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Audit Report Number	2009-CH-1013
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TO: Lucia Clausen, Director of Public Housing Hub, 5KPH

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

SUBJECT: The Housing Authority of the City of Milwaukee, Wisconsin, Did Not Adequately Maintain a Separate Identity for Commingled Funds

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the City of Milwaukee's (Authority) nonprofit development activities. The audit was part of the activities in our fiscal year 2009 annual audit plan. We selected the Authority because it had high-risk indicators of nonprofit development activity. Our objective was to determine whether the Authority maintained complete and accurate books of record for its funds subject to its annual contributions contract, other agreement, or the U.S. Department of Housing and Urban Development (HUD) regulations.

What We Found

The Authority lacked documentation to support that funds, totaling more than \$1.4 million, disbursed from its general fund were not federal funds. The funds were used to pay nonfederal expenses incurred by the Redevelopment Authority of the City of Milwaukee (City). Further, the Authority could not provide documentation to support that it did not use federal funds to pay \$38,445 in City expenses.

What We Recommend

We recommend that the Director of HUD's Minneapolis Office of Public Housing require the Authority to provide documentation to support that funds, totaling more than \$1.4 million, disbursed from its general fund were not federal funds and City expenses, totaling \$38,445, were not paid with federal funds.

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 our review results and supporting schedules to the Director of HUD's Minneapolis Office of Public Housing, the Coordinator of HUD's Milwaukee Office of Public Housing Program Center, and the Authority's executive director during the audit. We provided our discussion draft audit report to the Authority's executive director, its board chairman, and HUD's staff during the audit. We held an exit conference with the Authority's associate director on September 8, 2009.

We asked the executive director to provide written comments on our discussion draft audit report by September 14, 2009. The Authority's accounting supervisor provided written comments, dated September 11, 2009, and he agreed with our finding and 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 OBJECTIVE

The Housing Authority of the City of Milwaukee (Authority) was chartered in 1944 under Section 66 of the Wisconsin State Statutes. It is responsible for the construction, management, and provision of safe, affordable, and quality housing with services that enhance residents' self-sufficiency. The Authority is governed by a seven-member board of commissioners who are appointed by the City of Milwaukee's (City) mayor and confirmed by the common council. The commissioners are appointed to staggered five-year terms. The Authority's executive director, appointed by the board of commissioners, is responsible for carrying out the mission and vision of the Authority and assuring that the Authority's programs comply with the applicable federal, state, and local regulations, ordinances, and policies adopted by the board of commissioners. As of December 31, 2008, the Authority managed 4,364 public housing units and had 5,182 Section 8 vouchers.

Due to the Authority's close association with the City, many of its functions were originally performed by City employees. The Authority also shared a general depository account with the Redevelopment Authority of the City, an agency separate from the Authority. The Redevelopment Authority was created by state statute in 1958 with a mission to eliminate blighting conditions that inhibit neighborhood reinvestment, to foster and promote business expansion and job creation, and to facilitate new business and housing development. The City and Authority share office space and shared accounting staff before 2006.

From approximately 2003 to late 2006, the City's cash receipts and expenses were commingled in the Authority's treasury fund checking account (general fund). The general fund contained the Authority's federal funds, including its public housing operating, Public Housing Capital Fund, and HOPE VI programs, as well as its nonfederal funds. The general fund is open and used only by the Authority.

The Authority received the following U.S. Department of Housing and Urban Development (HUD) funding from 2003 through 2006:

Year	Operating	Capital Fund	HOPE VI
2003	\$9,104,646	\$2,120,040	\$16,579,189
2004	10,010,108	1,284,728	0
2005	9,583,186	8,375,344	0
2006	<u>10,491,650</u>	<u>5,278,792</u>	<u>0</u>
Totals	<u>\$39,189,590</u>	<u>\$17,058,904</u>	<u>\$16,579,189</u>

We reviewed the Authority's nonprofit development activities. The objective of the nonprofit development activities review was to determine whether the Authority diverted or pledged resources subject to its annual contributions contract, other agreement, or regulation for the benefit of non-HUD developments without specific HUD approval. The Authority's nonprofit developments were approved by HUD and did not warrant additional review. When we determined that the City's cash receipts and expenses were at one time commingled in the

Authority's treasury fund checking account, it was necessary to audit this account. Our objective was to determine whether the Authority maintained complete and accurate books of record for its funds subject to its annual contributions contract, other agreement, or HUD regulations.

RESULTS OF AUDIT

Finding: The Authority Did Not Maintain Complete and Accurate Books of Record Before 2007

The Authority lacked documentation to support that funds, totaling more than \$1.4 million, disbursed from its general fund were not federal funds. The funds were used to pay nonfederal expenses incurred by the Redevelopment Authority of the City. Further, the Authority could not provide documentation to support that it did not use federal funds to pay \$38,455 in City expenses. These problems occurred because the Authority pooled its federal funds with the City's funds contrary to the requirements of its annual contributions contract with HUD. As a result, HUD lacked assurance that its funds were used only for the benefit of the Authority's low-income households.

A Separate Identity for Nonfederal Funds Was Not Maintained

The Authority inappropriately pooled its funds with those of a nonfederal entity. Section 10(A) of the annual contributions contract between HUD and the Authority states that the Authority may deposit into an account covered by the terms of the general depository agreement any funds received or held by the Authority in connection with any project operated by the Authority under the provisions of the contract.

According to the Authority's accounting supervisor, cash receipts and expenses from the Redevelopment Authority of the City, an agency separate from the Authority, were pooled in the Authority's general fund from approximately 2003 to late 2006. The general fund contained the Authority's federal funds, including its public housing operating, Public Housing Capital Fund, and HOPE VI programs, and its nonfederal funds.

According to the Authority's records, the City deposited nearly \$18 million of its funds into the general fund. The deposits were made to reimburse the Authority for City expenses that were paid from the general fund. According to the Authority's records, adjusting entries totaling \$1,406,820 were made to the general fund ledger to reflect a reimbursement to its general fund. However, the Authority lacked records to support that the entries were actually made and that any reimbursement was from City funds.

The Authority's accounting supervisor said that the Authority changed accounting systems in late 2006. When the information under the Authority's prior

accounting system was converted into an electronic format, some information was corrupted. He believed that the \$1.4 million was a year end adjustment.

We also determined that City expenses, totaling \$38,455, were paid from the general fund and were not charged to the City. Vendor invoices supported these expenses as being the City's. However, adequate documentation to support that the expenses were not paid with federal funds was not available.

Conclusion

Contrary to its annual contributions contract with HUD, the Authority did not maintain complete and accurate books of record. HUD and the Authority lacked assurance that funds, totaling more than \$1, 445,275 (\$1,406, 820 plus \$38, 455), disbursed from its general fund were not federal funds.

Recommendations

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

- 1A. Provide documentation to support that funds, totaling \$1,406,820, disbursed from its general fund were not federal funds. If documentation cannot be provided, the Authority should reimburse its general fund from nonfederal funds.
- 1B. Provide documentation to support that City expenses, totaling \$38, 455, were not paid with the Authority's federal funds. If documentation cannot be provided, the Authority should reimburse its general fund from nonfederal funds.
- 1C. Implement adequate procedures and controls to ensure that it maintains complete and accurate books of record for its general fund.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws and regulations and the Authority's annual contributions contract with HUD.
- The Authority's cash receipt slips; bank statements; check register; vendor invoices; check requests; annual audited financial statements for 2005, 2006, and 2007; and general ledgers.
- HUD's files for the Authority.

We also interviewed HUD's staff and the Authority's employees.

We performed our on-site audit work from April to August 2009 at the Authority's offices located at 809 North Broadway Avenue, Milwaukee, Wisconsin, and HUD's Chicago regional and Milwaukee field offices. The audit covered the period January 1, 2007, through February 28, 2009. The period was adjusted as determined necessary.

We performed our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

INTERNAL CONTROLS

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

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

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

Relevant Internal Controls

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

- 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 that the following item is a significant weakness:

- The Authority lacked adequate procedures and controls to ensure that it maintained complete and accurate books of record for its general fund (see finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported ^{1/}
1A	\$1,406,820
1B	<u>38,455</u>
Totals	<u>\$1,445,275</u>

^{1/} Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Mr. Ronald Farrell
Assistant Regional Inspector General for Audit
U.S. Department of HUD-Office of Inspector General
200 North High Street, Room 334
Columbus Ohio, 43125

September 11, 2009

Re: DISCUSSION DRAFT AUDIT REPORT ON OIG'S AUDIT OF THE HOUSING AUTHORITY OF THE CITY OF MILWAUKEE'S NON-PROFIT DEVELOPMENT ACTIVITIES.

Dear Mr. Farrell,

Thank you for the opportunity to respond to your September 8, 2009 discussion draft regarding the Housing Authority's Non-Profit Development Activities. We are proposing changing the language of the finding per our previous e-mail to The Authority could not produce complete supporting documentation for its Books of Record prior to the 2nd quarter of 2006. I am enclosing our response to your finding.

Comment 1

Comment 2

The Housing Authority of the City of Milwaukee would like 90 days to complete additional research that is needed to determine whether sufficient evidence can be compiled to identify the source of funds for the adjusting entries totaling \$1,407,260 and city expenses of \$38,455. It should be noted that \$1,171,491 of these amounts are from 2003, over 6 ½ years ago, and the lead staff responsible for responsible for the Housing Authority's accounting records in 2003 are no longer available (retired, deceased, or moved out of state). Additionally, the Housing Authority converted to a new computer system in 2006, so electronic files from 2003 are incomplete, so these (2003) records have to be reconstructed.

In 1960 the Housing Authority decided to contract with the City of Milwaukee-Department of City Development for its day-to-day operations, which included budgeting, accounting, and financial management staff, all of whom were city employees that provided services for both the city of Milwaukee-Department of City Development and the Housing Authority. The City of Milwaukee staff functioned as contractors to the Housing Authority; however, the Housing Authority had no control over the work assignments. With the Hope VI redevelopment, which began in the mid 1990s, the Housing Authority's operations and management systems became more

Ref to OIG Evaluation

Auditee Comments

complex requiring specialized staff who understood the public housing and Section 8 requirements and dedicated systems to support the unique day-to-day operations of the Housing Authority. The Housing Authority worked with the City of Milwaukee-Department of City Development staff for a number of years to create a separate and distinct budget and accounting division for the Housing Authority. The lead staff responsible for the Housing Authority's accounting records have retired, died, or moved out of state.

OIG Evaluation of Auditee Comments

Comment 1 We adjusted the title of the finding.

Comment 2 As discussed at the exit conference and reiterated by HUD's Coordinator of the Milwaukee Public Housing Center, the Authority will have additional time to provide the documentation to HUD during the audit resolution process.

Appendix C

FEDERAL REQUIREMENTS

Section 9(C) of the annual contributions contract between HUD and the Authority states that 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. Funds may only be withdrawn from the general fund for (1) the payment of the cost of development and operation of the projects under annual contributions contract with HUD, (2) the purchase of investment securities as approved by HUD, and (3) such other purposes as may be specifically approved by HUD.

Section 10(A) of the annual contributions contract states that the Authority may deposit into an account covered by the terms of the general depository agreement any funds received or held by the Authority in connection with any project operated by the Authority under the provisions of the contract.

Section 10(B) of the annual contributions contract states that the Authority may deposit into an account covered by the general depository agreement, by lump-sum transfers of funds from the depositories of other projects or enterprises of the Authority in which HUD has no financial interest, amounts necessary for current expenditures of items chargeable to all projects and enterprises of the Authority.

Section 10(C) of the annual contributions contract states that the Authority shall not withdraw from any of the funds or accounts authorized under this section amounts for the projects under the contract, or for the other projects or enterprises, in excess of the amount then on deposit in respect thereto.

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

HUD's Public and Indian Housing Low-Rent Technical Accounting Guide, 7510.1G, chapter 2, states that all program funds received for projects under an annual contributions contract are considered to be part of the general fund. The housing authority should take care to maintain supporting documentation for pooled fund transactions in enough detail to provide an adequate audit trail.