent low-rent public housing funds in accordance with U.S. Department of Housing and Urban Development (HUD) requirements and followed HUD requirements as a Section 8 program contract administrator.

What We Found

The Authority used public housing funds for ineligible expenses and did not always adequately support the use of public housing funds. Additionally, it did

not fulfill its duties as a Section 8 contract administrator for a multifamily property.

What We Recommend

We recommend that HUD require the Authority to provide support for and/or repay its public housing program from nonfederal sources for ineligible and unsupported expenses paid from public housing funds. We also recommend that HUD further evaluate the Authority's expenses, require repayment of any additional misused funds, and verify that the Authority has implemented adequate controls over expenses. Finally, we recommend that HUD take administrative action against the executive director for using federal funds for personal expenses and require the Authority to repay unearned Section 8 contract administrator fees paid to it from October 2004 through May 2007.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

The Authority generally disagreed with our findings. We provided the draft report to the Authority on June 4, 2007, and requested a response by June 18, 2007. It provided written comments on June 12, 2007.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Mansfield Housing Authority (Authority) is a nonprofit entity established to provide low-rent housing under a low-rent program annual contributions contract between the U.S. Department of Housing and Urban Development (HUD) and the Authority. It maintains 75 low-rent units for which HUD provides an annual subsidy to assist with operating and maintenance costs. The Authority is also the Section 8 program contract administrator for a privately owned multifamily property. HUD's Section 8 program assists very low income families, the elderly, and the disabled in obtaining decent, safe, and sanitary housing.

The Authority received federal grants and subsidies from HUD totaling \$368,322 for its fiscal year ending September 30, 2005, and \$369,816 for its fiscal year ending September 30, 2006. In administering its federal grants, the Authority must follow federal requirements, including the those in the *Code of Federal Regulations*, Office of Management and Budget circulars, and HUD handbooks.

The Authority's current executive director has been in place since July 2004. Authority staff consists of three employees in addition to the executive director.

Our objective was to determine whether the Authority spent low-rent public housing funds in accordance with HUD requirements and followed HUD requirements as a Section 8 program contract administrator.

RESULTS OF AUDIT

Finding 1: The Authority Used Public Housing Funds for Ineligible Expenses and Did Not Adequately Document Uses of Public Housing Funds

The Authority used public housing funds for ineligible expenses and did not maintain adequate support for expenses. This occurred because the Authority did not have adequate controls in place to approve and document expenses. As a result, it does not have more than \$12,000 in public housing funds available for the purposes intended, and HUD cannot be assured that it spent more than \$4,000 in public housing funds for allowable purposes.

Ineligible Expenses

The Authority used public housing funds for ineligible expenses, including personal expenses. Office of Management and Budget Circular A-87 provides principles to be applied in establishing the eligibility or ineligibility of certain expenses paid from federal funds. The circular states that all expenses must be reasonable, adequately documented, and consistent with the Authority's policies. The circular also prohibits the use of federal funds for personal use. Additionally, HUD's annual contributions contract with the Authority states that the Authority may not use federal funds to compensate members of its board of commissioners.

The Authority paid its employees nearly \$11,000 in overtime expenses that violated the Authority's overtime policy. In May 2005, the board of commissioners approved an overtime policy that required the Authority to compensate office staff with compensatory time rather than monetary compensation. However, the Authority paid its office staff for overtime rather than requiring staff to use compensatory time off. In several instances, the executive director authorized payment of overtime for herself and her assistant without obtaining proper approval from the board of commissioners to override the Authority's formal overtime policy for office staff.

The office staff received overtime pay for the following periods and hours:

- For two weeks in June and July 2006, the executive director authorized payment for 40 hours each of overtime for office work for herself and her assistant.
- For three weeks in July and August 2006, the executive director authorized payment for 126 hours each of overtime for herself and her

assistant to work with law enforcement to identify and evict tenants who were violating federal laws and no longer eligible for housing assistance.

- For two weeks in September 2006, the executive director authorized payment for 40 hours each of overtime for herself and her assistant to prepare for a HUD inspection of the Authority's housing units.

The Authority also purchased gifts for the board of commissioners and tenants, and provided meals for the board of commissioners that were not related to conducting Authority business. These gifts and meals totaled more than \$1,300. Further, the Authority paid nearly \$600 for five months of cellular phone service for the executive director's son, who was not an Authority employee. Neither the executive director nor her son reimbursed the Authority for these costs.

Unsupported Expenses

The Authority did not maintain adequate support for public housing expenses. All expenses must be adequately documented to determine eligibility of the expense according to HUD regulations.

We reviewed the Authority's expenses for six months of the two-year period October 2004 through September 2006. Total expenses for the six-month period were \$255,978. We reviewed the Authority's support for \$188,533 of its expenses, excluding payroll and minor tenant reimbursements. The Authority properly maintained invoices and check stubs for each expense. However, it did not always maintain detailed receipts or other explanations to support eligibility of the expenses under the public housing program.

For the six months reviewed, the Authority did not maintain adequate support for 12 expenses totaling more than \$4,000. It paid a majority of the unsupported expenses to discount and grocery stores, using its Authority credit card accounts. The Authority told us that the purchases were food and supplies for tenant activities. The remaining unsupported expenses were for materials and supplies.

In addition, the Authority paid end of year bonuses to its four employees in 2005. Office of Management and Budget Circular A-87 requires that compensation for services conform to established policies of the governmental unit. The Authority had no policy regarding bonus or incentive pay. Although the board of commissioners approved the 2005 bonuses, the Authority should have had a bonus and incentive pay policy, and should have maintained adequate support to show that bonuses paid from federal funds were reasonable and warranted.

Inadequate Controls

The Authority did not have adequate controls to prevent its staff from misusing the public housing funds or to ensure that the Authority maintained proper support for all expenses of the public housing program. It did not have adequate written policies and procedures for daily operations, including policies governing overtime, employee bonuses, cellular phone use, or requirements for appropriately evaluating and documenting expenses.

New Policies and Procedures Adopted

During the audit, the Authority revised its policies and procedures, and its board members adopted the new policies in January 2007. The new policies included

- An overtime policy providing examples of overtime use and allowable compensation;
- A communications policy restricting use of Authority cellular phones; and
- A credit card policy requiring preapproval from the executive director for all purchases, allowing purchases for Authority purposes only, and requiring appropriate documentation.

Conclusion

The Authority used public housing funds for ineligible expenses and did not adequately support its use of public housing funds. Because it misspent more than \$12,000 in public housing funds, the funds are no longer available for their intended purposes, and HUD cannot be assured that the funds were spent for allowable purposes.

Recommendations

We recommend that the coordinator of the St. Louis Program Center

- 1A. Require the Authority to repay its public housing program \$12,242 from nonfederal funds for ineligible expenses (\$10,906 for overtime and \$1,336 for gifts and meals).
- 1B. Require the Authority to provide support for \$4,020 paid from its public housing program and/or repay any unsupported amount from nonfederal funds.

- 1C. Further evaluate the Authority's expenses from October 1, 2004, to the present and require repayment from nonfederal funds of any ineligible or unsupported expenses identified.
- 1D. Verify that the Authority has developed and implemented appropriate policies and procedures to ensure proper spending and support of the uses of public housing funds.
- 1E. Require the executive director to reimburse the Authority for her son's cellular phone expenses of \$569.

We recommend that the acting director of the Departmental Enforcement Center

- 1F. Take appropriate administrative action against the executive director for using public housing funds for personal expenses.

Finding 2: The Authority Did Not Perform the Duties Required as a Section 8 Contract Administrator

The Authority did not fulfill its duties as the Section 8 program contract administrator for a multifamily property receiving HUD assistance. Authority managers were aware that they should have performed more oversight duties but, instead, chose to perform only the duties performed by prior Authority management. As a result, HUD cannot be assured that the assisted property complied with applicable regulations and provided satisfactory housing to its tenants.

Unfulfilled Section 8 Contract Administrator Duties

The Authority did not perform the duties required as a Section 8 contract administrator for a privately owned multifamily property receiving Section 8 assistance. HUD requires contract administrators to monitor the performance of HUD-assisted properties to ensure that the owners comply with applicable requirements and provide decent, safe, and sanitary housing to the assisted tenants.

HUD requires contract administrators to perform certain duties when overseeing HUD-assisted properties. For example, HUD requires contract administrators to

- Verify that property managers screen and select tenants in accordance with HUD requirements;
- Verify that property managers accurately calculate tenant rents and utility allowances; and
- Conduct on-site reviews that include overall property inspections, individual unit inspections, and management reviews.

The Authority did not perform these or most other duties required of contract administrators. It merely received the monthly Section 8 reports from the project owner, verified the accuracy of the mathematical calculations, and forwarded the documents to HUD. It also collected the monthly Section 8 subsidy payment from HUD, then paid the property owner its monthly subsidy amount and paid itself the \$356 monthly administration fee.

Contract Administrator Duties Ignored

Authority managers told us that soon after beginning work at the Authority in 2004, they realized that the Section 8 contract administrator responsibility required more work than they were doing. However, the Authority managers were not fully aware of all of the duties required of them. The managers stated that they brought this issue to the attention of the Authority's board members but

ultimately decided to perform only those duties performed by the prior Authority managers. The Authority managers agreed that they had not fully performed the duties required to earn the \$356 per month management fee the Authority had collected since current managers came to the Authority in 2004.

HUD Not Assured That HUD-Assisted Owner Complied with Requirements

Because the Authority did not fulfill its duties as the Section 8 contract administrator for the HUD-assisted multifamily property, HUD cannot be assured that the property owner complied with HUD's Section 8 program requirements and provided satisfactory housing to its tenants. Further, the Authority collected \$356 per month in unearned administrative fees totaling approximately \$11,400 from the beginning of our audit period (October 2004) through May 2007.

As of July 2007, HUD will terminate Section 8 contract administrator agreements with all housing authorities, and will transfer the duties to other types of contract administrators. Therefore, the Authority will no longer be serving as a contract administrator for the multifamily property.

Recommendations

We recommend that the supervisory project manager of the St. Louis Program Center

- 2A. Require the Authority to repay from nonfederal funds any unearned administrative fees it received as the Section 8 contract administrator. At a minimum, it should repay fees of approximately \$11,400 for the period October 2004 through May 2007.

SCOPE AND METHODOLOGY

HUD received a citizen complaint that Authority staff had misused federal funds and Authority property; therefore, HUD requested that we conduct a review.

Our review covered the period from October 1, 2004, through September 30, 2006, and was expanded as necessary. Our review objective was to determine whether the Authority spent low-rent public housing funds in accordance with HUD requirements and followed HUD requirements as a Section 8 program contract administrator.

We conducted interviews of the Authority's staff and its board of commissioners. We also interviewed HUD staff responsible for overseeing the Authority. We reviewed the Authority's policies and procedures, general ledgers, monthly expense records, bank statements, audited financial statements, and board members' meeting minutes. We also reviewed the multifamily project's Section 8 year-end settlement statements for 2004 through 2006, federal regulations, and the annual contributions contract between HUD and the Authority. Additionally, we compared the Authority's expenses to those of four similar public housing authorities.

One issue in the complaint was that Authority staff used the Authority's vehicles for personal use. We concluded that the executive director had the board of commissioners' approval to use the vehicles for transportation between home and work. Although the Authority did not have a vehicle use policy in its formal policies and procedures before our review, the board of commissioners adopted a policy during our review. Our review did not indicate excessive use of the two Authority vehicles.

We reviewed a nonrepresentative sample of six months of Authority expenses, totaling \$255,978, from our audit period. We selected the last three months of the audit period (July, August, and September 2006) to evaluate the most recent procedures for paying and documenting expenses. We also reviewed expenses from January, July, and December 2005 to evaluate past practices.

We conducted audit work at the Authority in Mansfield, Missouri, from November 2006 through April 2007. We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit 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
- Safeguarding of resources – Policies and procedures in that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we did not identify any significant weaknesses that would remain after HUD cancels the Section 8 contract administrator agreement with the Authority in July 2007.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1A	\$12,242	
1B		\$4,020
1E	\$569	
2A	\$11,400	

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 polices 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 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



HOUSING AUTHORITY OF THE CITY OF MANSFIELD
100 EAST MAPLE ST.
MANSFIELD, MO. 65704
PHONE 417-924-8316
FAX 417-924-3801

June 12, 2007

RESPONSE TO INSPECTOR GENERAL AUDIT REPORT

Comment 1

Response to highlight of report: The Housing Authority did not in my opinion use funds for ineligible expenses. Any expenses incurred have always had and will continue to have Board approval. In the beginning of my taking over as Executive Director, some supporting documentation did not get copied, that was an error on my part. Since being pointed out to me, I have copies of every receipt coming through the office. It is my belief the Housing Authority did fulfill its duties as Contract Administrator on the section 8 property as we have always maintained and submitted their financials as well as maintain their 50059's and their HAP claim forms, which we check to verify the proper amount is being claimed.

Comment 2

Comment 3

Finding 1 response: Overtime expenses incurred by the Housing Authority was a direct result of the major drug problems we had upon my arrival here as Director. It is my understanding it is my duty to ensure a safe environment for each of my residents. The overtime expenses had direct Board approval and I have documentation to substantiate this. Regarding bonuses, I did not give bonuses, I gave incentives to my employees as a result of the hard work and dedication they provide during the year, this again had board approval. The \$4000 unsupported expenses that are referenced to; I have contacted the companies and have this documentation on its way. Gifts were not purchased for my Board. We have a Thanksgiving and Christmas dinner as well as giving a turkey for Thanksgiving and a Ham for Christmas. I spoke with several Housing Authorities before this was done and they all do the same thing so I was assuming this was proper to continue with. It is my understanding most states pay a stipend to

Comment 4

Comment 5

Comment 6

Comment 7

Board members for up to \$30.00 per month for their work, a turkey and ham are very much below this dollar amount. With regard to the finding of the Authority exceeding administrative salary budget by \$7500, our overall administrative expenses were only over budget by \$2800 with the revisions done. This was due to the part-time employees I had who are no longer working here due to the budget cuts. Even with the showing of expenses being over by \$7500, our total overall budget was "under" by a total of \$29,290.00. Our budget does not require HUD approval because we are not a troubled site. Our budget however is required to be submitted to HUD, but only has to have Board approval.

Comment 8

Finding 2 response: As I stated earlier, it is my belief the Housing Authority did fulfill its duties as Section 8 contract administrator and did earn the monthly administrator fees. I am attaching documentation to verify the admin fees have been collected since the beginning of the contract. I do not believe the Housing Authority should be responsible for paying back any admin fees to any party.

Comment 9

In conclusion I am responsible for some minor oversights on my part as far as documentation and have implemented all new internal controls as well as policies and procedures. Copies of all itemized statements are being kept as well as copies of each itemized statement going to our fee accounting firm. There was some confusion as to my son's cellular phone, this was a cellular phone company error which was caught, corrected and I have paid back to the Housing Authority the \$569.00 in question. I have a letter from the cellular phone company stating what I have said happened is correct. I have gone through 2 IPA Audits with no findings. I assumed from the audits I was over-seeing my Housing Authority accordingly. I am guilty of no wrong-doing and I do not agree with the recommendation of administrative action being taken against me nor do I agree with the recommendation of the Housing Authority paying any monies back as far as the Section 8 program is concerned.

Comment 10

OIG Evaluation of Auditee Comments

Comment 1 We maintain that the Authority spent public housing funds for ineligible purposes when it paid office staff for overtime, contrary to Authority policy; provided gifts and meals to members of the board of commissioners and tenants; and paid personal cellular phone charges. In addition, while a board of commissioners member countersigned Authority checks to pay invoices for Authority expenses, this practice does not override federal rules regarding the eligibility of the expense. Further, the Authority did not consistently provide adequate support for board members to be sure that the approved checks were for good and services eligible to be paid from federal funds.

Comment 2 We acknowledge that the Authority completed limited financial duties required of a Section 8 program contract administrator, including

- Verifying the mathematical calculations on the monthly rent assistance request before providing it HUD,
- Collecting and forwarding the monthly rent assistance payment to the property owner, and
- Providing payment information to its fee accountant for recordkeeping purposes.

However, the Authority did not perform several key functions meant to ensure tenant eligibility; accuracy of rent and utility allowances paid by HUD; and decent, safe, and sanitary units were provided to tenants.

Comment 3 The board of commissioners approved specific instances of monetary compensation for overtime related to short-term projects. However, the board resolutions authorizing specific periods of paid overtime were not intended to override the general overtime policy in all future instances. We did not question paid overtime periods authorized by board resolutions that overrode the general policy for a specific period of time and task.

Comment 4 While we maintain that the Authority had no policy for bonus or incentive pay, as required by federal rules, we acknowledge that the board of commissioners approved the performance-based bonuses. We revised the report to state that the Authority should have had a bonus and incentive pay policy, and should have adequately supported the bonuses paid to demonstrate that they were reasonable and warranted.

Comment 5 Throughout the audit, we kept the Authority advised of the unsupported expenses questioned in our report. We reviewed all documentation made available and questioned only those expenses that the Authority could not adequately support at the time that we issued this report.

- Comment 6** As indicated in the report, HUD's annual contributions contract with the Authority states that the Authority may not use federal funds to compensate members of its board of commissioners. We maintain that any items purchased for the personal use of board members constitute compensation or gifts.
- Comment 7** After further consideration, we removed references to the Authority's budget from the report.
- Comment 8** We agree that the Authority collected monthly administrative fees but maintain that the Authority did not fully earn the fees because it did not perform all required services as a Section 8 contract administrator. With its response to our report, the Authority provided schedules of Section 8 contract administrator fees collected from January 1, 1997, through June 30, 2007. We did not include the schedules in our report because we are not questioning collection of the fees, but rather the Authority's right to the fees collected. The schedules may be obtained by submitting a formal Freedom of Information Act request to our office.
- Comment 9** The executive director had not repaid the \$569 to the Authority during our review, nor did we confirm that she has since repaid the Authority. The cellular phone company provided a statement that it had incorrectly placed the son's plan on the Authority's monthly billing statement. Authority managers told us that they had repeatedly tried to have the son's phone plan removed from the Authority's statement but were unsuccessful. Although the Authority was aware that the son's phone charges should not have been on the Authority's monthly invoice, it continued to pay the monthly charge from federal funds for five months.
- Comment 10** As explained in the independent auditors' reports for the Authority's fiscal years 2004 through 2006, the purpose of their review was to express an opinion on whether the Authority's financial statements were free of material misstatements. The auditors' reports also stated that the auditors performed some testing of compliance with laws, regulations, contracts, and grants that could have had a direct effect on the determination of financial statement amounts. However, the auditors pointed out that their review provided no opinion on whether the Authority complied with these rules. The auditors' reports further stated that their review of internal controls over financial reporting would not necessarily disclose all reportable conditions considered to be material weaknesses.

In summary, the independent auditors' reviews were not meant to provide, nor did they provide, the Authority assurance that it was complying with applicable rules and regulations when spending public housing funds or acting as a Section 8 contract administrator.