



Issue Date	March 6, 2008
Audit Report Number	2008-LA-1008

TO: Stephen Schneller, Director, San Francisco Office of Public Housing, 9APH  
*Joan S. Hobbs*

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: The Housing Authority of the County of San Joaquin, Stockton, California, Did Not Administer Capital Funds in Accordance with HUD Requirements

## HIGHLIGHTS

### What We Audited and Why

We reviewed the Housing Authority of the County of San Joaquin's (the Authority) capital fund program to determine whether it used capital funds in accordance with U.S. Department of Housing and Urban Development (HUD) rules and regulations. The HUD San Francisco Office of Public Housing requested the review due to concerns about the use of capital funds.

### What We Found

The Authority did not use capital funds in accordance with requirements. Specifically, the Authority

- Used \$175,775 to absorb shared administrative costs of other housing programs,
- Improperly charged \$114,771 in ineligible indirect administrative fees,
- Recorded an additional \$77,188 in questioned costs to its capital fund grant and,

- Did not have policies and procedures in place to ensure accurate and complete financial information.

### **What We Recommend**

We recommend that the Director of HUD's San Francisco Office of Public Housing require the Authority to repay HUD and reimburse the capital fund \$175,775 for shared administrative costs of other housing programs and that it repay HUD and reimburse the capital fund for \$114,771 in ineligible administrative fees. We also recommend that the Authority remove liabilities in the amount of \$77,188 from its accounting records and that the Authority establish policies and procedures to ensure it spends and supports its use of capital funds in accordance with HUD requirements in the future.

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**

We provided the Authority a draft report on February 12, 2008, and held an exit conference with officials on February 19, 2008. The Authority provided written comments on February 26, 2008. The Authority generally agreed with our audit report but requested alternative remedies for some of the recommendations. 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**

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The Housing Authority of the County of San Joaquin (Authority) is responsible for providing decent, safe, and affordable housing for low-income families, the elderly, and the disabled. The Authority, established by state legislation and federally funded, has been continually serving the low-income population of San Joaquin County since 1942.

The Authority distributes 4,857 housing choice vouchers and operates 1,075 public housing development units. It also operates State of California migrant housing units, United States Department of Agriculture farm labor housing units, and market-rate housing units.

The mission of the Authority is to provide and advocate for affordable, attractive, and safe living environments and to provide opportunities to become self-sufficient for persons of very low to moderate income. A seven-member board of locally appointed commissioners and approximately 100 staff members implement and manage the County of San Joaquin's mandates.

Our objective was to determine whether the Authority used capital funds in accordance with HUD requirements.

## RESULTS OF AUDIT

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### Finding 1: The Authority Did Not Administer Capital Funds in Accordance with HUD Requirements

The Authority did not properly administer \$369,415 of the \$4.6 million in fiscal years 2003 and 2004 capital funds it received in accordance with HUD requirements. This condition occurred because the Authority did not have the necessary policies and procedures in place regarding the use and recording of capital funds. Specifically, the Authority used capital funds to incur ineligible administrative expenses, absorb shared administrative costs of other housing programs, incur unsupported expenditures, and pay for non-HUD program expenses. In addition, it did not ensure that financial information was accurate and complete. As a result, the program paid for \$369,415 in questioned costs, and the public housing program was deprived of scarce HUD funds.

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#### **Administration of Capital Funds**

We reviewed the Authority to determine whether it administered capital funds in accordance with HUD requirements. HUD established the program to assist the Authority in carrying out capital and management activities at existing public housing developments to ensure that such developments continue to be available to serve low-income families.

#### **The Authority Improperly Used \$175,775 in Capital Funds to Absorb Shared Administrative Costs of Other Housing Programs**

The Authority used \$243,776 in capital funds for shared administrative and management improvement costs. Of this amount, the Authority used its 2003 and 2004 capital fund grants to improperly absorb \$175,775 in costs that should have been paid for by the Authority's other programs. This includes \$131,197 spent using funds from the closed 2003 grant. The Authority was required to expend all 2003 funds before August 14, 2007. The remaining \$44,578 was spent using funds from the closed 2004 grant. This grant remains open through September 13, 2008. It used these funds for centralized administrative costs including renovations to its administration building and purchases of centralized network hardware and software. The Authority operates several different housing programs out of its central administration building including its low-rent

housing, Section 8 (Housing Choice Voucher and Project-Based Voucher), State of California Migrant, U. S. Department of Agriculture Rural Housing, and market-rate housing programs. The Authority conducts its centralized management, accounting, information technology, and other administrative functions for all of its programs in this building. Therefore, all of its programs benefitted from the improvements. Although HUD permits the Authority to use capital funds to pay for a portion of these improvements, it must only allocate the portion of costs that directly benefit the public housing program. The remaining costs must be allocated to its other programs that benefitted from the improvements. However, the Authority did not have policies and procedures in place for its capital fund program to allocate these costs to its other programs. Based on its allocation plan, \$175,775 of \$243,776 in centralized administrative costs should have been allocated to its other programs. As a result, the capital fund program paid for \$175,775 in ineligible costs, which deprived the public housing program of scarce HUD funds.

### **The Authority Improperly Charged \$114,771 in Ineligible Indirect Administrative Fees**

The Authority improperly charged \$114,771 in ineligible indirect administrative fees to its fiscal years 2003 and 2004 capital fund grants. Of this amount, \$80,366 was spent using funds from the closed 2003 grant. The Authority was required to expend all 2003 funds before August 14, 2007. The remaining \$34,405 was spent using funds from the closed 2004 grant. This grant remains open through September 13, 2008.

HUD requirements applicable to the fiscal years 2003 and 2004 grants state that indirect administrative fees are ineligible. The Authority misinterpreted HUD requirements and improperly applied HUD's new asset management regulations to its 2003 and 2004 grants. It intended to implement the fees earlier than required to determine how the financial changes of asset management would affect its operations. HUD's new asset management regulations permit the Authority to charge an administrative or management fee for managing its capital fund grants issued after October 1, 2007, not retroactively. As a result, the Authority charged \$114,771 in indirect administrative fees to its 2003 and 2004 grants in violation of HUD requirements.

### **The Authority Incurred \$1,681 in Unsupported and Ineligible Expenses**

The Authority incurred \$1,681 in unsupported and ineligible expenses for its 2003 grant. Of this amount, it could not provide supporting documentation for \$1,346 in capital fund expenditures and used \$335 for non-HUD program expenses. This occurred because it did not have policies and procedures in place to ensure that it spends capital funds in accordance with HUD requirements.

According to HUD requirements, the Authority must maintain source documentation for all expenditures, including the capital fund program. During our review, it was unable to provide supporting documentation for \$1,346 in capital fund expenditures. As a result, there was no assurance that it used \$1,346 for eligible purposes. In addition, it used \$335 for expenses tied to one of its non-HUD properties. The Authority may not use capital funds for non-HUD properties. As a result, the capital fund program paid for \$335 in ineligible costs.

**The Authority Charged an Additional \$77,188 in Questioned Costs to Its Capital Fund Grant**

The Authority recorded \$77,188 in questioned costs to its fiscal year 2004 grant. Of this amount, \$38,414 was for ineligible indirect administrative fees and \$38,774 for shared administrative costs of other housing programs. This occurred because it did not have policies and procedures in place to ensure that it spends capital funds in accordance with HUD requirements. The Authority operates its capital fund on a reimbursement system, and HUD had not reimbursed the Authority for these costs. When the Authority incurs a capital fund expense, it pays the expense through its centralized check writing account. It then codes the invoice and payment in its accounting system as a capital fund expense. It tracks the amount of funds the capital fund owes the centralized account. Once the fund has accumulated a large amount of expenses, the Authority submits an expense voucher to HUD for drawdown in the Line Of Credit Control System. Upon HUD approval, HUD disburses the funds into the Authority's centralized account. The original capital fund expense is then reconciled in its accounting system. HUD had not yet reimbursed these costs, but the Authority coded the costs to the capital fund in its accounting system. As a result, we are reporting these costs separately from other questioned costs identified in the report.

**The Authority Did Not Have Policies and Procedures in Place to Ensure Accurate and Complete Financial Information**

The Authority did not properly account for \$351,773 of more than \$2.1 million in fiscal year 2003 capital fund grants. This condition occurred because it did not have policies and procedures in place to ensure accurate and complete financial information for its capital fund program. As a result, it reported inaccurate financial data related to its fiscal year 2003 grant.

The Authority incorrectly coded \$351,773 in capital fund expenditures to incorrect public housing developments. For example, it spent \$37,008 in capital funds on roofing at its Conway Homes public housing development in Stockton, California. However, it entered the expense to its Diablo Homes development located in Tracy, California. Discussions with the Authority indicated the incorrect coding of invoices was due to human error by an employee who no longer worked there. In response to the problem, the Authority implemented improved internal controls in which one employee would code the invoice and another would approve the invoice coding before submission of the invoice to the finance department. The Authority believed the new procedures would minimize any future coding problems.

Although the Authority inaccurately reported the use of its capital funds, it did use the funds for its public housing developments. HUD requirements permit fungibility, transferring and allocating of program funds among developments. However, the Authority must ensure that the changes in funding allocation are reported to HUD. In this case, it used the misreported funds in accordance with HUD requirements but did not properly code the expenses to ensure that HUD had an accurate and complete report of capital fund use. The Authority was implementing corrective actions to address any future instances and to ensure that its annual plans, invoices, and accounting records are accurate and complete. As a result, we did not question the \$351,773 in expenditures charged to the 2003 grant.

## **Conclusion**

The Authority did not administer \$369,415 of \$4.6 million in capital funds in accordance with HUD requirements. This condition occurred because it did not have the necessary policies and procedures in place regarding the used and recording of capital funds. As a result, the program paid for \$369,415 in questioned costs, and the public housing program was deprived of scarce HUD funds needed to ensure safe, decent, and quality housing for low-income families.

## **Recommendations**

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

- 1A. Repay HUD \$131,197 from its other programs which benefitted from improvements and did not pay the appropriate allocation of administrative costs since it did not properly expend these funds before the grant deadline.
- 1B. Reimburse the 2004 capital fund grant \$44,578 from its other programs which benefitted from improvements and did not pay the appropriate allocation of administrative costs.



- 1C. Repay HUD \$80,366 from nonfederal funds for ineligible administrative fees charged to its 2003 capital fund grant since funds were not properly expended before the grant deadline.
- 1D. Repay \$34,405 to the Authority's capital fund program for ineligible administrative fees charged to its 2004 capital fund grant.
- 1E. Remove \$77,188 (\$38,414 in administrative fees and \$38,774 for shared administrative costs of other housing programs) in 2004 capital fund grant expenses from its accounting records and ensure that it does not charge these costs to the capital fund program in HUD's Line of Credit Control System.
- 1F. Provide supporting documentation for \$1,346 in unsupported 2003 capital fund program expenses or repay HUD for those expenses from nonfederal funds.
- 1G. Reimburse HUD \$335 from nonfederal funds for non-HUD program expenses.
- 1H. Establish policies and procedures for the capital fund program to ensure that it properly allocates shared costs to all of its housing programs.
- 1I. Establish and implement adequate controls and procedures to ensure it spends funds in accordance with HUD requirements and that financial documents such as invoices, annual plans, and financial reports are accurate and complete when issued to HUD for review.

## SCOPE AND METHODOLOGY

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We performed on-site work at the Authority, located in Stockton, California, from August through December 2007. Our review generally covered the Authority's fiscal years 2003 and 2004 capital fund grants and the period October 1, 2005, through July 31, 2007. This period was adjusted as necessary. Our objective was to determine whether the Authority used capital funds in accordance with HUD requirements.

To accomplish our objective, we

- Interviewed HUD and Authority personnel to obtain information about the Authority and its capital fund program.
- Reviewed Authority accounting records including audited financial statements, general ledgers, invoices, contracts, and other supporting documentation necessary for a complete review of grant transactions.
- Reviewed HUD requirements and regulations regarding the use of capital funds.

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,
- Compliance with applicable laws and regulations, and
- Safeguarding of 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 audit objectives:

- Administration of the capital fund program in compliance with HUD regulations,
- Maintaining complete and accurate records, and
- Safeguarding HUD program resources

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 have controls in place to ensure it only charges costs attributable to the capital fund program.
- The Authority did not have controls in place to ensure it spends funds in accordance with HUD requirements and ensure that financial documents such as invoices, annual plans, and financial reports are accurate and complete when issued to HUD for review.

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>	Funds to be put to better use <u>3/</u>
1A	\$131,197		
1B	\$44,578		
1C	\$80,366		
1D	\$34,405		
1E			\$77,188
1F		\$1,346	
1G	\$335		
Totals	\$290,881	\$1,346	\$77,188

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.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an 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.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments



P.O. Box 447  
Stockton, CA  
95201

Board of  
Commissioners

**Audrey Jordan**  
Chairperson

**Alan Biedermann**  
Commissioner

**Nellie Carter**  
Commissioner

**Sonia O. Henderson**  
Commissioner

**Nancy Patron**  
Commissioner

**Ukpong Uweh**  
Commissioner

**Rudolph Willey**  
Commissioner

Administration  
448 S. Center St.  
Stockton, CA 95203

February 25, 2008

U.S. Department of Housing and Urban Development  
Office of Inspector General, Region IX, 9DGA  
c/o Ms. Joan S. Hobbs, Regional Inspector General for Audit  
611 West Sixth Street, Suite 1160  
Los Angeles, CA 90017

RE: Discussion Draft Audit Report  
The Housing Authority of the County of San Joaquin, Stockton, California,  
Did Not Administer Capital Funds in Accordance with HUD Requirements

Dear Ms. Hobbs:

The following is the Housing Authority of the County of San Joaquin's ("Authority") response to the Discussion Draft Audit Report derived from the audit conducted from August through November of 2007. The Finding and Recommendations will be restated and the Authority's responses will follow under the heading "*Housing Authority's Response*."

The Authority is willing and eager to work with the Office of Inspector General and the Office of Public Housing ("OPH") in this audit process. The Authority's management team is confident it has the ability to take the corrective action necessary to address the concerns expressed in the report. Thank you for your time and consideration. If you have any questions, please contact me at (209) 460-5013.

Sincerely,

A handwritten signature in black ink, appearing to read "Clifford Hatanaka".

Clifford Hatanaka  
Director of Finance

cc: Helen Sparks, Assistant Regional Inspector General

### Results of Audit

#### **Finding #1 – The Authority Did Not Administer Capital Funds in Accordance with HUD Requirements.**

The Authority did not properly administer \$370,589 of the \$4.6 million in fiscal years 2003 and 2004 capital funds it received in accordance with HUD requirements. This condition occurred because the Authority did not have the necessary policies and procedures in place regarding the use and recording of capital funds. Specifically, the Authority used capital funds to incur ineligible administrative expenses, absorb shared administrative costs of other housing programs, incur unsupported expenditures, and pay for non-HUD program expenses. As a result, the program paid for \$370,589 in questioned costs, and the public housing program was deprived of scarce HUD funds.

#### **Administration of Capital Funds-The Authority Improperly Used \$175,775 in Capital Funds to Absorb Shared Administrative Costs of Other Housing Programs.**

The Authority used \$243, 776 in capital funds for shared administrative and management improvement costs. Of this amount, the Authority used its 2003 and 2004 capital fund grants to improperly absorb \$175,775 in costs that should have been paid for by the Authority's other programs. This includes \$131,197 spent using funds from the closed 2003 grant. The Authority was required to expend all 2003 funds before August 14, 2007. The remaining \$44,578 was spent using funds from the closed 2004 grant. This grant remains open through September 13, 2008. It used these funds for centralized administrative costs including renovations to its administration building and purchases of centralized network hardware and software.

The Authority operates several different housing programs out of its central administration building including its low-rent housing, Section 8 (Housing Choice Voucher and Project-Based Voucher), State of California Migrant, U.S. Department of Agriculture Rural Housing, and market-rate housing programs. The Authority conducts its centralized management, accounting, information technology, and other administrative functions for all of its programs in this building. Therefore, all of its programs benefited from the improvements. Although HUD permits the Authority to use capital funds to pay for a portion of these improvements it must only allocate the portion of costs that directly benefit the public housing program. The remaining costs must be allocated to its other programs that benefited from the improvements.

However, the Authority did not have the policies and procedures in place for its capital fund program to allocate these costs to its other programs. Based

on its allocation plan, \$175,775 of \$243,776 in centralized administrative costs should have been allocated to its other programs. As a result, the capital fund program paid for \$175,775 in ineligible costs, which deprived the public housing program of scarce HUD funds.

**Recommendations:**

**1A:** Repay HUD \$131,197 from its other programs which benefited from improvements and did not pay the appropriate allocation of administrative costs since it did not properly expend these funds before the grant deadline.

*Housing Authority's Response:* The Authority respectfully requests that it be allowed to substitute other eligible expenses for the \$131,197 recorded for the 2003 Capital Funds. We propose substituting other eligible costs that were expended in the same time period as the ineligible costs.

**1B:** Reimburse the 2004 capital fund grant \$44,578 from its other programs which benefited from improvements and did not pay the appropriate allocation of administrative costs.

*Housing Authority's Response:* The Capital Fund for 2004 is still open for expenditures. The Authority respectfully requests that it be allowed to substitute other eligible expenses for the \$44,578 recorded for the 2004 Capital Funds. We propose substituting other eligible costs for the ineligible costs.

**The Authority Improperly Charged \$114,771 in Ineligible Indirect Administrative Fees**

The Authority improperly charged \$114,771 in ineligible indirect administrative fees to its fiscal years 2003 and 2004 capital fund grants. Of this amount, \$80,366 was spent using funds from the closed 2003 grant. The Authority was required to expend all 2003 funds before August 14, 2007. The remaining \$34,405 was spent using funds from the closed 2004 grant. The grant remains open through September 13, 2008.

HUD requirements applicable to the fiscal years 2003 and 2004 grants state that indirect administrative fees are ineligible. The Authority misinterpreted HUD requirements and improperly applied HUD's new asset management regulations to its 2003 and 2004 grants. It intended to implement fees earlier than required to determine how the financial changes of asset management would affect its operations.

HUD's new asset management regulations permit the Authority to charge an administrative or management fee for managing its capital fund grants issued after October 1, 2007, not retroactively. As a result, the Authority charged

**Comment 1**

**Comment 2**

\$114,171 in indirect administrative fees to its 2003 and 2004 grants in violation of HUD requirements.

**Recommendations:**

**1C:** Repay HUD \$80,366 from nonfederal funds for ineligible administrative fees charged to its 2003 capital fund grant since funds were not properly expended before the grant deadline.

*Housing Authority's Response:* As of September 30, 2007, the Authority reversed the \$80,366 off its general ledger. The Authority respectfully requests that it be allowed to substitute other eligible expenses for the \$80,366 recorded for the 2003 Capital Funds. We propose substituting other eligible costs that were expended in the same time period as the ineligible costs.

**1D:** Repay \$34,405 to the Authority's capital fund program for ineligible administrative fees charged to its 2004 capital fund grant.

*Housing Authority's Response:* As of September 30, 2007, the Authority reversed the \$34,405 off its general ledger. The Authority respectfully requests that it be allowed to substitute other eligible expenses for the \$34,405 recorded for the 2004 Capital Funds. We propose substituting other eligible costs for the ineligible costs.

**The Authority incurred \$2,855 in Unsupported and Ineligible Expenses**

The Authority incurred \$2,855 in unsupported and ineligible expenses for its 2003 grant. Of this amount, it could not provide supporting documentation for \$2,520 in capital fund expenditures and used \$335 for non-HUD program expenses. This occurred because it did not have policies and procedures in place to ensure that it spends capital funds in accordance with HUD requirements.

According to HUD requirements, the Authority must maintain source documents for all expenditures, including the capital fund program. During our review, it was unable to provide supporting documentation for \$2,520 in capital fund expenditures. As a result, there was no assurance that it used \$2,520 for ineligible purposes. In addition, it used \$335 for expenses tied to one of its non-HUD properties. The Authority may not use capital funds for non-HUD properties. As a result, the capital fund program paid \$335 in ineligible costs.

**Comment 3**

**Comment 4**



**Recommendations:**

**1F:** Provide supporting documentation for \$2,520 in unsupported 2003 capital fund program expenses or repay HUD for those expenses from nonfederal funds.

*Housing Authority's Response:* Subsequent to field work performed by OIG, the Authority has located supporting documents for \$1,173.80 of the \$2,519.61 that lacked supporting documentation. The Authority respectfully requests that it be allowed to substitute other eligible expenses for the remaining \$1,345.81 recorded for the 2003 Capital Funds. We propose substituting other eligible costs that were expended in the same time period as the ineligible costs. (Supporting documentation for the \$1,173.80 is included as Attached #1).

**1G:** Reimburse HUD \$335 from nonfederal funds for non-HUD program expenses.

*Housing Authority's Response:* The Authority respectfully requests that it be allowed to substitute other eligible expenses for the remaining \$335.00 recorded for the 2003 Capital Funds. We propose substituting other eligible costs that were expended in the same time period as the ineligible costs.

**The Authority Charged an Additional \$77,188 in Questioned Costs to Its Capital Fund Grant**

The Authority recorded \$77,188 in questioned costs to its fiscal year 2004 grant. Of this amount, \$38,414 was for ineligible indirect administrative fees and \$38,774 for shared administrative costs of other housing programs. This occurred because it did not have policies and procedures in place to ensure that it spends capital funds in accordance with HUD requirements.

The Authority operates its capital fund on a reimbursement system, and HUD had not reimbursed the Authority for these costs. When the Authority incurs a capital fund expense, it pays the expense through its centralized check writing account. It then codes the invoice and payment in its accounting system as a capital fund expense. It tracks the amount of funds the capital fund owes the centralized account. Once the fund has accumulated a large amount of expenses, the Authority submits an expense voucher to HUD for drawdown in the Line Of Credit Control System.

Upon HUD approval, HUD disburses the funds in the Authority's centralized account. The original capital fund expenses are then reconciled in its accounting system. HUD had not yet reimbursed these costs, but the Authority coded the costs to the capital fund in its accounting system. As a

**Comment 5**

**Comment 6**

result, we are reporting these costs separately from the other questioned costs identified in the report.

**Recommendation:**

**1E:** Remove \$77,188 (\$38,414 in administrative fees and \$38,774 for shared administrative costs of other housing programs) in 2004 capital fund grant expenses from its accounting records and ensure that it does not charge these costs to the capital fund program in HUD's Line of Credit Control System.

*Housing Authority's Response:* As of September 30, 2007, the Authority removed the \$38,414 for administrative fees off its general ledger. The Authority will remove the \$38,774 for shared administrative costs from its 2004 Capital Fund Grant.

**The Authority Did Not Have Policies and Procedures in Place to Ensure Accurate and Complete Financial Information**

The Authority did not properly account for \$351,773 of more than \$2.1 million in fiscal year 2003 capital fund grants. This condition occurred because it did not have policies and procedures in place to ensure accurate and complete financial information for its capital fund program. As a result, it reported inaccurate financial data related to its fiscal year 2003 grant.

The Authority incorrectly coded \$351,773 in capital fund expenditures in incorrect public housing developments. For example, it spent \$37,008 in capital funds on roofing at its Conway Homes public housing development in Stockton, California. However, it entered the expense to its Diablo Homes development located in Tracy, California. Discussions with the Authority indicated the incorrect coding of invoices was due to human error by an employee who no longer worked there. In response to the problem, the Authority implemented improved internal controls in which one employee would code the invoice and another would approve the invoice coding before submission of the invoice to the finance department. The Authority believed the new procedures would minimize any future coding problems.

Although the Authority inaccurately reported the use of capital funds, it did use the funds for its public housing developments. HUD requirements permit fungibility, transferring and allocating of program funds among developments. However, the Authority must ensure that the changes in funding allocation are reported to HUD. In this case, it used the misreported funds in accordance with HUD requirements, but did not properly code the expenses to ensure that HUD had an accurate and complete report of capital fund use. The Authority was implementing corrective actions to address any future instances and to ensure that its annual plans, invoices, and accounting records are accurate and

**Comment 7**

complete. As a result, we did not question the \$351,773 in expenditures charged to the 2003 grant.

**Recommendations:**

**1H:** Establish policies and procedures for the capital fun program to ensure that it properly allocated shared costs to all of its housing programs,

*Housing Authority's Response:* Noted. As previously aforementioned in the above paragraphs, the Authority implemented improved internal controls in which one employee would code the invoice and another would approve the invoice coding before submission of the invoice to the finance department. The Authority is confident that the new procedures will minimize any future coding problems.

In addition, in March 2008, the Authority will be hiring a Capital Fund Coordinator for which the successful qualified candidate will be charged with the development of the Authority's modernization plans and budgets; implementation of revitalization programs; the monitoring of budgets; and the requisition of modernization funds from HUD (see Attachment #2 Job Description). An integral part of the administration will be the review and monitoring of obligations of contracts and commitments. The Capital Fund Coordinator will maintain a log of all purchase orders and projects that pertain to modernization. This log will be used to obligate funds in eLOCCS. This person will also be responsible to insure Force Account is properly approved and administered. Timely budget revisions will also be reported by the Capital Fund Coordinator. Once funds are obligated, the accounting department will be responsible for the reporting of expenditures.

The improvement of the administration of the Capital Fund is of the utmost importance to the Authority. We are committed to perfecting the policies and procedures that are in place in order to fully comply with HUD requirements.

**1I:** Establish and implement adequate controls and procedures to ensure it spends funds in accordance with HUD requirements and that financial documents such as invoices, annual plans, and financial reports are accurate and complete when issued to HUD for review.

*Housing Authority's Response:* Noted. After several years of stability in Authority personnel handling the Capital Funds program, in fiscal year 2006 – 2007 the Authority had turnover in several key Capital Fund positions. In order to address the loss of knowledge and experience, the Authority hosted a Capital Fund seminar by Nan McKay. Additionally, as previously mentioned, on February 21, 2008, our Board of Commissioners approved the new position of Capital Fund Coordinator who will be instrumental in the administration of Capital Fund projects. The Housing Authority is now

**Comment 8**

**Comment 9**

Housing Authority of the County of San Joaquin  
Consolidated Review Response

positioned to move forward with the commitment to administer Capital Funds accurately and effectively.

## OIG Evaluation of Auditee Comments

- Comment 1** OIG disagrees with the Authority's proposed recommendation. The Authority cannot substitute eligible expenses in place of the ineligible expenses since it has missed the August 14, 2007 expenditure deadline. The expenditure requirement is specifically cited in 24 CFR 905.120(d) (see appendix C). HUD's right to recapture the funds is cited in 24 CFR 905.120(e) which states "Right of Recapture. Any obligation entered into by a PHA is subject to HUD's right to recapture the obligated amounts for violation by the PHA of the requirements of this section." Since the grant is closed, the Authority must repay these ineligible costs to HUD.
- Comment 2** OIG agrees that the 2004 capital fund grant is still open for expenditures but disagrees with the proposed recommendation. The Authority needs to reimburse its 2004 capital fund grant from its other programs which benefitted from the improvements and did not pay the appropriate allocation of administrative costs. After repayment to the 2004 capital fund grant by these other programs, the Authority may then use these funds for eligible expenses in accordance with HUD requirements.
- Comment 3** OIG disagrees with the Authority's proposed recommendation. Since the grant is closed, the Authority must repay these ineligible costs to HUD. See Comment 1.
- Comment 4** OIG agrees that the 2004 capital fund grant is still open for expenditures but disagrees with the proposed recommendation. The Authority needs to reimburse its 2004 capital fund grant for the ineligible administrative fees charged to its 2004 grant. After repayment to the 2004 capital fund grant, the Authority may then use these funds for eligible expenses in accordance with HUD requirements.
- Comment 5** We reviewed the documentation provided by the Authority and have decreased the unsupported costs in the report by \$1,174. The Authority needs to provide supporting documentation for the remaining \$1,346 or repay HUD for those expenses from nonfederal funds. The Authority cannot substitute eligible expenses in place of the unsupported expenses (see Comment 1). Since the grant is closed, the Authority must support these costs or repay the unsupported amount to HUD.
- Comment 6** OIG disagrees with the Authority's proposed recommendation. Since the grant is closed, it must repay these ineligible costs to HUD. See Comment 1.
- Comment 7** During the audit resolution phase, the Authority will need to provide HUD documentation, such as copies of the general ledger, that show that the questioned administrative fees and shared administrative costs are not posted to the 2004 capital fund grant in its general ledger.

**Comment 8** OIG agrees with the Authority's response. However, the Authority must monitor the effectiveness of its controls and procedures to ensure compliance with HUD requirements.

**Comment 9** OIG agrees with the Authority's response. However, the Authority must monitor the effectiveness of its controls and procedures to ensure compliance with HUD requirements.

## Appendix C

### CRITERIA

**24 CFR (Code of Federal Regulations) 968.112(n)(3):** “Program benefit. Where the physical or management improvement, including administrative cost, will benefit programs other than Public Housing, such as Section 8 or local revitalization programs, eligible costs are limited to the amount directly attributable to the public housing program.”

**HUD Handbook 7485.3G, chapter 2-19F:** “Program Benefit. Where the physical or management improvement, including administrative cost, will benefit programs other than Public and Indian Housing, such as Section 8 or local revitalization, eligible costs are limited to the amount directly attributable to the Public and Indian Housing Program. For example, the HA [housing authority] is operating 800 public housing units and 200 Section 8 units and wishes to construct a single building for administrative employees of both programs; in such case, CGP [capital grant program] funds may be used to pay up to 80% of the total cost since the public housing units represent 80% of the total units operated by the HA. Another reasonable basis for allocating costs would be the number of staff employed by the Public and Indian Housing Program versus other programs.”

**24 CFR 968.112(o)(2):** “Ineligible costs. Ineligible costs include...(2) Indirect administrative costs (overhead), as defined in OMB [Office of Management and Budget] Circular A-87.”

**HUD Handbook 7485.3G, chapter 2-20D:** “Ineligible Administrative and Other Related Costs. Ineligible costs include:.....8. Indirect costs (overhead).”

**Attachment to PIH (Public and Indian Housing) Notice 07-9, revision to HUD Handbook 7475.1, chapter 5.2, Capital Fund Program Management Fee:** “For the Capital Fund and RHF [Replacement Housing Factor] Programs (see section 7.9 for fees for RHF grants), management fees will become effective beginning with FFY [federal fiscal year] 2007 grants. For FFY 2006 and prior year grants, a PHA [public housing authority] should continue to charge actual expenses. For FFY 2007 and subsequent year grants, the PHA shall charge management fees commencing the start of its first year under project-based budgeting and accounting.”

**24 CFR 905.120:** “(d) Expenditure of amounts--(1) In general. A PHA must spend any assistance received under this part not later than four years (plus the period of any extension approved by HUD under paragraph (b) of this section) after the date on which funds become available to the PHA for obligation. (2) Enforcement. HUD will enforce the requirement of paragraph (d)(1) of this section through default remedies up to and including withdrawal of the CFP [capital fund program] funding. (e) Right of recapture. Any obligation entered into by a PHA is subject to the HUD’s right to recapture the obligated amounts for violation by the PHA of the requirements of this section.”

**HUD Guidebook 7510.1G, PIH Low-Rent Technical Guide, II. Financial Operations and Accounting, 6. Source Documentation:** “The HA must maintain source documents and files that support the financial transactions recorded in the books of account, and that provide an

adequate audit trail. This includes such items as documents identifying the source of cash receipts, cancelled checks, paid bills, payrolls, time and attendance records, tenant rent rolls, Housing Assistance Payment (HAP) registers, investment registers, insurance policies, inventory records, contracts, grant award documents, and the approved program budgets and revisions.”

**PIH Notices 03-19, 04-15, and 05-22:** “PHAs may exercise fungibility between work items but will be required to reflect these work items in their FY...Annual Plan submissions.”

**HUD’s PIH Low-Rent Technical Accounting Guide 7510.1G, chapter 2: Financial Operations and Accounting 5. Allowable Cost:** “Funds are provided by HUD to the HA for a particular program or purpose. In each instance, the use of those funds is governed by the program regulations, the program budget which constitutes the approved plan for expenditures of those funds, and the applicable cost principles of OMB Circular A-87.

**HUD’s PIH Low-Rent Technical Accounting Guide 7510.1G, chapter 2, section 7. Cash Management:** “Funds provided by HUD are to be used by the housing authority only for the purposes for which the funds are authorized.”

**PIH Notices 03-19, 04-15, and 05-22** state the following: “Regulatory Requirements. HUD plans to issue a Capital Fund program regulation in the near future. Until a final rule is published, PHAs should proceed in accordance with 24 CFR Part 968 for modernization activities, except where statutory requirements prevail. For example, PHAs must comply with 24-month obligation and 48-month expenditure requirements of section 9(j) of the U.S. Housing Act of 1937, as amended.”