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# AUDIT REPORT



## STARK METROPOLITAN HOUSING AUTHORITY NONPROFIT DEVELOPMENT ACTIVITIES

CANTON, OHIO

2005-CH-1011

MAY 31, 2005

OFFICE OF AUDIT, REGION V  
CHICAGO, ILLINOIS

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Issue Date	May 31, 2005
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Audit Report Number	2005-CH-1011
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TO: Thomas S. Marshall, Director of Public Housing Hub, 5DPH

FROM:   
Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: Stark Metropolitan Housing Authority; Canton, Ohio; The Authority Used Annual Contributions Contract Funds for Development Activities Outside Its Annual Contributions Contract

## **HIGHLIGHTS**

### **What We Audited and Why**

We completed an audit of the Stark Metropolitan Housing Authority's (Authority) activities with its related nonprofit organizations. The review of housing authorities' development activities is set forth in our fiscal year 2005 annual audit plan. We selected the Authority for audit because it was identified as having high-risk indicators of nonprofit development activity. Our objectives were to determine whether the Authority: used annual contributions contract funds for non-annual contributions contract activities; accounted for the source and use of funds as required by its annual contributions contract with the U.S. Department of Housing and Urban Development (HUD); and encumbered HUD funds for the benefit of non-HUD development activity without specific HUD approval.

### **What We Found**

The Authority received more than \$459,000 of HOME funds from Stark County between August 2001 and September 2002 to develop five low-income housing units. Two of the five units were for the Ruthe and Isadore Freed Housing Corporation (Freed), the Authority's nonprofit affiliate entity. The Authority administered these funds and deposited them into its general fund. The general fund is a pool of funds that consists mainly of federal operating subsidies for the

Authority. However, the general fund also included proceeds from the sale of low-income homes. The Authority expended an additional \$696,592 from its general fund for the development of low-income housing units; however, the Authority could not provide documentation to support whether HUD operating subsidies or nonfederal funds in its general fund was expended.

Freed transferred \$528,402 to the Authority, who deposited the funds into its general fund. The Authority has not demonstrated that these funds were reimbursed to its low-income housing program. The transfers made to Freed were in excess of the amount Freed had on deposit in the Authority's general fund for the period between December 2000 and March 2005. Freed lacked the funds to transfer \$168,190 to the Authority as of March 2005.

The Authority also executed two loan agreements for the purchase of properties that encumbered \$278,000 of its general fund, including low-income housing operating subsidies, without HUD approval. The agreements included provisions that allowed the lender to withdraw the funds on deposit if the loan payments were not made. In April 2004, the Authority secured \$184,000 of the loan agreements with nonfederal funds.

### **What We Recommend**

We recommend that HUD's Director of Public Housing Hub, Cleveland Field Office, requires the Authority to (1) collect the \$168,190 that Freed owes the Authority and reimburse its low-income housing reserve account, or reimburse its low-income housing reserve account from nonfederal funds if Freed cannot repay the Authority, (2) provide adequate documentation to support that the repayment of \$528,402 from Freed Corporation was from nonfederal funds, or reimburse its low-income housing reserve account from nonfederal funds if adequate documentation is not provided, (3) provide adequate documentation to support that the encumbrance for \$94,000 was removed and secured with nonfederal funds, and (4) implement procedures and controls to correct the weaknesses cited in this report. The procedures and controls should help ensure that future HUD funding received by the Authority will be appropriately used.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

## **Auditee's Response**

We provided our discussion draft audit report to the Authority's Executive Director and HUD's staff on April 26, 2005. We conducted an exit conference with the Authority on May 4, 2005.

We requested the Authority to provide written comments on our discussion draft audit report by May 11, 2005. The Authority provided written comments to the discussion draft audit report on May 11, 2005. The Authority generally agreed with our recommendations. The complete text of the Authority's written response, along with our evaluation of that response, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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The Canton Metropolitan Housing Authority was created in 1939 in accordance with the provisions of the Ohio Revised Code to help fill the need for decent, safe, sanitary, and affordable housing in Stark County, Ohio. Its name was changed to the Stark Metropolitan Housing Authority (Authority) in 1970. It is a public nonprofit organization, chartered by the State of Ohio, funded in part through the U. S. Department of Housing and Urban Development (HUD). It currently operates 2,539 low-income housing units, 1,467 Section 8 housing units, 873 senior or disabled housing units, and 6 community centers in 933 buildings.

A five-member board of Commissioners oversees the Authority. These members are appointed to a five-year term and are not compensated for their services. The mayor of Canton, Ohio, the largest city in Stark County, appoints two members. The Stark County Commissioners, the Stark County Court of Common Pleas, and the Stark County Court of Common Pleas Probate Division each appoint one member.

The Authority currently receives approximately \$20 million in subsidies from HUD. Of this amount, \$6.8 million is for the Section 8 Tenant housing program, \$6.1 million is for the low-income housing operating subsidy, \$4.2 million is for its capital fund program, and approximately \$2 million is for the project based Section 8 programs.

The Authority established the Ruthe and Isadore Freed Housing Corporation (Freed), a 501(c)(3) nonprofit entity in 1996. Freed is a nonprofit subsidiary of the Authority established to provide eligible residents of Stark County with quality affordable housing opportunities. Freed receives funding from the HOME Investment Partnership program and proceeds from the sale of homes under its homeownership program. Between August 2001 and September 2002, the Authority received and administered approximately \$459,000 of HOME funds for the development of five low-income housing units. Two of the five units were for Freed.

We selected the Authority for audit because it was identified as having high-risk indicators of nonprofit development activity. Our objectives were to determine whether the Authority: used annual contributions contract funds for non-annual contributions contract activities; accounted for the source and use of funds as required by its annual contributions contract with HUD; and encumbered HUD funds for the benefit of non-HUD development activity without specific HUD approval.

## RESULTS OF AUDIT

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### Finding 1: The Authority Inappropriately Used Annual Contribution Contract Funds for Development Activity outside Its Annual Contributions Contract

The Authority received \$459,457 in HOME funds to develop low-income housing for its nonprofit entity, Freed, in 2001 and 2002. The HOME funds were administered by the Authority and deposited into its general fund. The Authority expended money from its general fund to develop these HOME units for Freed. The general fund is a pool of funds that consists mainly of federal operating subsidies for the Authority. However, the general fund also contained proceeds from the sale of low-income homes.

The Authority transferred \$696,592 from its general fund to Freed between December 2000 and March 2005. According to the Authority's records, Freed repaid the Authority's general fund \$528,402 between January 2002 and March 2005. As of March 2005, the Authority's general ledger shows a balance due from Freed of \$168,190.

The Authority violated its annual contributions contract with HUD by transferring federal funds to pay the expenses of its nonprofit entity's development activities not under an annual contributions contract with HUD and without specific HUD approval. The Authority also could not identify the source of funds expended for Freed. The Authority lacked procedures and controls to ensure its contract with HUD and HUD's requirements were followed. Specifically, the Authority was not aware of the requirements of its annual contributions contract with HUD. As a result, there were fewer funds available to serve the Authority's low-income residents.

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#### **Inappropriate Transfer of Federal Funds**

The Authority inappropriately transferred HUD funds to pay the expenses of development activities not under an annual contributions contract for its nonprofit affiliate entity, Freed. The funds used were in excess of the funds that Freed had on deposit in the Authority's general fund. The Authority pooled its HUD funds in its general fund account with federal funds that Freed received for its development activities. Freed received HOME Investment Partnership funds from Stark County, as a community housing development organization.

The Authority transferred \$696,592 to Freed from its general fund between December 2000, and March 2005 (an average of \$167,182 per year). Freed transferred to the Authority's general fund (HUD programs) \$528,402 for these expenditures. The Authority has not demonstrated that these funds were

reimbursed to its low income-housing program. In addition, the Authority could not provide supporting documentation to identify the source of funds transferred to Freed from the Authority's general fund. As of March 2005, Freed owes the Authority \$168,190. The transfers made to Freed were in excess of the amount Freed had on deposit in the Authority's general fund for the period between December 2000 and March 2005.

### **The Authority did not Maintain Complete and Accurate Books of Record**

Contrary to its annual contributions contract with HUD, the Authority did not maintain complete and accurate books of record. While the pooling of funds is permitted by HUD, the Authority must maintain records that identify the source and application of funds. The Authority was not able to identify the source of the funds that were transferred to its nonprofit affiliate entity or the use of the funds repaid by its nonprofit. The Authority's Senior Accountant said the Authority reconciles its source and use of funds once a year before the annual financial audit performed by its independent public accountant.

### **Recommendations**

We recommend that HUD's Director of Public Housing Hub, Cleveland Field Office, ensure that the Authority

- 1A. Collects from Freed the \$168,190 due to the Authority for the current balance owed as of March 2005. If the Authority cannot collect the \$168,190 from Freed, it should reimburse its low-income housing reserve account from nonfederal funds.
- 1B. Provides adequate documentation to support that the repayment of \$528,402 from Freed Corporation was from nonfederal funds. If documentation cannot be provided, the Authority should reimburse its low-income housing reserve account from nonfederal funds.
- 1C. Implements procedures and controls to ensure that no further transfers of HUD funds are made on behalf of its nonprofit (nonfederal) activities without prior HUD approval. These procedures and controls should help to ensure that approximately \$167,182 in HUD funds is prevented from being advanced to the Authority's nonprofit (nonfederal activities) annually.



- 1D. Implements procedures and controls to ensure pooled funds are not withdrawn for a program or entity in excess of the amount of funds on deposit for that particular program or entity.

## Finding 2: The Authority Inappropriately Encumbered HUD Funds

The Authority inappropriately encumbered HUD funds by issuing two certificates of deposit from its general fund for \$195,000 and \$94,000 as collateral for two loans to its nonprofit affiliate entity without HUD approval. In April 2004, the encumbrance on the \$195,000 was removed when the Authority refinanced the loan and secured it with nonfederal funds. As of March 2005, the certificate of deposit for \$94,000 held as collateral for Freed was an encumbrance on the Authority's general fund, comprised of HUD funds. The Authority used HUD funds as collateral because it believed that it had enough nonfederal funds to pay the loans if necessary. As a result, HUD funds were at risk.

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### Inappropriate Encumbrance of HUD Funds

As part of the Authority's nonprofit development activities, it entered into two bank loans for the purchase of single-family properties. The Authority guaranteed the payment of the loans with HUD funds from its general fund on deposit with its bank. Contrary to its annual contributions contract with HUD, the Authority encumbered HUD funds when it issued the two certificates of deposit as collateral for loans made to Freed. The two loans were obtained in April and October 2001 from a local bank for \$195,000 and \$97,000, respectively. The loans were secured with certificates of deposit from the Authority's general fund for \$195,000 and \$94,000. In April 2004, the encumbrance on the \$195,000 was removed when the Authority refinanced the loan and secured it with nonfederal funds. As of March 2005, the certificate of deposit for \$94,000 held as collateral for Freed was an encumbrance on the Authority's general fund.

The Authority used HUD funds as collateral because it believed that it had enough nonfederal funds to pay the loans if necessary. However, the Authority did encumber HUD funds.

### Recommendations

We recommend that HUD's Director of Public Housing Hub, Cleveland Field Office, ensure that the Authority

- 2A. Provides adequate documentation to support that the encumbrance for \$94,000 was removed and secured with nonfederal funds. If documentation cannot be provided, the Authority should refinance the loan for its nonprofit affiliate entity and/or secure the collateral for the \$94,000 loan with nonfederal funds.

- 2B. Implements procedures and controls to ensure the Authority's future transactions with its nonprofit affiliate entity comply with HUD's requirements, specifically its annual contributions contract with HUD.

## SCOPE AND METHODOLOGY

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We conducted the audit at the Authority's Canton, Ohio office. We performed our audit work between November 2004 and February 2005. To accomplish our objective, we interviewed HUD's staff, the Authority's management and employees, and the employees of the Authority's nonprofit affiliate, Freed. We reviewed the Authority's annual contributions contract with HUD, schedule of financial assistance by program area for fiscal years 2001 through 2004, and general ledgers. We also reviewed the general ledgers for the Authority's nonprofit.

The audit covered the period from April 1, 2001, through March 31, 2004. The audit period was expanded as necessary. We conducted the audit in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

We determined the following internal 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 implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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

## Significant Weaknesses

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

- Program Operations – The Authority did not implement procedures and controls to ensure that HUD funds were used in accordance with HUD’s requirements (see findings 1 and 2).
- Validity and Reliability of Data – The Authority did not maintain complete and accurate books of record (see finding 1).
- Safeguarding Resources – The Authority failed to ensure that its HUD funds were used in accordance with HUD’s requirements (see findings 1 and 2).

## **FOLLOW UP ON PRIOR AUDITS**

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This was the first audit of the Stark Metropolitan Housing Authority by HUD's Office of Inspector General (OIG).

The last two independent auditor's reports for the Authority covered the years ending March 31, 2002, and March 31, 2003. The auditor's report for year ending 2002 identified two promissory notes for its component unit, described as a legally separate, nonprofit organization, Freed. The notes are for \$195,110 and \$96,713, respectively. The total long-term debt for Freed in 2002 was \$291,823. Both notes were held with The First Merit Bank, in Canton, Ohio. The auditor's report for the year ending March 31, 2003 also disclosed two promissory notes for Freed in the amount of \$184,810 and \$94,400, respectively. The total long-term debt for Freed in 2003 was \$279,210.

The independent auditor's reports for years ending 2002 and 2003 had no findings or questioned cost.

## APPENDIXES

### Appendix A

#### SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation Number	Ineligible 1/	Unsupported 2/	Funds To Be Put to Better Use 3/
1A	\$168,190		
1B		\$528,402	
1C			\$167,182
2A			94,000
Totals	<u>\$168,190</u>	<u>\$528,402</u>	<u>\$261,182</u>

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation of departmental policies and procedures.
- 3/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in reduced expenditures later for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.




# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments



STARK METROPOLITAN HOUSING AUTHORITY

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May 11, 2005

Ronald Farrell  
US Department of HUD  
Office of Inspector General  
200 North High Street, Room 335  
Columbus, Ohio 43215

Dear Mr. Farrell:

I am sending you the following as the response to your document dated April 26, 2005 regarding the results of the audit that your office recently conducted.

Initially, I would like to commend Kevin Gray and you for your professionalism during the audit process. Your cooperation allowed the audit to be performed in an efficient manner. However, there are several issues cited in the report that do not clearly, and accurately describe the use of funds at Stark MHA. The response will cover the following areas: use of ACC funds, creating of separate accounts and encumbrance of funds.


**Use of ACC funds**

In 1991 and 1992, the Stark MHA received \$4,805,600 in public housing funding to develop family public housing rental units in our jurisdiction. Without going into the details, ultimately, this funding was reallocated to a 5h homeownership program that was approved by HUD on 6/9/95. The plan allowed for the construction of single family homes to be sold to eligible low to moderate income homeowners. In 1999, the authority submitted a revision to the 5h plan requesting permission to sell up to 25 of our previously owned public housing stock to eligible home buyers. This revision was approved on 4/23/99. Copies of the approval letters are attached. In the plan, the language specifying the use of the proceeds (on page 20 of the document) is as follows:

**SALE PROCEEDS**

"The Authority proposes to use approximately ten to fifteen percent of the sale proceeds to assist in underwriting the administration of the program. This percent for administrative costs does not include any required repairs to units which may be funded from the proceeds.

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EQUAL HOUSING  
OPPORTUNITY

Board of Commissioners:

Amanda S. Fletcher, Executive Director • Michael E. Williams, Deputy Director  
Frank L. Beane • Jeffrey S. McDaniel • Linda Bell  
Cherie Turner • Daniel Forte

The remaining funds will be used for other housing programs in support of the development of affordable housing for low and moderate income families. This includes the development of housing for those individuals through the utilization of other available methods of development (e.g. tax credit programs), as well as various resident initiative activities. Affordable housing programs offered could include housing development through HOME program funds and the development of tax-credit housing. Funds may be used for land acquisition, land banking and infrastructure in support of development of sub-divisions or multi-family housing tracts, either for rental or homeownership."

The total proceeds from the sale of the original 45 homes were \$2,709,000 and of the subsequent 12 homes was \$530,000 for a total sale proceeds of \$3,239,000.

When the initial 5h plan was approved, there was no funding agreement in place other than the traditional funding agreement and no guidance from HUD as to how to correctly set up the books to account for the expenditure of the 5h program sale proceeds. When the revised plan was submitted for approval in 1999, HUD realized that they did not have a 5h funding agreement in place with SMHA and the document was executed effective 6/15/99. Section 3 of the agreement requires in the housing authority to expend the sale proceeds in accordance with the plan. It also instructs the SMHA to use the funds in an economic and efficient manner to provide maximum housing assistance and to obligate the funds in a timely manner.

The use of the sales proceeds from the 5h homeownership program to make advances to the Freed Corp. meets the criteria stated in the approved 5h homeownership plan and in the funding agreement. Even considering several other expenditures from the proceeds, the total proceeds was more than a sufficient amount of funds needed to make this advance of \$696,592 to the Freed Corp. The audit report statement on page 6 that "The authority violated its annual contributions contract with HUD by transferring federal funds to pay the expenses of its nonprofit entity's development activities not under an annual contributions contract with HUD and without specific HUD approval" is not true. Rather the 5h funds were spent appropriately according to the approved plan and the funding agreement. The authority did not "inappropriately transfer HUD funds to pay the expenses of development activities not under an ACC for its nonprofit affiliate, Freed." In addition, as of March 2005, all but \$168,190 of these funds have been repaid to the housing authority.

**Maintaining Complete and Accurate Books**

The finding that the Stark MHA did not maintain complete and accurate books of record is partially correct. The 5 h homeownership funding agreement states in Section 4 that "The housing authority shall establish and maintain a separate account for any project or program to be funded with sale proceeds under this agreement. Such sale proceeds may be commingled with funds contributed to the project or program from other sources, so long as the housing authority maintains the separate identity of the sale proceeds covered by this Agreement."

The Stark MHA did not open a separate account for the 5h homeownership program sale proceeds. However, the funds were set up under a separate account number within the housing

**Comment 1**

**Comment 2**

**Comment 3**

authority's general ledger. The housing authority also kept a record of all advances made to the Freed Corp. That being said, the Stark MHA did not make entries to the homeownership account in an easily identifiable manner and did not do the entries in a timely manner. As stated in the audit report, settle ups were done to this account at year end. Even with this weakness, the 5h account balance was always sufficient to support the advances made throughout the year for development activities and at no time did the public housing program lack funding necessary for daily operations and capital expenditures.

**Comment 4**

Rather than the issue being the advance of ACC funds, the issue is clearly the lack of documentation to support the proper expenditure of the 5h homeownership funds under the approved plan and funding agreements. Therefore, in lieu of establishing a CD for \$696,592 as recommended in the report, I am requesting that the Stark MHA be given 120 days to submit a detailed report regarding the advances to the Freed Corp. from the 5h homeownership funds to date to the Field Office for review. The remaining 5h homeownership funds totaling \$1,645,731 will be placed in a separate bank account. A separate set of books will be established and entries will be made to the account on a regular basis. As recommended in the audit report, the remaining balance due from Freed Corp. of \$168,190 will be paid from non-federal funds and entered as funds received to the low-income housing program. Future expenditures for the Freed Corp. will continue to be made from eligible funds, but will be documented in accordance with the funding agreement, etc.

**Loan Agreements**

**Comment 5**

The Stark MHA did secure two loan agreements on behalf of the Freed Corp. for a total of \$278,000 for the purchase of property. As stated above, there were sufficient funds in the account containing the proceeds from the 5h homeownership account to cover this amount. However, this was not clearly documented in our records. As of this date, both loans have been secured with non-Federal funds not associated with the 5 h homeownership sale proceeds or the low-income housing program. The encumbrance for \$184,000 was removed and secured with non-federal funds in May 2004, prior to the notice of this audit. The second encumbrance for \$94,000 was removed and secured with non-federal funds in February 2005.

We would appreciate your consideration of this response to the audit findings and recommendations. Any additional guidance you can offer would be greatly appreciated.

Sincerely,

STARK METROPOLITAN HOUSING AUTHORITY



Amanda S. Fletcher  
Executive Director

Cc: SMHA Board of Commissioners

## OIG Evaluation of Auditee Comments

- Comment 1** The advances to the Freed Housing Corporation do not meet the requirements stated in the Authority's implementing agreement with HUD that incorporates the Authority's Homeownership Plan. Section 3.1 of the agreement states in part that the Authority agrees that sale proceeds shall be used only in accordance with the Plan and the Authority certifies that its Plan complies with 24 Code of Federal Regulations, part 906.15, governing the use of sale proceeds. Part 906.15 provides for the sale proceeds to be retained by the public housing authority and used for housing assistance to low-income families.
- Comment 2** Section 4 of the 5(h) Agreement did indeed require the Authority to establish a separate account for any project or program funded with the sale proceeds. Additionally, the Agreement required that the sale proceeds might be commingled with funds contributed to the project or program from other sources, so long as the Authority maintains the separate identity of the sale proceeds covered by the agreement. Section 9(C) of the annual contributions contract between the Authority and HUD requires the Authority to maintain records that identify the source and application of funds in such a manner as to allow HUD to determine that all funds are and have been expended in accordance with each specific program regulation and requirement.
- Comment 3** While the Authority did maintain a record of its advances to Freed, it was unable to identify the source of these advances.
- Comment 4** Recommendation 1B was revised to provide an opportunity for the Authority to submit adequate documentation to support that the advances either did occur from nonfederal funds, or support that the repayment of \$528,402 from Freed was from nonfederal funds.
- Comment 5** Recommendation 2A was revised to provide an opportunity for the Authority to submit adequate documentation to support that the encumbrance for \$94,000 was removed and secured with nonfederal funds.

## Appendix C

### FEDERAL REQUIREMENTS

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24 CFR Part 906.15 states that sale proceeds may, after provision for sale and administrative costs that are necessary and reasonable for carrying out the homeownership plan, be retained by the public housing authority and used for housing assistance to low-income families.

Section 7 of the annual contributions contract between the Authority and HUD states the Authority shall not in any way encumber any project or portion thereof without prior HUD approval. Section 7 further prohibits the Authority from pledging assets of the project covered under the annual contributions contract as collateral for a loan.

Section 9(C) of the annual contributions contract states in part, that the Authority shall maintain records that identify the source and application of funds in such a manner as to allow HUD to determine that all funds are and have been expended in accordance with each specific program regulation and requirement. Funds may only be withdrawn from the general fund for (1) the payment of the cost of development and operation of the projects under annual contributions contract with HUD, (2) the purchase of investment securities as approved by HUD, and (3) such other purposes as may be specifically approved by HUD.

Section 10(C) of the annual contributions contract states that the Authority shall not withdraw from any of the funds or accounts authorized under this section amounts for the projects under the annual contribution contract or for the other projects or enterprises in excess of the amount then on deposit for that purpose.