audit report

Issue Date March 19, 2004	
Audit Case Number 2004-AT-1003	

TO: Karen Cato-Turner
Director, Office of Public Housing, 4DPH

James D. McKay

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

SUBJECT: Housing Authority of the City of Fort Lauderdale
Fort Lauderdale, Florida

INTRODUCTION

We completed a review of the Housing Authority of the City of Fort Lauderdale's (Authority) administration of its housing development activities. We performed the review as part of an audit of the Department of Housing and Urban Development's (HUD) oversight of Public Housing Agency activities with related nonprofit entities. The primary objective of our review was to determine whether the Authority diverted or pledged resources subject to an Annual Contributions Contract (ACC) or other agreement or regulation to the benefit of other entities without specific HUD approval.

We focused our review on Housing Enterprises of Fort Lauderdale, Inc. (HEFL), an affiliated nonprofit entity, and the Authority's Affordable Housing Program since they pertained to housing development activities. To accomplish our objective, we reviewed applicable HUD regulations, the executed ACC, and other requirements. We also interviewed HUD and Authority management and staff, and reviewed various documents including financial statements, general ledgers, bank statements, bank loan and closing documents, and both Authority and HEFL minutes from board meetings.

Our review generally covered the period from January 1, 1998 to December 31, 2002. However, we reviewed activity in other periods as necessary. We performed our fieldwork at the Authority's administrative offices at 437 SW 4th Avenue, Fort Lauderdale, FL 33315, from October to December 2003. We performed our review in accordance with generally accepted government auditing standards.

We discussed our review results with Authority staff during the audit and held an exit conference with them on February 18, 2004. The Authority provided its written comments on February 18, 2004. Their comments are summarized in the finding and included in their entirety in Appendix B.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, 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. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the review.

Should you or your staff have any questions, please contact me or Barry Shulman, Senior Auditor at (305) 536-5387, extension 2287.

SUMMARY

The Authority violated its ACC with HUD by inappropriately pledging assets and advancing funds for some of its activities. Management inappropriately pledged assets of $452,000 in low-income housing (LIH) funds to assure the rehabilitation and purchase of two non-federal development activities. Management also inappropriately advanced $151,297 in LIH funds to support various programs. The Authority used $127,669 to purchase inventory materials or insurance for seven programs/activities, and $23,628 to support the activities of an affiliated nonprofit. On December 5, 2003, the Authority reimbursed all but $81,722. Furthermore, the Authority did not have a proper cost allocation plan to support the allocation of $11,404 to the Section 8 Program and $86,324 of indirect costs to the LIH and Section 8 funds. We believe these actions occurred because the Authority had not established adequate controls to monitor and ensure its transactions adhered to HUD requirements.

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

- Establish procedures to ensure that its assets are not encumbered or pledged without HUD approval.
- Establish adequate controls to monitor and ensure transactions comply with the ACC and other HUD requirements. Specifically, implement procedures to ensure that general ledger accounts with outstanding balances due to other general ledger accounts are settled on a timely basis and reimburse the LIH Program $81,722.
- Reallocate costs of $11,404 from the Section 8 Program to the Affordable Housing Program.
- Develop a reasonable method of allocating shared and indirect costs in accordance with Office of Management and Budget (OMB) Circular A-87 to the LIH and Section 8 Programs, and reallocate costs of $86,324 to other programs using a reasonable method.

BACKGROUND

The Authority is a public body within the State of Florida, which was organized in May 1938 to provide low rent housing for qualified individuals in accordance with the rules and regulations prescribed by HUD and other federal agencies.

The Authority administers four major programs: (1) LIH; (2) Section 8; (3) Affordable Housing; and (4) Step-up Apprenticeship.

Currently, the Authority has 8 LIH developments totaling 787 units and received over $1.27 million in operating subsidies from HUD in fiscal year 2002. The Authority also administers four Section 8 Programs – Housing Choice Voucher, Moderate Rehabilitation, Housing Opportunities for Persons with AIDS (HOPWA), and Homeless Voucher. The table below shows the source of funding and the amount of funding each program received in fiscal year 2002.

SECTION 8 PROGRAM	FUNDING SOURCE	AMOUNT OF FUNDING
Housing Choice Voucher	HUD	$ 9,932,369
Moderate Rehabilitation	HUD	1,271,154
HOPWA	City of Fort Lauderdale	3,890,327
Homeless Voucher	Broward County	120,030

The Authority created its Affordable Housing and Step-up Apprenticeship programs in 1995. The purpose of the Affordable Housing program is to purchase, renovate, and make available for rent affordable housing within the City of Fort Lauderdale. The program was/is mainly funded by three sources: (1) sales proceeds of over $2 million generated from a HUD program, whereby HUD provided a grant to develop homeownership opportunities in the local area; (2) Section 8 administrative fee reserves; and (3) rental income from affordable housing units. The Authority uses its Step-up Apprenticeship program to provide most of the rehabilitation work for these properties, except items requiring specialized licenses. During our audit period, the Authority transferred $1,982,800 of Section 8 administrative fee reserves to its Affordable Housing program for the purchase and rehabilitation of foreclosed properties with the intent to resell or rent these properties to low-income families.

Pursuant to Statement No. 14 of the Governmental Accounting Standards Board, the Authority reported one component unit – HEFL. HEFL received its 501 (c)(3) tax-exempt status in 1994. HEFL was established to access certain funds available only to nonprofits such as city grants or funds from private persons. HEFL has no employees and Authority staff conducts all work. The Authority provides accounting services to HEFL, and charges an administrative fee for these services.

Finding 1 – **The Authority Inappropriately Pledged and Advanced Funds**

The Authority violated its ACC with HUD by inappropriately pledging assets and advancing funds for some of its activities. Management inappropriately pledged assets of $452,000 in LIH funds to assure the rehabilitation and purchase of two non-federal development activities. Management also inappropriately advanced $151,297 in LIH funds to support various programs. The Authority used $127,669 to purchase inventory materials or insurance for seven programs/activities, and $23,628 to support the activities of an affiliated nonprofit. On December 5, 2003, the Authority reimbursed all but $81,722. Furthermore, the Authority did not have a proper cost allocation plan to support the allocation of $11,404 to the Section 8 Program and $86,324 of indirect costs to the LIH and Section 8 funds. We believe these actions occurred because the Authority had not established adequate controls to monitor and ensure its transactions adhered to HUD requirements.

The Authority Inappropriately Pledged Assets

Part A, Section 7 of the ACC provides in part, that the Authority shall not in any way encumber any project, or portion thereof, without the prior approval of HUD. Section 7 further prohibits the Authority from pledging assets of the project covered under the ACC as collateral for a loan.

In violation of its ACC, the Authority pledged $452,000 in LIH assets as collateral for the rehabilitation of one development and purchase of another development. While ultimately not used, the act of pledging LIH funds put these funds at risk.

In September 1999, the Authority purchased a foreclosed development from HUD for use in its Affordable Housing Program. HUD required an unconditional, irrevocable, and non-documentary Letter of Credit in the amount of $276,000 to ensure completion of repairs to HUD's satisfaction. The Authority pledged LIH funds as collateral for the Letter of Credit.

The Executive Director (ED) said he used the LIH funds because he did not think the funds would be needed during the period of the Letter of Credit. Also, he was unsure whether the funds were available under the Affordable Housing Program.

In October 2000, the Authority purchased another development for use in its Affordable Housing Program and financed the purchase with a $2.2 million bank loan. The loan agreement required an 80 percent loan-to-appraisal value ratio during the loan period. To meet the requirement, the Authority provided the bank a $176,000 Certificate of Deposit (CD) as collateral. The CD belonged to the LIH program.

The ED stated that affordable housing funds were available and could have been used. However, the ED decided to pledge LIH funds because the Authority had over $1.2 million in reserves, while the affordable housing funds could be put to better use to purchase, rehabilitate, and sell properties.

Although the Letter of Credit was not used and the CD was not claimed, LIH funds were unnecessarily encumbered and put at risk in violation of the ACC. The Authority also did not obtain HUD's approval to pledge LIH funds as collateral for the Letter of Credit or in the form of the CD.

The Authority Improperly Advanced $151,297 For Other Programs

Part A, Section 9 of the ACC states that the Authority may withdraw funds held for the development, operation, and improvement of projects under the ACC only for (1) the payment of the costs of development and operation of the projects under ACC with HUD; (2) the purchase of investment securities as approved by HUD; and (3) such other purposes as may be specifically approved by HUD.

In violation of its ACC, the Authority inappropriately used LIH funds to support various programs. The Authority used $127,669 to purchase inventory materials or insurance for seven programs/activities, and $23,628 to support the activities of an affiliated nonprofit.

The Authority's records showed that as of October 2003, the following seven programs/activities owed $127,669 to the LIH fund: (1) Step-Up Apprenticeship; (2) Alan Apartments; (3) HEFL; (4) Affordable Housing; (5) William H. Lindsey Apartments; (6) Section 8 Homeless Voucher; and (7) Section 8 Housing Choice Voucher. The LIH funds were used to purchase inventory materials or insurance coverage. Between January 2002 and October 2003, no reimbursements were made to settle the outstanding balances. Additionally, we noted that the Authority had no procedures to settle outstanding balances. Given the lack of repayments, the LIH funds disbursed on behalf of these programs/activities are similar to a long-term loan or advance.

We discussed the advances with the ED who could not explain why LIH was not reimbursed. The ED stated that there was no reason for these programs not to reimburse LIH and informed his staff to settle the outstanding balances immediately given the availability of funds. Subsequently the Authority reimbursed $45,947, leaving three programs owing a remaining balance of $81,722. The ED informed us that the remaining $81,722 would be settled once funds become available.

The Authority also failed to charge an affiliated nonprofit, HEFL, for work conducted on their behalf. The Authority has an unwritten agreement with HEFL whereby Authority staff performs administrative duties for HEFL. In order to reimburse the Authority for the services provided, the Authority charges HEFL an administrative fee based on 15 percent of rent collections.

Our review of accounting records for 1998 - 2002 revealed that the Authority failed to charge HEFL for this administrative fee in 1999 and 2001 - 2002. As a result, the Authority used $23,628 of LIH funds to support HEFL activities for the 3 years.

The ED could not explain why HEFL was not charged the administrative fee in 1999. He believed that a miscommunication between him and the former accountant resulted in HEFL not being charged the administrative fee for 2001 and 2002.

The ED acknowledged this oversight and informed us that HEFL would reimburse the LIH fund for the administrative fees. In November 2003, HEFL repaid the $23,628 owed the Authority.

Inadequate Cost Allocation

The OMB Circular A-87 establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments. Costs must be allocable to the Federal award. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. Also, any cost allocable to a particular Federal award or cost objective under the principles provided for in the Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

The Authority inappropriately allocated $11,404 in salary cost to the Section 8 Program and $86,324 in shared and indirect costs to the LIH and Section 8 Programs. We believe this occurred because the Authority had not established adequate controls to monitor and ensure its transactions adhered to HUD requirements.

During the early part of 2003, the Authority allocated 100 percent of the salary for the Director of Affordable Housing to the Affordable Housing Program. In June 2003, the Authority allocated 50 percent to the Affordable Housing Program and 50 percent to the Section 8 Housing Choice Voucher Program.

The Director of Affordable Housing informed us that in 2003 she was not involved with the Section 8 Program and only referred prospective homeowners to the Section 8 department. Therefore, the Authority improperly allocated $11,404 to the Section 8 Program.

We also noted the Authority allocated $86,324 in other costs without clear justification. For example, the Authority allocated 100 percent of employee longevity awards and health/medical benefit costs to LIH, and allocated 40 percent of the ED’s auto allowance to LIH, 30 percent to Capital Grant, and 30 percent to the Section 8 Housing Choice Voucher Program.

The ED acknowledged that the Authority did not have a cost allocation plan. He agreed that the Authority needed to prepare a plan for shared and indirect costs.

AUDITEE COMMENTS

The Authority generally agreed with the finding and recommendations. The Authority agreed to make every effort to ensure that it does not pledge public housing funds without HUD approval and will establish adequate controls to monitor, research HUD regulations and ensure that all transactions adhere to HUD requirements. The Authority emphasized the importance of utilizing inter-fund accounts to effectively and efficiently track the supply of materials and services among the Authority's various programs. They agreed to take steps to set up procedures and controls to ensure all "inter-fund balances" are paid off at least on a monthly basis. Also, the Authority said it had prepared and its Board approved on February 12, 2004, a cost allocation plan for allocating all indirect expenses.

OIG EVALUATION OF AUDITEE COMMENTS

The Authority's comments and actions are responsive to the finding. If timely and fully implemented in accordance with HUD and OMB requirements, the actions should correct the deficiencies discussed in the finding, and improve administration of the LIH and Section 8 Programs.

RECOMMENDATIONS

We recommend the Director of the Office of Public Housing require the Authority to:

1A. Establish procedures to ensure that its assets are not encumbered or pledged without HUD approval.

1B. Collect the remaining $81,722 of the $151,297 inappropriately advanced.

1C. Develop and implement adequate controls to monitor Authority interactions and ensure transactions comply with the ACC and other HUD requirements. Specifically, implement procedures to ensure that general ledger accounts with outstanding balances due to other general ledger accounts are settled on a timely basis.

1D. Reallocate costs of $11,404 from the Section 8 Program to the Affordable Housing Program.

1E. Develop a reasonable method of allocating shared and indirect costs in accordance with OMB Circular A-87 to support costs charged to the LIH and Section 8 Programs.

1F. Reallocate costs of $86,324 to other programs using a reasonable method.

MANAGEMENT CONTROLS

Management controls are the organization, policies, and procedures used to reasonably ensure that: (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported, and used for decision making.

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

- Compliance with Laws and Regulations
- Safeguarding of Resources

To assess the relevant controls, we:

- Interviewed Authority staff;
- Reviewed loan and closing documents, general ledgers, bank statements, and audited financial statements.

A significant weakness exists if management controls do not provide reasonable assurance that resource use is consistent with laws, regulations, and policies and that resources are safeguarded against waste, loss, and misuse.

Our audit identified the following significant weaknesses:

- The Authority violated the ACC with HUD and placed Public Housing funds at risk by pledging these funds to purchase and rehabilitate developments in the Affordable Housing Program.
- The Authority violated the ACC with HUD by advancing Public Housing funds to support other activities.
- The Authority did not have a proper cost allocation plan.

FOLLOW-UP ON PRIOR AUDITS

There have been no prior OIG audits of this PHA. Malcolm Johnson & Company, Public Accountant, prepared the most recent audited financial statements for the fiscal year ending December 31, 2002, and provided the Authority an unqualified opinion. His report did not contain findings relevant to our audit objectives.

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendations	Ineligible[1]	Unsupported[2]
1B	$ 151,297	
1D	11,404	
1F		$ 86,324
Total	$ 162,701	$ 86,324

1 Ineligible costs are those that are questioned because of an illegal violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds.

2 Unsupported costs are those whose eligibility cannot be clearly determined during the audit since such costs were not supported by adequate documentation

AUDITEE'S COMMENTS

THE HOUSING AUTHORITY
of the
CITY OF FORT LAUDERDALE, FLORIDA
ESTABLISHED 1938

PHILIP O. GOOMBS
Executive Director

February 13 2004

Sonya D. Lucas
Acting Regional Inspector General for Audit
USHUD, Office of the Inspector General
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA 30303-3388

Dear Ms. Lucas,

Thank you for your letter dated February 11, 2004 and the attached 'Draft copy' of the recent audit performed by your audit team. I must first of all commend your audit team for the professional manner in which they conducted the interviews and consultations as well as their thoroughness and the detail of their investigations. The team really did an outstanding job not withstanding the findings included in the draft report.

The recommendations received were in order and will assist this agency in properly administering the various Federal and non-federal programs we administer. Several of these recommendations have already been implemented with a game plan to implement others.

I have attached comments on the draft report items as I thought necessary.

Please contact me at 954-410-6813 if there are any questions as I will be in Tallahassee on Monday/Tuesday February 16th/17th at the FAHRO Legislative conference.

Sincerely,

Philip O. Goombs
Executive Director

Attachment

PLEASE ADDRESS RESPONSE TO:

☐ CENTRAL OFFICE
437 Southwest 4th Avenue
Fort Lauderdale, FL 33315
Telephone: (954) 525-6444
Fax: (954) 764-4604

☐ PUBLIC HOUSING MANAGEMENT CENTER
ADMISSIONS/OCCUPANCY
1004 West Broward Boulevard
Fort Lauderdale, FL 33312
Telephone: (954) 467-7909
Fax: (954) 467-7923

☐ SECTION 8
SUBSIDIZED RENTAL PROGRAMS
3521 West Broward Boulevard
Suite 203, 204
Fort Lauderdale, FL 33312
Telephone: (954) 689-7189
Fax: (954) 689-7642

☐ MAINTENANCE
100 Southwest 18th Avenue
Fort Lauderdale, FL 33312
Telephone: (954) 467-7818

☐ STEP-UP
Telephone: (954) 522-2485
Fax: (954) 524-8268

Appendix B

Reply to Inspector General's Audit Findings

1. The Authority Inappropriately Pledged Assets

Public Housing funds were pledged against Affordable Housing non-federal development activities. No funds were actually withdrawn from Public Housing accounts for the use in Affordable Housing.

Whereas none of the pledged funds were utilized, all funds remained the possession of Public Housing and all interest accrued to these funds were correctly credited to Public Housing 'Interest Income' accounts for the duration of these pledges,

And whereas there has not been a recurrence since, this agency will make every effort to ensure that this does not happen again without HUD approval and will establish adequate controls to monitor, research HUD regulations and ensure that all transactions adhere to HUD requirements.

2. The Authority Improperly Advanced $151,297 For Other Programs

This balance due represents inter-fund amounts generated through materials and services provided by Public Housing to other funds in the course daily operations. The normal procedure is to pay-off all inter-fund balances on a regular basis. This was not done in a timely manner, resulting in the reported accumulated balances as reported in this audit. Steps are being taken to set up procedure and controls to ensure all 'inter-fund balances' are paid off at least on a monthly basis.

Inter-fund Accounting is an important accounting tool utilized by this agency and supported by Generally Accepted Accounting Principles (GAAP). The use of "Inter-fund Accounts" for the purpose of effectively and efficiently accounting for the supply of materials and services in an operation such as ours cannot be overstated. These 'funds' consists of the following programs/ledgers;

- Public Housing Ledger 50
- Capital Fund 2001 Ledger
- Capital fund 2002 Ledger
- Capital Fund 2003 Ledger
- Section 8 Housing Choice Voucher, Ledger
- Section 8n Moderate Rehab. #4 Ledger
- HOPWA Ledger
- Homeless Voucher Ledger
- Step-up Apprenticeship Program Ledger
- Affordable Housing Ledger
- Dr. Lindsey Apartments Ledger
- Alan Apartments Ledger
- Housing Enterprises of Ft. Lauderdale, FL Inc. Ledger

The importance and necessity of having an inter-fund accounting cannot be over stated as far as it relates to paying invoices, purchasing and stocking inventories for use in several developments as well as for the many funding sources.

HUD has encouraged Public Housing agencies, in recent years, to diversify operations to include ‘affordable housing’ and home-ownership activities through Family Self-sufficiency Programs. This has required the heavy use of ‘inter-fund activities’.

3. Inadequate Cost Allocation

A Cost Allocation Plan has been prepared and approved by Board Resolution 1087 at the February 12, 2004 meeting. This has been implemented and will be used to allocate all indirect expenses.

The HACFL concurs with all recommendations offered by the auditors with the exception of 1B.

1B. Discontinue Advancing Funds

The agency’s position on this item has already been stated in comment 2 of this letter. Inter-fund accounts are an integral part of our operations and will remain so, however, steps have been taken to require all inter-fund balances to be paid off within 30 days of transaction as is the established business practice with all outside suppliers/vendors.