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Audit Report Number	2011-CH-1012

TO: Willie C. Garrett, Director of Public Housing, 5FPH

FROM: Kelly Anderson

Kelly Anderson, Regional Inspector General for Audit, (Region V), 5AGA

SUBJECT: The Saginaw Housing Commission, Saginaw, MI, Did Not Fully Implement Prior Audit Recommendations and Continued To Use Its Public Housing Program Funds for Ineligible Purposes

HIGHLIGHTS

What We Audited and Why

We audited the Saginaw Housing Commission's Public Housing program. The audit was part of the activities in our fiscal year 2011 annual audit plan. We selected the Commission based upon our previous audit report on the Commission's use of public housing funds, audit report number 2006-CH-1018, issued September 28, 2006, and an indication that the Commission was continuing to use Federal funds for unapproved purposes. Our objective was to determine whether the selected audit recommendations were implemented and whether the Commission used U.S. Department of Housing and Urban Development (HUD) funds for unapproved purposes.

What We Found

The Commission did not fully implement prior audit recommendations and continued to use its program funds for ineligible purposes. HUD and the Commission did not enter into a repayment agreement for recommendations 1C and 2A from audit report number 2006-CH-1018 until January 24, 2011. The repayment agreement stated that the Commission agreed to make payments beginning February 1, 2011, and ending March 1, 2014. The Commission made its first payment on June 7, 2011. The Commission also continues to use program revenues for ineligible purposes.

The Commission did not effectively administer its HUD programs and violated HUD's and its own requirements. Specifically, it did not ensure that Public Housing Program Capital Funds were drawn and expended for eligible purposes. The Commission inappropriately used more than $1.5 million in capital funds, was unable to support the use of nearly $395,000 in capital funds, maintained capital funds on hand in excess of $411,000, caused the U.S. Treasury to lose more than $71,000 in interest, inappropriately earned more than $13,000 in interest from its bank, and did not appropriately categorize nearly $822,000 in capital fund draws from HUD's system.

The Commission did not ensure that its Public Housing Operating Fund program, Section 8 Housing Choice Voucher program, and Homeownership program funds were used for eligible purposes. It inappropriately used nearly $181,000 and was unable to support the use of more than $30,000 in operating program, voucher program, and Homeownership program funds.

The Commission did not ensure that the capital funds and operating program funds were used for eligible purposes. The Commission inappropriately used more than $127,000 in capital funds to demolish structures at its inappropriately obtained property and used nearly $108,000 in operating program funds to operate and maintain the property.

What We Recommend

We recommend that the Director of HUD's Detroit Office of Public Housing require the Commission to (1) reimburse its program from non-Federal funds for the improper use of more than $2 million in program funds, (2) provide documentation or reimburse its program more than $836,000 from non-Federal funds for the unsupported payments cited in this audit report, and (3) implement adequate procedures and controls to address the findings cited in this audit report.

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 Detroit Office of Public Housing and the Commission's executive director during the audit. We provided our discussion draft audit report to the

Commission's executive director, its board chairman, and HUD's staff during the audit. The Commission declined our offer to conduct an exit conference.

We asked the executive director to provide comments on our discussion draft audit report by July 27, 2011. The executive director provided written comments, dated July 27, 2011. The executive director generally agreed with the findings with the exception of finding 4. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report except for eight pages of documentation that was not necessary for understanding the Commission's comments. A complete copy of the Commission's comments was provided to the Director of HUD's Detroit Office of Public Housing.

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BACKGROUND AND OBJECTIVE

The Saginaw Housing Commission was established in July 1947 by the City of Saginaw to provide safe, decent, sanitary, and affordable housing and create opportunities of self-sufficiency and economic independence to low- and moderate-income residents of Saginaw. The Commission's primary funding source is the U.S. Department of Housing and Urban Development (HUD) under the regulation of the State of Michigan's Act 18 of 1933, MCL 125.651-709e. The Mayor of the City of Saginaw appoints all Housing Commission Board members and the City Council ratifies the appointments with a majority vote. Appointments are for five-year terms, and residents of the Commission's housing developments are eligible for appointment. The board is a five-member volunteer board. The Commission's executive director is appointed by the board and is responsible for coordinating established policy and carrying out the Commission's day-to-day operations.

The Commission signed an annual contributions contract with HUD to provide public housing to low-income residents of Saginaw, Michigan. The Commission managed 632 public housing units, 1,197 Section 8 Housing Choice Voucher program units, and 71 Shelter Plus Care program units as of March 2011. It also managed four McKinney Act homeless/handicapped units, two Turnkey III Homeownership units, and five Special Needs Assistance Program units. The Commission receives Public Housing Operating Fund program funds from HUD to operate its public housing units. It receives Public Housing Program Capital Fund grant funds from HUD for capital and management activities, including the modernization and development of public housing. The Capital Fund also permits public housing agencies to use capital funds for financing activities, including payments of debt service and customary financing costs, in standard public housing agency developments and in mixed-finance developments which include public housing. The Commission also received American Recovery and Reinvestment Act funding during 2009.

In May 2001, the Commission's board approved the purchase of the former Saginaw County Fairgrounds property.

On September 17, 2001, the Commission requested permission from HUD to use its operating program reserves as collateral for a loan to its nonprofit, Saginaw Housing Development Corporation, so that the nonprofit could purchase the property. On September 17, 2001, HUD responded to the Commission, stating that its operating program reserves could only be used for public housing purposes pursuant to the United States Housing Act of 1937. Pursuant to the statute, the use of the operating program reserve is not permitted because the reserves would be used for other than the Commission's purpose. HUD also stated that it is immaterial that the funds will just be used as collateral because the funds will be at risk of being spent in the event that the nonprofit defaults on the loan.

On July 2, 2002, the Commission entered into an agreement to purchase the property. On December 26, 2002, it completed the purchase of the property. HUD denied the Commission's request to purchase the property. Therefore, the property was purchased inappropriately. The property was not included in the Commission's annual contributions contract.

We completed an audit of the Commission's Public Housing program on September 28, 2006, and issued audit report number 2006-CH-1018. The audit report contained two recommendations for the Commission to reimburse its program from non-Federal funds.

We reported two findings in our September 28, 2006 audit of the Commission's Public Housing Operating Fund program. Finding 1 of the audit report identified that the Commission improperly used nearly $536,000 of its program funds to pay for the property’s acquisition costs and lost more than $25,000 in interest income that would have been realized if the funds had been invested. The Commission also did not file a required declaration of trust to evidence its covenant not to convey or encumber the property and to protect HUD’s rights and interests. The former executive director and the board of commissioners did not exercise prudent oversight of the Commission’s use of program funds to ensure that Federal requirements were followed. As a result, fewer funds were available to serve the Commission’s public housing residents and HUD’s interest in the property was not secured.

Finding 2 of the audit report identified that the Commission entered into eight rooftop lease agreements without HUD’s approval. It also improperly used more than $12,000 in revenue from the agreements to pay for expenses not related to its program. The revenue paid for inappropriate expenses such as meals and refreshments for its board meetings, appraisal services related to the property purchase, and contributions to the mayor’s college scholarship fund and other events honoring the City’s mayors. The former executive director and the board of commissioners did not exercise adequate oversight of the lease agreements and related revenue to ensure that Federal requirements were followed. As a result, fewer funds were available for the Commission’s program operations.

On March 23, 2009, the Commission’s board approved the request for proposal from a cleaning and hauling company to demolish structures on the property. On March 26, 2009, it entered into an agreement with the company to demolish storage buildings located on the property. In April and May 2009, the Commission paid the company a total of $127,050 for the completion of the demolition activities. The Commission used its 2006 capital funds to pay for the unapproved demolition activities.

The Commission did not include its intention to use its 2006 capital funds to demolish structures at the property in its Capital Fund budget or public housing agency plan. However, even if the Commission had included its use of the capital funds for the fairgrounds, its annual contributions contract with HUD prohibits the use of the funds.

On May 25, 2010, the Commission signed a revised Capital Fund annual statement and included the statement in its fiscal year 2010 annual plan. The statement included the use of the 2006 capital funds for the demolition of structures at the property after the funds were expended. The Commission's 2010 public housing agency plan also shows the Commission’s plan to use additional operating program funds for the demolition of structures at the property.

During the Commission’s July 26, 2010, board meeting, the board of commissioners approved the demolition of additional structures at the property to include the grandstand, bomb shelter, all other structures, concrete, and leveling the property. The commissioners suggested that the property should be used for a green space project to include an urban garden and windmills.

On August 20, 2010, HUD notified us that the Commission continued to use program funds inappropriately and that the Commission used public housing capital funds to demolish structures at the Saginaw County Fairgrounds property.

On November 5, 2010, HUD issued the Commission an order to cease and desist from using any Public Housing Program Capital Fund program or Recovery Act funds without prior authorization from HUD's Detroit field office. The Commission will be placed on a zero threshold for both of these programs until further notice. The zero threshold means that any HUD funds requested will not be available for drawdown without supporting documentation and review by HUD. In addition, all contracts must be submitted to HUD for review and approval before execution.

On March 18, 2011, HUD placed the Commission on a zero threshold for its public housing operating funds until further notice. The zero threshold means that any HUD funds requested will not be available for drawdown without supporting documentation and review by HUD. In addition, all contracts must be submitted to HUD for review and approval before execution.

Our objective was to determine whether the selected audit recommendations were corrected and whether the Commission used HUD funds for unapproved purposes, to include determining whether the Commission (1) fully implemented the recommendations from audit report 2006-CH-1018; (2) used its capital funds for eligible purposes and was making draws from HUD's system appropriately; (3) used its operating program, voucher program, and homeownership program funds appropriately; and (4) used non-program funds to maintain its property.

RESULTS OF AUDIT

Finding 1: The Commission Did Not Implement Prior Audit Report Recommendations

The Commission did not fully implement the recommendations from our prior audit report, 2006-CH-1018, issued September 28, 2006. It did not enter into a repayment agreement for recommendations 1C and 2A from the audit report until January 24, 2011. The Commission also did not make its first payment until June 7, 2011, when it agreed to make payments beginning February 1, 2011. It also continued to use its Public Housing Program revenues for ineligible purposes contrary to its implementation of policies and procedures in accordance with recommendation 2C of the prior audit report. These deficiencies occurred because the Commission lacked adequate procedures and controls to ensure that the recommendations were fully implemented. As a result, HUD lacked assurance that the Commission would reimburse its program in a timely manner for the inappropriate expenditures and in accordance with its repayment agreement. HUD also lacked assurance that the Commission was using its program revenue appropriately.

Prior Audit Findings and Recommendations From Report Number 2006-CH-1018

We completed an audit of the Commission's Public Housing program on September 28, 2006, and issued audit report number 2006-CH-1018. The audit report contained two recommendations for the Commission to reimburse its program from non-Federal funds.

We reported two findings in our audit report of the Commission's Public Housing Operating Fund program. Finding 1 of the audit report identified that the Commission improperly used nearly $536,000 of its program funds to pay for the fairgrounds property's acquisition costs and lost more than $25,000 in interest income that would have been realized if the funds had been invested. The Commission also did not file a required declaration of trust to evidence its covenant not to convey or encumber the property and to protect HUD's rights and interests. The former executive director and the board of commissioners did not exercise prudent oversight of the Commission's use of program funds to ensure that Federal requirements were followed. As a result, fewer funds were available to serve the Commission's public housing residents and HUD's interest in the property was not secured.

Finding 2 of the audit report identified that the Commission entered into eight rooftop lease agreements without HUD's approval. It also improperly used more than $12,000 in revenue from the agreements to pay for expenses not related to its program. The revenue paid for inappropriate expenses such as meals and refreshments for its board meetings, appraisal services related to the property purchase, and contributions to the mayor's college scholarship fund and other events honoring the City's mayors. The former executive director and the board of commissioners did not exercise adequate oversight of the lease agreements and related revenue to ensure that Federal requirements were followed. As a result, fewer funds were available for the Commission's program operations.

We recommended that the Director of HUD's Detroit Office of Public Housing require the Commission to:

1A. Reimburse its program $535,903 from non-Federal funds ($507,860 for the property purchase plus $28,043 for legal costs) for the improper use of program funds to pay for the property's acquisition costs.

1B. File a declaration of trust on the property to protect HUD's interest and rights if the property has not been sold.

1C. Reimburse its program $25,132 from non-Federal funds for the lost income cited in this finding.

1D. Implement procedures and controls to ensure that it follows Federal requirements to include HUD's approval when purchasing property in the future and the investing of excess program funds.

2A. Reimburse its program $12,289 from non-Federal funds ($8,000 for the appraisal services for the unauthorized property purchase, $3,097 for meals and refreshments for board members, and $1,192 for contributions) for the improper use of program revenue cited in this finding.

2B. Submit its current communication lease agreements to HUD for approval.

2C. Implement adequate procedures and controls to ensure that it follows HUD's requirements regarding the use of its program revenue and applicable lease agreements.

We also recommend that the Director of HUD's Departmental Enforcement Center

1E. Pursue administrative sanctions against the Commission's former executive director and the board of commissioners involved with the improper purchase of the property.

Management Decisions for Audit Report 2006-CH-1018

<u>Finding 1 Agreed Upon Management Decisions</u>

In response to recommendation 1A, the Commission was required to retain a licensed realtor to list the property for sale. Upon successful sale of the property, the Commission was to reimburse its program with non-Federal funds. The property had not been sold but was listed for sale until April 2011.

In response to recommendation 1B, the Commission was required to file a declaration of trust on the property to protect HUD's interest and rights if the property had not been sold. The Commission filed a declaration of trust on September 25, 2006.

In response to recommendation 1C, the Commission was required to reimburse its program from non-Federal funds in four annual installments of $6,283 beginning July 1, 2009 and ending July 1, 2012. HUD and the Commission did not enter into a repayment agreement until January 24, 2011.

In response to recommendation 1D, the Commission was required to implement procedures and controls to ensure that it followed Federal requirements to include HUD's approval when purchasing property in the future and the investing of excess program funds. According to documentation provided by the Commission to HUD, procedures and controls were implemented.

Recommendation 1E was for action from HUD's Departmental Enforcement Center. In a September 2007 memorandum, the Departmental Enforcement Center declined to take administrative action due to the age of the violations that originated in 2001. This decision was due to debarment case law and a lack of evidence of present irresponsible behavior on the part of the individuals.

<u>Finding 2 Agreed Upon Management Decisions</u>

In response to recommendation 2A, the Commission was required to reimburse its program from non-Federal funds in four annual installments of $2,967 beginning July 1, 2009 and ending July 1, 2012. However, the installments only totaled $11,868 which was $421 lower than the recommended repayment of $12,289. HUD and the Commission did not enter into a repayment agreement until January 24, 2011.

In response to recommendation 2B, the Commission was required to submit its current communication lease agreements to HUD for approval. The Commission submitted the lease agreements to HUD on June 28, 2007.

In response to recommendation 2C, the Commission was required to implement adequate procedures and controls to ensure that it followed HUD's requirements regarding the use of its program revenue and applicable lease agreements. The Commission submitted its updated procedures and controls.

Recommendations Not Fully Implemented

On August 20, 2010, HUD notified us that the Commission continued to use program funds inappropriately and that it used its public housing capital funds to demolish structures at the Saginaw County Fairgrounds property.

<u>Results of Review</u>

The review determined that although the Commission had effectively implemented recommendations 1B, 1D, 1E, and 2B, the appropriate action was not taken for the remaining recommendations in the audit report. During the onsite review, it was determined that the Commission did not implement or fully implement the following recommendations.

- Recommendation 1A. The Commission did list the Saginaw County Fairgrounds Property for sale at $699,900 with a licensed realtor. HUD did not issue a repayment agreement with the Commission in the event the property was sold. We recommend ensuring that the Commission reimburses its program and uses the additional proceeds if any, appropriately. The Commission's listing agreement with the licensed realtor expired on April 26, 2011. The Commission should be required to enter into a new listing agreement with a licensed realtor to list the property for sale. It should also be required to provide documentation showing how the sale price of the property was derived.
- Recommendation 1C. The agreed-upon management decision stated that the Commission would reimburse its program from non-Federal funds in four annual installments of $6,283, beginning July 1, 2009, and ending July 1, 2012. The Commission's executive director said that he was not aware of the Commission's requirement to repay its program from non-Federal funds for the recommendations cited in the audit report. We recommended that HUD execute a repayment agreement to ensure that the repayment of inappropriately used funds was completed. On January 24, 2011, HUD and the Commission executed a repayment agreement for the repayment of the funds cited in the audit report.
- Recommendation 2A. The agreed upon management decision stated that the Commission would reimburse its program from non-Federal funds in four annual installments of $2,967 beginning July 1, 2009, and ending July 1, 2012. As mentioned above, the Commission's executive director said that he was not aware of the Commission's requirement to repay its program from

non-Federal funds for the recommendations cited in the audit report. On January 24, 2011, HUD and the Commission executed a repayment agreement for the repayment of funds cited in the audit report.

- Recommendation 2C. This recommendation was closed in HUD's Audit Resolution and Corrective Action Tracking System. However, we determined that the Commission's implemented policies and procedures to ensure that it followed HUD's requirements regarding the use of its program revenue and applicable lease agreements were not being followed. Therefore, we recommend reopening this recommendation.

As previously stated, on January 24, 2011, HUD executed an official repayment agreement with the Commission for the reimbursement of disallowed costs cited in recommendations 1C and 2A. The repayment agreement states that the Commission owes its Public Housing program $37,421 ($25,132 for Recommendation 1C and $12,289 for Recommendation 2A). The Commission agreed to make 37 payments of $1,000 on the first of the month, beginning February 1, 2011, until the amount is paid in full. The last payment of $421 is due March 1, 2014. If HUD finds that the Commission is not complying with the repayment agreement, HUD will provide a written statement specifying the facts of the alleged non-compliance and reasonable opportunity for the Commission to resolve or cure the alleged non-compliance. The Commission must make an annual certification to HUD regarding the status of its ability to pay some or all of the amounts specified in this agreement. As of June 22, 2011, the Commission had made one payment in accordance with its executed repayment agreement.

Timely Payments Not Made

The Commission did not make timely payments in accordance with its repayment agreement. The repayment agreement stated that the Commission would begin making payments on February 1, 2011. It made its first payment on June 7, 2011. Before the execution of the repayment agreement in January 2011, HUD verbally told the Commission that it should use coin laundry receipts to make the payments. According to the executive director, the payment was delayed because the Commission wanted clarification from HUD regarding what funds to use, recording the repayment agreement as a liability, and establishing a separate account for the payments. Additionally, it was the Commission's executive director and its lawyers' contention that the coin laundry revenue was program income and could not be used to make payments for the Commission's repayment agreement with HUD.

Despite this assertion, the Commission continued to use its program revenue for inappropriate expenditures such as meals and refreshments as cited in finding 2 of our prior audit report and finding 3 of this audit report. Therefore, the Commission did not follow the policies and procedures it implemented in accordance with its agreed-upon management decision for recommendation 2C from our prior audit report.

Conclusion

The corrective action verification identified that the Commission did not implement all recommendations in the prior audit report. It had not implemented adequate procedures and controls to ensure that it followed HUD's requirements regarding the use of its program revenue. As a result, HUD lacked assurance that the Commission used its program revenue appropriately.

Recommendations

We recommend that the Director of HUD's Detroit Office of Public Housing

1A. Extend the final action target date accordingly for the repayment of funds cited in recommendation 1A of our prior audit report.

1B. Require the Commission to submit payments in accordance with its executed repayment agreements for recommendations 1C and 2A of our prior audit report.

1C. Require the Commission to enter into an updated listing agreement with a licensed realtor for the sale of the Saginaw County Fairgrounds Property.

1D. Require the Commission to submit, to HUD for approval, the property appraisal it used to determine the sale price of the Saginaw County Fairgrounds Property.

1E. Require the Commission to implement procedures and controls to ensure it follows its policies and procedures regarding its use of program revenue and applicable lease agreements.

1F. Ensure the Commission makes the appropriate accounting entries into its system to ensure the liability and repayment amounts for its repayment agreement are appropriately recorded.

Finding 2: The Commission Inappropriately Administered Its Capital Fund Grants

The Commission inappropriately administered its Public Housing Capital Fund grants. It did not comply with HUD's or its requirements when drawing down and expending funds for its Capital Fund grants. It did not ensure that the capital funds were used for eligible purposes. These deficiencies occurred because the Commission lacked adequate Capital Fund grant knowledge and procedures and controls to ensure that its capital funds were used appropriately, that capital funds were only drawn down when there was an immediate need and returned if the funds were drawn in excess of that immediate need, and that capital funds were drawn and expended from the appropriate line items. As a result, the Commission inappropriately used more than $1.5 million in capital funds, was unable to support the use of nearly $395,000 in capital funds, maintained capital funds on hand in excess of $411,000, caused the U.S. Treasury to lose more than $71,000 in interest, inappropriately earned more than $13,000 in interest from its bank, and did not appropriately categorize nearly $822,000 in capital fund draws from HUD's system.

Capital Funds Used for Ineligible Expenditures

We reviewed 100 percent of the Commission's disbursements from its revolving fund cash account for its capital fund for the period July 1, 2005, through February 28, 2011. We reviewed the disbursements to determine whether the costs were necessary and reasonable low-income housing expenses for capital and management activities, including the modernization and development of public housing.

The Commission did not effectively use its capital funds for capital and management activities, including the modernization and development of public housing. It did not follow HUD's, Office of Management and Budget Circular A-87, or its requirements for the use of its capital funds. Between July 1, 2005, and February 28, 2011, the Commission inappropriately used $1,934,312 from its capital fund. The inappropriate expenditures included $1,539,629 for costs that were not necessary and reasonable and $394,683 for costs without adequate supporting documentation. The inappropriate expenditures included check payments, credit card transactions, petty cash transactions, and legal expenses.

The Commission used its capital funds for ineligible expenses, including but not limited to, the following:

- Money owed to the City of Saginaw for past pension contributions and retiree benefits;
- Legal expenses for its non-profit corporations;
- Legal expenses in conjunction with a lawsuit to prevent a half-way house from being built in the Commission's neighborhood;

- In-town meals for the former and current executive directors;
- Lunches for its board members and Commission staff;
- Christmas parties, entertainment, and videography for its public housing residents;
- Christmas parties and entertainment for its staff;
- Gift cards for residents;
- Refreshments;
- T-shirts and logo mugs;
- Flowers, T-shirts, and supplies for Beautification Day;
- A computer learning center that was not HUD-approved;
- Resident field trips; and
- Alcohol.

Insufficient Controls over Draws from HUD's System

We reviewed 100 percent of the Commission's draws to and disbursements from its conventional reserves account for its Capital Fund for the period July 1, 2005, through February 28, 2011. We also reviewed the Commission's capital fund expenditures to determine whether it drew down funds from HUD's system in accordance with HUD's requirements. We reviewed draws for the fiscal years 2005 through 2009 Capital Fund grants.

We determined that the Commission did not draw down and disburse its capital funds in accordance with HUD's requirements. It made 142 draws from December 29, 2006, when it drew down nearly $29,000 for an $11,378 expense. For more than 4 years, the Commission drew down capital funds and did not expend them in accordance with HUD's requirements. As of April 8, 2011, the Commission had a capital funds balance of $411,228. We calculated the daily interest lost by the U.S. Treasury and determined that the Commission caused the treasury to lose $71,043 in interest on the inappropriate draws. We determined that it also earned $13,085 in interest from its bank for the inappropriate draws.

HUD's regulations at 24 CFR 85.20(b)(1) and (2) provide that housing authorities must provide accurate, current, and complete disclosure of financial results of financially assisted activities and must maintain records that adequately identify the source and application of funds provided for the activities. However, the Commission incorrectly categorized the expenses when reporting to HUD. We determined that 38 draws for nearly $822,000 were misclassified. For example, $47,139 was drawn down from the Commission's capital funds for dwelling structure expenses. However, the draw amount was used for non-expendable dwelling equipment and the information recorded in HUD's Line of Credit Control System did not reflect the actual use of these funds. Commission officials said that it was human error that caused the drawdown of funds from one budget category and the use the funds for other purposes. Therefore, $821,660 in Capital Fund expenses was incorrectly reported to HUD. HUD was not aware of this issue due to Commission officials' improper recording and reporting in HUD's system.

Section 401(A) of the Commission's annual contributions contract with HUD states that promptly after execution of this contract, the Commission shall enter into and thereafter maintain, one or more agreements, which are herein collectively called the General Depositary Agreement, in a form prescribed by the Government, with one or more banks selected as depositary by the Commission, each of which shall be, and continue to be, a member of the Federal Deposit Insurance Corporation. We determined that the Commission did not maintain a general depositary agreement with its bank for the conventional reserves account.

Weaknesses in the Commission's Procedures and Controls

The deficiencies described above occurred because the Commission lacked adequate Capital Fund grant knowledge and procedures and controls to ensure that its capital funds were (1) used appropriately, (2) only drawn when there was an immediate need and returned if the funds were drawn in excess of the immediate need, and (3) drawn and expended from the appropriate line items. The Commission's former and current executive directors and its board of commissioners did not ensure that the capital funds were used for their intended purposes.

The Commission was unable to explain why the ineligible expenditures occurred and why the capital funds continued to be drawn down from HUD's system. The current executive director said that he did not believe the questioned items were ineligible and that he could not speculate about what happened before he began his career at the Commission, as finance director from September 2009 to March 2010, and as the executive director since March 2010. He believed that the misclassified draws from HUD's system were due to human error.

On November 5, 2010, HUD issued the Commission an order to cease and desist from using any Capital Fund grant or Recovery Act funds without prior authorization from HUD. The Commission was placed on a zero threshold for both of these programs until further notice. The zero threshold means that any HUD funds requested will not be available for drawdown without supporting documentation and review by HUD. In addition, all contracts must be submitted to HUD for review and approval before execution.

Conclusion

As a result of the Commission's failure to follow HUD's requirements for the use of capital funds, it used more than $1.5 million in capital funds for ineligible purposes, was unable to support the use of nearly $395,000 in capital funds, maintained capital funds on hand in excess of $411,000, caused the U.S. Treasury to lose more than $71,000 in interest, inappropriately earned more than $13,000 in interest from its bank, and did not appropriately categorize nearly $822,000 in capital fund draws from HUD's system.

The Director of HUD's Detroit Office of Public Housing stated that HUD relies on the information presented in the HUD draw down request, form HUD-50080-COMP, it receives from the Commission. When the Commission submits the form, it certifies that the data reported and funds requested on the voucher are correct and the amount requested is not in excess of immediate disbursement needs. If the funds provided become more than necessary, such excess will be promptly returned, as directed by HUD. The form also contains a warning that HUD will prosecute false claims and statements. Conviction may result in criminal and civil penalties.

Recommendations

We recommend that the Director of HUD's Detroit Office of Public Housing require the Commission to

2A. Reimburse its Capital Fund $1,539,629 from non-Federal funds for the ineligible payments cited in this finding.

2B. Return the $411,228 in excess capital fund draws cited in this finding.

2C. Correctly categorize $821,660 in capital fund draws to the appropriate line items and correct the financial records in HUD's system accordingly to ensure that the proper categories were charged.

2D. Provide supporting documentation or reimburse its Capital Fund $394,683 from non-Federal funds for the unsupported costs cited in this finding.

2E. Reimburse the U.S. Treasury $71,043 from non-Federal funds for the interest lost cited in this finding.

2F. Reimburse its Capital Fund $13,085 from non-Federal funds for the inappropriately earned interest cited in this finding.

2G. Implement adequate procedures and controls to ensure that all capital funds drawn and disbursed are for eligible activities and comply with HUD's requirements.

2H. Develop procedures to improve the accounting system and internal controls to ensure that funds will be drawn down and used as budgeted, and financial reports are accurate, current, and complete.

2I. Enter into and maintain one or more general depositary agreements, in a form prescribed by HUD, with one or more banks selected as a depositary by the Commission, each of which shall be, and continue to be, a member of the Federal Deposit Insurance Corporation.

Finding 3: The Commission Inappropriately Used Its Programs Funds

The Commission did not comply with HUD’s or its requirements for the use of its Public Housing Program Operating Fund, Section 8 Housing Choice Voucher, and Homeownership program funds. It did not ensure that the funds were used for eligible purposes. These deficiencies occurred because the Commission lacked adequate program knowledge and procedures and controls to ensure that the funds were used appropriately. As a result, the Commission misused nearly $181,000 in programs funds and could not support its use of more than $30,000 in operating and voucher program funds.

Non-rental Income Commingled with its Program Operating Funds

We reviewed 100 percent of the Commission’s disbursements from its revolving fund cash account for its Public Housing Program Operating Fund, Section 8 Housing Choice Voucher, and Homeownership program funds for the period July 1, 2005, through February 28, 2011. We reviewed the disbursements to determine whether the costs were necessary and reasonable. We also determined that the Commission commingled its non-rental income with its Public Housing Program Operating Funds. This caused the non-rental income to no longer be flexible in its permitted uses. Normally, non-rental income is only subject to the restraint of being used for low-income housing or to benefit the Commission’s residents. However, when the funds are commingled, the funds may only be used for operating subsidy purposes.

Operating, Voucher, and Homeownership Program Funds Used for Ineligible Expenditures

The Commission did not follow HUD’s or Office of Management and Budget Circular A-87 requirements regarding the use of its operating, voucher, or homeownership programs funds. Between July 1, 2005, and February 28, 2011, the Commission inappropriately used $210,886 in the programs funds. The inappropriate expenditures included $180,649 for costs that were not necessary and reasonable. The Commission also used $30,236 in operating and voucher program funds for costs without adequate supporting documentation. The inappropriate expenditures included check payments, credit card transactions, petty cash transactions, and legal expenses.

The Commission used the programs' funds for ineligible expenses, including but not limited to, the following:

- Legal expenses for its non-profit corporations;
- Legal expenses in conjunction with a lawsuit to prevent a half-way house from being built in the Commission's neighborhood;
- In-town meals for the executive director (former and current);
- Donations to non-profit organizations;
- Christmas parties, entertainment, and videography for it public housing residents;
- Christmas parties and entertainment for its staff;
- Lunches for its board members;
- Lunches for its staff;
- Refreshments;
- Flowers for its staff and board members;
- T-shirts, logo mugs, logo magnets, logo stress balls;
- Book bags and school supplies for its public housing residents' children;
- Family Self-Sufficiency Program graduation parties;
- Resident picnics;
- Finance charges and late fees for its credit card;
- Vehicle purchase for the current executive director; and
- Hotel and travel charges for the current executive director, executive assistant, and board members to attend a former executive director's funeral in Chicago, IL.

Weaknesses in Procedures and Controls

The deficiencies described above occurred because the Commission lacked adequate program knowledge and procedures and controls to ensure that the operating program, voucher program, and homeownership program funds were used appropriately.

The Commission's former and current executive directors and its board of commissioners did not ensure that the programs' funds were used for their intended purposes.

The Commission was unable to explain why the ineligible expenditures occurred. The current executive director said that he did not believe the questioned items were ineligible and that he could not speculate about what happened before he began his career at the Commission. As mentioned in Finding 2, the executive director served as the finance director from September 2009 to March 2010, before his present position began in March 2010.

The Commission posted expenses to its central office cost center beginning in fiscal year 2006. During interviews with the Commission on February 24, 2011, February 25, 2011, March 14, 2011, March 15, 2011, April 6, 2011, and May 5, 2011, the Commission said that it did not maintain a center, but planned to implement a center as of July 1, 2011. During an interview on June 7, 2011, the executive director said that the Commission had implemented a center for fiscal year 2010. The Commission's 2010 annual audited financial statements supported this statement. However, we could not determine whether the center was fully implemented in fiscal year 2010.

The Commission could not explain why costs were posted to the center beginning in fiscal year 2006. The finance director said that possibly the previous finance director had tried to implement a cost center in 2006 and she believed that all costs were removed from the center at the end of fiscal year 2006. She could not explain why the costs continued to be posted to the center after fiscal year 2006. The Commission was unable to provide its general ledger for the center to show that the center had been fully implemented and that the expenses posted to the center in previous years had been corrected.

On March 18, 2011, HUD placed the Commission on a zero threshold for its public housing operating funds until further notice. The zero threshold means that any HUD funds requested would not be available for drawdown without supporting documentation and review by HUD. In addition, all contracts must be submitted to HUD for review and approval before execution.

Conclusion

As a result of the Commission's lack of adequate program knowledge and procedures and controls to ensure that the funds were used appropriately, it misused nearly $181,000 in operating, voucher, and homeownership program funds and it could not support its use of more than $30,000 in operating and voucher program funds. HUD and the Commission lacked assurance that HUD funds were used according to HUD's and the Commission's requirements.

The Commission inappropriately expended $180,649 ($163,835 in operating program, $9,614 in voucher program, and $7,200 in homeownership program funds) and could not support its use of $30,236 ($18,954 in operating program plus $11,282 in voucher program funds).

Recommendations

We recommend that the Director of HUD's Detroit Office of Public Housing require the Commission to

3A. Reimburse its appropriate programs $180,649 from non-Federal funds for the ineligible payments cited in this finding.

3B. Provide supporting documentation or reimburse its appropriate programs $30,236 from non-Federal funds for the unsupported costs cited in this finding.

3C. Implement adequate procedures and controls to ensure that its programs funds are used in accordance with Federal and its requirements.

Finding 4: The Commission Used Its Public Housing Program Funds for Unapproved Purposes

The Commission used its Public Housing Program Operating Fund and Capital Fund grant funds for a property that it purchased without HUD approval. The property was also not included in its annual contributions contract with HUD. The Commission used more than $127,000 in capital funds and nearly $108,000 in program operating funds for the unapproved purpose. This condition occurred because the Commission lacked adequate Capital Fund and operating program knowledge and procedures and controls to ensure that capital funds and operating program funds were used appropriately. As a result, the U.S. Treasury paid interest on the capital funds (see Finding 2) and fewer funds were available to serve the Commission's public housing residents.

Capital Funds Used To Demolish Structures at Fairgrounds Property

Contrary to HUD's requirements, the Commission used $127,050 of its capital funds for its fairgrounds property that was not included in its annual contributions contract with HUD. The property was purchased by the Commission in December 2002 after HUD stated that the property was not eligible under the program. The Commission used its public housing operating reserves to purchase the property. The use of program funds did not comply with HUD's regulations, the Commission's annual contributions contract, and Office of Management and Budget Circular A-87.

On March 23, 2009, the Commission's board approved the request for proposal from a cleaning and hauling company to demolish structures on the property. On March 26, 2009, it entered into an agreement with the company to demolish storage buildings located on the property. In April and May 2009, the Commission paid the company a total of $127,050 for the completion of the demolition activities. The Commission used its 2006 capital funds to pay for the unapproved demolition activities.

The Commission did not include its intention to use its 2006 capital funds to demolish structures at the property in its Capital Fund budget or public housing agency plan. However, even if the Commission had included its use of the capital funds for the fairgrounds, its annual contributions contract with HUD prohibits the use of the funds.

On May 25, 2010, the Commission signed a revised Capital Fund annual statement and included the statement in its fiscal year 2010 annual plan. The statement included the use of the 2006 capital funds for the demolition of structures at the property. The Commission's 2010 public housing agency plan also includes the Commission's plan to use additional operating funds for the demolition of structures at the property.

During the Commission's July 26, 2010, board meeting, the board of commissioners approved the demolition of additional structures at the property to include the grandstand, bomb shelter, all other structures, concrete, and leveling the property. The commissioners suggested that the property should be used for a green space project to include an urban garden and windmills.

As previously discussed, HUD issued the Commission an order to cease and desist from using any capital funds or Recovery Act funds without prior authorization from HUD's Detroit field office on November 5, 2010.

Operating Funds Used for Unapproved Purposes

We reviewed the Commission's general ledger detailing the amount of operating program funds the Saginaw Housing Development Corporation owed to the Commission. We also reviewed the disbursements from the Commission's revolving cash fund account. The review was conducted to determine whether the costs for the corporation were adequately recorded in the Commission's general ledger. The Commission's general ledger did not contain entries for all operating program funds that the corporation owed to the Commission. It did not record miscellaneous operating, maintenance, and legal expenses that the corporation owed to the Commission.

The Commission used its operating program funds to operate and maintain the property. The property was purchased in the Commission's name but operating proceeds and expenses were recorded through the corporation, the Commission's wholly-owned nonprofit. The Commission paid the expenses incurred by the corporation with the Commission's operating program funds. The corporation repaid the Commission with funds generated through the leasing of the buildings for storage space, use of the property's racetrack, and other community events. The property generated a profit in fiscal years 2004 and 2006. However, the property's expenses exceeded the income it earned in fiscal years 2003, 2005, and 2007 through 2011 resulting in a deficit of $91,667, which the corporation has not reimbursed to the Commission. The Commission also disbursed $9,036 in operating program funds for its property's expenses that were not recorded as owed to the Commission or reimbursed to it. Additionally, it used $6,989 in operating program funds for legal expenses for the corporation which were also not recorded as owed to or reimbursed to it. As of February 28, 2011, the Commission had used $107,692 ($91,667 plus $9,036 plus $6,989) in operating program funds to support the operation and maintenance of the property.

On March 18, 2011, HUD issued the Commission an order to cease and desist from using any public housing operating funds without prior authorization from HUD's Detroit field office. The Commission was placed on a zero threshold for the program until further notice.

Weaknesses in Procedures and Controls

The deficiencies described above occurred because the Commission lacked adequate Capital Fund and operating program knowledge and procedures and controls to ensure that capital funds and operating program funds were used appropriately. The Commission's former and current executive directors and its board of commissioners did not ensure that its funds were used for their intended purposes.

During the Commission's October 15, 2007, board meeting, the former executive director stated that the Commission's operating program funds would be used to cover the expenses at the property once the property's income had been depleted.

Conclusion

The Commission used its operating program and Capital Fund grant funds for a property that it purchased without HUD approval. The property was also not included in its annual contributions contract with HUD. The Commission used more than $127,000 in capital funds and nearly $108,000 in program operating funds for the unapproved purpose. This condition occurred because the Commission lacked adequate Capital Fund and operating program knowledge and procedures and controls to ensure that capital funds and operating program funds were used appropriately. As a result, the U.S. Treasury paid interest on the capital funds (see Finding 2) and fewer funds were available to serve the Commission's public housing residents.

Recommendations

We recommend that the Director of HUD's Detroit Office of Public Housing require the Commission to

4A. Reimburse its Capital Fund $127,050 from non-Federal funds for the ineligible payments cited in this finding.

4B. Reimburse its operating fund $107,692 from non-Federal funds for ineligible payments cited in this finding.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws; regulations; HUD's program requirements at 24 CFR (Code of Federal Regulations) Parts 5, 85, 905, 941, 964, 968, 970, and 990; Public and Indian Housing Notices 96-18, 2001-3, 2007-9, 2007-15, and 2010-34; HUD Guidebook 7485.3G; HUD Handbooks 2000.06 REV-3, 7475.1, and 7510.1G; The United States Housing Act of 1937 as amended; 42 U.S.C. (United States Code), chapter 8, subchapter I, 1437g; Office of Management and Budget Circular A-87; HUD's public housing annual contributions contract; Section 8 Housing Choice Voucher program - annual contributions contract; and Michigan Compiled Laws.

- The Commission's accounting records; bank statements; annual audited financial statements for fiscal years 2006, 2007, 2008, 2009, and 2010; computerized databases; policies and procedures; board meeting minutes pertinent to the program; and organizational chart.

- HUD's files for the Commission.

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

Finding 2

We reviewed 100 percent of the Commission's draws to and disbursements from its conventional reserves account and revolving fund cash account for its Capital Fund for the period July 1, 2005, through February 28, 2011. We also reviewed the Commission's capital fund expenditures to determine whether it drew down funds from HUD's system in accordance with HUD's requirements. We reviewed draws for the fiscal years 2005 through 2009 Capital Fund grants.

We determined from our review of the Commission's capital fund expenditures from its revolving fund cash account that 553 transactions totaling $1,539,629 were used for ineligible expenditures and 295 transactions totaling $394,683 were unsupported.

Our review of the Commission's conventional reserves account determined that the Commission made 142 draws from its Capital Fund accounts after it maintained funds on hand. The total funds on hand totaled $411,288. We used the U.S. Treasury's 10-year interest rates to calculate the daily interest that accrued on the excess capital funds that were drawn down. We determined that the Commission cost the Federal Government $71,043 by maintaining the excess capital funds. We obtained the average daily interest rate for the Commission's bank account and calculated the amount of interest it earned for the capital funds on hand. We determined that the Commission inappropriately earned $13,085 in interest by drawing and holding the excess capital funds.

Our review of the Commission's capital fund draws and supporting documentation determined that from October 26, 2009, through November 5, 2010, the Commission misclassified 38 draws totaling $821,660 for its fiscal years 2007, 2008, and 2009 Capital Fund grants.

Finding 3

We reviewed 100 percent of the Commission's disbursements from its revolving fund cash account for its operating, voucher, and homeownership programs for the period July 1, 2005, through February 28, 2011. We reviewed the disbursements to determine whether the costs were necessary and reasonable.

Our review of the Commission's revolving fund cash account determined that 1,131 transactions totaling $180,649 (988 transactions totaling $163,835 in operating program funds, 57 transactions totaling $9,614 in voucher program funds, and 86 transactions totaling $7,200 in homeownership program funds) were used for ineligible expenditures and 101 transactions totaling $30,236 (85 transactions totaling $18,954 in operating program funds and 16 transactions totaling $11,282 in voucher program funds) were unsupported.

Finding 4

We reviewed the Commission's general ledger detailing the amount of operating program funds the corporation owed to the Commission. We also reviewed the disbursements from the Commission's revolving cash fund account. We reviewed the disbursements to determine whether the costs for the corporation were adequately recorded in the Commission's general ledger.

We determined that in addition to the $91,667 recorded in the Commission's ledger as funds the corporation owed to the Commission, the Commission disbursed $9,036 in operating program funds for expenses that were not recorded as owed to the Commission or reimbursed to the Commission. The Commission also disbursed $6,989 in operating program funds for legal expenses for the corporation which was also not recorded as owed to the Commission or reimbursed to the Commission.

We performed our onsite audit work from November 2010 to April 2011 at the Commission's office located at 1803 Norman Street, Saginaw, MI, and HUD's Detroit field office. The audit covered the period April 1, 2006, through October 31, 2010, but was expanded when necessary to include other periods.

We relied in part on data maintained by the Commission in its systems. Although we did not perform a detailed assessment of the reliability of the data, we performed a minimal level of testing and found the data to be adequately reliable for our purposes.

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

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 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:

- Effectiveness and efficiency of operations – Policies and procedures that the audited entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost effectiveness and efficiency.

- Reliability of financial reporting – Policies and procedures that management has implemented to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control 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

Based on our review, we believe that the following items are significant deficiencies:

- The Commission did not fully implement recommendations 1A, 1C, and 2A when it did not make timely payments in accordance with its repayment agreement with HUD and did not fully implement recommendation 2C from audit report 2006-CH-1018 (see finding 1).

- The Authority lacked adequate procedures and controls to ensure compliance with Federal and its requirements regarding (1) the drawing and expending of its capital funds, (2) the expenditure of funds for its operating, voucher, and homeownership programs, and (3) the drawing and expending of its capital funds and operating program funds for ineligible purposes (see findings 2, 3, and 4).

FOLLOW-UP ON PRIOR AUDITS

Saginaw Housing Commission Improperly Used Public Housing Funds to Purchase Property, Report #2006-CH-1018

This audit is a follow up on a review completed by the Office of Inspector General of the Commission's Public Housing program, issued on September 28, 2006 (audit report number 2006-CH-1018).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
2A	$1,539,629	
2B		$411,288
2D		394,683
2E	71,043	
2F	13,085	
3A	180,649	
3B		30,236
4A	127,050	
4B	107,692	
Totals	$2,039,148	$836,207

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 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**

SAGINAW HOUSING COMMISSION

July 26, 2011

Mr. Ronald Farrell, Assistant Regional Inspector General for Audit
United States Department of HUS-Office of Inspector General
200 North High Street, Room 334
Columbus, OH 43215-2499

SUBJECT: Saginaw Housing Commission Audit- Audit Report Number 2011-CH-100X

Dear Mr. Farrell:

The Saginaw Housing Commission would like to submit the following responses to the findings noted in the above-cited audit.

If you have any questions or concerns in this regard, do not hesitate to contact me at (989) 755-8183 ext. 137.

Respectfully,

Peter Chitekwe
Executive Director
Saginaw Housing Commission

Enclosures

Cc: Board of Commissioners

PC/pw

"Changing the Face of Public Housing Without Changing the Faces In It"

1803 Norman Street ■ P.O. Box 3225 ■ Saginaw, Michigan 48605-3225
Phone: (989) 755-8183 ■ Fax: (989) 755-8161 ■ TDD/TTY: (989) 755-1880

Ref to OIG Evaluation	**Auditee Comments**

Saginaw Housing Commission Audit Response- **Audit Report Number 2011-CH-100X**

Finding 1: The Commission Did Not Implement Prior Audit Report Recommendations

Comment 1

SHC Response: The Saginaw Housing Commission accepts this finding. However, it is fundamentally important to note that the current Administration has implemented the following procedures:

1) Stringent internal control system to ensure adherence to HUD policies and guidelines. For example, please see PO Policy and Procedures attached.

Comment 2

2) The Saginaw Housing Commission has set up a Central Office Cost Center (COCC) in accordance with Asset Management guidelines.
3) The Saginaw Housing Commission management has provided the Circular OMB-87 to all key employees and to the current Commissioners on the Board.
4) Saginaw Housing Commission continues to provide appropriate training to all its staff members.
5) Saginaw Housing Commission has implemented Project Based Management, Budgeting and Accounting.

Finding 2: The Commission Inappropriately Administered Its Capital Fund Grants

Comment 1

SHC Response: The Saginaw Housing Commission accepts this finding. However, the Saginaw Housing Commission has implemented the following procedures:

1) Saginaw Housing Commission established a Comprehensive Improvements Department (also known as Capital Funds) as a separate department in order to ensure accountability and responsibility. Furthermore, Saginaw Housing Commission has acquired special Capital Fund software to keep track of all Capital Fund activities including but not limited to: disbursements, obligations and e-LOCCS reporting.
2) Saginaw Housing Commission has also recruited qualified personnel to ensure all the work is done by competent personnel.
3) Saginaw Housing Commission continues to comply with the zero thresholds placed on us by HUD.

Ref to OIG Evaluation	Auditee Comments

Saginaw Housing Commission Audit Response- **Audit Report Number 2011-CH-100X**

Finding 3: The Commission Inappropriately Used its Programs Funds

Comment 3
Comment 1

SHC Response: While the Saginaw Housing Commission accepts this finding, the Housing Commission remains confused about the definition of Federal verses Non-Federal funds. HUD has not provided a clear definition (please see attached email dated 5/11/11). Meanwhile, the current administration as previously stated has implemented the following measures:

1) Saginaw Housing Commission continues to provide appropriate training to all its staff members.
2) The Saginaw Housing Commission management has provided the Circular OMB-87 to all key employees and to the current Commissioners on the Board.
3) The Saginaw Housing Commission has set up a Central Office Cost Center (COCC) in accordance with Asset Management guidelines. **Comment 2**
4) Saginaw Housing Commission has implemented a stringent internal control system e.g. PO Policy and Procedures.

Comment 4

It should also be noted that the Saginaw Housing Commission used 1406 BLI and 1408 BLI per Guidebook 7485.3G to pay the City of Saginaw.

OIG contends that the Commission used Program Funds for ineligible expenses. It is our position that most of the ineligible expenses listed, were charged to Non-Federal Funds i.e. COCC. For example:

1) The current Executive Directors vehicle purchase was charged to COCC. Please see attached documentation. **Comment 5**
2) The current Administration no longer provides lunches for Board Members. **Comment 6**
3) Current Administration has never and will never spend Program Funds on alcohol. **Comment 7**

Finding 4: The Commission Used its Public Housing Program Funds for Its Fairgrounds Property

Comment 2
Comment 8

SHC Response: The Saginaw Housing Commission current Administration disagrees with this finding post FYE 2009. In the 2010 fiscal year the Saginaw Housing Commission implemented a Central Office Cost Center and most of the charges related to the Fairgrounds were charged to this cost center. However, for the 2011 fiscal year the Saginaw Housing Commission implemented an allocation

Ref to OIG Evaluation	Auditee Comments

Comment 1

method type of budget. The Saginaw Housing Commission accepts that some of the costs might not have been appropriately allocated and that is why for the 2012 fiscal year the Saginaw Housing Commission has reverted back to the Central Office Cost Center. The Saginaw Housing Commission has completely stopped using Public Housing Funds for the Fairground property and has put measures in place to ensure that Public Housing Funds are not touched with regard to the Fairground property.

OIG Evaluation of Auditee Comments

Comment 1 The Commission's proposed actions should improve its program operations, if fully implemented.

Comment 2 The Commission posted expenses to its central office cost center beginning in fiscal year 2006. During interviews with the Commission on February 24, 2011, February 25, 2011, March 14, 2011, March 15, 2011, April 6, 2011, and May 5, 2011, the Commission said that it did not maintain a center, but planned to implement a center as of July 1, 2011. During an interview on June 7, 2011, the executive director said that the Commission had implemented a center for fiscal year 2010. The Commission's 2010 annual audited financial statements support this statement. However, we could not determine whether the center had been fully implemented in fiscal year 2010.

The Commission could not explain why costs were posted to the center beginning in fiscal year 2006. The finance director said that possibly the previous finance director had tried to implement a cost center in 2006 and she believed that all costs were removed from the center at the end of fiscal year 2006. She could not explain why the costs continued to be posted to the center after fiscal year 2006. The Commission was unable to provide its general ledger for the center to show that the center had been fully implemented and that the expenses posted to the center in previous years had been corrected.

Comment 3 Before the execution of the repayment agreement in January 2011, HUD verbally told the Commission that it should use coin laundry receipts to make the payments. According to the executive director, the payment was delayed because the Commission wanted clarification from HUD regarding what funds to use, recording the repayment agreement as a liability, and establishing a separate account for the payments. Additionally, it was the Commission's executive director and its lawyers' contention that the coin laundry revenue was program income and could not be used to make payments for the Commission's repayment agreement with HUD.

Despite this assertion, the Commission continued to use its program revenue for inappropriate expenditures such as meals and refreshments as cited in finding 2 of our prior audit report and finding 3 of this report.

Comment 4 We agree that the Commission used budgeted line items 1406 and 1408 to pay the City of Saginaw for past pensions and benefits. However, the Commission also used budgeted line item 1410 to pay the City for past pensions and benefits. The Commission may pay salaries and benefits with its capital funds but only to the extent that the salaries and benefits are allocated to actual work performed for the Capital Fund. The Commission failed to provide adequate documentation to support that the capital funds used to repay the City of Saginaw were directly related to Capital Fund activities.

Comment 5 The Commission failed to provide adequate documentation to support that this finding has been corrected.

Comment 6 The Commission failed to provide adequate documentation or updated policies and procedures to support that this finding has been corrected.

Comment 7 We agree that the alcohol purchases occurred under the previous administration. However, the Commission had $394,683 in capital fund expenditures without adequate supporting documentation. The inappropriate expenditures included check payments, credit card transactions, petty cash transactions, and legal expenses. Therefore, we could not substantiate the Commission's assertion that the current administration never used its program funds for alcohol purchases.

Comment 8 The Commission's general ledger did not contain entries for all operating program funds that the corporation owed to the Commission. It did not record miscellaneous operating, maintenance, and legal expenses that the corporation owed to the Commission.

The Commission used its operating program funds to operate and maintain the property. The property was purchased in the Commission's name but operating proceeds and expenses were recorded through the corporation, the Commission's wholly-owned nonprofit. The Commission paid the expenses incurred by the corporation with the Commission's operating program funds. The corporation repaid the Commission with funds generated through the leasing of the buildings for storage space, use of the property's racetrack, and other community events. The property generated a profit in fiscal years 2004 and 2006. However, the property's expenses exceeded the income it earned in fiscal years 2003, 2005, and 2007 through 2011 resulting in a deficit of $91,667, which the corporation had not reimbursed to the Commission. The Commission also disbursed $9,036 in operating program funds for its property's expenses that were not recorded as owed to the Commission or reimbursed to it. Additionally, it used $6,989 in operating program funds for legal expenses for the corporation which were also not recorded as owed to or reimbursed to it. As of February 28, 2011, the Commission had used $107,692 ($91,667 plus $9,036 plus $6,989) in operating program funds to support the operation and maintenance of the property.

Appendix C

FEDERAL AND THE COMMISSION'S REQUIREMENTS

Finding 1

HUD Handbook 2000.06 REV-3, appendix 1, defines a corrective action verification as a verification review conducted by the OIG or the Chief Financial Officer to determine whether the corrective actions, as reported by the HUD action officials, have been completed. This review will also verify that the corrective actions taken were sufficient to correct the audit identified deficiency.

Finding 2

Legal requirements at 42 U.S.C., chapter 8, subchapter I, 1437g(d)1. state that in general, the HUD Secretary will establish a capital fund for the purpose of making assistance available to public housing agencies to carry out capital and management activities. Section (j)6 states that any obligation entered into by a public housing agency will be subject to the right of the Secretary to recapture the obligated amounts for violation by the public housing agency of the requirements of this subsection.

Office of Management and Budget Circular A-87, attachment A, C.1. states that to be allowable under Federal awards, costs must meet the following general criteria:

a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards;
b. Be allocable to Federal awards under the provisions of this circular;
c. Be authorized or not prohibited under State or local laws or regulations;
d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items;
e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit;
g. Except as otherwise provided for in this circular, be determined in accordance with generally accepted accounting principles; and
j. Be adequately documented.

Circular A-87, attachment B, 14. states that costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs, such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable. Attachment B, 20. states that the costs of goods or services for personal use of the governmental unit's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.

Circular A-87, attachment B, 43(a). states that travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the governmental unit. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed in like circumstances in the governmental unit's non-federally-sponsored activities.

24 CFR 85.20(b)(7) states that procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.

24 CFR 905.10(k)(1) states that eligible Capital Fund expenses include the development, financing, and modernization of public housing projects, including the redesign, reconstruction, and reconfiguration of public housing sites and buildings (including accessibility improvements) and the development of mixed-finance projects.

Public and Indian Housing Notice 2010-34, section VII. states the public housing agency shall requisition funds only when payment is due and after inspection and acceptance of the work and shall distribute the funds within 72 hours of receipt of the funds.

HUD's public housing annual contributions contract, section 307(D). states that no funds of any project may be used to pay any compensation for the services of members of the local authority.

HUD Handbook 7475.1, chapter 2, section 3(a). states that the public housing agency's boards of commissioners have the primary responsibility for ensuring that the public housing agency is operated in an efficient and economical manner and that its financial integrity is maintained.

HUD Guidebook 7485.3G, chapter 2, section 7, part 2-20.D. states that ineligible administrative and other related costs include:

1. Cost of entertainment, including food and beverages, amusements, social activities, or stipends to residents;
3. Litigation expenses, except where approved by HUD; and
4. Travel which is not in connection with comprehensive grant training of the development and implementation of the comprehensive grant program.

HUD Guidebook 7485.3(G), chapter 12-11, A.5. states that if the public housing agency uses comprehensive grant program funds for ineligible purposes, the field office may use an order to require the agency to repay HUD from non program funds. If such repayment is not forthcoming, the field office may recommend withholding of a portion of the agency's next year's grant.

HUD's Public and Indian Housing Low Rent Technical Accounting Guidebook 7510.1G, Introduction, number 3, states that the objective of the Public and Indian Housing Low-Rent Technical Accounting Guide is to:

- Provide guidance on the financial management standards required by regulation and the annual contributions contract,
- Identify the types of financial information the public housing agency must maintain in order to report to HUD, and
- Prescribe the uniform chart of accounts the public housing agency must use to ensure consistency in reporting to HUD the source and application of funds for operating income and expense, and for development and modernization costs.

HUD's Public and Indian Housing Low Rent Technical Accounting Guidebook 7510.1G, chapter 2-16. states that funds provided by HUD are to be used by the public housing agency only for the purposes for which the funds are authorized. Program funds are not fungible and withdrawals should not be made for a specific program in excess of the funds available on deposit for that program. As generally used, the term commingling of funds refers to the use of one program's funds to pay expenditures for, and in excess of the funds available for, another program. A public housing agency does not commingle funds by pooling funds or by making expenditures for various programs from a single account used to pool funds.

HUD's public housing annual contributions contract section 309 states that the local authority shall maintain complete and accurate books of account and records, as may be prescribed from time to time by the Government, in connection with the development and operation of the projects, including records which permit a speedy and effective audit.

Section 4.5 of the Commission's travel policy states that the maximum daily meal allowance, including gratuities, shall be $51. Gratuities for meals shall be included in the meal cost to be eligible for reimbursement. Meals charged to hotel rooms shall be included under the meal reimbursement categories on the statement of expenses form. The cost of alcoholic beverages is not eligible for reimbursement. Conference-supplied meals are exceptions to the maximum daily meal allowances. However, the daily meal allowance should be reduced according to the number of meals provided.

Section 2(i)1.2.2 of the Commission's credit card usage policy states that use within the jurisdiction of the Commission is limited to the following:
(a) Authorized purchases of materials or supplies from a source for which the Commission does not have a standard purchase agreement or a monthly charge account,
(b) Purchase of gasoline from a source for which the Commission does not have a credit card,
(c)Emergency relocation to hotel in event of catastrophe displacing an agency resident, and
(d)Temporary relocation of a resident for abatement or unit rehabilitation.

Section 2(i)1.3 of the Commission's credit card usage policy states that all credit card usage must be in accordance with all other applicable HUD and Commission policies and procedures.

Finding 3

The United States Housing Act of 1937, as amended, section 9(l). states that a public housing agency that receives income from nonrental sources, as determined by the HUD Secretary, may retain and use such amounts without any decrease in the amounts received under this section from the Capital or Operating Fund. Any such nonrental amounts shall be used only for low-income housing or to benefit the residents assisted by the public housing agency.

HUD’s Public and Indian Housing Notice 2007-15, section II, A(2). states that public housing funds may not be used to pay the cost of forming an affiliate or instrumentality created for the sole purpose of developing low-income housing tax credit or market rate developments that do not include any public housing units. In this event, the organizational costs must be paid with non-public housing funds, which include de-federalized fees paid to the central office cost center.

24 CFR 5.109(h) states that if a State or local government voluntarily contributes its own funds to supplement federally funded activities, the State or local government has the option to segregate the Federal funds or commingle them. However, if the funds are commingled, the requirements of this section apply to all of the commingled funds.

24 CFR 990.280(b)(1) states that financial information to be budgeted and accounted for at a project level shall include all data needed to complete project-based financial statements in accordance with accounting principles generally accepted in the United States of America including revenues, expenses, assets, liabilities, and equity data. The public housing agency shall also maintain all records to support those financial transactions. At the time of conversion to project-based accounting, a public housing agency shall apportion its assets, liabilities, and equity to its respective projects and HUD-accepted central office cost centers.

Circular A-87, attachment B, part 12(a). states contributions or donations, including cash, property, and services, made by the governmental unit, regardless of the recipient, are unallowable from a Federal award.

HUD's Section 8 Housing Choice Voucher program, annual contribution contract, section 11. states that:

a. The public housing agency must use Section 8 Housing Choice Voucher program receipts to provide decent, safe, and sanitary housing for eligible families in compliance with the U.S. Housing Act of 1937 and all HUD requirements. Program receipts may only be used to pay program expenditures.
b. The public housing agency must not make any program expenditures, except in accordance with the HUD-approved budget estimate and supporting data for a program.
c. Interest on the investment of program receipts constitutes program receipts.
d. If required by HUD, program receipts in excess of current needs must be promptly remitted to HUD or must be invested in accordance with HUD requirements.

Finding 4

The United States Housing Act of 1937, as amended, Section 9(e). states the HUD Secretary shall establish an operating fund for the purpose of making assistance available to public housing agencies for the operation and management of public housing, including: (A) procedures and systems to maintain and ensure the efficient management and operation of public housing units, including amounts sufficient to pay for the reasonable costs of review by an independent auditor of the documentation or other information maintained pursuant to section 6(j)(6) by a public housing agency or resident management corporation to substantiate the performance of that agency or corporation.

24 CFR 941.205(a) states that in order to be considered as eligible project expenses, all development-related contracts entered into by the public housing agency shall provide for compliance with the provisions of the annual contributions contract.

Catalog of Federal Domestic Assistance number 14.872. states that the Capital Fund provides funds annually to public housing agencies for capital and management activities, including modernization and development of public housing. The Capital Fund permits public housing agencies to use capital funds for financing activities, including payments of debt service and customary financing costs, in standard public housing agency developments and in mixed-finance developments which include public housing.