
AUDIT REPORT



LONDON METROPOLITAN HOUSING AUTHORITY SAFEGUARDING OF MONETARY ASSETS AND INVENTORY

LONDON, OHIO

2001-CH-1005

MARCH 22, 2001

OFFICE OF AUDIT, MIDWEST
CHICAGO, ILLINOIS



Issue Date	March 22, 2001
Audit Case Number	2001-CH-1005

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

/signed/

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

SUBJECT: London Metropolitan Housing Authority
Safeguarding Monetary Assets And Inventory
London, Ohio

We completed an audit of the London Metropolitan Housing Authority. The audit was conducted in response to a request from the Coordinator of HUD's Ohio State Public Housing Program Center. 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; and (3) establish, if appropriate, the amount of any misappropriations, their causes, and the individuals involved.

We found that the Housing Authority's controls over cash and other monetary assets and inventory were weak. Specifically, the Authority improperly: paid its Executive Director \$3,699 for time she did not work for the Authority or time she spent on activities not related to the Authority's operations; and used \$2,879 of Public Housing Drug Elimination Program funds to pay the City of London for baseline police services and equipment that the City was required to provide at no cost to the Authority. The Authority also: failed to maintain accurate payroll records regarding three employees' vacation time; did not review or adjust its utility allowances for over eight years; lacked documentation to support how its current utility allowances were determined; did not sufficiently segregate the duties of its employees responsible for cash receipts, tenant accounts, cash disbursements, and accounting transactions; failed to maintain complete and accurate books of account regarding its equipment; did not conduct an inventory of non-expendable equipment, improperly disposed of used equipment; and lacked an acceptable cost allocation plan to support the allocation of costs among its programs.

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 furnish 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 an audit of the London 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; and (3) establish, if appropriate, the amount of any misappropriations, their causes, and the individuals involved. The audit was conducted in response to a request from the Coordinator of HUD's Ohio State Office Public Housing Program Center.

The Housing Authority's controls over cash and other monetary assets and inventory were weak. The Authority: improperly paid the Executive Director \$3,699 for time she did not work for the Authority or time she spent on activities not related to the Authority's operations; failed to maintain accurate payroll records regarding three employees' vacation time; used \$2,879 of Public Housing Drug Elimination Program funds to pay the City of London for baseline police services and equipment that the City was required to provide at no cost to the Authority; did not review or adjust its utility allowances for over eight years; lacked documentation to support how its current utility allowances were determined; did not sufficiently segregate the duties of its employees responsible for cash receipts, tenant accounts, cash disbursements, and accounting transactions; failed to maintain complete and accurate books of account regarding its equipment, did not conduct an inventory of non-expendable equipment; improperly disposed of used equipment; and lacked an acceptable cost allocation plan to support the allocation of costs among its programs.

Controls Over Payroll Need To Be Strengthened

The Housing Authority needs to improve its controls over its payroll process. The Authority improperly paid the Executive Director \$3,699 for time she did not work for the Authority or time she spent on activities not related to the Authority's operations. The Authority also did not maintain accurate payroll records regarding the vacation time for three employees.

The Authority Needs To Improve Its Controls Over Supplemental Police Services

The Housing Authority did not follow HUD's requirements, Office of Management and Budget Circular A-87, or its Agreements with the City of London regarding the supplemental police services program. The Authority used \$2,879 of Public Housing Drug Elimination Program funds to pay the City of London for baseline police services and equipment that the City was required to provide at no cost to the Authority.

Tenants' Rents Were Excessive Because Utility Allowances Were Not Reviewed Or Adjusted

The Housing Authority did not review or adjust its utility allowances for over eight years. The Authority also lacked documentation to support how its current utility allowances were determined. HUD's regulations require housing authorities to document how utility allowances are determined

and to review the allowances annually to determine whether adjustments are needed.

The Authority Lacked
Sufficient Cash
Management Controls

The Housing Authority did not maintain an effective control over cash management. The Authority did not sufficiently segregate the duties of its employees responsible for cash receipts, tenant accounts, cash disbursements, and accounting transactions.

The Authority Needs To
Improve Its Controls Over
Equipment

The Housing Authority's controls over equipment were weak. Contrary to Federal requirements or the Housing Authority's Disposition Policy, the Authority did not: maintain complete and accurate books of account regarding its equipment; conduct an inventory of non-expendable equipment; and properly dispose of used equipment.

The Authority Did Not
Sufficiently Allocate Costs
To Its Various Programs

The Housing Authority did not have an acceptable cost allocation plan to support the allocation of costs among its programs. Specifically, the Housing Authority did not charge employees' salaries and fringe benefits to all of the Authority's programs that received their services. The Authority also failed to allocate non-salary costs to its various programs. Housing authorities must allocate costs to benefiting grant programs.

Recommendations

We recommend that HUD's Director of the Cleveland Area Office of Public Housing Hub 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 February 21, 2001. The Authority agreed to implement corrective action to improve its controls over supplemental police services, tenants' utility allowances, cash receipts and disbursements, equipment, and the allocation of indirect costs. The Authority disagreed that the Executive Director was improperly paid for some time not worked or some time spent on activities not related to the Authority's operations. However, the Authority did not fully address all of the time cited as improperly paid to the Director nor did the Authority agree to implement controls over the accrual of employees' vacation time.

We included paraphrased excerpts of the Housing Authority's comments with each finding. The complete text of the comments is in Appendix B with the exception of 21 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 the Director of HUD's Cleveland Area Office of Public Housing Hub.

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Introduction

The London 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 Harold Halloway. The Authority's Executive Director is Jane Yoder. The Authority's books and records are located at 179 South Main Street, London, Ohio.

As of February 2001, the Housing Authority operated three programs: (1) a Low-Income Housing Program consisting of 100 units; (2) a Public Housing Drug Elimination Grant Program; and (3) Comprehensive Improvement Assistance Program. The Low-Income Housing Program is designed to provide housing to low and moderate-income individuals whose annual incomes does not exceed 80 percent of the median income for the surrounding community. HUD's Drug Elimination Grant Program provides grants to public housing authorities to reduce drug-related crime in and around public housing sites. The Comprehensive Improvement Assistance Program funds capital improvements and related management improvements in public housing developments to upgrade living conditions, correct physical conditions, and achieve operating efficiency and economy.

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; and establish, if appropriate, the amount of any misappropriations, their causes, and the individuals involved.

Audit Scope And Methodology

We conducted the audit at HUD's Ohio State Office and the Housing Authority's office. We performed our on-site audit work between August 2000 and February 2001.

To accomplish our audit objectives, we interviewed: HUD's staff; the Authority's officials, staff, Fee Accountant, Independent Public Accountant; the City of London's Police Chief and the Officer assigned to provide supplemental police services to the Authority; the President of London's Chamber of Commerce; a Customer Representative for Ohio Edison Power Company; the Manager of Ohio State University's Farm Science Review; and three of the Authority's tenants. We analyzed the following items: tenant files; cash disbursements and invoices; vendor files and contracts; Board meeting minutes; payroll records and personnel files; equipment records; cash receipts and general ledgers; tenant accounts receivable ledgers; the cost allocation plan; supplemental police services'

invoices and reports; audited financial statements; and the Authority's policies and procedures. We also reviewed: HUD's files for the Authority; Sections 307, 309, and 401 of the Annual Contributions Contract between HUD and the Authority; Parts 24, 85, and 965 of Title 24 of the Code of Federal Regulations; Office of Management and Budget Circular A-87; the Cooperation and Intergovernmental Agreements dated February 26, 1962 and August 10, 1999, respectively, between the Authority and the City of London; HUD's Notice of Funding Availability for the Public Housing Drug Elimination Program dated March 28, 1996; HUD Handbooks 7510.1 and 7511.1; and Sections 124.13 and 124.134 of the Ohio Revised Code.

The audit covered the period January 1, 1998 through July 31, 2000. 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.

Controls Over Payroll Need To Be Strengthened

The London Metropolitan Housing Authority needs to improve the controls over its payroll process. The Housing Authority improperly paid the Executive Director \$3,699 for time she did not work for the Authority or time she spent on activities not related to the Authority's operations. The Authority also did not maintain accurate payroll records regarding the vacation time for three employees. Consequently, the Authority provided \$3,920 in excessive vacation time to its employees. The Authority's Board of Commissioners and its Executive Director did not exercise their responsibilities to implement effective payroll controls. As a result, HUD and the Housing Authority lacked assurance that funds were properly used.

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, paragraph C(1)(a), requires that all costs be necessary and reasonable for proper and efficient performance and administration of Federal awards.

The Annual Contributions Contract, Section 307(C), requires the London Metropolitan Housing Authority to maintain complete and accurate records with respect to employees' leave. Section 401(D) of the Contract says the Housing Authority may withdraw monies from the Low-Income Public Housing General Fund for the payment of low-income housing development costs and operating expenditures.

HUD Handbook 7511.1, the Low-Rent Housing Accounting Guide, Chapter 3, Section 8, page 3, states that for the purposes of internal controls, payrolls are usually prepared by one employee, verified by another, and approved by an authorized official of the local authority.

24 CFR Part 24 allows HUD to take administrative action against Housing Authority Executive Directors and Board members who violate HUD's requirements. The administrative action includes debarment, suspension, and limited denial of participation.

Authority’s Personnel Policies

The London Metropolitan Housing Authority’s Personnel Policies dated February 12, 1992 and March 6, 1995 permit the Housing Authority’s Executive Director and its employees to accrue vacation time according to Section 124.13 of the Ohio Revised Code.

Section 124.13 of the Ohio Revised Code provides for the following number of vacation time hours per pay period to each employee based upon the number of years employed.

<i>Years Of Employment</i>	<i>Vacation Hours Per Pay Period</i>
1-7	3.1
8-14	4.6
15-24	6.2
25 Or More	7.7

Section 124.13 of the Ohio Revised Code defines a pay period as 26 bi-weekly periods. Employees with less than one year of employment do not receive any vacation time.

Responsibilities Of Board Of Commissioners And Executive Director

Public Housing Authority Commissioners have a responsibility to HUD to ensure national housing policies are carried out, and to the Authority’s Executive Director and employees to provide sound and manageable directives. The Commissioners are accountable to their locality and best serve it by monitoring operations to be certain that housing programs are carried out in an efficient and economical manner.

The responsibility for carrying out the Commissioners' policies and managing the Housing Authority's day-to-day operations rests with the Authority’s Executive Director. In particular, the Executive Director must maintain the Housing Authority's overall compliance with its policies and procedures and Federal, State, and local laws.

The Executive Director Was Improperly Paid

The Housing Authority improperly paid the Executive Director \$3,699 for time not related to the Authority. Between April 5, 1999 and December 8, 2000, the Authority paid its Executive Director for 80 hours of work every two weeks from the Low-Income Housing and Comprehensive Improvement Assistance Programs. However, during this time period the Executive

Director did not work 80 hours every two weeks. The Director either did not work for the Authority or spent time on activities not related to the Authority's operations.

The following table shows by pay period: (1) the number of hours that the Executive Director either did not work for the Housing Authority or spent time on activities not related to the Authority's operations; and (2) the improper wages paid to the Director.

Pay Period	Hours Not Worked Or Spent On Non-Authority Activities	Improper Wages
4/5/99 to 4/16/99	2.20	\$ 35.33
4/19/99 to 4/30/99	10.08	161.94
5/3/99 to 5/14/99	9.58	153.91
5/17/99 to 5/28/99	1.50	24.09
5/31/99 to 6/11/99	5.00	80.30
8/9/99 to 8/20/99	5.00	80.30
8/23/99 to 9/3/99	1.00	16.06
9/20/99 to 10/1/99	31.00	500.11
10/18/99 to 10/29/99	14.00	228.34
11/1/99 to 11/12/99	1.50	24.47
12/13/99 to 12/24/99	16.00	260.96
12/27/99 to 1/7/00	1.00	16.31
1/24/00 to 2/4/00	0.75	12.23
2/7/00 to 2/18/00	18.00	293.58
2/21/00 to 3/3/00	9.00	146.79
3/6/00 to 3/17/00	6.00	97.86
3/20/00 to 3/31/00	22.00	358.82
5/1/00 to 5/12/00	18.00	293.58
6/12/00 to 6/23/00	26.50	432.22
7/10/00 to 7/21/00	5.00	81.55
7/24/00 to 8/4/00	18.00	293.58
8/7/00 to 8/18/00	5.00	81.55
9/18/00 to 9/29/00	0.25	4.08
10/02/00 to 10/13/00	0.10	2.80
10/16/00 to 10/27/00	0.10	2.80
11/27/00 to 12/8/00	1.08	15.40
Totals	<u>227.64</u>	<u>\$3,698.96</u>

For example, the Housing Authority paid the Executive Director for 22 hours of work that totaled \$353 between September 21, 1999 and September 23, 1999. During this time period, the Executive Director spent time selling concession food for the local Kiwanis Club at Ohio State University's Farm Science Review. The time spent working at the concession stand did not relate to the Authority's operations. The payment was not a reasonable and necessary expense of the Authority.

The Housing Authority's Executive Director said she worked at the concession stand as a volunteer. She said she was representing the Housing Authority and did not believe that she had to take vacation time from the Authority while she worked at the concession stand. The President of the London Chamber of Commerce, who promotes the Farm Service Review to businesses in the City of London, said she did not see why the Housing Authority would participate in the Review since it was strictly an agricultural event. She said the Director's work at the concession stand did not relate to providing low-income housing. The Executive Director properly took vacation time from the Authority when she worked at the Farm Science Review in September 2000.

The Director's Timesheets
Were Not Reviewed By
The Board

We reviewed the Executive Director's timesheets for the period April 5, 1999 to December 8, 2000 to determine whether a member of the Housing Authority's Board of Commissioners reviewed or approved the timesheets. None of the timesheets contained any evidence that the timesheets were reviewed or approved. The Vice-Chairman of the Authority's Board of Commissioners said he never reviewed the Executive Director's timesheets. He said he had no intention of reviewing them. The Authority's Chairman said he did not remember ever reviewing the Director's timesheets.

Public Housing Commissioners' responsibilities include monitoring the Executive Director to be certain that housing programs are carried out in an efficient and economical manner. The Commissioners' monitoring should include periodically reviewing the Executive Director's timesheets to ensure that the Director is being properly paid. As a result, HUD and the Housing Authority lack assurance that funds were properly used.

The Authority Did Not Keep Accurate Payroll Records

The Housing Authority failed to maintain accurate payroll records regarding the vacation time for three employees. The employees included the Executive Director, Administrative Assistant, and the Maintenance Supervisor. The Annual Contributions Contract between HUD and the Housing Authority required the Authority to maintain accurate records with respect to employees' leave. However, this was not done.

The Housing Authority's 1992 and 1995 Personnel Policies allowed the Executive Director and the Authority's employees to accrue vacation time in accordance with Section 124.13 of the Ohio Revised Code. Instead, the Authority followed Section 124.134 of the Ohio Revised Code to accrue vacation time. The following table shows the difference in how vacation time is accrued between the two Sections.

Vacation Time Hours Per Pay Period	Employment Years Per Section 124.13	Employment Years Per Section 124.134
3.1	1 to 7	1 to 4
4.6	8 to 14	5 to 9
6.2	15 to 24	10 to 14
6.9		15 to 19
7.7	25 Or More	20 to 24
9.2		25 Or More

We reviewed the Housing Authority's payroll records for the period January 12, 1996 to December 8, 2000 to determine the amount of vacation time earned by the Authority's employees in excess of that allowed by Section 124.13 of the Ohio Revised Code. The following table shows the excessive vacation time accrued and the amount of excess vacation time wages per the Authority's records for each affected employee as of December 8, 2000.

Employee	Excessive Vacation Time Accrued	Amount Of Excess Vacation Time Wages
Executive Director	203.27	\$3,147.44
Administrative Assistant	64.45	645.77
Maintenance Supervisor	<u>11.90</u>	<u>127.13</u>
Totals	<u>279.62</u>	<u>\$3,920.34</u>

The Housing Authority’s Executive Director agreed that the Authority was not following the correct Section of the Ohio Revised Code when calculating employees’ vacation time. She said she had no idea when the Authority started following Section 124.134 of the Code. She also said the Authority had followed Section 124.134 for several years.

The Housing Authority’s Fee Accountant said she was not aware that the Authority’s Personnel Policies required its employees to accrue vacation time according to Section 124.13 of the Ohio Revised Code. She said the Authority’s Executive Director provided her Section 124.134 to follow regarding the accrual of employees’ vacation time. As a result, the Housing Authority provided excessive vacation time to its employees.

Auditee Comments

[Excerpts paraphrased from the Housing Authority’s comments on our draft finding follow. Appendix B, pages 41 to 43, contains the complete text of the comments for this finding.]

The Housing Authority provided time sheets, the Executive Director’s monthly calendars, and other documentation to support the time paid to the Director between April 6, 1999 and August 11, 2000. The Authority claimed the Director either worked or attended meetings during the workdays between April 1999 and August 2000 that were cited in the Office of Inspector General’s draft finding.

**OIG Evaluation Of
Auditee Comments**

The documentation provided by the Housing Authority did not support the salary payments to the Executive Director for the period between April 1999 and August 2000. For example, the Authority’s response did not address the payments to the Director for the following workdays: April 12, 13, 15, 16, 23, 26, 28, 1999; May 3, 5, 17, 21, 28, 1999; and October 21

and 22, 1999. In addition, the Authority's response did not address the improper payments to the Director that were cited in the draft finding for the period between August 12, 2000 and December 8, 2000.

The Housing Authority claimed the Executive Director worked all day during several workdays cited in our draft finding. The workdays included: June 11, 1999; August 27, 1999; October 1, 1999; November 2, 1999; December 16 and 23, 1999; March 7 and 17, 2000; May 2 and 5, 2000; June 20 and 21, 2000; July 21, 2000; and August 11, 2000. However, documentation obtained during the audit showed that the Director did not work or did not work all day during these workdays. Therefore, the Housing Authority improperly paid the Director for time she did not work or for time she spent on activities not related to the Authority.

Auditee Comments

The Housing Authority agrees that it used the wrong vacation time for three employees. The miscalculation of the three employees' vacation time was not intentional. The hiring dates used by the Office of Inspector General for calculating two employees' vacation time were wrong. The correct hire dates are March 12, 1990 for the Executive Director and April 8, 1985 for the Maintenance Supervisor.

The Office of Inspector General's schedule of vacation leave for the Housing Authority's Administrative Assistant did not reflect the change in leave hours accrued until April 5, 1999. However, the Assistant changed the rate of vacation leave accrued effective January 24, 1999. Therefore, there is an additional 7.5 hours of excessive vacation time that was not reflected in the calculation of the Administrative Assistant's vacation leave.

OIG Evaluation Of Auditee Comments

The Housing Authority's Executive Director provided us documentation during the audit that showed she was hired on July 29, 1992 and the Maintenance Supervisor was hired on June 10, 1977. Based upon the documentation, we calculated the excessive vacation time accrued for the two employees. The Housing Authority did not provide documentation to show that the start dates used to calculate the Executive Director's

and the Maintenance Supervisor's excessive vacation time was incorrect.

As for the calculation of the excessive vacation time accrued by the Housing Authority's Administrative Assistant, we used the Assistant's timesheets that showed the vacation time accrued per pay period. The Authority did not provide documentation to support that an additional 7.5 hours of excessive vacation time was accrued by the Assistant.

Recommendations

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

- 1A. Establishes procedures and controls to follow HUD's requirements, Office of Management and Budget Circular A-87, and/or the Authority's Personnel Policy regarding: (1) payments to employees based upon the number of hours worked; and (2) the accrual of employees' vacation time.
- 1B. Requires the Executive Director to reimburse the Housing Authority \$3,699 for the improper payroll payments received. If the Director does not reimburse the Housing Authority for the improper payments, then Authority should reimburse its Low-Income Housing and Comprehensive Improvement Assistance Programs \$3,699 from non-Federal funds.
- 1C. Reduces the Executive Director's, Administrative Assistant's, and the Maintenance Supervisor's payroll records for the excessive vacation time accrued between January 12, 1996 and December 8, 2000.
- 1D. Recalculates its employees' vacation time for the period February 12, 1992 to January 11, 1996 and makes any adjustments as necessary. If an employee lacks the necessary vacation time to cover the excessive time cited in this finding and/or from the recalculation, then the Housing Authority should reimburse HUD from non-Federal funds for the appropriate amount.

We also recommend that the Director of the Cleveland Area Office of Public Housing Hub:

- 1E. Pursues administrative action against the Housing Authority's Executive Director based upon the information cited in this finding as permitted by 24 CFR Part 24.

- 1F. Pursues administrative action against the Housing Authority's Board of Commissioners if within six months they do not improve their oversight of the Authority's operations.

The Authority Needs To Improve Its Controls Over Supplemental Police Services

The London Metropolitan Housing Authority did not follow HUD's requirements, Office of Management and Budget Circular A-87, or its Agreements with the City of London regarding the supplemental police services program. The Housing Authority used \$2,879 of Public Housing Drug Elimination Program funds to pay the City of London for baseline police services and equipment that the City was required to provide at no cost to the Authority. The Housing Authority lacked sufficient procedures and controls over the supplemental police services program. As a result, HUD funds were not efficiently and effectively used.

Federal Requirements

HUD's Notice of Funding Availability for the Public Housing Drug Elimination Program dated March 28, 1996 required supplemental police services to be over and above the local police department's current level of baseline services. Baseline services are 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.

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 B, Section 23(a)(5), says the general costs of government services normally provided to the general public, such as fire and police, are not allowable expenses.

Cooperation And Intergovernmental Agreements' Terms

The Cooperation Agreement dated February 26, 1962, between the London Metropolitan Housing Authority and the City of London, 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 Intergovernmental Agreement dated August 10, 1999, between the Housing Authority and the City, required the City

The Authority Improperly
Paid For Baseline Police
Services And Equipment

to provide the equipment necessary to carry out the supplemental police services program.

Contrary to HUD's Notice of Funding Availability and the Cooperation and Intergovernmental Agreements, the Housing Authority used Public Housing Drug Elimination Program funds to pay the City of London for baseline police services and equipment that were not related to the Authority's supplemental police services program or were required to be provided by the City at no cost to the Authority. 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 calls for service.

Between January 1, 2000 and July 31, 2000, the Housing Authority spent \$2,879 in Public Housing Drug Elimination Program funds for a police officer to respond to 911 emergency calls and calls for service, a police uniform, and a police bike. The funds included \$879 for the calls and \$2,000 for the police uniform and bike.

The 911 emergency calls and the calls for service were not related to the supplemental police services provided to the Housing Authority. The supplemental services were to include officer patrols for all of the Authority's family and senior housing communities in order to augment the City's normal police patrols.

The City was required to provide the equipment necessary to carry out the supplemental police services, such as the police uniform and bike.

The Housing Authority's Executive Director and the Resident Initiatives Coordinator, who were responsible for reviewing the supplemental police services invoices, said they did not review the invoices to determine whether the City invoiced the Authority for baseline services or equipment. The Executive Director said she was not aware that the City was to provide the equipment necessary to carry out the supplemental police services program. As a result, HUD funds were not efficiently and effectively used.

Auditee Comments

[Excerpts paraphrased from the Housing Authority's comments on our draft finding follow. Appendix B, page 44, contains the complete text of the comments for this finding.]

The Housing Authority will establish procedures and controls with the City of London to ensure that supplemental police services are properly monitored and maintained. The Authority will request the City to reimburse \$2,879 for the baseline police services, bike, and the uniform that were improperly paid. If the City does not reimburse the Housing Authority, the Authority will reimburse its Public Housing Drug Elimination Program \$2,879 from non-Federal funds.

OIG Evaluation Of
Auditee Comments

The Housing Authority needs to assure that once the procedures and controls are established that they will ensure the Authority's supplemental police services meet HUD's requirements, Office of Management and Budget Circular A-87, and the Housing Authority's Agreements.

Recommendations

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

- 2A. Requires the City of London to reimburse the Housing Authority \$2,879 for the baseline police services and equipment that were improperly paid. If the City does not reimburse the Housing Authority, then the Authority should reimburse its Public Housing Drug Elimination Program \$2,879 from non-Federal funds.
- 2B. 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 Agreements.

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Tenants' Rents Were Excessive Because Utility Allowances Were Not Reviewed Or Adjusted

The London Metropolitan Housing Authority did not review or adjust its utility allowances for over eight years. The Authority also lacked documentation to support how its current utility allowances were determined. HUD's regulations require housing authorities to document how utility allowances are determined and to review the allowances annually to determine whether adjustments are needed. The Housing Authority's Executive Director said she did not review the Authority's utility allowances because she was unsure how to perform the required analysis. Based on information we obtained from the local utility company, we estimated that the Housing Authority's tenants paid \$196,000 in excessive rental payments over the past eight years because the utility allowances were not adjusted.

HUD's Regulations

Residents of public housing authorities generally pay 30 percent of their incomes for rent less an allowance for resident-purchased utilities. As utility allowances are adjusted, residents' rents are increased or decreased based upon the allowances.

24 CFR Part 965.502(a) requires public housing authorities to establish allowances for resident-purchased utilities. Part 965.502(b) says housing authorities are to maintain documentation to support the basis for tenants' utility allowances. 24 CFR Part 965.507(a) requires public housing authorities to review at least annually the basis on which utility allowances were established and, if necessary, establish revised allowances.

Utility Allowances Were Not Analyzed For Over Eight Years

The Housing Authority's current utility (electric) allowances were established in February 1992. The Authority had not reviewed or revised its utility allowances since that time. Tenants were not required to pay for gas or water and sewer service. The Authority's Executive Director said she did not perform an analysis of the utility allowances because she was uncertain how to do it.

To determine whether the Housing Authority's current utility allowances were sufficient, we contacted Ohio Edison Electric Company to obtain the average utility costs for the Authority's units. Ohio Edison provided the average yearly electric costs for two of the Housing Authority's units in each of its bedroom sizes, excluding the Authority's two five bedroom units. We

averaged the utility costs for the two units in each bedroom size to determine the actual average utility costs incurred by the Authority’s tenants. The following table shows the unit size, the Authority’s current utility allowances, the average utility costs per unit, and the amount of excess utility costs per unit paid by the Authority’s tenants.

<i>Unit Size</i>	<i>Current Utility Allowance</i>	<i>Average Utility Costs</i>	<i>Excess Utility Costs</i>
Efficiency	\$12	\$29	\$17
One Bedroom	16	31	15
Two Bedroom	16	43	27
Three Bedroom	19	38	19
Four Bedroom	23	75	52

Based upon the Housing Authority’s current utility allowances and the average utility costs, the Authority’s tenants cumulatively paid an estimated \$2,038 a month or approximately \$24,456 a year in excess rents. Given the Housing Authority’s utility allowances were not reviewed or adjusted for over eight years, the Authority’s tenants paid approximately \$195,648 in excess rents during this time.

The Authority Lacked Documentation To Support Its Utility Allowances

The Housing Authority did not have documentation to support how its tenant utility allowances were determined. The Housing Authority’s current Executive Director said the Authority’s utility allowances were established under the former Executive Director’s tenure. She said she had not performed an analysis of the current utility allowances and she lacked documentation to support the Authority’s calculation of the current utility allowances.

Auditee Comments

[Excerpts paraphrased from the Housing Authority’s comments on our draft finding follow. Appendix B, page 45, contains the complete text of the comments for this finding.]

The Housing Authority agrees that sufficient documentation was not maintained to support how its current utility allowances were determined. The Authority is willing to work with HUD to

develop procedures and controls to ensure utility allowances are reviewed annually and documentation is maintained to support the calculation of the allowances. The Authority requests assistance from HUD on reimbursing the current tenants for the excess rents they paid due to the insufficient utility allowances.

OIG Evaluation Of Auditee Comments

The Housing Authority needs to assure that once the procedures and controls are established that they ensure the tenants' utility allowances meet HUD's regulations. In regards to the Housing Authority's request for HUD to assist in reimbursing the current tenants for the excess rents they paid, the Authority already received the funds necessary to reimburse the tenants through the excessive rents. Therefore, the Authority should not receive any financial assistance from HUD. The Authority should reimburse the current tenants from non-Federal funds for the excess rents they paid once a current utility allowance is conducted.

Recommendations

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

- 3A. Establishes procedures and controls to ensure tenants' utility allowances are reviewed annually and maintain documentation to support how the allowances are calculated as required by HUD's regulations.
- 3B. Conducts utility allowance reviews to cover the period between February 1992 and March 2001.
- 3C. Reimburses the current tenants from its tenant rental collections or other non-Federal funds for the excess rents they paid, once the utility allowance reviews are conducted.

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The Authority Lacked Sufficient Cash Management Controls

The London Metropolitan Housing Authority did not maintain an effective control over cash management. The Authority did not sufficiently segregate the duties of its employees responsible for cash receipts, tenant accounts, cash disbursements, and accounting transactions. The Housing Authority's Board of Commissioners and its Executive Director did not exercise their responsibilities to implement effective cash management controls, and their failure to do so increased the risk of loss or misuse of funds.

Management Control Requirements

Management controls comprise the plan of organization, methods, and procedures adopted by management to ensure the safeguarding of resources against waste, loss, and misuse. Important features of an adequate management control system include:

- Control should be established early in a transaction and carried through to completion;
- No person should have complete control over all phases of any significant transaction;
- Work should flow from one employee to another without ever returning to an employee; and
- Record keeping should be separate from the operations of handling and custody of assets. For example, the bookkeeping function should be separate from the collection of funds and the issuance of receipts. An employee who collects rents and issues receipts for rental payments should not be responsible for recording the rent payments and making adjustments to tenant accounts.

Responsibilities Of Board Of Commissioners And Executive Director

Public Housing Authority Commissioners have a responsibility to HUD to ensure national housing policies are carried out, and to the Authority's Executive Director and employees to provide sound and manageable directives. The Commissioners are accountable to their locality and best serve it by monitoring operations to be certain that housing programs are carried out in an efficient and economical manner.

The responsibility for carrying out the Commissioners' policies and managing the Housing Authority's day-to-day operations rests with the Authority's Executive Director. In particular, the Executive Director must maintain the Housing Authority's overall compliance with its policies and procedures and Federal, State, and local laws.

Duties Were Not
Sufficiently Segregated

The Housing Authority did not properly segregate duties over cash receipts and tenant collections. The Authority's Administrative Assistant performed various activities without adequate internal checks and balances. Although the Authority has only five employees, there were enough employees to segregate duties so that no one individual had complete control over cash receipts and tenant accounts receivable.

The Housing Authority's Administrative Assistant performed the following functions: received and processed tenant applications, prepared tenant leases, posted rent payments to tenants' accounts, posted transactions to tenants' accounts receivable, received rent payments from tenants, prepared and made bank deposits, received payments from coin operated laundry machines, prepared the cash receipt forms and forwarded them to the Authority's Fee Accountant, prepared the tenants' rent roll, prepared the collection register, maintained the petty cash and change fund, and sorted the mail. Thus, the Authority's Administrative Assistant effectively had complete control over all phases of cash receipts and tenant accounts.

The Administrative Assistant's complete control over cash receipts and tenant accounts provided her with the opportunity to misuse or divert Authority's funds by approving ineligible tenants for housing assistance, approving excessive amounts of assistance, mishandling tenants' security and rent payments, and/or making fictitious entries to the tenant accounts receivable ledger when receiving payments from tenants. **We found no indication that the Housing Authority's Administrative Assistant took advantage of this opportunity to divert the Authority's funds.** The Authority's Executive Director said the Authority lacked sufficient staff to segregate the duties of the Administrative Assistant. However, as previously mentioned, the Authority had a total of five employees which was sufficient to segregate the Assistant's duties so that she did not have

complete control over cash receipts and tenant accounts receivable.

The Housing Authority did not properly segregate employees' duties over cash disbursements and accounting transactions. The Authority used a fee accountant to maintain its books of accounts and to prepare and issue checks. The Fee Accountant had access to blank checks and the check-signing machine. The Accountant also prepared checks, posted and maintained the cash receipts ledgers, prepared adjusting journal entries, and prepared the monthly bank reconciliations.

Although the Authority's Executive Director received a monthly list of checks and the bank statements, the Director did not balance or reconcile the bank statements to the checks issued. Instead, the Authority's Executive Director merely reviewed the balance on the bank statements and forwarded them to the Fee Accountant. The Executive Director also did not sign-off on adjusting journal entries. She said she lacked the necessary time to review the Fee Accountant's work. As a result, the Accountant had an opportunity to misuse or divert the Authority's funds. **However, we found no indication that the Fee Accountant took advantage of this opportunity to divert funds.**

Auditee Comments

[Excerpts paraphrased from the Housing Authority's comments on our draft finding follow. Appendix B, pages 45 and 46, contains the complete text of the comments for this finding.]

The Housing Authority is willing to further segregate employee's duties. For example, the employee that receives and posts rental payments will not count the cash receipts or make the bank deposits. The Authority would appreciate any recommendations from HUD regarding the segregation of employees' duties.

OIG Evaluation Of Auditee Comments

The Housing Authority's plan to further segregate employees' duties should improve its cash management controls if the Authority ensures that no employee has complete control over a significant transaction. For example, the Authority should not allow the same employee to receive and post rental payments.

The Authority should ensure that employees' duties are segregated to provide checks and balances on all work.

Recommendation

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

- 4A. Segregates the duties of its employees to the extent practical. No employee should have complete control over a significant transaction. The duties should be segregated to provide checks and balances on all work.

The Authority Needs To Improve Its Controls Over Equipment

The London Metropolitan Housing Authority's controls over equipment were weak. Contrary to Federal requirements or the Housing Authority's Disposition Policy, the Authority did not: maintain complete and accurate books of account regarding its equipment; conduct an inventory of non-expendable equipment; and properly dispose of used equipment. The Housing Authority's Executive Director did not exercise her responsibilities to implement effective controls over equipment. She said she was not aware of the Federal requirements or the Authority's Disposition Policy regarding equipment. As a result, the Authority's equipment was susceptible to theft, loss, or misuse.

Federal Requirements

Section 309 of the Annual Contributions Contract, between HUD and the London Metropolitan Housing Authority, required the Authority to maintain complete and accurate books of account to permit the preparation of statements and reports in accordance with HUD's requirements, and to permit a timely and effective audit.

24 CFR Part 85.32(d)(1) requires: equipment records be maintained to include a description, identification number, source of the equipment, who holds title, the acquisition date, the cost of the equipment, and any ultimate disposition data including the date of disposal and sales price; an inventory be taken and the results reconciled with the property records at least once every two years; and a control system be developed to safeguard property from loss, damage, or theft.

Housing Authority's Policy

The Housing Authority's Disposition Policy, dated May 4, 1976, says that personal property will not be sold or exchanged for less than its fair value. If the estimated sales value of the property is less than \$1,500, the Executive Director will negotiate a sale in the open market to ensure a fair return to the Authority. Personal property will not be destroyed, abandoned, or donated without the prior approval of the Board of Commissioners.

The Authority's Disposition Policy also says the Executive Director will make every effort to properly dispose of excess personal property. If the property has no scrap value and a purchaser cannot be found, the Director will prepare a

statement listing the prospective bidders solicited and all other efforts made to sell the property. The statement will include recommendations as to the manner of disposition and be referred to the Board for approval. A copy of the Board's approval, together with the complete documentation in support of the destruction, abandonment, or donation, will be retained in the Authority's records.

Responsibilities Of Executive Director

The responsibility for carrying out the Board of Commissioners' policies and managing the Housing Authority's day-to-day operations rests with the Authority's Executive Director. In particular, the Executive Director must maintain the Housing Authority's overall compliance with its policies and procedures and Federal, State, and local laws.

The Authority's Inventory Records Were Incomplete And Inaccurate

The Housing Authority did not: maintain complete and accurate property records; reconcile its inventory ledger to its general ledger; and maintain subsidiary records of non-expendable equipment.

The Housing Authority did not maintain complete and accurate equipment records. The Authority's subsidiary ledger was not accurate and up to date. For example, an invoice showed the purchase of a cordless drill for \$109; however, the Authority's ledger showed a purchase price of \$159. The Authority's ledger did not show the purchase price or date of purchase for a hedge trimmer. In addition, the Authority lacked property ledger records for office equipment purchased in December 1999 for \$3,000. The equipment consisted of a video camera, tripod, and a copier.

We reviewed the property ledger records for appliances purchased and disposed of between August 1, 1997 and July 31, 2000. Of the two stoves and 18 refrigerators discarded, we found that seven records were missing either the purchase date or the cost of the appliance and no property records existed for six discarded refrigerators. None of the property records for 30 ranges and refrigerators purchased during 1998 and 1999 indicated the purchase price. The records for 20 of the 30 ranges and refrigerators did not include the acquisition date. Furthermore, the Authority did not complete property records for all its office equipment and furniture.

The Executive Director stated that she did not know that the property records were not up to date. She said the Authority was in the process of implementing a new inventory system that will maintain a property ledger record that includes a complete description and cost of equipment.

The Housing Authority did not reconcile its inventory to its books and records. The Authority did not remove from the property account balance the cost of non-expendable equipment it replaced. Our review of the Authority's books revealed that the Authority did not adjust the property accounts by over \$4,000 for refrigerators and stoves discarded between August 1, 1997 and July 31, 2000. The Authority's Fee Accountant said she was not aware that the appliances were discarded. As a result, the Authority's assets were overstated since the discarded appliances were not removed from the books and records.

The Housing Authority did not maintain subsidiary equipment records to support the non-expendable equipment accounts on the Authority's books. Subsidiary equipment records are needed to identify specific equipment items to be accounted for when a physical inventory is taken. While property purchased for modernization projects was accounted for in the Comprehensive Improvement Assistance Program property accounts, the Authority only used one of the 14 account classifications identified in HUD Handbook 7510.1 to account for property purchased with Low-Income Housing operating funds.

Our review of the Authority's books of account for the period January 1, 1998 to July 31, 2000 revealed that appliance purchases were recorded to the Land, Structure, and Equipment account. Since all property acquired by the Authority is recorded to this account, we were unable to identify which assets were represented. The Authority did not use the accounts shown in the following table.

<i>Account Number</i>	<i>Account Title</i>
1465.1	Dwelling Equipment
1475.1	Non-Dwelling Office Furniture and Equipment
1475.2	Non-Dwelling Maintenance Equipment
1475.3	Non-Dwelling Community Space Equipment
1475.4	Non-Dwelling Computer Equipment
1475.7	Non-Dwelling Automotive Equipment
1410.18	Equipment Expended

The Authority’s Fee Accountant said she was not aware that the subsidiary accounts were to be used to account for property. As a result, the Housing Authority’s inventory records were not complete and accurate.

The Authority Did Not Perform An Inventory Of Non-Expendable Equipment

Contrary to HUD’s regulation, the Housing Authority failed to conduct a physical inventory of its non-expendable equipment. The Authority performed an inventory of its maintenance material and supplies in August 1999 and August 2000. However, an inventory was not conducted of the Authority’s office equipment and furniture. The Authority’s Executive Director said she believed that the Authority was not required to inventory the non-expendable equipment. She also said she believed that the Authority’s records for non-expendable equipment met the requirements of the bi-annual inventory. Without a complete inventory, HUD and the Housing Authority have no assurance that the Authority’s inventory records are accurate.

The Executive Director Failed To Properly Dispose Of Stoves And Refrigerators

The Housing Authority improperly disposed of equipment. Between August 1997 and November 1999, the Authority discarded 18 refrigerators and two stoves. According to the Authority’s Executive Director, the refrigerators and stoves were not in working condition. However, the Authority lacked documentation to support that the appliances were inoperable. The appliances were purchased between February 1987 and July 1990.

The Housing Authority's Executive Director did not obtain the Board of Commissioners' approval to discard the appliances. She said she was not aware of the Authority's Disposition Policy that required her to obtain the Board's approval. She also said she did not attempt to sell the appliances to a dealer or a salvage yard because she was not aware of any store that would purchase used appliances and there was not a local salvage dealer. While there was not a local salvage yard, there was an appliance dealer within 20 miles of the Authority that purchases used appliances. The Owner of Sayre's Appliance & TV said his store purchases used appliances. He said the purchase price was based upon the appliance's condition. Without proper authorization for the disposition of equipment, the Authority cannot be assured that the equipment was disposed of efficiently and economically.

Auditee Comments

[Excerpts paraphrased from the Housing Authority's comments on our draft finding follow. Appendix B, page 48, contains the complete text of the comments for this finding.]

The Housing Authority will establish procedures and controls to ensure that it follows the Authority's Disposition Policy, the Annual Contributions Contract, and HUD's regulation regarding equipment. With the implementation of the Authority's new computer system, the system will aid in maintaining complete and accurate books and accounts for equipment. The Authority plans to work with its Independent Public Accountant and the Fee Accountant to reconcile the Authority's equipment records.

OIG Evaluation Of
Auditee Comments

The Housing Authority needs to assure that the procedures it plans to establish will ensure the Authority's controls over equipment meet its Disposition Policy, the Annual Contributions Contract, and HUD's regulation. The procedures should also ensure that the Authority (1) maintains complete and accurate books, accounts, and records for equipment; (2) performs inventories of all equipment and reconciles the results with the Authority's records; and (3) disposes of equipment properly.

Recommendation

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

- 5A. Establishes procedures and controls to ensure that the Authority follows its Disposition Policy, the Annual Contributions Contract, and/or HUD's regulation regarding: (1) maintaining complete and accurate books, accounts, and records for equipment; (2) performing inventories of all equipment and reconciling the results with the Authority's records; and (3) disposing of equipment properly.

The Authority Did Not Sufficiently Allocate Costs To Its Various Programs

The London Metropolitan Housing Authority did not have an acceptable cost allocation plan to support the allocation of costs among its programs. Specifically, the Housing Authority did not charge employees' salaries and fringe benefits to all of the Authority's programs that received their services. The Authority also failed to allocate non-salary costs to its various programs. Housing authorities must allocate costs to benefiting grant programs. While the Housing Authority's Executive Director said she was aware that the Authority needed to allocate indirect costs to its various Programs, she was unable to establish a cost allocation method. 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 received.

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, requires State, local, and Federally-recognized Indian tribal governments to 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 Authority's plan did not address the costs of its employees' salaries and fringe benefits.

The Authority charged 100 percent of the salaries and benefits for the Maintenance Supervisor, Administrative Assistant, and the Resident Initiative Coordinator to the Public Housing Program. However, the three employees spent time on the Authority's other programs. Housing authorities are required to

allocate costs to benefiting grant programs. The following table shows the Executive Director’s estimates of time spent on each Program by the three employees and the percentage of their time charged.

<i>Employee</i>	<i>Estimated Time Spent On Programs</i>	<i>Percentage Of Time Charged</i>
Maintenance Supervisor	<ul style="list-style-type: none"> • 90 Percent-Public Housing • 10 Percent-Comprehensive Improvement Assistance 	<ul style="list-style-type: none"> • 100 Percent Public Housing
Administrative Assistant	<ul style="list-style-type: none"> • 90 Percent-Public Housing • 10 Percent-Comprehensive Improvement Assistance 	<ul style="list-style-type: none"> • 100 Percent Public Housing
Resident Initiative Coordinator	<ul style="list-style-type: none"> • 50 to 60 Percent-Public Housing • 40 to 50 Percent- Public Housing Drug Elimination 	<ul style="list-style-type: none"> • 100 Percent Public Housing

The Housing Authority did not properly charge the cost of the Executive Director’s salary and fringe benefits to the benefiting grant programs. For Fiscal Year 2000, the Authority charged the Director’s salary and benefits to the Public Housing and Comprehensive Improvement Assistance Programs. The charges were based upon time records maintained by the Director. However, the Executive Director also spent time on the Public Housing Drug Elimination Program. The time records did not show the Director’s time on the Drug Elimination Program. The Authority’s Director said she spent between five and 10 percent of her time on the Public Housing Drug Elimination Program.

The Authority did not allocate non-salary costs such as electricity, water, property hazard insurance, fidelity bond insurance for its office, and accounting services provided by a fee accountant to all of the benefiting programs. The Authority allocated all of the non-salary costs to the Public Housing Program. The Housing Authority’s office was occupied by all of the Authority’s employees. Additionally, the Authority’s Fee Accountant provided accounting services for the Public Housing, Comprehensive Improvement Assistance, and the Public Housing Drug Elimination Programs. Therefore, the Public Housing Program incurred costs that were not related to its Program.

The Housing Authority's Executive Director said she was aware that the Authority needed to allocate costs to its various programs. However, the Director said she did not know how to establish a cost allocation method. The Executive Director did not request any assistance from HUD or the Fee Accountant in establishing an allocation method.

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.

Auditee Comments

[Excerpts paraphrased from the Housing Authority's comments on our draft finding follow. Appendix B, page 46, contains the complete text of the comments for this finding.]

The Housing Authority agrees that it did not properly allocate salary and non-salary costs to the benefiting programs. The Authority plans to request assistance from its Fee Accountant and HUD in developing a new cost allocation plan.

**OIG Evaluation Of
Auditee Comments**

The planned action by the Housing Authority to develop a cost allocation plan, if implemented, should ensure that indirect costs are properly allocated to benefiting programs if the plan meets Office of Management and Budget Circular A-87. Once the plan is developed, the Authority should reallocate the indirect costs that were charged to the Public Housing Program for Fiscal Year 2000.

Recommendations

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

- 6A. Develops a cost allocation plan in accordance with Office of Management and Budget Circular A-87.
- 6B. Reallocates the indirect costs charged to the Public Housing Program for Fiscal Year 2000 to the other benefiting programs, once the cost allocation plan is developed.

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Management Controls

In planning and performing our audit, we considered the management controls of the London Metropolitan Housing Authority in order to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of the 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: improperly paid the Executive Director \$3,699 for time she did not work for the Authority or time she spent on activities not related to the Authority's operations; did not maintain accurate payroll records regarding three employees' vacation time; used \$2,879 of Public Housing Drug Elimination Program funds to pay the City of London for baseline police services and equipment that the City was required to provide at no cost to the Authority; failed to review or adjust its utility allowances for over eight years; lacked documentation to support how its current utility allowances were determined; did not sufficiently segregate the duties of its employees responsible for cash receipts, tenant accounts, cash disbursements, and accounting transactions; failed to maintain complete and accurate books of account regarding its equipment; did not conduct an inventory of non-expendable equipment; improperly disposed of used equipment; and did not have an acceptable cost allocation plan to support the allocation of costs among its programs (see Findings 1, 2, 3, 4, 5, and 6).

- Validity and Reliability of Data

The Housing Authority did not maintain: accurate payroll records regarding three employees' vacation time; and complete and accurate books of account regarding its equipment (see Findings 1 and 5).

- Compliance with Laws and Regulations

The Housing Authority did not follow HUD's regulations and/or Office of Management and Budget's Circular A-87 regarding payroll expenses, supplemental police services, tenants' utility allowances, equipment, and the cost allocation plan (see Findings 1, 2, 3, 5, and 6).

- Safeguarding Resources

The Housing Authority improperly: paid the Executive Director \$3,699 for time she did not work for the Authority

or time she spent on activities not related to the Authority's operations; and used \$2,879 of Public Housing Drug Elimination Program funds to pay the City of London for baseline police services and equipment that the City was required to provide at no cost to the Authority (see Findings 1 and 2).

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Follow Up On Prior Audits

The Office of Inspector General issued an audit report on the London Metropolitan Housing Authority on November 21, 1991 pertaining to the safeguarding of monetary assets (Audit Case Number 92-CH-209-1005). The report contained two findings. The recommendations for the two findings were closed. Both findings are repeated in this report.

Report Number 92-CH-209-1005

Internal Controls Need To Be Strengthened (Finding 1).

Reasonableness Of Program Costs Were Not Adequately Documented (Finding 2).

This Report

The Authority Lacked Sufficient Cash Management Controls and The Authority Needs To Improve Its Controls Over Equipment (Findings 4 and 5).

Controls Over Payroll Need To Be Strengthened and The Authority Did Not Sufficiently Allocated Costs To Its Various Programs (Findings 1 and 6).

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

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Schedule Of Ineligible Costs

<u>Recommendation</u>	
<u>Number</u>	<u>Ineligible Costs 1/</u>
1B	\$3,699
2A	<u>2,879</u>
Total	<u>\$6,578</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.

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Auditee Comments

The London Metropolitan Housing Authority
179 So. Main St.
London, Ohio 43140
740-852-1888

Mr. Heath Wolfe
U>S> Dept. of HUD
77 W. Jackson Blvd. Room #2646
Ralph H. Metcalfe Federal Bldg.
Chicago, IL. 60604

02/13/01

Dear Mr. Wolfe:

Subject: Response to Draft findings

The Executive Director has reviewed your findings regarding tardy and absent time from work. The following is a statement including time sheet, monthly calendars and other supportive documentation for your review.

April 6, 7, & 8, 1999 - OHAC Spring Conference

04/7/99 Wednesday - 4 hrs. over
04/14/99 Welfare to work grant 4 hrs. over
04/17/99 Welfare to work grant 4 hrs. over
04/22/99 on flight from Washington D.C.
04/24/99 Welfare to work grant 8 hrs. over

05/06/99 ORAC Meeting

06/11/99 Worked all day

08/13/99 Meeting in Columbus with Auditor

08/27/99 worked all day

Sept. 8, 9, & 10, 1999 Fall Conference started on Wednesday approx. 4 hrs. over
Sept. 21/22 & 23, 1999 No evidence found on calendar that the Executive Director worked Farm Science Review.

Appendix B

10/01/99 Worked all day - off the day before.
Oct. 13, 14 & 15 Sharp Insurance Risk Pool Conference in Cincinnati. Approx. 4hrs.
over time and ½ for Wednesday 10/13/99
11/01/99 worked until 6:00p.m. 1hr over
11/02/99 worked all day

Nov. 3, 4, & 5, 1999 Directors Retreat - Sawmill Creek Wednesday 4 hrs. over

12/16/99 worked all day
1223/99 worked all day

01/03/2000 worked all day
01/31/2000 worked all day

02/17/2000 off sick, payroll in so took off next pay 02/22/00
02/18/00 off sick, payroll in so took off next pay 02/24/00
02/21/00 Holiday - went to Reac Training - 4 hrs. over

03/02/2000 Directors Meeting/Insurance Meeting
03/07/00 worked all day
03/17/00 worked all day
03/29/00 Wednesday - worked 8:00 to 12:00
03/30/00 payroll in took it off next pay, see 04/03/00
03/31/00 payroll in took it off on next pay see 04/04/00

05/02/00 worked all day
05/05/00 worked all day
05/09/00 took sick leave-- 8hrs.

06/12/00 In Cleveland for Board meeting - Sharp Insurance risk pool.
06/20/00 worked all day
06/21/00 worked 8:00 - 12:00
06/22/00 worked all day

07/15/00 worked Saturday 3:00 - 7:00 4hrs. over
07/21/00 worked all day

08/03/00 OHAC in Portsmouth Ohio for Directors meeting
08/04/00 OHAC in Portsmouth Ohio for Directors meeting
08/11/00 worked all day

Enclosed you will find a chart of overtime that the Executive Director worked during the period of time specified by your agency. The figures represented in the chart do not reflect the actual overtime

incurred as we are a small agency. A total of (5) five employees, we are on call twenty four hours a day requiring all employees including the Executive Director to take calls by residents needing assistance on the week-ends.

The Housing Authority agrees that it used the wrong vacation time for three employees. This mistake was NOT intentional.

Regarding the Executive Directors time schedule, the date hired was wrong. Instead of 07/29/92 as stated in your schedule, it should have been 03/12/90. According to Ohio Revised Code 124.13 after 8 years of service employees receive 4.62 in vacation time, your schedule did not reflect the 4.62 increase. On March 12, 1998 the Executive Director should have accrued 4.62 in vacation time.

The schedule of vacation for Dour Reed stated his date of employment was 06/10/77. His correct date of employment is 04/08/85.

Regarding the schedule of vacation for Diane Pickens, in looking back through the time records for Mrs. Pickens, she had inadvertently written her start date of employment as 01/24/94, thinking that the increase for vacation was for 5 years of service, increased her vacation time effective 01/24/99. In going over your records you did not reflect the change until 04/05/99 and it was actually changed on 01/23/99. Therefore, there is an additional 7.50 hours that needs to be reflected.

Sincerely,

/signed/

Jane Yoder
Executive Director

The London Metropolitan Housing Authority
179 So. Main St.
London, Ohio 43140

Mr. Heath Wolfe
U.S. Department of HUD
Office of Inspector General
77 West Jackson Boulevard, Suite 2646
Chicago, Illinois 60604-3507

February 8, 2001

Dear Mr. Wolfe,

The London Metropolitan Housing Authority will establish procedures and controls with the City of London to ensure that police services are properly monitored and maintained to comply with HUD regulations, Office of Management and Budget Circular A87 and the Housing Authority's agreement with the City.

The Housing Authority will ask the City to reimburse the Housing Authority for the amount of the overpayment for supplemental police services, bike and uniform.

If the City does not reimburse the Housing Authority the Authority will use non- federal funds to reimburse the Drug Elimination program.

Sincerely,

/signed/

Jane Yoder
Executive Director

The London Metropolitan Housing Authority
179 So. Main St.
London, Ohio 43140
740-852-1888

Mr. Heath Wolfe
Assistant District Inspector General
U.S Department of HUD
77 West Jackson Boulevard Suite 2646
Chicago, Illinois 60604-3507

12/29/00

Dear Mr. Wolfe,

Subject: Response to Draft Findings

The Executive Director was unaware of the requirement for annual review of utility allowances until recently and that she was studying a utility allowance guidebook because she was uncertain of how to do it. The London Metropolitan Housing Authority agrees that adequate documentation was not maintained concerning current U.A's and is willing to work with HUD to develop procedures and controls to ensure utility allowances are reviewed annually and documentation is maintained to support calculations. We would also ask for support from HUD on reimbursement to current tenants.

The Housing Authority does not agree that the Administrative Assistant solely performed all functions regarding tenant accounts. The Housing Authority has five employees, three office personnel and two maintenance personnel. Maintenance duties preclude that department from performing tenant accounts related functions as they maintain 100 units of Public Housing. This is a small Housing Authority, the Executive Director, Administrative Assistant and Resident Coordinator share the following duties and responsibilities: receives and processes tenant applications, prepares tenant leases, receives and posts rent payments to tenants accounts and prepares and makes bank deposits. The Housing Authority trained the Resident Coordinator on the functions listed above to prepare for the possibility of receiving Section 8 welfare to work. The Executive Director and the Administrative Assistant together review all applications for admissions, including evictions. The Executive Director reviews and approves all tenant files pertaining to interim and annual re-certifications.

Accounts payable

The Fee Accountant does not have complete control over accounting functions. The Executive Director prepares and approves cash disbursements for the accountant. The accountant then maintains the books as follows: After receipt of invoices from the Housing Authority, the accountant checks the calculations and assigns account numbers for each invoice. Tiffany Yoha of the accountants' staff inputs, runs and prepares all checks for mailing. Tiffany prepares check registers and approval form for checks

and records checks into cash disbursements journal. She then gives the checks back to the accountant for final review and the accountant gives them to clerical staff to take to the post office. The Housing Authority returns the approval form signed by the Chairman and Director.

Payroll

After receiving approved timesheets from the Housing Authority, the accountant reviews vacation/sick time/comp time balances and calculations. Tiffany then inputs, runs and prepares all checks. Tiffany prepares the check register and approval form and records checks into the cash disbursement journal. Then either the accountant or Tiffany FedEx's the checks to the Housing Authority.

General Ledger

Cash receipt sheets for all deposits completed by the Housing Authority staff are copied and sent to the accountant. She records the deposits into the cash disbursement/receipt journal. The accountant prepares monthly tenant rental entry based on information sent by the Housing Authority. Tiffany posts all receipts and has the computer dump all disbursements into the general ledger. Tiffany prepares and prints the monthly ledger and sends a copy to the Housing Authority. Bank reconciliation's are prepared by either the accountant or Denise VonStein of the accountants' staff.

The accountant prepares all HUD fiscal year end reports and prepares the general ledger for year-end closing.

The Executive Director did not say she lacked time to review the fee accountants' work regarding adjusting journal vouchers. The Executive Director said she was in phone contact with the fee accountant concerning all adjustments, but did not physically sign any journal voucher entries. The Executive Director will sign all journal vouchers after consultation with the fee accountant.

The Housing Authority is willing to further segregate employee's duties i.e.. The person receiving and posting rental payments will not count the money or make bank deposits. Two people will sign off on posted rental payment transactions. One person shall be in charge of taking applications and entering the information into the computer.

We would appreciate and welcome any recommendations from HUD concerning segregation of employee's duties.

The Housing Authority agrees it did not allocate non salary cost such as electricity, water, property hazard insurance, fidelity bond insurance also for fee accounting services and two employees the Maintenance Supervisor and Administrative Assistant for actual time. The Drug Elimination Program allocated and paid \$3200.00 for the Resident Initiatives Coordinator based on actual time spent. We will request assistance from the fee accountant and HUD to develop a new cost allocation plan to address these issues.

Sincerely,

/signed/

Jane Yoder, Executive Director

The London Metropolitan Housing Authority
179 So. Main St.
London, Ohio 43140
740-852-1888

Mr. Heath Wolfe
U.S. Dept. of HUD
Ralph H. Metcalfe Federal Building
77 W. Jackson Boulevard, Suite 2646
Chicago, IL. 60604-3507

02/16/2001

Dear Mr. Wolfe,

The London Metropolitan Housing Authority has recently installed a computer generated Property Management System. The system includes but is not limited to the following:

- Unit system information on flooring, painting, roofing and dwelling equipment
- Inspection and extermination information
- Work order system interfaces to allow the unit number and address to be retrieved and placed on the work order automatically.
- Project Information.
- Fixed Asset System
- Physical Inventory and Materials Inventory
- Key Control report
- Unit maintenance report
- Unit painting report
- Purchase orders

The Housing Authority will establish procedures and controls to ensure it follows the Disposition Policy, the Acc Contract, and HUD's regulations. The implementation of the new system will aid in maintaining complete and accurate books, accounts, records of equipment, and inventories. We will work with the accountant and the Independent Public Accountant to reconcile records and the disposing of equipment.

Sincerely,

/signed/

Jane Yoder
Executive Director

Distribution

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CFO Audit Liaison Officer, FMA (Room 2206)
Audit Liaison Officer, 3AFI (2)
Acting Director of Enforcement Center, V (200 Portals Building)
Acting Director of Real Estate Assessment Center, X (1280 Maryland Avenue, SW,
Suite 800)
Director of Multifamily Assistance Restructuring, Y (4000 Portals Building)
Assistant Deputy Secretary for Field Policy and Management, SDF (Room 7108)
Acquisitions Librarian, Library, AS (Room 8141)
Deputy Staff Director, Counsel, Subcommittee of Criminal Justice, Drug Policy & Human
Resources, B 373 Rayburn House Office Building, Washington DC 20515
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, London Metropolitan Housing Authority (2)
Chairman of the Board of Commissioners, London Metropolitan Housing Authority