



Issue Date	January 9, 2008
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Audit Report Number	2008-CH-1002
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TO: Thomas Marshall, Director of Public Housing Hub, 5DPH

FROM:  Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: The Akron Metropolitan Housing Authority, Akron, Ohio, Lacked Adequate Controls over Its 5(h) Homeownership Proceeds

## **HIGHLIGHTS**

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

We audited the Akron Metropolitan Housing Authority's (Authority) 5(h) homeownership program (program). We selected the Authority based on a risk analysis showing that it may have improperly used program funds. Our objectives were to determine whether the Authority properly accounted for and used its program's proceeds in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements.

### **What We Found**

The Authority failed to maintain a separate identity for \$196,247 of its program's proceeds because it commingled the proceeds with monies in its general public housing fund account. The \$196,247 consisted of \$90,764 in program sales proceeds from 11 properties sold between April 1993 and June 1995, and \$105,483 in earned interest on the sales proceeds. It also did not use its program sales proceeds in a timely manner. As a result, the program's proceeds were not used to assist low-income families.

## What We Recommend

We recommend that the Director of HUD's Cleveland Office of Public Housing require the Authority to reimburse its appropriate account the 5(h) sales proceeds plus earned interest, submit a proposal for HUD's approval on how the program's proceeds will be used, and implement adequate procedures and controls to ensure that the proceeds are used to provide housing assistance for low-income families in accordance with HUD's requirements.

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 issued because of the audit.

## Auditee's Response

We provided our discussion draft audit report to the Authority's executive director, its board chairman, and HUD's staff during the audit. The Authority's executive director declined our offer for an exit conference. We asked the executive director to provide written comments on our discussion draft audit report by January 4, 2008.

The executive director provided written comments, dated January 4, 2008, and agreed with our recommendations. The auditee's complete comments, along with our evaluation of that response, can be found in appendix B of this report.

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## **BACKGROUND AND OBJECTIVES**

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The Akron Metropolitan Housing Authority (Authority) was established in 1938 under Section 3735.27 of the Ohio Revised Code to provide low-income persons with safe and sanitary housing. The Authority is governed by a five-member board of commissioners. The commissioners are appointed to five-year staggered terms, except the tenant board member who has a four-year term. The Authority's executive director, appointed by the board of commissioners, is responsible for coordinating established policy and carrying out the Authority's day-to-day operations. As of November 30, 2007, the Authority owned and/or managed 4,380 Public Housing units and had 4,343 Section 8 Housing Choice Voucher units.

The Section 5(h) homeownership program (program) offers housing authorities a flexible way to sell Public Housing units to low-income families. The program helps low-income families purchase homes through an arrangement that benefits both the buyer and the public housing authority that sells the unit. It gives the buyer access to an affordable homeownership opportunity and to the many tangible and intangible advantages it brings. Homeownership can be an important part of self-sufficiency for low-income families, providing a way of building wealth as well as increasing self-esteem and security. The program was authorized by Section 5(h) of the United States Housing Act of 1937.

Our objectives were to determine whether the Authority properly accounted for and used its program's proceeds in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements.

## RESULTS OF AUDIT

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### Finding: The Authority Lacked Adequate Controls over Its Homeownership Proceeds

The Authority failed to maintain a separate identity for \$196,247 of its program proceeds and did not use \$384,691 of proceeds in a timely fashion. This occurred because the Authority's staff did not have knowledge of the requirements to accrue and separate program interest earnings, believed it was appropriate to move program funds from the restricted accounts, and was not aware of the requirement to expend the program funds in a timely manner. As a result, \$384,691 in program proceeds was not used to provide housing assistance for low-income families.

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#### Sales Proceeds from Program Properties

The Authority received sales proceeds of \$279,208 from 11 program properties sold between April 1993 and June 1995. The proceeds were put into restricted cash investment accounts. As of August 31, 2007, these accounts had a balance of \$188,444, \$90,764 less than the proceeds received. Of that \$90,764, \$88,412 was moved to an unrestricted general public housing fund account and the Authority is unable to track those funds. The Authority cannot account for the remaining \$2,352 of sales proceeds. Additionally, \$105,483 of earned interest on the sales proceeds was not maintained or accounted for in a separate account. The \$384,691 (\$279,208 in sales proceeds and \$105,483 earned interest) of program funds has not been used for housing assistance to low-income families as required by the Authority's program implementing agreement.

The Authority's executive director said his staff did not have any knowledge of the requirements to accrue and separate interest earnings on the program restricted accounts over the years, and to expend the funds in a timely manner. Also, the Authority's director of finance thought it was proper to move program funds from the restricted accounts.

The Authority failed to maintain a separate identity of \$196,247 (\$90,764 in sales proceeds and \$105,483 of earned interest) of its program's sales proceeds and did not obligate the sales proceeds in a timely manner as required by its implementing agreement. As a result, the program's proceeds were not used to assist low-income families.

#### Conclusion

The Authority failed to maintain a separate identity of \$196,247 (\$90,764 in sales proceeds and \$105,483 of earned interest) of its program sales proceeds and did not

obligate the sales proceeds in a timely manner as required by its program implementing agreement. As a result, the program's proceeds were not used to assist low-income families.

## Recommendations

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

- 1A. Reimburse the appropriate account \$196,247 (\$90,764 in sales proceeds and \$105,483 of earned interest) in related proceeds and earned interest from the 11 program properties sold.
- 1B. Submit a proposal(s) for HUD's approval on how the program proceeds will be used.
- 1C. Implement adequate procedures and controls to ensure that \$188,444 (\$279,208 in program sales proceeds plus \$105,483 of earned interest minus the \$196,247 cited in Recommendation 1A) in program proceeds is used to provide housing assistance to low-income families.

## SCOPE AND METHODOLOGY

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To accomplish our objectives, we reviewed:

- Applicable laws; regulations; HUD's program requirements at 24 CFR [*Code of Federal Regulations*] Part 906; the Authority's annual contributions contract with HUD; the Authority's 5(h) homeownership plan proposal and implementing agreement; bank statements; check register; annual audited financial statements for 2005 and 2006; general ledgers; homeownership files; documentation pertaining to their affiliated entities; and organizational chart.
- HUD's files for the Authority.

We also interviewed HUD's Cleveland Office of Public Housing staff, the Authority's employees, and an attorney from Davis, Eoff and Elliott LLC, the Authority's contracted legal counsel.

We performed the survey work at the Authority's offices located at 100 West Cedar Street, Akron, Ohio, and HUD's Cleveland Field Office. The review covered the period July 1, 2005, through August 31, 2007. The period was adjusted as determined necessary.

We performed our audit 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,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

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 objectives:

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- 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.
- 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 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 significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.



## Significant Weakness

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

- The Authority lacked adequate procedures and controls over its program proceeds (see finding).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

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Recommendation number	Funds to be put to better use 1/
1A	\$196,247
1C	<u>\$188,444</u>
Totals	<u>\$384,691</u>

- 1/ 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. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In these instances, if the Authority implements our recommendations, it will use its program proceeds to assist low-income families.

# Appendix B

## AUDITEE COMMENTS AND OIG's EVALUATION

### Ref to OIG Evaluation

### Auditee Comments



Anthony W. O'Leary    Executive Director  
John C. Fickes        Board Chairperson  
Kurt W. Laubinger    Board Vice Chairperson  
Thomas L. Harnden    Board Member  
Leonard M. Foster    Board Member  
Hazel V. Morton       Board Member

January 4, 2008

Mr. Ronald Farrell  
Assistant Regional Inspector General for Audit  
United States Department of HUD – Office of Inspector General  
200 North High St., Rm 334  
Columbus, OH 43125

Dear Mr. Farrell:

The Akron Metropolitan Housing Authority is in receipt of the audit report for the 5(h) Homeownership Program resulting from the Office of Inspector General audit beginning September 24, 2007.

The audit report indicates that the Authority failed to properly account for \$196,247 of its program's proceeds and did not use its program sales in a timely manner to assist low-income families.

While we agree with the overall resolution proposed in the audit report we disagree with the statement that we "failed to properly account" for the funds in question.

As indicated on page five of the audit report, the Authority established a restricted cash investment account and all proceeds from the sale of the 11 properties were booked to this account. Although there was not a separate cash account maintained through the Authority's financial institution with FirstMerit Bank, the proceeds were tracked separately through the restricted general ledger account. The proceeds were originally booked beginning in April 1993 and continued through June 1995 and the intent was to maintain this separate account balance until the mortgage was paid in full (15 years). However, three of the mortgages were either paid in full or defaulted between the years 1997 and 2001. The proceeds from these properties (\$90,764) were transferred from the restricted cash investment account and put into the Authority's Public Housing Fund. This fund is used solely for Public Housing purposes.

In summary as previously stated we will concur with the corrective actions required in your report. For the record, however, I believe there was a significant lack of direction or guidance on the use of sale proceeds. A review of the 1992 regulations (24CFR 906.15) indicates they are silent on how or when funds are to be expended.

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(For those needing TTY/TTD)

**Comment 1**

**Comment 2**

**Ref to OIG Evaluation**

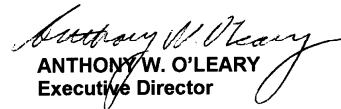
**Auditee Comments**

**Comment 3**

**Mr. Ronald Farrell**  
**Page Two**

As recommended on page six of the audit report, the Authority will submit a proposal to HUD detailing a work plan on how the proceeds will be used to provide housing assistance to low-income families. The \$90,764 originally transferred from the restricted cash investment account will be reimbursed along with accrued interest in the amount of \$105,483. In total, \$384,691 will be restricted until HUD's approval of the work plan is received.

Sincerely,

  
**ANTHONY W. O'LEARY**  
**Executive Director**

AWO/rm

### **OIG Evaluation of Auditee Comments**

- Comment 1** We agree and revised page 1 of this audit report.
- Comment 2** We agree that HUD's requirements do not expressly define timely.
- Comment 3** We commend the Authority for recognizing the importance of using its funds for future low-income housing opportunities.

## Appendix C

### FEDERAL REQUIREMENTS AND THE AUTHORITY'S SECTION 5(h) IMPLEMENTING AGREEMENT

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Section 9(C) of the Authority's annual contributions contract states the Authority shall maintain records that identify the source and application of funds in such a manner as to allow HUD to determine that all funds are and have been expended in accordance with each specific program regulation and requirement.

Section 15(A) of the Authority's annual contributions contract requires the Authority must maintain complete and accurate books of account for the projects in such a manner as to permit the preparation of statements and reports in accordance with HUD requirements, and to permit timely and effective audits.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 906.15 require program sale proceeds be retained by the housing authority and used for housing assistance to low-income families. Part 906.17 states that the public housing authority shall be responsible for the maintenance of records (including sales and financial records) for all activities incident to implementation of the HUD-approved program plan. The receipt, retention, and use of the sales proceeds shall be covered in the regular independent audits of the public housing authority's public housing operations.

Section 3.2 of the Authority's program implementing agreement requires sales proceeds to be used in an economical and efficient manner so as to provide the maximum housing assistance at a reasonable cost to low-income families. Section 3.3 of the agreement states that the Authority shall obligate sales proceeds in a timely fashion in accordance with the project implementation schedule set forth in the plan. Section 4 of the agreement states the Authority shall establish and maintain a separate account for any project or program to be funded with sales proceeds under this agreement. Such sales proceeds may be commingled with funds contributed to the project or program from other sources, so long as the Authority maintains the separate identity of the sales proceeds covered by this agreement.