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Audit Report Number 2008-SE-1006

TO: Harlan Stewart, Director, Region X, Office of Public Housing, OAPH  
*Joan S. Hobbs*

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region X, OAGA

SUBJECT: The Richland Housing Authority, Richland, Washington, Did Not Adequately Account for Housing Choice Voucher Funds

## **HIGHLIGHTS**

### **What We Audited and Why**

At the request of the Region X Office of Public Housing, we audited the Housing Choice Voucher program (program) of the Richland Housing Authority (Authority). The Office of Public Housing was concerned about the results of an audit of the Authority performed by the Washington State Auditor's Office. Our objective was to determine whether the Authority made ineligible purchases with program funds.

### **What We Found**

The Authority did not track its program expenses. Also, it charged more than \$57,000 in unsupported and ineligible costs to the program.

## **What We Recommend**

We recommend the Director, Region X, Office of Public Housing, require the Authority to implement controls to ensure that it tracks its program expenses, reconcile its program accounts, and repay its program from nonfederal funds for ineligible expenses. We also recommend the Director require the Authority to provide supporting documentation for unsupported expenses or repay its program from nonfederal funds.

For each recommendation without a management decision, please respond and provide status reports in accordance with United States Department of Housing and Urban Development (HUD) Handbook 2000.06, REV-3.

Please furnish us copies of any correspondence or directives issued because of the audit.

## **Auditee's Response**

We discussed the findings with the auditee and HUD officials during the audit. We provided a copy of the draft report to the auditee on June 16, 2008, and discussed the report with the auditee at the exit conference held on June 19, 2008. The auditee provided its written comments to our draft report on June 30, 2008, and generally agreed with our findings. The complete text of the auditee's response can be found in appendix B of this report.

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## **BACKGROUND AND OBJECTIVES**

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The Richland Housing Authority's (Authority) 2005 accountability audit, performed by the Washington State Auditor's Office, found that the Authority used restricted Housing Choice Voucher program (program) funds to build a coffee shop. It also found that the Authority had violated Washington State conflict-of-interest laws.

### **Richland Housing Authority**

The Authority was formed with five commissioners in 1981 to remedy the shortage of safe and sanitary housing for low-income persons in the city of Richland, Washington. The Authority administers about 400 housing choice vouchers and 138 moderate rehabilitation vouchers for which the U.S. Department of Housing and Urban Development (HUD) provided more than \$1.7 million and \$884,098, respectively, in 2007. The Authority also manages U.S. Department of Agriculture low-income projects, a tax credit project for senior citizens, single-family and duplex units for a local community housing development organization, and some properties for the Benton-Franklin Department of Housing Services. The Authority also owns and operates its own units and oversees a Family Self Sufficiency program that provides supportive services such as child care, transportation, educational guidance, and job training to help program participants achieve economic independence.

### **Housing Choice Voucher Program**

This program is the federal government's major program for helping very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. Public housing agencies administer the HUD-funded program, which pays a housing subsidy to the landlord on behalf of the participating family. HUD provides public housing agencies with an administrative fee to operate the program.

### **Family Self-Sufficiency Program**

The Family Self Sufficiency program promotes the development of local strategies to coordinate public and private resources that help Housing Choice Voucher program participants obtain employment that will enable them to achieve economic independence. Supportive services most commonly provided to program participants are child care, transportation, remedial education, and job training.

### **Objective**

Our objective was to determine whether the Authority spent program funds for ineligible purposes.

## RESULTS OF AUDIT

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### Finding 1: The Authority Did Not Adequately Account for Program Funds

The Authority did not adequately track its program expenses. As a result, its senior management and board of commissioners did not know how much housing assistance payment funds or administrative fees remained in its accounts, nor did it have all of the information needed to make financial decisions. This occurred because the Authority did not have adequate internal controls.

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#### **The Authority Did Not Know Its Program Account Balances**

Under the annual contributions contract, HUD gives the Authority housing assistance payment funds that may only be used to make housing assistance payments to landlords. HUD also pays the Authority an administrative fee that may only be used to cover costs incurred for program operations. Each month, HUD deposited the housing assistance payment funds and administrative fee in the Authority's designated bank account. Each month, the Authority assigned the housing assistance payment funds and the administrative fee to the respective accounting system account. However, when the Authority used these funds for housing assistance payments to landlords and for the various expenses incurred to administer the program, the Authority did not subtract those amounts from the accounting system balances so it did not know how much housing assistance payment funds or administrative fees remained. This is contrary to HUD regulations at 24 CFR (*Code of Federal Regulations*) 982.158 which require the Authority to keep complete and accurate accounts and records for the program. Since program funds may only be used for designated purposes, the Authority's records must show that the funds were spent for those purposes. To adequately support charges to the program, the Authority's records must show that the activity benefited the program.

#### **Conclusion**

The Authority did not adequately account for program funds. This condition occurred because the Authority had inadequate internal controls for its financial management system. As a result, it did not know whether it spent more than it had and Authority management and board of commissioners did not have all of the information needed to make financial decisions about the operation of the program.

The Authority states they have implemented a process that they believe will help them more accurately track and analyze their expenses.

## **Recommendation**

We recommend the Director, Region X, Office of Public Housing, require the Authority to

- 1A. Implement internal controls to ensure that it tracks its program expenses and
- 1B. Reconcile its Housing Choice Voucher and related administrative fee accounts to ensure program funds are spent properly.

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## Finding 2: The Authority Used More Than \$42,000 in Program Funds to Build a Coffee Shop

The Authority spent more than \$42,000 in program funds to build a coffee shop to provide on-the-job training for its Family Self-Sufficiency program participants. As a result, these program funds were not available for program purposes. This condition occurred because the Authority's management and board of commissioners were not aware of program requirements.

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### **The Authority Built a Coffee Shop with Program Funds**

In October 2004, the Authority's board of commissioners approved \$20,000 to establish a coffee shop to provide training and job experience for Family Self Sufficiency program participants. In October 2005, the board approved an additional \$10,000 due to unanticipated expenditures. In 2005 and 2006, the Authority spent more than \$42,000 in program funds to build the coffee shop. Among these expenses was \$4,000 for an espresso machine, almost \$4,000 for plumbing work, almost \$4,000 for asphalt work, more than \$3,000 for excavation for sewer and electrical work, more than \$2,000 for concrete work, almost \$2,000 for a shed, and more than \$1,000 for an ice machine (see appendix C for the complete list).

### **HUD Must Approve the Family Self-Sufficiency Action Plan**

The United States Housing Act of 1937, as codified in 42 *United States Code* 1473u(g), requires public housing agencies participating in the Family Self Sufficiency program to submit an action plan to the local HUD office that must describe how the program will deliver the services and activities for program participants. The Authority's Family Self-Sufficiency program action plan included job training as a service to be provided to program participants but did not state that the Authority would build a business as the means of providing it.

HUD's Program Integrity Bulletin for public housing agency commissioners states an Authority's board of commissioners has the ultimate responsibility for housing authority operations and must ensure that expenditures comply with federal and local laws and other requirements. The board delegates responsibility for maintaining overall compliance with federal, state, and local laws to the executive director. However, neither the board of commissioners nor the executive director ensured that the Authority's action plan included detail sufficient to describe how the program would deliver the services and activities for program participants. Therefore, the costs of building the business as a means of providing the services and activities are ineligible.

## **Conclusion**

The Authority inappropriately spent more than \$42,000 in program funds to build a coffee shop. This condition occurred because the Authority's management and board of commissioners did not know HUD program requirements and believed that the coffee shop was an eligible use of program funds. As a result, these funds were not available for program use.

The Authority has proposed a method to repay the funds.

## **Recommendations**

We recommend the Director, Region X, Office of Public Housing, require the Authority's management and board of commissioners to

- 2A. Attend training regarding program requirements.
- 2B. Certify that they understand and will comply with HUD program requirements.

We also recommend that the Director, Region X, Office of Public Housing, require the Authority to

- 2C. Repay its program account \$42,183 from nonfederal funds for its ineligible use of program funds.



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## Finding 3: The Authority Did Not Support More Than \$15,000 in Labor Charges

The Authority used program funds to pay the salary and benefits of an employee whose time-keeping records showed that he charged his time to non-HUD activities. This condition occurred because the Authority mistakenly charged the employee's time to the wrong account. As a result, more than \$15,000 was not available for program use.

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### The Authority Charged the Program for Non-related Activities

From September 2005 through June 2006, the Authority used program funds to pay an employee more than \$14,000 in salary and more than \$1,000 in benefits even though the employee's time-keeping records showed no work related to the program. HUD regulations at 24 CFR 982.158 require the Authority to keep complete and accurate accounts and records for the program. Since the program funds may only be used for designated purposes, the Authority's records must show that the funds were spent for those purposes. To adequately support labor charges to a HUD program, time-keeping records must show that an employee performed activities benefiting that program.

### Conclusion

The Authority did not support more than \$15,000 in labor charges. This condition occurred because the Authority's bookkeeper mistakenly charged an employee's labor costs to the wrong account. As a result, these funds were not available for program use. In addition, the bookkeeper no longer works for the Authority and a certified public accountant now reviews the Authority's accounting records.

The Authority states they have implemented payroll review procedures that it believes will help them more accurately track and analyze their payroll expenses. The Authority has also proposed a method to repay the labor charges.

### Recommendations

We recommend that the Director, Region X, Office of Public Housing, require the Authority to

3A. Review its payroll accounting system to ensure the labor costs are properly allocated.

- 3B. Provide adequate supporting documentation for the labor charges or repay its program \$15,391 from nonfederal funds.

## **SCOPE AND METHODOLOGY**

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The audit period covered January 2005 through December 2007. We performed the fieldwork from February through May 2008.

To accomplish our objective, we reviewed program criteria, reviewed Authority financial records and interviewed Authority staff.

We reviewed all 2005 through 2007 general ledger transactions related to the Authority's Family Self Sufficiency program. We also reviewed all accounts in the Authority's chart of accounts that appeared to be inconsistent with Section 8 programs.

We performed our review in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

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

- Policies and procedures that management has implemented to ensure that the Authority pays the correct housing assistance payments to eligible families to live in decent, safe, and sanitary units.
- Policies and procedures that management has implemented to ensure that HUD funds are safeguarded and used for eligible purposes.

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 believe the following items are significant weaknesses:

- The Authority did not adequately track program expenditures (finding 1).

## FOLLOWUP ON PRIOR AUDITS

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### Accountability Audit Report Number 71823 - City of Richland Housing Authority

On December 1, 2006, the Washington State Auditor's Office issued an accountability audit report for the period January 1 through December 31, 2005. The State Auditor found that the Authority spent more than \$45,000 that was not allowable under program guidelines for case management services and to build a coffee shop. The State Auditor also found a conflict of interest involving the Authority's executive director and a member of the board of commissioners regarding the Authority's Family Self Sufficiency program.

In the subsequent report (number 73686) issued December 10, 2007, the Washington State Auditor's Office repeated the conflict of interest issue relating to the executive director and this finding remains open. It stated that the finding related to unallowable expenditures for building the coffee shop was resolved. However, this meant that the State Auditor found no unallowable expenditures for the current audit period not that funds were returned to the program. The State Auditor will review the conflict of interest issue during the next scheduled audit.

Our audit confirmed ineligible expenditures of program funds (see finding 2) that had not been repaid. Regarding the conflict of interest, Authority management officials stated that they believed the process they used to procure the services avoided a conflict of interest. In addition, the conflict of interest relationships have been dissolved.

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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Recommendation number	Ineligible costs <u>1/</u>	Unsupported costs <u>2/</u>
2C	\$42,183	
3B		\$15,391

- 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 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.

**AUDITEE COMMENTS**



June 30, 2008

US Department of Housing & Urban Development  
Office of Inspector General Region X  
Federal Office building  
909 First Avenue, suite 126  
Seattle, WA 98104-1000

Subject: Response to the June 16, 2008 letter

Dear Ms Hobbs:

Listed below are Richland Housing Authority responses to the three findings.

**Finding 1: The Authority Did Not Adequately Account For Program Funds.**

Richland Housing Authority response to Finding 1:

Richland Housing Authority (the Authority) has implemented a process where all expenses are allocated at the time the invoice is posted. Prior to this process, an allocation was done at the end of the year. The Authority has also implemented a budget review process where the actual expenses are compared to budget on a monthly basis. This review process will inform the authority of the annual expenses from the administrative budget and they can then compare them to the amounts received for the grant. The Authority believes their new procedures will help them track and analyze their expenses in a more accurate and timely manner.

**Finding 2: The Authority Used More Than \$42,000 In Program Funds To Build A Coffee Shop.**

Richland Housing Authority (the Authority) is listing the Coffee Shop for sale on Craig's List and advertising in the Nickel Press. The Authority will advertise to sell the Coffee Shop and all inventory for \$42,200.00. When the Authority sells the Coffee Shop the proceeds will reimburse the voucher fund. If less monies are received from the sale, the Authority will reimburse the voucher fund on a monthly basis by not charging \$2,517.67 office rent to the Administrative Fund until the balance is paid in full.

**Finding 3: The Authority Did Not Support More Than \$15,000.00 in Labor Charges.**

Richland Housing Authority (the Authority) has implemented review procedures in the Payroll Department. This review process will inform the Authority of Payroll expenses and compare them to the budget. The Authority believes their new procedures will help them track and analyze the payroll expenses in a more accurate and timely manner. The Authority will repay the \$15,391.00 to the voucher fund by charging monthly rent to the Administrative Fund until the balance is paid in full.

Please telephone me at 509.943.8686 ext 18 if you have questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Alvin R. Watson". The signature is fluid and cursive, with a large initial "A" and "W".

Alvin R Watson  
Executive Director

Xc: file



## Appendix C

### COFFEE SHOP EXPENDITURES

Payee	Amount
Almond & Sons Asphalt	\$ 3,820.00
American Express	655.71
Apollo Sheet Metal	190.00
Avalanche Distributing	790.00
Benton – Franklin Title	295.00
City of Richland	798.06
Coffey Refrigeration	60.00
Construction Management	1,537.14
Department of Labor and Industries	95.80
Emmons Plumbing	7,218.24
Family Self-Sufficiency Center	9,222.50
Frontier Fence	576.00
Galasource	1,281.78
Housing Authority Risk Retention Pool	435.00
Petty cash	132.30
Authority maintenance personnel	412.51
Lowe's Hardware	4,983.71
Lumbermens	539.05
Mediterranean Espresso	4,250.00
Mobile Storage Units	1,980.00
Pacific Steel	203.95
Patnode's True Value	105.53
Pro-Cut Concrete	480.00
Stoneway Electric Supply	902.39
Tri City Sign and Barricade	40.80
Trustworthy Hardware	414.16
Western Materials	763.23
<b>Total</b>	<b>\$42,182.86</b>

## Appendix D

### LABOR COSTS

Month/year	Salary	Benefits	Total
September 2005	\$ 1,272.00	\$ 97.68	\$ 1,369.68
October 2005	1,344.00	103.22	1,447.22
November 2005	1,328.00	102.00	1,430.00
December 2005	1,462.25	112.30	1,574.55
January 2006	1,466.08	112.60	1,578.68
February 2006	1,380.80	142.22	1,523.02
March 2006	1,532.72	157.87	1,690.59
April 2006	1,332.80	137.28	1,470.08
May 2006	1,532.72	157.87	1,690.59
June 2006	1,466.08	151.01	1,617.09
Total			\$15,391.50