

Audit Related Memorandum
No. 96-AT-201-1802
October 18, 1995

MEMORANDUM FOR: Paul K. Turner, Director - Office of Public Housing,
Jacksonville, Florida

FROM: Kathryn Kuhl-Inclan, District Inspector General for Audit, Southeast/Caribbean

SUBJECT: Administrative Deficiencies
Operation Safe Home Probe
Hialeah Housing Authority
Hialeah, Florida

In conjunction with Operation Safe Home, we have completed a limited review of selected operations of the Housing Authority of the City of Hialeah, Florida (HHA). The review was designed primarily to identify acts of fraud or other criminal wrongdoing, or serious program abuse. We reviewed HHA's records and interviewed HHA and HUD staff. We selected areas to review based on information obtained in the interviews and on cursory reviews of records. We performed the review during February through June 1995.

While conducting the review, we noted indications of administrative deficiencies that appear to warrant additional attention by both HUD and HHA staff. We did not develop the deficiencies as we normally would to meet reporting standards for generally accepted government auditing standards.

SUMMARY

The executive director (ED) charged the authority \$62,882 for ineligible health and insurance premiums for his divorced spouse, ineligible and unsupported travel costs, and excessive compensatory time. Furthermore, the ED did not follow required payment and procurement policies, violated the conflict of interest provisions for Section 8 contracts with the mayor and a business partner, improperly withdrew \$200,000 from the Section 8 reserve account, did not properly control staff resources, and did not ensure compliance with Section 8 tenant preferences, salary comparability and cost allocation requirements, and pooling of funds requirements.

As a minimum, we recommend you require the executive director to reimburse the HHA, and implement better control procedures. Considering the seriousness of the deficiencies and deviations of established control

procedures, we also recommend you consider issuing an Limited Denial of Participation (LDP) against the ED. Details of our findings and recommendations are discussed in Attachment 1.

Within 60 days, please give us, for each recommendation in the memorandum, a status report on: (1) the corrective actions taken; (2) the proposed corrective actions and the date to be completed; or (3) why actions are considered unnecessary. Also, please furnish us copies of any correspondence or directives issued as a result of this review.

We provided a copy of this memorandum to the auditee.

If you have any questions, please contact me or James D. McKay, Assistant District Inspector General for Audit, at (404) 331-3369, or Sam Daugherty, Senior Auditor, at (904) 232-1226.

Attachments:

- 1 - Findings and Recommendations
- 2 - Schedule of Ineligible and Unsupported Costs

ATTACHMENT 1

FINDINGS AND RECOMMENDATIONS

1. Federal Funds were used to Pay the Health and Dental Insurance Payments for a Non-Employee

HHA used federal funds totaling \$4,428 to pay the health and dental insurance premiums for the executive director's (ED) divorced spouse. The divorce decree, dated January 26, 1993, required the ED to pay the spouse's health insurance for three years. The ED converted his health and dental insurance from a family plan to single plans. The divorced spouse was carried as a single person.

During our review period, the HHA prorated the premiums for the divorced spouse to each HHA cost center based on a predetermined formula. The HHA charged \$4,428 to federally funded programs during the two-year period.

We believe the ED is responsible for the premiums rather than the federal programs, and he should reimburse the authority.

Recommendations

We recommend you:

1A. Require the ED to reimburse HHA \$4,428 for the spouse's insurance costs.

1B. Require HHA to implement control procedures to prevent future similar payments.

2. Travel Expenses Included Executive Director's Personal Expenses and Duplicate billings

Generally, the ED did not provide receipts supporting his expenditures, and the HHA did not reconcile the ED's submissions. As a result, HHA paid travel expenses totaling \$8,319 to or on behalf of the ED for personal expenses (ie: vacations - \$1,378, local meals and entertainment - \$3,424, and non-HHA business trips - \$3,038) and duplicate Diners Club billings (\$479). The HHA allocated the costs to the public housing and Section 8 programs.

The ED generally obtained an HHA advance before each trip. Upon return, he completed a travel expense report showing the use of funds advanced for travel. Later, he submitted his personal monthly Diners Club statements for reimbursement. He generally did not include receipts supporting the statements. The HHA made payments directly to Diners Club. Occasionally, the ED reimbursed the HHA for some personal expenses. We considered the reimbursements in our review.

We found the Diners Club statements included hotel and car rental charges for vacations to California in November and December 1993 and San Juan, Puerto Rico in August 1994. The ED reimbursed the HHA for some personal expenses which we considered in our analyses. The total personal costs not reimbursed by the ED were \$1,378.

The Diners Club charges also included \$3,424 for personal dining and entertainment expenses in and around the Miami metropolitan area. The expenses were not for official duties.

The ED also incurred travel costs as a board member of the Housing Authority Risk Retention Group (HARRG). HARRG is an entity organized to provide hazard insurance to participating housing authorities. HARRG staff informed us they had reimbursed the ED for several trips but did not provide us copies of the vouchers submitted. Our review showed the HHA reimbursed the ED \$2,005 and paid Diners Club charges of \$1,033 for travel costs involving HARRG functions. The HHA did not receive reimbursement from the ED or HARRG for these costs. We were unable to determine whether the ED received reimbursement from HAARG for the same trips.

We also noted the ED received duplicate payment for some travel costs. We compared costs claimed on the travel expense reports to the Diners Club statements. We found \$479 was claimed as expenses on the travel expense reports and on the Diners Club statements. In effect, the ED received funds for expenses which were also claimed on the Diners Club. This was probably the result of not providing receipts with the travel expense report or Diners Club charge billings.

The HHA charged all travel during the review period to the PH and Section 8 expense accounts. We found no travel charges to the HHA's other cost centers such as the Affordable Housing program (564 units) or City Managed properties (100 units). In our opinion, some of the travel costs should be allocated to other cost centers.

The ED agreed some costs were personal and should not have been paid by the HHA. But, he explained the Board of Commissioners agreed several years ago to provide \$300 monthly for his expenses. We found no record of this agreement in the board minutes or the terms of the employment contract. The HHA's travel manual requires detailed support for travel reimbursements and advances.

We do not believe the ED should be provided an expense account requiring no supporting invoices. We believe the HHA needs to improve its controls over travel expenses. Also, we believe the ED should reimburse the HHA for his personal expenses and duplicate costs.

Recommendations

We recommend you:

- 2A. Require the ED reimburse HHA \$8,319 for ineligible travel costs.
- 2B. Require HHA to develop and implement control procedures to prevent similar situations.
3. Executive Director's Compensatory Time Payments were Questionable

HHA's personnel policies and procedures provide for payment of overtime pay for maintenance employees and compensatory time off for administrative employees. The personnel policy states "an administrative employee may be granted compensatory time off in lieu of compensation, at the rate of one and one half hours for each hour of overtime worked." However, the ED's employment contract provides that the employee may convert up to one-half of any unused compensatory time to salary - up to 60 working days. The contract terms and conditions specify the contract

is for a two year period. Accordingly, we believe the contract limits the conversion to 60 days during the two year contract period.

During the audit period the ED converted 1,747.9 hours to salary amounting to \$84,000. The following schedule summarizes the overtime payments:

Date	Check No	Overtime Amount	Comp Hours	Time (a)	Hrly Rate
10/13/93	9371	\$12,500.10	186.01	279.02	\$44.80
1/27/94	13191	\$20,000.00	283.44	425.17	\$47.04
7/22/94	20601	\$12,500.00	177.15	265.73	\$47.04
7/25/94	20603	\$12,500.00	177.15	265.73	\$47.04
2/24/95	29602	\$26,503.82	341.50	512.25	\$51.74
Totals		\$84,003.92	1,165.25	1,747.90	

(a) Compensatory time was allowed at time and a half.

We believe the ED received more overtime salary than allowed by his contract. Based on the 60 day limit for a two year period, we believe the ED was entitled to payment for only 720 hours (60 days x 8 hours x 1.5) or approximately \$33,868 (720 hours x \$47.04). Accordingly, the ED was overpaid approximately \$50,135 (\$84,003 - \$33,868) for 1,027.9 hours (1,747.9 hours - 720 hours).

Our review of the time sheets showed compensatory time was not always promptly or accurately deducted when taken. For example, the ED's time sheets did not reflect deductions to correspond with the conversions in October 1993, January 1994, or February 1995. Time sheets were not available for the period May 10, 1994 through August 1, 1994. However, based on the ending and beginning balances for those months, we concluded a deduction was not made for the July 1994 conversion. The time sheets reflected deductions of 354.3 hours on December 20, 1993, and 579.83 hours on November 7, 1994. We were unable to reconcile the deductions to the checks written. However, in total the time sheets reflect a total deduction of 934.13 hours, while payments were made for 1,165.25 hours (1,747.9 overtime hours). Accordingly, the overtime balance at April 10, 1995 is overstated by at least 231.12 hours (1,165.25 - 934.13 hours).

We also noted unexplained increases to compensatory time balances. For example, the time sheets reflected an ending balance of 926.5 hours at March 28, 1994, but a beginning balance of 1173.67 hours at March 29, 1994, an unexplained increase of 247.17 hours. Two time sheets existed for the period March 14, to March 27, 1995. One reflected a beginning balance of 878 hours while the other reflected a beginning balance of 1310.15 hours. The latter one was not used because the time sheet for March 28 to April 10, 1995 used a beginning balance of 878 hours.

Generally, the time sheets lacked explanations to support the overtime hours. In cases where explanations were provided, the explanations did not appear sufficient. For example, some time sheets indicated the hours were earned for routine activities such as attending routine board meetings, attending seminars, reading mail, and returning calls.

HHA's payment policies require either the Chairman's or Vice Chairman's signature for checks over \$15,000. We noted two checks were issued for the July 1994 conversion. The checks were written within 3 days and were signed by the ED and executive secretary. Separate checks appear to have been written to bypass the signature requirement.

Based on our review of compensatory time sheets, we believe the ED's compensatory time balance at April 10, 1995 is overstated by 478.29 hours (231.12 hours not deducted for payment and 247.17 unexplained increase). At the ED's current rate of pay, the overstatement represents \$37,120 (478.29 hours x 1.5 x \$51.74).

In summary, the HHA paid the ED more overtime salary than allowed by his contract, lacked supporting time sheets for several pay periods, did not obtain the required check signature, did not make proper or accurate adjustments when time was converted to salary and did not have proper support for an increase.

Recommendations

We recommend you:

3A. Require the ED reimburse HHA \$50,135 for excess overtime payments.

3B. Require the HHA to terminate the conversion practice.

Alternatively, if allowed to retain the practice, the HHA must adjust its records and improve its control procedures to prevent future excessive payments.

4. Conflicts of Interest

Conflict of interest provisions in the HAP (Housing Assistance Payment) contracts provide that no PHA employee or political official who exercises functions or responsibilities with respect to the Section 8 program shall have any direct or indirect interest in the Housing Assistance Contract.

The HHA executed HAP contracts with the City of Hialeah Mayor (who is also a close business associate and friend of the ED). One contract was awarded in 1986 and the second contract was awarded in 1994. During 1994, the HHA paid \$5,426 to the Mayor as a Section 8 landlord.

The HHA also executed HAP contracts with an individual who is a close business partner and friend of the ED. During 1994, the HHA paid the individual \$8,938 directly and \$6,390 to the individual and another person as joint payees.

We believe the contracts represent a conflict of interest and that the contracts should be canceled or assigned to another authority.

Recommendations

We recommend you:

4A. Consider terminating the contracts or assigning them to another authority.

5. Operating Reserves Underfunded and Disbursed Prematurely

HUD's policies and procedures for PHA owned rental housing and the Section 8 program allow PHAs to establish an operating reserve. Generally, the PHA owned operating reserve funds are intended to offset any operating deficits occurring in any fiscal year (i.e., the amount by which operating expenditures exceed operating receipts for such fiscal year). Section 8 operating reserve funds may be used for other housing purposes consistent with the PHA's authority under State and local law, provided that the amounts used for other housing purposes are not required for projected administrative expenses through remaining ACC terms. Also, the use of any Section 8 operating reserves requires board approval.

The HHA may have used some of its PHA owned operating reserve funds to fund operations of non PHA owned rental housing activities. We noted deficit balances for the day care center (\$21,104), Affordable Housing program (\$128,236), and Palm Center (\$85,327). Apparently, funds were borrowed from HHA's operating account to cover the deficit balances in

non-federal programs.

Since the HHA does not reconcile the balance sheet cash accounts monthly, we have concerns cash controls are inadequate. Therefore, federal funds may have been used for expenses unrelated to the federal program the funds were intended.

Our review disclosed \$200,000 was withdrawn from the Section 8 operating reserve account during 1994. Funds were invested in a certificate of deposit and accounted in HHA's Development Account books and records. According to a HHA official, the funds were placed in an investment account to accumulate funds for future development. He said the HHA planned to construct an administration building.

We believe the \$200,000 withdrawal was improper because: (1) the HHA had not determined the funds would not be needed for the remaining ACC terms, (2) the withdrawal lacked board approval, and (3) there is no immediate need for the funds. We believe the funds and any earned interest should

be transferred back to the Section 8 program.

Recommendations

We recommend you:

5A. Require the HHA reimburse the Section 8 operating reserve account \$200,000 plus earned interest income.

5B. Remind the HHA that PHA owned reserve funds can not be used for non-federal programs.

6. Tenant Accounts Receivable Not Properly Recorded

HUD requires PHAs to prevent and correct minor errors and omissions in the determination of Section 8 contract rents. Such minor errors and omissions include those which affect the tenant's share of the contract rent. If the tenant's share of the rent was incorrectly established too low due to a tenant error or omission, the PHA may require repayment by the family within a reasonable period of time.

The HHA established a repayment policy for tenants whose rents were incorrectly established too low due to a tenant error or omission. At May 12, 1995, the HHA had accounts receivable totaling \$14,734 from 12 Section 8 tenants. We noted that the HHA did not record the accounts receivable in the general ledger and that the HHA lacked adequate internal controls over the collections.

The Section 8 department was responsible for determining and collecting accounts receivable from tenants. The same person who determined a receivable may also collect the receivable.

To strengthen controls, we believe tenant accounts receivable should be booked in the formal Section 8 accounting records maintained by the accounting department. The Section 8 department should notify the accounting department of agreements with tenants. The accounting department should be responsible for collections and management of the receivables in accordance with prudent collection and accounting procedures.

Recommendations

We recommend you:

6A. Require the tenant accounts receivable be recorded in the formal Section 8 accounting records.

6B. Require the HHA improve its controls over the recording and collection of the accounts.

7. Staff Resources Need to be better controlled

We noted the executive secretary accompanied the ED on at least five out of town trips. All five trips were for HARRG functions and did not appear to be related to HHA operations. The trips resulted in unnecessary travel costs and lost productivity. Because the hotel and air fare receipts were commingled with other costs, we did not determine the related travel costs. We estimate the lost productivity for the executive secretary salary at \$3,045.

The ED had other non-HHA business interests. These interests included real estate development, ownership, and rental property management. The executive secretary assisted in managing the personal real estate files. The subject files were located in her office with numerous notes instructing her on what to do.

The ED provided a loan to a friend to start a retail paint store.

We observed the HHA maintenance coordinator and his HHA assigned truck at the store on June 8, 1995. The employee was stocking paint. Our review of the employee's time records indicate the employee phoned in sick on that date. In fact, the employee had phoned sick on numerous occasions during the week before our encounter. We believe the ED had knowledge

and should have taken steps to prevent the employee's infraction of the HHA's leave policy and misuse of HHA equipment.

Recommendations

We recommend you:

7A. Remind the HHA that travel must be limited to employees who have a need to attend the training that directly benefits the administration of the federal programs.

7B. Require the HHA to improve its controls over use of sick leave and HHA equipment.

8. Improper Section 8 Tenant Preferences

Our review of the Section 8 program disclosed certain applicants for assistance may have received preferential treatment.

We selected a sample of applicants and analyzed the average number of days the applicants were on the Section 8 waiting list before assistance was provided. For a two bedroom unit, the average number of days from application to move in date was 1,479 days. For a three bedroom unit, the average number of days was 1,340. We reviewed the files for seven applicants selected at random or who received assistance well under the average waiting period.

Three families appear to have been placed in housing due to the influence of a HHA official. File information indicates two families were provided assistance even though they were not income eligible. One family waited 530 days, or 949 days (approximately two years) less than the average. The third family received assistance even though they were never on the waiting list. This family's waiting period was 32 days, or 1,308 days (approximately three years) less than the average. The files contained notes which indicated the HHA official may have directed the staff to do less than a thorough review of income for the two families which were not income eligible. The file for the third family indicated the official instructed Section 8 staff to admit the family even though they were not on the wait list.

Indications of possible preferential treatment were also noted for four other families. The mother of the Section 8 coordinator waited 737 days, or 742 days (approximately two years) less than the average. The parents of the Mayor's secretary waited 448 days, or 1,031 days (approximately three years) less than the average. Lastly, two HHA employees were

provided assistance. One of the two waited 1,095 days, or 245 days (approximately eight months) less than the average. Also, they were admitted when other applicants had submitted applications up to three years before them and are still on the waiting list.

The files indicate HHA officials may not have administered the Section 8 program fairly to all applicants.

Recommendation

We recommend you:

8A. Review the Section 8 program during your next monitoring visit.

8B. Remind the HHA that applicants must be fairly selected in accordance with HUD requirements.

9. Procurement Actions were not in Compliance with Policies and Procedures

The HHA's Procurement Policy requires the ED to solicit bids or informal proposals from at least three suppliers for purchases and contracts between \$10,000 and \$24,999. For purchases and contracts \$25,000 and above, the ED must obtain sealed bids, via advertisement, to be opened at a public meeting of the Board of Commissioners. The ED must maintain a file that documents the solicitation, and the bids or proposals received and contracts awarded.

The procurement policy also requires that checks issued for \$15,000 or more be signed by either the Chairman or Vice-Chairman of the Board of Directors.

Our review of selected procurement transactions disclosed several violations.

A. Garbage services contract not competitively awarded

The HHA awarded an annual \$43,800 garbage services contract to Central Hauling Systems in 1987. In October 1993, the HHA awarded a two year contract to Central Holding Systems. There was no evidence of formal competitive bidding. The ED explained the contractor changed names and the contract was renewed due to a favorable price. However, we noted the contract increased to an annual amount of \$55,200 and believe the contract should have been re-bid.

Subsequently the owner died and Waste Management of Dade County purchased the franchise. In February 1994, the HHA executed a contract for the same amount and scope of services with Waste Management. The ED explained the contract was not re-bid because Waste Management was willing to assume the contract for the same price. We noted the contract with Central Holding Systems did contain a provision that the contract could be assigned and was binding upon such assigns, successors or personal representatives.

Additionally, the ED may have violated the procurement code of conduct due to a possible conflict of interest. The ED personally contracted with Central Holding Systems for trash removal services, between October 1991 and April 1992, for at least one multifamily-property he owned. Thus, the ED may have violated the HHA's code of conduct in letting the contract with Central Holding Systems in October 1993. The code of conduct for procurement states that no officer of the PHA shall participate in selection or award of a contract if a conflict of interest, real or apparent, would be involved.

B. Ranges not competitively awarded

The HHA purchased 133 ranges at a cost of \$26,008.50 from Garcia Home Appliances. The HHA could not demonstrate the purchase was competitively awarded.

In addition, we found that payments may have been split to circumvent board approval. We found four checks to Garcia Home Appliances, each dated July 15, 1993, totaling \$26,008.50. The first check for \$4,513.50 was for the purchase of 23 ranges. A second check for \$21,495 was voided. The remaining two checks were each for \$10,747.50, exactly one-half of the voided check amount. We found a supporting invoice for 110 ranges which, coincidentally, matched the voided check amount of \$21,495.00. In our opinion, the voided check was split into two checks, for \$10,747.50 each, to circumvent required board signature for checks over \$15,000.

The ED could not explain why the voided check amount was split into two checks. However, the ED contends that the purchase was not subject to formal bidding because less than \$25,000 was attributable to public housing. He explained that \$4,513.50 of the total purchase price was for another program, Comprehensive Grant. Therefore, he reasoned the total cost to public housing was less than \$25,000 ($\$26,008.50 - \$4,513.50 = \$21,495.00$) and, therefore, did not require formal bidding procedures.

We do not agree with the ED's position, since purchases through the

Comprehensive Grant program are also for public housing. However, even if the ED's position is accepted, documentation of an informal bid process would have been required. The HHA also could not document that it followed the informal bidding requirements. Accordingly, the HHA lacks assurance that it obtained the ranges at the best price.

C. Audit services not competitively awarded

The HHA's procurement policy indicates competitive proposal procedures should be used when obtaining professional services such as legal services and accounting. In this process, competitors' qualifications are evaluated and the most qualified competition is selected, subject to negotiation of fair and reasonable compensation.

The HHA's November 3, 1994 board minutes show that the authority did not use competitive procurement procedures in awarding the fiscal year 1994 audit contract to the Certified Public Accountant (CPA). The minutes reflect a discussion concerning the award and that a board member asked if it was necessary to go out for bids. The ED responded that bids were not required and that the CPA did this service for the HHA year after year. The minutes reflect the ED also said that the auditors had to be approved by HUD, that there were only about fifty auditors throughout the United States, and locally there were none. The board then approved the firm to perform the 1994 audit.

The ED's statements were misleading because: the auditors do not have to be approved by HUD, and there are many qualified firms throughout the United States.

D. Unsupported and Split Disbursements

The HHA issued six checks during 1993, totaling \$85,000, to AAM Management Corporation. The HHA did not have invoices or other supporting documentation to support the disbursements, which were charged to the Affordable Housing program. Additionally, four of the six checks, totaling \$53,000, were consecutive in number and issued on the same day. Each of the four checks was issued for less than \$15,000; three were for \$14,000 and one was for \$11,000. The amounts indicate that several checks were issued in order to circumvent required board signature for checks over \$15,000. However, we were not able to obtain evidence of this supposition since no invoices to support the checks were found.

We believe these examples demonstrate the HHA needs to improve its procurement practices.

Recommendations

We recommend you:

- 9A. Require the HHA to justify the procurement actions and unsupported disbursements.
- 9B. Require the HHA to improve its controls over procurement actions.
- 10. Salaries of the Executive Director and Executive Secretary and Allocations of Administrative Salaries were Questionable

Salaries of the ED (\$113,000) and Executive Secretary (\$41,976) may be excessive for the size of the authority. The ED advised us that no salary comparability study had been performed for several years. The HHA's April 22, 1993 board minutes indicate the ED's salary was compared to other authorities in the State. However, the minutes do not indicate the amounts involved, and do not discuss any other positions.

Administrative salaries were not allocated to the HHA's activities in proportion with the cost center benefiting from the efforts. The ED advised there was no real basis for the allocation of salary costs. He said he desired to limit the costs to the Section 8 and other programs.

Our review disclosed salary allocations were inordinate. For example, the ED's salary was charged only to Public Housing (86 percent), Patterson (4 percent), Affordable Housing (8 percent), and Comp Grant (2 percent). Nothing was charged to the Section 8 programs, City managed programs, or day care. Affordable Housing has 545 units of low income housing. Because the size of Affordable Housing is about one half that of Public Housing (1003 units), the amount allocated appears small.

Examples for other employees are as follows:

1. The Executive Secretary's salary was charged to Public Housing (88 percent) and Patterson (12 percent). We believe this allocation is not appropriate. Salaries should be allocated to all programs the employee works with. We believe the Executive Secretary would be involved with all programs at some time or the other.
2. The Director of Finance's salary was charged to Public Housing (83 percent), Patterson (12 percent), and Comp Grant (2 percent). The accounting for the Section 8 and Affordable housing is as much if not more than Public Housing, and thus some costs should be charged to these programs also.

3. The manager and assistant manager of the Affordable Housing program were charged to the Hot Meals and Patterson programs. These programs are not related to the Affordable Housing program, and there was no justification for this allocation.

We believe the HHA needs to perform a salary comparability study and develop a sound basis for proper allocation of administrative costs.

Recommendations

We recommend you:

- 10A. Require the HHA obtain a salary comparability study.
 - 10B. Require the HHA develop and implement a proper cost allocation system.
11. Pooling of Funds did not comply with HUD Requirements

HUD allows three ways of pooling of funds for payment of joint expenses. The methods are referred to as limited, or unlimited revolving funds, or a master account. Each has restrictions. In general, the intent is to pool funds together to pay expenses shared by each participating cost center (i.e., federal and non-federal programs). Funds are directly deposited or transferred to the pooled account in advance to cover anticipated expenses. At no time are the funds of one cost center to pay the expenses of another.

The HHA's method of making payments for cost centers does not comply with HUD requirements. HHA established a checking account, referred to as a revolving fund account, in which federal funds are directly deposited. Checks were drawn on the account to pay expenses of the participating cost centers (approximately nine federal and non-federal programs participate). Cost centers were to reimburse the revolving fund account monthly.

Our review disclosed cash in the revolving fund account was not reconciled to each cost center monthly. We were unable to determine the amount in the revolving fund account that was federal or non-federal.

At December 31, 1994, non-federal programs lacked sufficient cash to cover their expenses. As a result, the non-federal programs owed the federal programs \$242,281. In effect, federal funds have been used to finance the operations of the non-federal programs.

We believe the HHA needs to improve its controls over the revolving funds account.

Recommendations

We recommend you:

11A. Require the HHA to adopt a HUD acceptable method.

11B. Require the HHA to improve its controls over the revolving fund, by
ATTACHMENT 2

SCHEDULE OF INELIGIBLE COSTS

Recommendation Ineligible Costs[1] Unsupported Costs[2]
requiring monthly reconciliations.

1A	\$4,428	
2A	8,319	
3A	50,135	
5A	200,000	
9A		\$85,000
Total	\$262,882	\$85,000

[1] Costs not allowable by law, contract, HUD or local agency policies or regulations.

[2] Costs not clearly eligible or ineligible but warrant being contested (e.g., lack of satisfactory documentation to support the eligibility of the cost.)