



Issue Date January 24, 2012

Audit Report Number 2012-AT-1006

TO: Ada Holloway, Director, Atlanta Office of Public Housing, 4APH
Craig Clemmensen, Director, Departmental Enforcement Center, CV

//signed//

FROM: James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The Housing Authority of the City of Sparta, GA, Did Not Maintain Adequate Control Over Its Federal Funds

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the City of Sparta, GA's financial operations. We selected the Authority based on concerns from the Georgia State Office of Public Housing regarding its financial conditions. Many reviews of the Authority performed by the U.S. Department of Housing and Urban Development (HUD) noted consistent misuse of its operating funds over the past 4 years.

Our audit objective was to determine whether the Authority complied with HUD regulations regarding the management of its financial operations.

What We Found

The Authority used \$524,916 in Federal funds to pay ineligible and unsupported costs. It did not establish effective controls to protect its assets. Its board did not ensure that the former executive director expended funds in accordance with Authority and HUD requirements and followed procurement policies. This condition occurred because the former executive director controlled all

expenditure functions. As a result, funds were not available to improve the living conditions of the Authority's units as intended, and the Authority had no assurance that its purchases were the most economical for project operation.

What We Recommend

We recommend that the Director of the Atlanta Office of Public Housing require the Authority to (1) repay its public housing operating and capital improvement programs for ineligible payments of \$47,474 made to the former executive director, \$19,833 to temporary workers, \$5,374 for various purchases, and \$54,453 to conflict-of-interest parties; (2) provide supporting documentation for payments of \$75,313 made to the former executive director, \$36,330 to temporary workers, \$227,163 to contractors, and \$58,976 for various purchases or repay its public housing operating and capital improvement programs; (3) review and implement internal controls for purchasing goods and services; and (4) reconcile its books and records to determine the amount of capital funds used for program expenses. We also recommend that the Director of the Departmental Enforcement Center, in coordination with the Director of the Office of Public Housing, take appropriate enforcement actions against the Authority officials responsible for the improper disbursements.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-4. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed our review results with the Authority's management and staff and HUD officials. We provided a copy of the draft report to the Authority on December 12, 2011, for its comments and discussed the report with Authority officials at the exit conference on December 19, 2011. The Authority provided written comments on January 10, 2012. It generally agreed with our findings.

The complete text of the Authority's response can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The Housing Authority of the City of Sparta was established in accordance with State and Federal law. The Authority's primary objective is to provide decent, safe, and sanitary low-rent housing for qualified citizens and communities of Sparta, GA.

The Authority's dwelling units became available for occupancy on November 30, 1962, and were previously managed by the Milledgeville Housing Authority. The City of Sparta assumed management of the Authority on October 1, 2007. The Authority's five-member board of commissioners oversees the direction of the Authority. The mayor of Sparta appoints the board of commissioners, which in turn selects an executive director. The board of commissioners is responsible for managing the Authority's daily operations.

The Authority administers 24 units of public housing. In April 2007, HUD revised its financial management and reporting requiring Authorities to implement conversion to asset management. However, Authorities that own and operate fewer than 250 units could convert to asset management on a voluntary basis. We received confirmation from the HUD field office staff and the Authority's fee accountant that the Authority is not under asset management. Therefore, the Authority is subject to the standard compliance requirements on administrative expenses because it is not participating in the asset management program. The U.S. Department of Housing and Urban Development (HUD) awarded the Authority \$427,185 from October 2007 to August 2011, which included \$269,886 in operating subsidies and \$157,299 in capital funds.

HUD's Georgia State Office of Public Housing, located in Atlanta, GA, is responsible for overseeing the Authority. Based on the Authority's latest public housing assessment, HUD designated it as a troubled public housing authority for fiscal year 2009.

Our audit objective was to determine whether the Authority complied with HUD regulations regarding the management of its financial operations.

RESULTS OF AUDIT

Finding: The Authority Used More Than \$520,000 in Federal Funds for Ineligible and Unsupported Costs

The Authority used \$524,916 in Federal funds to pay ineligible and unsupported costs. It did not establish effective controls to protect its assets. Its board did not ensure that the former executive director expended funds in accordance with Authority and HUD requirements and followed procurement policies. This condition occurred because the former executive director controlled all expenditure functions. As a result, funds were not available to improve the living conditions of the Authority's units as intended, and the Authority had no assurance that its purchases were the most economical for project operation.

\$524,916 Paid for Ineligible and Unsupported Costs

We reviewed 100 percent of the Authority's expenditures from October 2007 to August 2011 and identified \$127,134 in ineligible costs and \$397,782 in unsupported costs.

Federal Regulation at 2 Code of Federal Regulations, Part 225 establishes principles and standards for determining the allowable costs incurred by State and local governments receiving Federal awards carried out through grants, cost reimbursement contracts, and other agreements. Basic guidelines stipulate that costs, to be allowable, must be necessary and reasonable for proper and efficient performance and administration of Federal awards. Federal Regulation at 2 Code of Federal Regulations, Part 225 also states that for costs to be allowable, they must be adequately documented.

The consolidated annual contributions contract is a contract between HUD and the Authority that sets forth requirements applicable to all projects and additional requirements that apply to certain types of projects. Section 11(D) of the annual contributions contract states the Authority cannot incur any operating expenditures except pursuant to an approved operating budget.

The former executive director approved and signed all disbursements. The Authority did not use its administrative employee for the separation of duties. The former executive director had complete control over the expenditure function. She prepared, signed, and coded the checks for accounting purposes. Although two signatures were required on the checks, the board trusted the former executive director with the daily disbursements of the Authority. Some board members signed blank checks that were given to them by the former executive

director without knowing how the checks would be used. Various board members stated that they were aware of their responsibility to review the expenditures of the Authority but felt that there was no need because they trusted the former executive director to review the expenditures. The Authority used a fee accountant to maintain the general ledger and the cash receipts and disbursements ledger. The fee accountant prepared the records based on information provided by the former executive director and concluded that the Authority was not financially stable. The fee accountant discussed the issues of overspending and not providing sufficient supporting documentation for expenditures with the former executive director, but the issues were not corrected by the Authority.

\$122,787 in Ineligible and Unsupported Costs Received by Former Executive Director

The former executive director abused her position and received \$47,474 in Federal funds for ineligible payments for salary advances to herself and retirement and insurance payments that she was not entitled to receive. Also, there were no timesheets to support \$75,313 paid to the former executive director.

Section 2.6 of the Authority's personnel policy states that no pay advances will be given. The Authority's board members stated that they approved the expenses because they were not aware that the expenses were ineligible under HUD regulations.

\$56,163 in Ineligible and Unsupported Costs Received by Temporary Employees

The Authority employed many temporary workers. It paid temporary workers to perform the job of the maintenance mechanic while continuing to pay the maintenance mechanic his salary for the same functions. These workers received \$19,833 in Federal funds for ineligible payments for the duplicated functions.

In addition, temporary office workers received \$36,330 in unsupported salary costs. The Authority either did not keep timesheets on the temporary employees or did not completely fill out the timesheets to identify the work performed.

\$227,163 in Unsupported Costs Received by Contractors

The Authority improperly procured goods and services totaling \$227,163 from various individuals and suppliers. It did not document the procurement process it followed and did not provide support for the reasonableness and necessity of the procurements. The procurements included payments for landscape work, construction, accounting services, consulting services, and other items.

The Authority established a written procurement policy consistent with HUD requirements; however, it did not implement working-level procedures to carry out the policy.

HUD Handbook 7460.8, REV-2 stipulates that the Authority must conduct all procurement transactions in a manner providing full and open competition consistent with the standards established in Federal regulations at 24 Code of Federal Regulations 85.36. HUD requires the Authority to use its own procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. Authorities must maintain records sufficient to detail the significant history of procurements.

The Authority did not document the bidding for purchases as required. Evidence did not support that the Authority obtained price quotes, sealed bids, or competitive proposals before making purchases. Supporting documents for these purchases were either nonexistent or did not show that the goods or services had been received by the Authority.

\$64,350 Paid in Ineligible and Unsupported Costs for Miscellaneous Purchases

The Authority paid \$64,350 in ineligible and unsupported payments for various miscellaneous purchases. Ineligible payments of \$5,374 were made for items such as late fees on utility bills and paying utility bills for tenants of the Authority. In addition, there was no supporting documentation for payments totaling \$58,976.

\$54,453 Paid for Ineligible Conflicts of Interest

Part A of the consolidated annual contributions contract, section 14(B), provides that no funds of any project may be used to pay any compensation for the services of members of the Authority's board.

Section 19 (A)(1)(i), of the consolidated annual contributions contract, Conflict of Interest provides that the Authority cannot enter into any contract or arrangement with any present or former member or officer of the Authority's governing board or any member of the officer's immediate family. The Authority's personnel policy states in section 1.5 that immediate relatives of Authority employees will not be hired without the prior approval of the executive director. Under no circumstances may such employees work under the supervision of relatives. Section 8.5 states that personal or family relationships between employees within the same work group will not be allowed to create the appearance of favoritism or otherwise affect the workplace.

The Authority made \$54,453 in ineligible payments to parties in conflict-of-interest relationships at the Authority. The Authority did not seek a HUD waiver of the conflict of interest hiring provisions. Examples of these payments follow:

- The former board chairman received \$11,989 in ineligible payments. Although ineligible to receive any form of compensation, the former board chairman was hired as an Authority employee.
- The granddaughter of the former executive director was hired as an office assistant and worked directly under the supervision of her grandmother. She was paid \$4,538 in ineligible payments.
- The daughter of an Authority board member was hired by the Authority to do office work. She received \$34,893 in ineligible payments.
- The brother of the Authority's maintenance mechanic was hired to work as a maintenance worker with his brother. He was paid \$2,025 in ineligible payments.
- The girlfriend of the maintenance mechanic was hired by the Authority to work within the same group. There was no evidence that the girlfriend worked at the Authority, but she received a check from the Authority. She was paid \$1,008 in ineligible payments.

Capital Funds Records Were not Reconciled

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

The Authority did not disclose the source year and type of grant fund, nor the type of grant fund and the use of the funds on its general ledger, journal entries or accounts payable vouchers. The Authority maintained one bank account for its capital and operating funds. The general ledger did not identify the source and application of the funds. Therefore, we were unable to determine if the \$157,299 of capital funds were expended in accordance with program regulations and requirements.

Insufficient Controls

The Authority did not have written policies or procedures for receiving or disbursing funds. While there were written policies in place for the Authority's procurement process, these procedures were not followed by the Authority.

The Authority had a five-member board of commissioners in place to oversee its actions. During our interviews with Authority employees and board members, it became clear that the former executive director had complete control over the Authority. Various board members explained that they entrusted the daily operations of the Authority to the former executive director and basically approved whatever the former executive director proposed. The board members received little if any training while holding their positions on the board. They were unaware of HUD regulations or their responsibility to monitor the actions of the former executive director. Some board members admitted to signing blank checks that the former executive director presented to them. The former executive director's actions regarding the use of Authority funds were not monitored by anyone who was knowledgeable of HUD regulations.

Conclusion

Overall, the Authority did not establish the controls it needed to protect its assets. It did not ensure that its Federal funds were used for eligible, supported, housing-related activities that were reasonable and necessary for its operations. As a result, it did not comply with HUD regulations in regard to the management of its financial operations and disbursed checks totaling \$524,916 for ineligible and unsupported expenses, when it only received \$427,185 during the October 2007 to August 2011 timeframe. This occurred because the bank allowed the Authority to continue to write checks with a negative account balance.

Recommendations

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

- 1A. Repay \$47,474 from non-Federal funds to its public housing operating and capital improvement programs for ineligible payments made to the former executive director.
- 1B. Repay \$19,833 from non-Federal funds to its public housing operating and capital improvement programs for ineligible payments made to temporary workers of the Authority.
- 1C. Repay \$5,374 from non-Federal funds to its public housing operating and capital improvement programs for ineligible payments made for various purchases.
- 1D. Repay \$54,453 to its public housing operating and capital improvement programs for ineligible payments made to parties in conflict-of-interest relationships.
- 1E. Support \$75,313 in payments made to the former executive director or repay from non-Federal funds any unsupported costs to its public housing operating and capital improvement programs.
- 1F. Support \$36,330 in payments made to temporary workers of the Authority or repay from non-Federal funds any unsupported costs to its public housing operating and capital improvement programs.
- 1G. Support \$227,163 in payments made to contractors or repay from non-Federal funds any unsupported costs to its public housing operating and capital improvement programs.
- 1H. Support \$58,976 in payments made for various purchases or repay from non-Federal funds any unsupported costs to its public housing operating and capital improvement programs.
- 1I. Review and implement internal controls to ensure that the Authority complies with HUD procurement regulations and its own local procurement policy approved by HUD and its board for purchasing goods and services.
- 1J. Ensure that the board receives training and establishes procedures for performing its oversight duties in a responsible manner.

- 1K. Reconcile its books and records to determine the amount of capital funds used for program expenses and repay from non-Federal funds any ineligible expenditures to the U.S. Treasury.

We also recommend that the Director of the Departmental Enforcement Center, in coordination with the Director, Office of Public Housing,

- 1L. Take appropriate enforcement actions against the Authority officials responsible for the disbursement of Federal funds in noncompliance with HUD requirements.

SCOPE AND METHODOLOGY

To accomplish our objective related to the management of the Authority's financial operations, we obtained financial statements and supporting documentation from October 2007 through April 2011. We determined the data to be reliable. Our universe consisted of a 100 percent review of the Authority's expenditures from October 2007 to August 2011, which is the same period during which the former executive director was employed by the Authority. During this timeframe, the Authority received \$157,299 in capital funds and \$269,886 in operating subsidies totaling \$427,185, but our scope consisted of \$689,688 in disbursed funds. We validated each processed check from bank statements with supporting documentation provided by the Authority to determine whether the disbursement was properly supported and an eligible expense.

In addition, we performed the following tasks:

- Interviewed Authority employees and HUD officials;
- Assessed whether HUD adequately monitored the performance of the Authority, related to its financial operations, by reviewing monitoring reports, quarterly reports, and financial review reports related to the Authority; and
- Reviewed reports issued by an independent auditor's office, the Authority's written policies and procedures, the Code of Federal Regulations, public laws, and other applicable legal authorities relevant to public housing operating subsidies.

Our audit period covered October 2007 through August 2011. We conducted our audit at the Authority and the HUD Office of Inspector General's (OIG) office in Atlanta, GA. We performed our audit work between June and October 2011. 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 management has implemented to provide reasonable assurance that a program meets its objective, while considering cost effectiveness and efficiency.
- Reliability of financial reporting - Policies, procedures, and practices that management has implemented to provide reasonable assurance that financial information is relevant, reliable, and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resources are used in accordance 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 Deficiency

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

- The Authority did not adequately monitor its disbursements of Federal funds to ensure that payments were for eligible and supported housing activities (see finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1A	\$47,474	
1B	19,833	
1C	5,374	
1D	54,453	
1E		\$ 75,313
1F		36,330
1G		227,163
1H		<u>58,976</u>
Total	<u>\$127,134</u>	<u>\$ 397,782</u>

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

Ref to OIG Evaluation

Auditee Comments

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation draft dated 12/15/2011 Auditee Comments

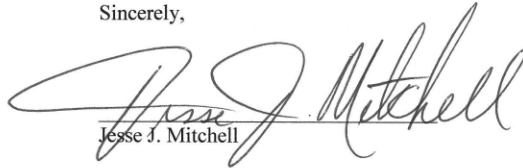
Comment 1. The Sparta Housing Authority Board of Commissioners hereby acknowledges that it has received the OIG's audit report dated 12/15/2011. Further, the Board would like to thank the OIG Office for allowing the time for a response to said report to be sent no later than 1/10/2012;

Comment 2. The current Board takes the position that said Board was just appointed in January, 2011 and is not in a position at this time to adequately address the issues which the OIG's office has brought forward covering a period of October, 2007 through August, 2011;

This response has not been approved by the board but has been reviewed by the Vice – Chairman Glenn Grier.

I hereby respectfully submit the above as current Chairman of the Sparta Housing Authority Board of Commissioners.

Sincerely,



Jesse J. Mitchell

CC: Ms. Ada Holloway, Director – Atlanta Office of Public Housing, 4APH
Mr. James D. McKay, Regional Inspector General for Audit
Ms. Sonya D. Lucas, Assistant Regional Inspector General for Audit
Ms. Clementine V. Melvin, Operations Division Director
Mayor William Evans, Jr.