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TO: Debra L. Lingwall, Coordinator, Public Housing Program Center, 7DPHO

FROM: //signed//  
Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: The Omaha Housing Authority Did Not Encumber Resources without HUD Approval

## **HIGHLIGHTS**

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

We audited the Omaha Housing Authority (Authority) and its nonprofit affiliates in Omaha, Nebraska, due to our risk assessment of the larger housing authorities in Region VII and in response to several citizen complaints.

Our objective was to determine whether the Authority encumbered resources to benefit other entities' financing and/or development activities in violation of its annual contributions contract, other agreement, or regulation.

This is the second report resulting from our audit of the Authority.

### **What We Found**

Based on our testing of various partnership agreements, guaranty/development agreements, and loans, the Authority did not encumber resources without U.S. Department of Housing and Urban Development (HUD) approval.

This report contains no findings. No further action on your part is necessary.

## **Auditee's Response**

We provided the draft audit report to the Authority on April 12, 2006. The auditee elected not to provide comments on the report.

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## **BACKGROUND AND OBJECTIVES**

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The Omaha Housing Authority (Authority) began operations in 1935. A five-member board of commissioners governs the Authority while an executive director manages its day-to-day operations. The Authority's administrative office is located at 540 South 27th Street, Omaha, Nebraska. Its public housing/Section 8 Housing Choice Voucher program office is located at 3003 Emmett Street, Omaha, Nebraska.

The Authority has two nonprofit affiliates, Housing in Omaha and the Omaha Housing Foundation. Housing in Omaha's mission is to provide affordable, decent, and safe housing for persons of low income. It serves as a developer and co-owner of mixed-finance developments for the Authority. The Omaha Housing Authority Foundation provides financial assistance and educational incentives to public housing residents. In addition, it supports youth athletic teams, youth recreational activities, and family events.

Our objective was to determine whether the Authority encumbered resources to benefit other entities' financing and/or development activities in violation of its annual contributions contract, other agreement, or regulation.

## **RESULTS OF AUDIT**

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The Omaha Housing Authority operates two non-profit entities: the Omaha Housing Authority Foundation and Housing in Omaha.

The Omaha Housing Authority Foundation's primary funding sources are community donations and voluntary contributions from the Authority's staff.

Housing in Omaha is a development partner in numerous mixed-finance projects and serves as a general partner, managing member, and/or manager. The U.S. Department of Housing and Urban Development (HUD) approved Housing In Omaha's role in the mixed-finance projects.

Based on our testing of various partnership agreements, guaranty/development agreements, and loans, the Authority did not encumber any resources for the benefit of these entities without HUD approval.

## SCOPE AND METHODOLOGY

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To accomplish our audit objectives, we reviewed the Authority's and its nonprofit affiliates' financial statements/general ledger data, correspondence between HUD and the Authority, loan documents, incorporation/partnership documents, board minutes, tax credit application packages, prior HUD reviews, cost allocation and court documents, as well as various guaranty and development agreements. We researched applicable regulatory guidance and interviewed HUD and Authority staff.

Our review period was January 1, 2003, through December 31, 2005. We conducted our audit work from January through March 2006 at the Authority's central administrative office in Omaha, Nebraska.

We performed our review 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, 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.

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## Relevant Internal Controls

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

- Ensuring compliance with laws and regulations and
- Safeguarding resources.

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 relevant controls identified above.

## APPENDIXES

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### Appendix A

#### **BACKGROUND ON HAWKINS LAWSUIT**

In February 1990, four Authority residents filed suit in the United States District Court for the District of Nebraska against the Authority, the City of Omaha, and HUD (Hawkins lawsuit). The plaintiffs alleged the Authority, the City of Omaha, and HUD discriminated against minority residents in locating public housing and HUD-assisted housing. On January 21, 1994, the court approved a final settlement agreement. The court retained jurisdiction for seven years from the settlement agreement date to permit the parties to request judicial intervention for enforcement of the settlement agreement.

In March 2000, the plaintiff's counsel, HUD, the Authority, and the City of Omaha signed a joint motion to amend the settlement agreement to extend the deadline for completion of the development of replacement housing units and jurisdiction of the court for four additional years (October 2005). The Authority approved a revised Hawkins replacement housing plan and sent it to the plaintiff. After reviewing the revised Hawkins plan, the plaintiffs filed a motion to dismiss the case. On November 17, 2005, the court determined the terms of the settlement agreement, and the obligations of the defendants were satisfied.

In March 2002, HUD approved the Authority's request to dispose of one building, consisting of 121 units and 1.67 acres of land at Burt Towers. HUD approved the use of the proceeds generated from this disposition for the development of replacement housing via acquisition or development.

The Authority submitted a request to HUD for approval of the Burt Towers purchase agreement between the Authority and Creighton University. On July 22, 2002, HUD approved the sale of Burt Towers to Creighton University in the amount of \$1,825,000. The proceeds funded various development projects.

In 2005, HUD approved various mixed-finance proposals and amendments to the consolidated annual contributions contract. These proposals helped satisfy requirements set forth in the Hawkins settlement agreement.



The following table lists the development projects we reviewed, the total number of units requiring construction, and the total number of units counted toward satisfying the public housing mandated in the Hawkins settlement.

<b>Development projects</b>	<b>Total number of units requiring construction</b>	<b>Total number of Hawkins units</b>
Chambers Court	70	32
Crown Creek	38	37
North Omaha	24	24
Omaha Crown I	16	16
Omaha Crown II	12	12
Securities Building Apartments	35	35
Farnam Street Building Apartments	30	30
Bayview Apartments	12	12
Long School	7	7
<b>Totals</b>	<b>244</b>	<b>205</b>