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| Issue Date: August 23, 2010 |
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| Audit Report Number 2010-FW-1006 |
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TO: Regenia Hawkins
Director, Office of Public and Indian Housing, 6APH

Michael B. Backman
Hub Director, Office of Multifamily, 6AHML

//signed//

FROM: Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: Housing Authority of the City of Odessa, Odessa, TX, Generally Complied With
HUD Regulations and Guidance in Its Transactions With Its Related Entity
and Its Administration of Its Section 8 Programs

HIGHLIGHTS

What We Audited and Why

As part of our strategic plan objective to assist the U. S. Department of Housing and Urban Development's (HUD) efforts to reduce rental assistance overpayments, we audited the Housing Authority of the City of Odessa's (Authority) Section 8 Housing Choice Voucher (Voucher) and Section 8 New Construction (New Construction) programs. Based on review of the Authority's financial statements, we also audited its transactions with one of its related entities, Odessa Redevelopment Partnership (Partnership). The purpose of our audit was to determine whether the Authority properly administered its overall Section 8 programs and followed HUD regulations and guidance in its transactions with the Partnership.

What We Found

In general, the Authority properly administered its Voucher and New Construction programs by adequately verifying tenant eligibility, ensuring that housing units were in compliance with housing quality standards, and administering its waiting lists. We also determined that the Authority followed HUD regulations and guidance in its transactions with the Partnership.

What We Recommend

Since the Authority generally complied with HUD regulations and guidance, we did not recommend corrective action.

Auditee's Response

We did not request a response from the Authority since it generally complied with HUD regulations. We held an exit conference with the Authority and HUD on August 19, 2010. The Authority agreed with the report and did not wish to provide written comments

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BACKGROUND AND OBJECTIVES

The Housing Authority of the City of Odessa (Authority) was organized in accordance with the authority of Article 1269K, Vernon's Texas Civil Statutes. It qualifies as a public housing agency and is authorized to transact business and exercise its powers pursuant to the "Housing Authority Law" of the State of Texas.

The governing body of the Authority is its board of commissioners (board), which consists of five members appointed by the City Council of the City of Odessa, who have decision-making authority. The board appoints an executive director to administer the daily affairs of the Authority.

The Authority provides housing to low-income tenants, subject to regulation by the U. S. Department of Housing and Urban Development (HUD) as to rental charges and operating methods. The Authority is also subject to Section 8 housing assistance payments agreements with HUD. The Authority's Section 8 programs include

- Section 8 Housing Choice Voucher (Voucher) program – A program administered by HUD's Office of Public and Indian Housing that offers vouchers to individual participants. The participant is free to choose any housing that meets the requirements of the program and is not limited to units located in subsidized housing projects.
- Section 8 New Construction (New Construction) program – A program administered by HUD's Office of Multifamily Housing that provides rental assistance to participants living in a particular housing project. All such assistance is "project-based." In other words, the subsidy is committed by HUD for the assisted units of a particular property for a contractually determined period.

The Authority owns several multifamily apartment complexes. In 1992, the Authority sold one of its properties, La Promesa, to a related entity, Odessa Redevelopment Partnership (Partnership). Another related entity, the Odessa Housing Development Corporation #1, is the general partner in the Partnership. The purpose of the transaction was to enable the Authority to obtain funds to rehabilitate the property through the Internal Revenue Service's tax credit program.

Our objectives were to determine whether the Authority properly administered its overall Section 8 programs and followed HUD regulations and guidance in its transactions with the Partnership.

RESULTS OF AUDIT

In general, the Authority properly administered its Voucher and New Construction programs by adequately verifying tenant eligibility, ensuring that housing units were in compliance with housing quality standards, and administering its waiting lists. The Authority also followed HUD regulations and guidance in its transactions with the Partnership. The report contains no findings, and no further action is necessary.

SCOPE AND METHODOLOGY

We conducted the review at the Authority's offices in Odessa, TX, and in Fort Worth, TX, in HUD's Offices of Public and Indian Housing and Multifamily Housing, and in our office. We conducted our review from April through July 2010. Our audit scope was January 1, 2009, to March 31, 2010. To accomplish our objectives, we

- Reviewed HUD files to identify any potential issues.
- Reviewed criteria related to the Voucher and the New Construction programs.
- Interviewed HUD Office of Public and Indian Housing and Multifamily Housing staff.
- Interviewed Authority staff.
- Interviewed the Authority's certified public accountant.
- Reviewed a sample of nine tenant files to identify tenant eligibility issues.
- Accompanied Authority personnel on housing quality inspections at nine assisted units.
- Using computer assisted audit techniques, analyzed information in HUD's and the Authority's systems to identify potential audit issues.
- Performed data reliability testing concurrent with audit testing. We compared the information in the client files we reviewed with the information in the Public and Indian Housing Information Center system and the Authority's system. We determined that the data were sufficiently reliable for the purposes of this report.

We conducted the 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include 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 objectives:

- Procedures used to verify tenant income and eligibility.
- Procedures to ensure that assisted units meet housing quality standards.
- Procedures to ensure that applicants are correctly selected from the Authority's waiting lists.
- Procedures covering financial transactions between the Authority and its related entity.

A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

We evaluated internal controls related to the audit objectives in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance on the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal controls.