



Issue Date:	September 16, 2005
Audit Report Number:	2005-DE-1005

TO: Ann Roman, Acting Director, Office of Public Housing, 8APH

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 8AGA

SUBJECT: The Housing Authority of the County of Salt Lake, Utah Adequately Controlled Occupancy Functions, but Inappropriately Loaned Funds

HIGHLIGHTS

What We Audited and Why

We reviewed the Housing Authority of the County of Salt Lake's (Authority) internal controls over its Housing Choice Voucher Program (Section 8) and Public Housing Operating and Capital Funds (Public Housing) to determine whether the controls provided reasonable assurance that the Authority's programs complied with U. S. Department of Housing and Urban Development (HUD) requirements. We selected the Authority for review based on an Office of Inspector General's (OIG) risk assessment of the larger housing authorities in Region VIII.

What We Found

The Authority's controls provided reasonable assurance that its staff properly assessed tenant eligibility, verified tenant income, calculated Section 8 subsidy payments, calculated Public Housing tenant rents, and used Section 8 housing choice vouchers. In addition, the Authority's controls over Section 8 and Public Housing inspections provided reasonable assurance of timely and well-documented inspections, and enforcement of corrective actions for identified violations.

However, the Authority inappropriately loaned HUD funds to the Housing Authority of Salt Lake City.

What We Recommend

We recommend that HUD require the Authority establish a policy concerning proper documentation of any future loans and to use the funds repaid by the Housing Authority of Salt Lake City for HUD-related housing activities.

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 the draft report to the Authority on August 18, 2005. Authority Officials issued a written response on August 23, 2005, in which they concurred with the audit report. The complete text of the auditee's response can be found in appendix B of this report.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding: The Authority Loaned HUD Funds to Another Housing Authority	5
Scope and Methodology	7
Internal Controls	8
Appendixes	
A. Schedule of Funds to Be Put to Better Use	9
B. Auditee Comments	10

BACKGROUND AND OBJECTIVES

The Housing Authority of the County of Salt Lake (Authority) began operations in 1970. The Authority's stated purpose included providing affordable housing to individuals living in Salt Lake County. The Authority originally entered into an annual contributions contract with the U. S. Department of Housing and Urban Development (HUD) for public housing in 1972 and for Section 8 in 1981. HUD converted these to consolidated annual contributions contracts in 1996 and 1997, respectively.

For the fiscal year ending June 30, 2004, the Authority received \$1,027,930 to administer 619 public housing units and \$15,702,242 to administer 2,278 units under the Housing Choice Voucher Program, under the terms and conditions of the consolidated annual contributions contracts.

A seven-member board of commissioners governed the Authority. An executive director managed the day-to-day operations. The Authority's records were maintained at 3595 South Main Street, Salt Lake City, Utah.

HUD's Denver Office of Public Housing conducted an on-site monitoring review of the Authority in 2003, which resulted in a report containing 9 findings, 1 concern, and 15 observations. HUD conducted another on-site review in 2004, which resulted in a report containing six findings, one concern, and four observations. The Authority staff took actions to effectively correct the deficiencies identified in the HUD reports and was committed to improving internal controls over the occupancy functions and Authority operations. The board of commissioners was actively governing the Authority. Consequently, the Authority was meeting the programs' requirements of providing affordable, satisfactory housing to the residents.

The objectives of our review were to determine whether the Authority's internal controls provided reasonable assurance that the Authority properly accomplished the occupancy functions of determining family eligibility, calculating rent subsidies, ensuring the accuracy of subsidy payments, and ensuring the proper use of Housing Choice Vouchers Program vouchers; and that it ensured the housing units met decent, safe, and sanitary housing standards.

RESULTS OF AUDIT

Finding: The Authority Loaned HUD Funds to Another Housing Authority

Authority officials loaned \$375,000 in HUD funds to the Housing Authority of Salt Lake City in 1995. They did not have documentation showing the program under which HUD provided the funds; therefore, they could not determine that the loans were an allowable use of HUD funds. They also could not show that the intended purpose for the funds was met or that the intended benefit to the residents was realized.

The Authority Loaned HUD Funds to Another Housing Authority

The Authority officials made two loans of HUD funds to the Housing Authority of Salt Lake City in 1995. They did not have documentation showing the HUD source of funds or that the loans were an allowable use of these funds. Consequently, the Authority could not show that the residents received the intended HUD benefits from the funds.

The original loan amounts were \$125,000 and \$250,000. The promissory notes for the loans established annual principal and interest payments with simple interest rates of 3 and 4 percent, respectively. However, the promissory notes did not identify the HUD source of funds or establish restrictions on the use of the funds. The Housing Authority of Salt Lake City was making the required annual principal and interest payments. As of March 2005, the outstanding principal balances of the loans totaled \$255,562 (\$77,740 and \$177,822, respectively). The total loan amount of \$375,000 represented funds that could be put to better use for HUD-related housing activities by the Authority.

The Authority's financial records showed these loans as notes receivable under its "locally owned units" cost center. Authority officials recorded the annual payments from the Housing Authority of Salt Lake City as interest income and principal. Authority officials stated that they deposited the annual payments in a special bank account and had not spent the funds. The financial records showed a reserve balance of \$222,782 (\$75,618 and \$147,164 respectively) as of May 31, 2005. Therefore, this balance is available for HUD-related activities.

The Authority did not have documentation showing the HUD program under which the funds were originally provided. Authority officials searched for the grant

agreements or other applicable documentation but did not locate anything except the promissory notes. HUD's Denver Offices of Public Housing and Community Planning and Development did not have a record of the loans.

Authority officials believed the funds were appropriated for them by one of Utah's senators in 1992. The understanding of both housing authorities' officials was that the funds were unrestricted; however, they said they used the funds for housing purposes. The Authority's records supported this assertion. For example, 12 Section 8 residents lived in the housing project named in the documentation for one loan.

Authority officials contacted a Utah senator's office and requested assistance in resolving the matter. Representatives of the senator's office in turn contacted HUD Headquarters. HUD Headquarters officials were able to provide the grant number for a \$250,000 special purpose grant in 1993; however, they stated that since the grant closed in 1994, they no longer had a hard copy of the grant agreement. HUD officials did not provide information relating to the \$125,000 loan.

The Office of Inspector General (OIG) Counsel researched appropriations documentation for 1991 through 1995. The appropriations documentation did not show a possible match for the \$125,000 loan. For the fiscal year ending September 30, 1992, the appropriations provided a special purpose grant of \$250,000 for a "low- and moderate-income housing assistance demonstration project cooperatively funded by the city and county of Salt Lake, Utah." However, this did not establish a definite connection between the grant and the loan.

Since the original grant agreements were not available, it was not possible to determine whether the loans were appropriate uses of the funds. Authority officials consider the loan repayments to be unrestricted assets. Considering that there is little documentation available to define the required use of the funds, it is reasonable for HUD to obtain a commitment from the Authority to restrict the use of those funds to HUD housing-related activities.

Recommendations

We recommend that HUD

- 1A. Require the Authority to establish a policy requiring that any future loans of HUD funds be properly documented as allowable under the terms and conditions of the applicable grant.
- 1B. Obtain a commitment from the Authority that the reserve balance and all future loan payments (\$375,000 total amount of loans) will be used for HUD-related housing activities.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed applicable HUD and Authority criteria and contracts. We interviewed appropriate Authority staff. We reviewed pertinent Authority documentation maintained by HUD. We also reviewed records maintained by the Authority and tested the control structure. We inspected a sample of Section 8 and public housing units. We used random sample selections for the tenant file reviews and unit inspections.

Our review period was January 1, 2003, through December 31, 2004, but was extended as needed. We conducted our survey work from March through May 2005.

We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

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, and
- Compliance with applicable laws and regulations.

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.

Relevant Internal Controls

We determined the following internal controls were relevant to our survey objective:

- Controls over determining family eligibility
- Controls over calculating rent subsidies
- Controls over ensuring the accuracy of subsidy payments
- Controls over ensuring the proper use of Section 8 housing choice vouchers
- Controls over inspecting the Section 8 and public housing units

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

We did not identify any significant weaknesses in the controls over the occupancy and inspection functions.

APPENDIXES

Appendix A

SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use 1/
1B	\$375,000

1/ “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 at a later time 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

Auditee Comments



**HOUSING
AUTHORITY**

OF THE COUNTY OF SALT LAKE

3595 So. Main
Salt Lake City, UT 84115
Phone (801) 284-4400
Fax (801) 284-4406

August 23, 2005

Mr. Ronald J. Hosking
Regional Inspector General for Audit
U. S. Dept. of Housing and Urban Development
Region VII Office of Audit
Gateway Tower II – 5th Floor
400 State Avenue
Kansas City, Kansas 66101-2406

Dear Mr. Hosking:

I want to acknowledge receipt of the OIG Audit of the Housing Authority of the County of Salt Lake. I have shared it with our board of commissioners and relevant senior management staff, as persons who needed to know.

We have accepted the findings and believe the recommendations are fair and reasonable.

I did want to let you know how much we appreciated working with Beth Archibald from the OIG's office. She was professional, focused on her responsibility, and yet sensitive to our organization.

I might mention that the draft we received has no page 9. I assume that is because there was no text for that page.

Best wishes,

Kerry Bate
Executive Director

KB:jm