
AUDIT REPORT



YOUNGSTOWN METROPOLITAN HOUSING AUTHORITY COMPREHENSIVE AUDIT

YOUNGSTOWN, OHIO

2001-CH-1004

MARCH 9, 2001

OFFICE OF AUDIT, MIDWEST
CHICAGO, ILLINOIS



Issue Date	March 9, 2001
Audit Case Number	2001-CH-1004

TO: Thomas S. Marshall, Director of Public Housing Hub, Cleveland Area Office

/signed/

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Youngstown Metropolitan Housing Authority
Comprehensive Audit
Youngstown, Ohio

We completed an audit of the Youngstown Metropolitan Housing Authority. The objectives of our audit were to: (1) determine whether the Housing Authority had sufficient controls for safeguarding cash and other monetary assets and inventory; (2) review for indicators of possible waste, loss, and misuse of cash or other monetary assets and inventory; (3) establish, if appropriate, the amount of any misappropriations, their causes, and the individuals involved; (4) determine whether the Authority managed its Section 8 Program efficiently and effectively; and (5) assess the appropriateness of the Authority's procurement process. We performed the audit based on the results of an Operation Safe Home Probe of the Authority.

The Housing Authority's procurement process was generally performed correctly and the Authority had sufficient controls over inventory. However, the Authority lacked sufficient controls over safeguarding cash and other monetary assets. Specifically, the Authority: used \$44,216 of Public Housing Drug Elimination Program funds to pay the City of Youngstown for baseline police services that the City was required to provide at no cost; was under charged \$32,586 for supplemental police services by the City; lacked documentation to support that \$8,210 in police services paid were reasonable and necessary expenses of the Authority; failed to sufficiently pursue amounts owed to it by current and former Section 8 tenants; did not properly account for \$32,300 of former Section 8 tenant accounts receivable; and lacked an acceptable cost allocation plan to support the allocation of indirect costs among its programs. While we found that the Authority's controls over Section 8 tenant accounts receivable were poor and offered the opportunity for its employees to misuse or divert funds, **we found no evidence that funds were diverted.**

Within 60 days, please provide us, for each recommendation made in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please provide us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please have them contact me at (312) 353-7832 or Heath Wolfe, Assistant District Inspector General for Audit, at (312) 353-6236 extension 2677.

Executive Summary

We completed a review of the Youngstown Metropolitan Housing Authority. The review objectives were to: determine whether the Housing Authority had sufficient controls for safeguarding cash and other monetary assets and inventory; review for indicators of possible waste, loss, and misuse of cash and other monetary assets and inventory; establish, if appropriate, the amount of any misappropriations, their causes, and the individuals involved; determine whether the Authority managed its Section 8 Program efficiently and effectively; and assess the appropriateness of the Authority's procurement process. The review resulted from an Operation Safe Home Probe of the Authority.

The Housing Authority's procurement process was generally performed correctly and the Authority had sufficient controls over inventory. However, the Authority lacked sufficient controls over safeguarding cash and other monetary assets. Specifically, the Authority: used \$44,216 of Public Housing Drug Elimination Program funds to pay the City of Youngstown for baseline police services that the City was required to provide at no cost; was under charged \$32,586 for supplemental police services by the City; lacked documentation to support that \$8,210 in police services paid were reasonable and necessary expenses of the Authority; failed to sufficiently pursue amounts owed to it by current and former Section 8 tenants; did not properly account for \$32,300 of former Section 8 tenant accounts receivable; and lacked an acceptable cost allocation plan to support the allocation of indirect costs among its programs. While we found that the Authority's controls over Section 8 tenant accounts receivable were poor and offered the opportunity for its employees to misuse or divert funds, **we found no evidence that funds were diverted.**

Controls Over Police Services Were Weak

The Housing Authority: (1) used \$44,216 of Public Housing Drug Elimination Program funds to pay the City of Youngstown for baseline police services that the City was required to provide at no cost; (2) was under charged \$32,586 for supplemental police services by the City; and (3) failed to maintain documentation to support that \$8,210 in police services paid were reasonable and necessary expenses of the Authority. The Authority did not have sufficient procedures and controls over the supplemental police services. As a result, HUD funds were not efficiently and effectively used.

Tenant Accounts Receivable Efforts Were Poor

The Housing Authority did not follow its Section 8 Administrative Plan or HUD's Consolidated Annual Contributions Contract regarding Section 8 tenant accounts receivable. Specifically, the Authority did not: sufficiently pursue amounts owed to it by current and former Section 8 tenants; and properly account for \$32,300 of former Section 8 tenant accounts receivable. The Authority's former top management's failure to aggressively pursue delinquent accounts

The Authority Lacked An
Acceptable Cost Allocation
Plan

and to recognize that failure to do so increased the risk of collection losses.

The Housing Authority did not have an acceptable cost allocation plan to support the allocation of indirect costs among its programs. Specifically, the Housing Authority's cost allocation plan did not address employees' salaries. The Authority also failed to properly allocate non-salary costs to its Comprehensive Grant Program, Development Program, Public Housing Drug Elimination Program, Major Renovation of Obsolete Public Housing Program, Economic Development Social Services Program, or its Service Coordinators Program. Employees' salaries were allocated to the Housing Authority's various programs based upon unsupported estimates. Housing authorities must allocate indirect costs to benefiting grant programs based upon specific methods, such as a time study. The Housing Authority's former Executive Director could not explain the basis used for allocating the non-salary indirect costs. As a result, neither HUD nor the Housing Authority had assurance that costs charged to the Authority's various programs were reasonable in relation to the benefits they derived from the indirect costs.

Recommendations

We recommend that HUD's Director of the Public Housing Hub, Cleveland Area Office, assure that the Housing Authority implements controls to correct the weaknesses cited in this report.

We presented our draft findings to the Housing Authority's Executive Director and HUD's staff during the audit. We held an exit conference with the Authority on January 9, 2001. The Authority agreed to implement corrective action to address the findings.

We included excerpts of the Housing Authority's comments with each finding (see Findings 1, 2, and 3). The complete text of the comments is in Appendix B with the exception of three attachments that were not necessary for understanding the Authority's comments. A complete copy of the Authority's comments with the attachments was provided to HUD's Cleveland Area Office Director of the Public Housing Hub.

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Introduction

The Youngstown Metropolitan Housing Authority was established under Section 3735.27 of the Ohio Revised Code. The Authority contracts with HUD to provide low and moderate-income persons with safe and sanitary housing through rent subsidies. A five member Board of Commissioners governs the Authority. The Chairman of the Board is Robert Bush. During the audit, the Authority's former Executive Director Rudy Vazmina resigned effective June 1, 2000. The Authority's current Director is Eugenia Atkinson. The Authority's books and records are located at 131 West Boardman Street, Youngstown, Ohio.

As of November 2000, the Housing Authority operated 10 programs: (1) a Low-Income Housing Program consisting of 1,423 units; (2) a Section 8 Rental Assistance Program consisting of 1,258 units; (3) a Comprehensive Grant Program; (4) a Public Housing Drug Elimination Grant Program; (5) an Economic Development Supportive Services Grant Program; (6) a Section 8 New Construction Program consisting of 44 units; (7) a Development Program; (8) a Major Renovation of Obsolete Public Housing Program; (9) a Services Coordinators Program; and (10) a HOPE VI Demolition Grant Program.

Audit Objectives

The audit objectives were to: determine whether the Housing Authority had sufficient controls for safeguarding cash and other monetary assets and inventory; review for indicators of possible waste, loss, and misuse of cash or other monetary assets and inventory; establish, if appropriate, the amount of any misappropriations, their causes, and the individuals involved; determine whether the Authority managed its Section 8 Program efficiently and effectively; and assess the appropriateness of the Authority's procurement process.

Audit Scope And Methodology

We conducted the audit at HUD's Cleveland Area Office and the Housing Authority's office. We performed our on-site audit work between June 1999 and December 2000.

To determine whether the Housing Authority had sufficient controls over its operations, we interviewed: HUD's staff; the Authority's officials, staff, and tenants; and the City of Youngstown's police officers assigned to provide supplemental police services to the Authority. We analyzed the following items: tenant files; cash disbursements and invoices; vendor files and contracts; Board meeting minutes; payroll records and personnel files; tenant accounts receivable ledgers; the cost allocation plan; supplemental police services' activity reports; audited financial statements; and the Authority's policies and

procedures. We also reviewed: HUD's files for the Authority; Section 309 of the Annual Contributions Contract between HUD and the Authority; Part 85 of Title 24 of the Code of Federal Regulations; Office of Management and Budget Circular A-87; the Cooperative Agreement dated July 21, 1992, between the Authority and the City of Youngstown; Section 14 of the Consolidated Annual Contributions Contract for the Rental Certificate and Rental Voucher Programs, between the Authority and HUD; and HUD's Notices of Funding Availability for the Public Housing Drug Elimination Program dated May 23, 1997 and March 31, 1998.

The audit covered the period July 1, 1997 through June 30, 1999. This period was adjusted as necessary. We conducted the audit in accordance with generally accepted government auditing standards.

We provided a copy of this report to the Housing Authority's Executive Director and to the Chairman of the Board.

The Authority Did Not Have Sufficient Controls Over Its Supplemental Police Services

The Youngstown Metropolitan Housing Authority: (1) used \$44,216 of Public Housing Drug Elimination Program funds to pay the City of Youngstown for baseline police services that the City was required to provide at no cost; (2) was under charged \$32,586 for supplemental police services by the City; and (3) failed to maintain documentation to support that \$8,210 in police services paid were reasonable and necessary expenses of the Authority. The Housing Authority did not have sufficient procedures and controls over the supplemental police services. As a result, HUD funds were not efficiently and effectively used.

HUD's Requirements

HUD's Notices of Funding Availability for the Public Housing Drug Elimination Program dated May 23, 1997 and March 31, 1998 required supplemental police services to be over and above the local police department's current level of baseline services. Baseline services were defined as ordinary and routine services provided to residents as part of the overall city deployment of police services. Baseline services include patrols, police officer responses to 911 communications and other calls for service, and investigative follow-up of criminal activity. The Notices also required that a daily activity and incident complaint form be completed by each patrol. The form is necessary for the collection and analysis of criminal incidents and responses to service calls.

Section 309 of the Annual Contributions Contract between HUD and the Youngstown Metropolitan Housing Authority requires the Authority to maintain complete and accurate books of account and records.

24 CFR Part 85.36(i)(11) requires grantees or subgrantees to retain all required records for three years, after final payments and until all other pending matters are closed. Part 85.22(b) requires that State, local, and Indian tribal governments follow Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments. 24 CFR Part 85.3 defines a local government to include any public housing agency.

Office Of Management And
Budget's Requirements

Office of Management and Budget Circular A-87, Attachment A, paragraph C.1.a., requires that all costs must be necessary and reasonable for proper and efficient administration of Federal Awards. In addition, paragraph C.1.j. requires all costs to be adequately documented. Attachment B, Section 23.a.(5), of the Circular says the general costs of government services normally provided to the general public, such as fire and police, are not allowable expenses.

Cooperative Agreement's
Terms

The Cooperative Agreement dated July 21, 1992, between the Youngstown Metropolitan Housing Authority and the City of Youngstown, required the Housing Authority's residents to receive the same services as other City residents at no additional cost to the Authority or its residents.

The Authority Improperly
Paid For Baseline Police
Services

Contrary to HUD's Notice of Funding Availability, the Housing Authority used Public Housing Drug Elimination Program funds to pay the City of Youngstown for baseline police services that were not related to the Authority's supplemental police services. Baseline police services are services that the local government must provide to the Housing Authority and its residents at no cost, such as 911 emergency calls and police mandated training.

Between January 1, 1998 and December 31, 1999, the Housing Authority spent \$44,216 in Public Housing Drug Elimination Program funds for police officers to respond to 911 emergency calls and to attend two police mandated training courses. The 911 emergency calls and the training courses were not related to the supplemental police services provided to the Authority. The Detective Sergeant-in-Charge of the Housing Authority's supplemental police services said the supplemental police officers were expected to respond to 911 emergency calls and to attend the training courses.

The Housing Authority's Quality Assurance Officer, who was responsible for reviewing the supplemental police services invoices, said she did not review the invoices to determine whether the City invoiced the Authority for baseline services. She said no one had ever questioned whether the Housing Authority's supplemental police services included baseline police services.

The Authority Was Not Fully Charged For Supplemental Police Services

The Housing Authority was under charged for supplemental police services by the City of Youngstown. Between March 1, 1998 and January 31, 1999, the City of Youngstown's Police Department did not charge the Authority \$32,586 for supplemental police services. The services related to the fringe benefit costs of the supplemental police officers. The City did not accurately update its fringe benefit calculations to account for an increase in the number of supplemental police officers. According to an Accounting Clerk for the Housing Authority, the Authority did not verify the City's calculations of all fringe benefits.

The Housing Authority Paid For Unsupported Police Services

The Housing Authority could not support \$8,210 paid to the City of Youngstown for supplemental police services. The Authority either did not receive or could not locate all of the daily patrol activity reports for the period between January 1, 1998 and December 31, 1999. The Housing Authority and the City of Youngstown's Police Department could not provide the daily patrol activity reports to support the supplemental police services.

The Housing Authority's Quality Assurance Officer said the Authority was not aware that it did not have all of the required daily activity reports because it did not use the reports to verify the hours invoiced by the City. Instead, the Authority used the Police Department's roll call sheets to verify the hours invoiced by the City. The roll call sheets did not show the number of hours the officers worked for each shift. Therefore, the Housing Authority could not fully support the supplemental police services paid.

Auditee Comments

Excerpts paraphrased from the Housing Authority's comments on our draft finding follow. Appendix B, pages 24 and 25, contains the complete text of the comments for this finding.

The Housing Authority requested reimbursement of \$11,630 (\$44,216 for the baseline police services less \$32,586 for the police services that were under charged) for the baseline police services that were improperly paid to the City of Youngstown. The Authority also requested the City to provide a fringe benefits calculations for each officer when it submits the monthly invoice for the supplemental police services.

Due to construction underway at the Authority's office, access to the records storage area is not permissible. The Authority requested the Detective Sergeant of the supplemental police officers to provide documentation to support the \$8,210 in unsupported police services. The Authority will submit the supporting documentation to show that the services were reasonable and necessary expenses of the Authority.

The Housing Authority established procedures and controls over its supplemental police services to ensure the services meet HUD's requirements, Office of Management and Budget Circular A-87, and the Authority's Cooperative Agreement. The procedures and controls include: the monthly invoices from the Youngstown Police Department will contain a schedule of the fringe benefits and the number of hours worked per day for each officer; Officers' time sheets will be compared to 911 call sheets to ensure that baseline services are not charged to the Authority; and future contracts with the Youngstown Police Department or other law enforcement agencies will clearly define that 911 calls and police mandated training are not eligible supplemental police services expenses.

OIG Evaluation Of Auditee Comments

The actions taken or planned by the Housing Authority should improve its controls over the supplemental police services. If the Authority cannot provide documentation to support that the \$8,210 in services were reasonable and necessary expenses of the Authority, then Authority should reimburse its Public Housing Drug Elimination Program from non-Federal funds.

Recommendations

We recommend that the Director of the Public Housing Hub, Cleveland Area Office, assure that the Youngstown Metropolitan Housing Authority:

- 1A. Requires the City of Youngstown to reimburse the Housing Authority \$11,630 (\$44,216 for the baseline police services less \$32,586 for the police services that were under charged) for the baseline police services that were improperly paid. If the City does not reimburse the Housing Authority, then the Authority should reimburse its Public Housing Drug Elimination Program \$11,630 from non-Federal funds.

- 1B. Provides documentation to support that the \$8,210 of supplemental police service costs cited in this finding were reasonable and necessary expenses of the Authority. If the Housing Authority cannot provide supporting documentation, then the Authority should reimburse its Public Housing Drug Elimination Program \$8,210 from non-Federal funds.

- 1C. Establishes procedures and controls over its supplemental police services to ensure the services meet HUD's requirements, Office of Management and Budget Circular A-87, and the Housing Authority's Cooperative Agreement.

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Section 8 Tenant Accounts Receivable Efforts Need To Be Improved

The Youngstown Metropolitan Housing Authority did not follow its Section 8 Administrative Plan or HUD's Consolidated Annual Contributions Contract regarding Section 8 tenant accounts receivable. Specifically, the Housing Authority did not: sufficiently pursue amounts owed to it by current and former Section 8 tenants; and properly account for \$32,300 of former Section 8 tenant accounts receivable. The Housing Authority's former top management's failure to aggressively pursue delinquent accounts and to recognize that failure to do so increased the risk of collection losses.

HUD's Requirement

The Consolidated Annual Contributions Contract for the Rental Certificate and Rental Voucher Programs, Section 14, requires the Housing Authority to maintain complete and accurate books of account and records.

Housing Authority's Requirements

The Housing Authority's Section 8 Administrative Plan effective June 1, 1998, page 37, states the Section 8 Coordinator will accept a repayment agreement from a family for a period not to exceed 12 months. The repayment agreement will require three consecutive payments of \$50 or the family's participation in the Section 8 Program will be terminated. The Authority updated its Section 8 Administrative Plan on April 20, 2000. The updated Plan also required the Authority to terminate the Section 8 assistance to recipients who fail to make three consecutive payments on a repayment agreement.

Responsibilities Of Management Staff

The responsibility for carrying out the Housing Authority's policies and managing the Authority's day-to-day operations rests with the Authority's principal management staff. In particular, the management staff must maintain the Housing Authority's overall compliance with its policies and procedures and Federal, State, and local laws. The management staff is also responsible for collecting rents and enforcing lease terms.

Amounts Owed By Tenants Were Not Sufficiently Pursued

The Housing Authority did not sufficiently pursue amounts owed by current and former Section 8 tenants. The Authority was owed \$6,421 from 16 current tenants and \$32,300 from 45 former tenants as of December 5, 2000. The current and former tenants had outstanding accounts dating as far back as December 1993.

We selected all 61 tenants' (16 current and 45 former) Section 8 files to determine what actions the Housing Authority took to collect the outstanding accounts between January 1, 2000 and August 30, 2000. During this time period, the Authority did not notify the 16 current tenants of their outstanding accounts during the months of February and May. The Authority did send notices to four tenants regarding their outstanding balances during January and August 2000. During the months of March, April, and June 2000, the Authority notified only one tenant of the amounts he owed. The Authority notified nine current tenants of the amounts they owed in July 2000. Eleven of the 16 tenants were under repayment agreements with the Authority. However, eight of the 11 tenants failed to make their monthly payments as required.

The Housing Authority took no action to notify the 45 former Section 8 tenants regarding their accounts. The former tenants vacated their units between April 30, 1996 and September 30, 2000. The Authority lacked policies or procedures for collecting from former Section 8 tenants. After the former tenants left the Section 8 Program, the Authority did not attempt to collect their outstanding accounts.

The Housing Authority's Director of Occupancy said the Authority's former Section 8 Director did not consider the collection of outstanding Section 8 tenant accounts a high priority. She said efforts to collect outstanding accounts were only made when the problem was brought to the former Executive Director's attention. According to the Authority's former Executive Director, he relied on the former Section 8 Director to pursue the outstanding tenant accounts. As a result, the Housing Authority increased the potential for loss of income.

Former Tenant Accounts
Were Not Accounted For
Properly

The Housing Authority failed to properly include former Section 8 tenant accounts receivable on the Authority's books and records. Housing authorities must maintain accurate books and records to help prevent any diversion of funds. The Authority did not include 45 former Section 8 tenant accounts totaling \$32,300 on its books and records. The Authority did not conduct periodic reconciliations of its books and records. Periodic reconciliations are necessary to ensure that subsidiary ledgers agree with general ledgers.

Since the Authority's books and records did not include the former Section 8 tenants, payments of the amounts owed could have been diverted without detection. **Although there was no indication that funds were diverted**, the opportunity existed. The Housing Authority lacked procedures and controls to conduct periodic reconciliations of its books and records. The Authority had not reconciled the Section 8 tenant accounts receivable to the General Ledger since July 24, 1998. The Housing Authority's former Executive Director said periodic reconciliations were not performed because the former Finance Director failed to perform his duties.

Auditee Comments

Excerpts paraphrased from the Housing Authority's comments on our draft finding follow. Appendix B, pages 26 and 27, contains the complete text of the comments for this finding.

The Housing Authority's Director of Occupancy established policies and procedures to ensure the collection of outstanding Section 8 tenant accounts receivable. The procedures and controls include establishing repayment agreements with current Section 8 tenants with outstanding balances. The agreements will require monthly payments toward the outstanding balances as required by the Authority's Section 8 Administrative Plan. If monthly payments are not received, the Authority will send reminder notices to the tenants. After three consecutive months of non-payment, the tenants will be terminated from the Section 8 Program. The Authority will maintain documentation of all written and oral communication with the tenants.

The Authority's Director of Occupancy plans to establish a system of controls to record, monitor, and report the collections in conjunction with the Authority's Finance Director. Where possible, the Authority will pursue collection of vacated Section 8 tenant accounts receivable. The Finance Director plans to establish policies and procedures to properly record all tenant accounts and to reconcile the accounts to the Authority's books and records.

OIG Evaluation Of Auditee Comments

The actions taken or planned by the Housing Authority should improve its controls over Section 8 tenant accounts receivable.

Recommendations

We recommend that the Director of the Public Housing Hub, Cleveland Area Office, assure that the Youngstown Metropolitan Housing Authority:

- 2A. Establishes policies, procedures, and/or controls to ensure the collection of outstanding Section 8 tenant accounts receivable. The procedures and controls should include reviews by the Housing Authority's management to determine what actions have and should be taken to collect the outstanding accounts.

- 2B. Establishes and implements policies and procedures to properly record all tenant accounts. The policies and procedures should include controls to assure periodic reconciliations of the Housing Authority's books and records.

The Authority Lacked An Acceptable Cost Allocation Plan

The Youngstown Metropolitan Housing Authority did not have an acceptable cost allocation plan to support the allocation of indirect costs among its programs. Specifically, the Housing Authority's cost allocation plan did not address employees' salaries. The Authority also failed to properly allocate non-salary costs to its Comprehensive Grant Program, Development Program, Public Housing Drug Elimination Program, Major Renovation of Obsolete Public Housing Program, Economic Development Social Services Program, or its Service Coordinators Program. Employees' salaries were allocated to the Housing Authority's various programs based upon unsupported estimates. Housing authorities must allocate indirect costs to benefiting grant programs based upon specific methods, such as a time study. The Housing Authority's former Executive Director could not explain the basis used for allocating the non-salary indirect costs. As a result, neither HUD nor the Housing Authority had assurance that costs charged to the Authority's various programs were reasonable in relation to the benefits they derived from the indirect costs.

Federal Requirements

24 CFR Part 85.22(b) requires that State, local, and Indian tribal governments follow Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments. 24 CFR Part 85.3 defines a local government to include any public housing agency.

Office of Management and Budget Circular A-87, Attachment A, states in part that State, local, and Federally-recognized Indian tribal governments shall establish principles to provide that Federal awards bear their fair share of costs. Attachment C of the Circular states in part that governments need a process whereby costs can be assigned to benefited activities on a reasonable and consistent basis. The cost allocation plan provides that process. All cost and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that support the propriety of the costs assigned to Federal awards.

The Authority Lacked An Acceptable Plan

The Housing Authority did not have an acceptable cost allocation plan. The plan did not address employees' salaries. The Authority allocated employees' salaries and benefits for Fiscal Year 2000 based upon estimates. The Authority did not have documentation to support the estimates. Allocating costs to Federal programs based upon unsupported estimates is not

an acceptable method. Housing authorities must document an acceptable cost allocation plan.

We selected 13 of the Housing Authority’s employees whose salaries were charged to the Authority’s various programs to determine the time they spent related to the programs. Twelve of the 13 employees said they spent either more or less time than the percentage the Housing Authority charged to its various programs; one indicated that the percentage of her salary was properly allocated.

For example, in Fiscal Year 2000, the Housing Authority allocated the salaries of its three General Accounting Clerks in the same manner. Sixty-one percent was allocated to the Public Housing Program, 25 percent to the Comprehensive Grant Program, 10 percent to the Section 8 Program, three percent to the Major Renovation of Obsolete Public Housing Program, and one percent to the Development Program. However, the three Clerks performed different tasks for the Authority’s various programs. The following table shows the three Clerks’ estimates of time spent on each Program.

<i>Employee</i>	<i>Estimated Time Spent On Programs</i>
Accounting Clerk A	<ul style="list-style-type: none"> • 60 Percent-Comprehensive Grant • 15 Percent-Public Housing Drug Elimination • 10 Percent-Public Housing • 10 Percent-Major Renovation of Obsolete Public Housing • 5 Percent-Development and Economic Development Social Services
Accounting Clerk B	<ul style="list-style-type: none"> • 70 Percent-Public Housing • 25 Percent-Section 8 • 5 Percent-Section 8 New Construction, Comprehensive Grant, Development, Public Housing Drug Elimination, and Economic Development
Accounting Clerk C	<ul style="list-style-type: none"> • 60 Percent-Public Housing • 20 Percent-Comprehensive Grant • 10 Percent-Section 8 • 10 Percent-Section 8 New Construction, Major Renovation of Obsolete Public Housing, Public Housing Drug Elimination, and Economic Development

The Housing Authority did not properly allocate non-salary costs such as electricity, water, property hazard insurance, and fidelity bond insurance for its central office to all of the benefiting programs. The Authority allocated the non-salary costs as follows: 50 percent to the Public Housing Program; 40 percent to the Section 8 Program; and 10 percent to its Section 8 New Construction Program. The Comprehensive Grant, Development, Public Housing Drug Elimination, Major Renovation of Obsolete Public Housing, Economic Development Social Services, and the Authority's Service Coordinators Programs occupy part of the office space and use the same staff at the Housing Authority's central office. Therefore, the Public Housing Program, Section 8 Program, and the Section 8 New Construction Program incurred costs that were not related to their Program.

The Housing Authority's former Executive Director could not explain the basis used for allocating the non-salary indirect costs. The Authority lacked documentation to support the percentages used to allocate the indirect costs. During the last three years, the Authority has had two Finance Directors and at least three Interim Finance Directors. The Authority's former Finance Directors did not ensure that the Housing Authority had an adequate plan. The Housing Authority hired a new Finance Director in May 2000.

As a result, the Housing Authority and HUD lacked assurance that costs charged to the Authority's various programs were reasonable in relation to the benefits they derived from the indirect costs.

Auditee Comments

Excerpts paraphrased from the Housing Authority's comments on our draft finding follow. Appendix B, page 23, contains the complete text of the comments for this finding.

The Housing Authority completed a cost allocation study to allocate employees' salaries to the benefiting programs in September 2000. In the future, the Authority will conduct studies on a periodic basis to ensure that costs are charged to the appropriate programs. The Authority's Finance Director will be responsible for maintaining the cost allocation plan according to Office of Management and Budget Circular A-87.

Due to construction work underway at the Housing Authority's office, the Authority has not established a cost allocation plan to allocate non-salary indirect costs to its various programs. The Authority will establish a plan to allocate the costs once the construction work is completed.

OIG Evaluation Of
Auditee Comments

The Housing Authority did not provide the September 2000 cost allocation plan with its response to this draft finding. Therefore, we were unable to determine whether the plan met the requirements of Office of Management and Budget Circular A-87. The Authority should ensure that the cost allocation plan meets the requirements of Circular A-87. In addition, the Authority needs to establish a cost allocation plan to allocate non-salary costs as soon as possible. Once this is completed, the Authority should reallocate the indirect costs charged to the appropriate programs for Fiscal Year 2000.

Recommendations

We recommend that the Director of the Public Housing Hub, Cleveland Area Office, assure that the Youngstown Metropolitan Housing Authority:

- 3A. Develops a cost allocation plan in accordance with Office of Management and Budget Circular A-87.
- 3B. Reallocates the indirect costs charged to the appropriate programs for Fiscal Year 2000, once the cost allocation plan is developed.
- 3C. Establishes procedures and controls to update its cost allocation plan as necessary.

Management Controls

In planning and performing our audit, we considered the management controls of the Youngstown Metropolitan Housing Authority in order to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

We determined the following management controls were relevant to our audit objectives:

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weaknesses

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

- Program Operations

The Housing Authority was not operated according to program requirements. Specifically, the Authority: used \$44,216 of Public Housing Drug Elimination Program funds to pay the City of Youngstown for baseline police services that the City was required to provide at no cost; was under charged \$32,586 for supplemental police services by the City; failed to maintain documentation to support that \$8,210 in police services paid were reasonable and necessary expenses of the Authority; sufficiently pursue amounts owed to it by current and former Section 8 tenants; properly account for \$32,300 of former Section 8 tenant accounts receivable; and did not have an acceptable cost allocation plan to support the allocation of indirect costs among its programs (see Findings 1, 2, and 3).

- Validity and Reliability of Data

The Housing Authority did not properly account for former Section 8 tenant accounts receivable (see Finding 2).

- Compliance with Laws and Regulations

The Housing Authority did not follow HUD's requirements and Office of Management and Budget's Circular A-87 regarding supplemental police services and the cost allocation plan (see Findings 1 and 3).

- Safeguarding Resources

The Housing Authority improperly used \$52,426 of Public Housing Drug Elimination Program funds for ineligible and unsupported supplemental police services (see Finding 1).

Follow Up On Prior Audits

The Office of Inspector General issued an audit report on the Youngstown Metropolitan Housing Authority on February 26, 1993 pertaining to the operations of its Section 8 Existing and Housing Voucher Programs (Audit Case Number 93-CH-203-1013). The report contained seven findings. The recommendations for the seven findings were closed. One finding is repeated in this report.

Report Number 93-CH-203-1013

The Housing Authority Did Not Correctly Charge Indirect Costs To Its Programs (Finding 5).

This Report

The Authority Lacked An Acceptable Cost Allocation Plan (Finding 3).

The latest single audit for the Housing Authority covered the fiscal year ended June 30, 1999. The report contained no findings.

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Schedule Of Questioned Costs

<u>Recommendation</u> <u>Number</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible</u> <u>1/</u>	<u>Unsupported</u> <u>2/</u>
1A	\$ 11,630	
1B		\$8,210
Total	<u>\$ 11,630</u>	<u>\$ 8,210</u>

1/ Ineligible costs are costs charged to a HUD-financed or 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 costs charged to a HUD-financed or insured program or activity and eligibility cannot be determined at the time of the audit. The costs are not supported by sufficient documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require future 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.

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Auditee Comments

December 5, 2000

VIA FACSIMILE
ORIGINAL FIRST CLASS MAIL

U.S. Department of Housing
And Urban Development
Office of Inspector General for Audit, Midwest
Ralph H. Metcalfe Federal Building
77 West Jackson Blvd., Room 2646
Chicago, Illinois 60604-3507

Attention: Mr. Heath Wolfe
Assistant District Inspector General
For Audit, Midwest

RE: Draft Audit Findings

Dear Mr. Wolfe:

I am writing this letter in response to the areas of concern identified in your draft audit findings concerning Youngstown Metropolitan Housing Authority's cost allocation plan and insufficient controls over supplemental police services.

AREA OF CONCERN: Authority Lacked An Acceptable Cost Allocation Plan

RESPONSE: In addition to the cost allocation update initiated in February, 2000 as discussed in Mr. Rudy Vazmina's correspondence of February 25, 2000, the Authority will conduct cost allocation studies on a periodic basis to ensure that indirect costs are charged to the appropriate programs. The most recent study was completed in September, 2000; and I have attached a copy of this analysis for your records.

Moreover, Mr. Gary Cameron was hired as YMHA Finance Director on May 15, 2000. Mr. Cameron will be responsible for maintaining a cost allocation process in accordance with Office of Management and Budget Circular A-87.

The Authority has not established an indirect cost allocation plan for insurance, maintenance, repairs, utilities, etc. based upon square foot rental space. Currently, YMHA is in the process of completely renovating the Amedia Plaza building which houses residents and our administrative offices. Due to the time involvement, and the fact that administrative office locations will be changed during the next few months, it

U.S. Department of Housing
And Urban Development
Mr. Heath Wolfe
December 5, 2000

Page Two

would not be cost efficient to conduct such a study at this time. We will, however, provide that information upon completion of building renovation.

AREA OF CONCERN: The Authority Improperly Paid For Baseline Police Services

Between January 1, 1998 and December 31, 1999, the Housing Authority spent \$44,216 in Public Housing Drug Elimination Program funds for police officers to respond to 911 emergency calls and to attend two police mandated training courses. The 911 emergency calls and the training courses were not related to the supplemental police services provided to the Authority.

RESPONSE: The Youngstown Metropolitan Housing Authority (Authority) is seeking reimbursement from the City of Youngstown Police Department (YPD) in the amount of \$11,630(\$44,216 for the baseline police services less \$32,586 for the police services that were under charged) for the baseline police services that were improperly paid. Attachment 1 is a copy of the letter sent to YPD in regards to this matter.

AREA OF CONCERN: The Authority Was Not Fully Charged For Supplemental Police Services

The Housing Authority was under charged for supplemental police services by the City of Youngstown. Between March 1, 1998 and January 31, 1999, the City of Youngstown Police Department did not charge the Authority \$32,586 for supplemental police services. The services related to the fringe benefit costs of the supplemental police officers. The City did not update its fringe benefit calculations to account for an increase in the number of supplemental police officers.

RESPONSE: In order to prevent the above from reoccurring, Authority has requested that updated fringe benefit calculations for each officer are submitted with each monthly invoice. Attachment 2 is a sample of what is submitted.

AREA OF CONCERN: The Housing Authority Paid For Unsupported Police Services

The Housing Authority could not support \$8,206 paid to the City of Youngstown for supplemental police services. The Authority either did not receive or could not locate all of the daily patrol activity reports for the period between January 1, 1998 and December 31, 1999. The Housing Authority and the City of Youngstown Police Department could not provide the daily patrol activity reports to support the

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supplemental police services cited in this finding was reasonable and necessary expenses of the Authority.

RESPONSE: Due to the construction underway at Amedia Plaza, access to our records storage area is not possible at this time. Authority has asked the Detective Sergeant of the YMHA Detail to provide a copy of these reports to support the above supplemental police services provided by the YMHA Detail. Authority will forward the back-up material to show that the services cited were reasonable and necessary expenses of the Authority.

Authority has established the following procedures and controls over its supplemental police services to ensure the services meet HUD's requirements, Office of Management and Budget Circular A-87 and the Housing Authority's Cooperative Agreement:

1. Monthly invoices from the YPD includes a schedule of current fringe benefits for each officer and a breakdown of the number of hours worked daily by each officer. The number of hours charged to YMHA and to YPD and the number of training hours and the type of training will also be defined.
2. Time sheets will be compared to 911 call sheets to assure 911 baseline calls are not charged to YMHA.
3. Contracts with YPD and any other law enforcement agency will include language that clearly defines 911 calls and police mandated training as ineligible expenses.

If you have any questions or need any further information, please contact me.

Sincerely,

/signed/

Eugenia C. Atkinson
Executive Director

/mlg

Enclosures

January 4, 2001

U.S. Department of Housing
And Urban Development
Office of Inspector General for Audit, Midwest
Ralph H. Metcalfe Federal Building
77 West Jackson Boulevard, Suite 2646
Chicago, Illinois 60604-3507

Attention: Mr. Heath Wolfe
Assistant District Inspector General
For Audit, Midwest

RE: Draft Audit Findings

Dear Mr. Wolfe:

This letter is in response to the areas of concern identified in your draft audit findings concerning Youngstown Metropolitan Housing Authority's Section 8 Program. The draft finding indicates YMHA did not sufficiently pursue amounts owed by current and former Section 8 tenants and did not follow its Section 8 Administrative Plan or HUD's Consolidated Annual Contributions Contract relative to Section 8 tenant accounts receivable.

RESPONSE: The Director of Occupancy has established new policies and procedures to ensure the collection of outstanding Section 8 tenant accounts receivable and will establish a system of controls to record, monitor, and report such collections in conjunction with YMHA's Finance Director.

The new process includes establishment of repayment agreements with current Section 8 residents who have outstanding balances. These agreements require monthly payments towards delinquent balances in accordance with the Section 8 Administrative Plan. If the monthly payment is not received, a reminder notice is forwarded to the resident. After three consecutive months of non-payment, individual(s) will be terminated from the Section 8 Program per agreement. Documentation of all written and oral communication with residents is maintained in individual case records.

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Where possible, YMHA will also pursue collections of tenant accounts receivable from former Section 8 residents. While future Section 8 applicants with tenant account balances will be required to pay such balances in full prior to receiving housing assistance through the Section 8 Program. Moreover, the Authority will enforce the policies outlined in the Section 8 Administrative Plan relative to increases in income of Section 8 Program participants.

Finally, the Finance Director will establish policies and procedures to properly record all tenant accounts including a procedure for periodic reconciliation of such accounts with YMHA books and records in accordance with GAAP procedures.

If you have any questions or need any further information, please contact me.

Sincerely,

/signed/

Eugenia C. Atkinson
Executive Director

/mlg

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The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340
Dirksen Senate Office Building, United States Senate, Washington DC 20510
The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs,
706 Hart Senate Office Building, United States Senate, Washington DC 20510
Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn
Building, United States House of Representatives, Washington DC 20515
Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn
Building, United States House of Representatives, Washington DC 20515
Ms. Cindy Sprunger, Subcommittee on Oversight and Investigations, Room 212, O'Neil
House Office Building, Washington DC 20515
Associated Director of Resources, Community, and Economic Development Division,
United States General Accounting Office, 441 G Street N.W., Room 2T23, Washington
DC 20548 (Attention: Stanley Czerwinski)
Steve Redburn, Chief of Housing Branch, Office of Management and Budget, 725 17th
Street, N.W., Room 9226, New Executive Office Building, Washington DC 20503
Executive Director, Youngstown Metropolitan Housing Authority (2)
Chairman of the Board of Commissioners, Youngstown Metropolitan Housing Authority