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Audit Case Number	00-CH-201-1002

TO: Thomas S. Marshall, Director of Public Housing Hub, Cleveland,  
Area Office  
Preston A. Pace, Jr., Director of Columbus Multifamily Hub, Ohio  
State Office

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Cuyahoga Metropolitan Housing Authority  
Title V Account  
Cleveland, Ohio

We completed an audit of the Cuyahoga Metropolitan Housing Authority's Title V account. The review was conducted based upon news reports that funds were inappropriately paid from the account. The objective of our audit was to determine whether the Authority's use of funds from the Title V account was proper.

Based upon our review of the Housing Authority's Title V account, we found that the Authority did not follow HUD's requirements, Office of Management and Budget Circular A-87, State of Ohio law, and the Authority's policies regarding the use of Title V funds. Between January 1, 1990 and July 31, 1998, the Authority inappropriately used \$11,267,209 in Title V funds. The inappropriate payments included \$10,735,243 in Title V funds without adequate supporting documentation and another \$531,966 for costs that were not reasonable and necessary low-income housing expenses. The Authority's former Chief Executive Officer and/or the former Chief Operating Officer approved \$301,357 of the \$531,966 (57 percent) in unnecessary and unreasonable payments. As a result, funds were not available for other low-income housing purposes. HUD also had no assurance that the Housing Authority paid only reasonable and necessary low-income housing expenses.

We also found that the Housing Authority did not follow its Annual Contributions Contract with HUD regarding the deposit of low-income housing monies. Between January 1, 1990 and July 31, 1998, the Authority inappropriately transferred \$45,292 in Low-Income Housing Program funds to its Title V bank account. As a result, the Authority had less funds for its Low-Income Housing Program.

## Management Memorandum

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Within 60 days, please provide us, for each recommendation made in this report, 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. Also, please provide us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (312)353-7832.

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# Executive Summary

We completed an audit of the Cuyahoga Metropolitan Housing Authority's Title V account. The Housing Authority's Title V account consisted of funds from various sources such as the Authority's veterans housing, Section 8 Program, Low-Income Public Housing Program, Comprehensive Improvement Assistance Program, and excess bond proceeds. The excess bond proceeds resulted from the owners' refinancing of Ambleside, Puritas Place, and Rock-Glen Apartments. The audit was conducted based upon news reports that funds were inappropriately paid from the Title V account. Our audit objective was to determine whether the Authority's use of funds from the account was proper.

We found that the Housing Authority did not follow HUD's requirements, Office of Management and Budget Circular A-87, State of Ohio law, and the Authority's policies regarding the use of Title V funds. Between January 1990 and July 1998, the Authority inappropriately used \$11,267,209 in Title V funds. The inappropriate payments included \$10,735,243 in Title V funds without adequate supporting documentation and another \$531,966 for costs that were not reasonable and necessary low-income housing expenses. The Authority's former Chief Executive Officer and/or the former Chief Operating Officer approved \$301,357 of the \$531,966 (57 percent) in unnecessary and unreasonable payments. As a result, funds were not available for other low-income housing purposes. HUD also had no assurance that the Housing Authority paid only reasonable and necessary low-income housing expenses.

We also found that the Authority did not follow its Annual Contributions Contract with HUD regarding the deposit of low-income housing monies. Between January 1990 and July 1998, the Housing Authority inappropriately transferred \$45,292 in Low-Income Housing Program funds to its Title V bank account. As a result, the Authority had less funds for its Low-Income Housing Program.

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The Housing Authority  
Inappropriately Used  
\$11,267,209 In Title V  
Funds

The Housing Authority did not follow HUD's requirements, Office of Management and Budget Circular A-87, State of Ohio law, and the Authority's policies regarding the use of Title V funds. Between January 1, 1990 and July 31, 1998, the Housing Authority inappropriately used \$11,267,209 in Title V funds. The inappropriate payments included \$10,735,243 in Title V funds without adequate supporting documentation and another \$531,966 for costs that were not reasonable and necessary low-income housing expenses. The Housing Authority's former Chief Executive Officer and/or the former Chief Operating Officer approved \$301,357 of the \$531,966 (57 percent) in unnecessary and unreasonable payments. The problems occurred because the Housing Authority's former top management and Board of Commissioners failed to adequately exercise their duties. The Housing Authority's former top management also circumvented the Authority's policies.

The Housing Authority  
Inappropriately Deposited  
\$45,292 In Its Title V  
Account

The Housing Authority did not follow its Annual Contributions Contract with HUD regarding the deposit of low-income housing monies. Between January 1, 1990 and July 31, 1998, the Housing Authority inappropriately transferred \$45,292 in Low-Income Housing Program funds to its Title V bank account. The problem occurred because the Housing Authority's Board of Commissioners and former top management failed to establish adequate controls over the deposit of low-income housing funds.

Recommendations

We recommend that HUD's Cleveland Area Office Director of Public Housing Hub, in conjunction with HUD's Ohio State Office Director of Columbus Multifamily Hub, assures that the Cuyahoga Metropolitan Housing Authority: implements controls to correct the weaknesses cited in this report; provides documentation to support the \$10,735,243 of unsupported payments or reimburse its Title V account from non-Federal funds for the amount that cannot be adequately supported; reimburses its Title V account \$531,966 from non-Federal funds for the ineligible payments; and transfers the \$45,292 of inappropriate deposits from its Title V bank account to the Low-Income Housing Program General Fund.

We presented our draft findings to the Housing Authority's Executive Director and HUD's staff during the audit. We held an exit conference with the Housing Authority's Executive Director and the Authority's Chairman of the Board of Commissioners on March 13, 2000. The Authority provided written comments to our findings. The Housing Authority said it had supporting documentation for a number of large disbursements; however, the Authority did not provide the supporting documentation with its comments. We included paraphrased excerpts of the comments with each finding (see Findings 1 and 2). The complete text of the comments are in Appendix B with the exception of three attachments that were not necessary for understanding the Authority's comments. A complete copy of the Authority's comments with the attachments were provided to HUD's Cleveland Area Office Director of Public Housing Hub and HUD's Ohio State Office Director of Columbus Multifamily Hub.

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# Introduction

The Cuyahoga Metropolitan Housing Authority was organized under the laws of the State of Ohio to develop, acquire, and operate low-income housing programs. A five-member Board of Commissioners is responsible for monitoring the Housing Authority's operations. The Chairman of the Housing Authority's Board is Bracey E. Lewis and the Authority's Executive Director is Terri Hamilton Brown. The Housing Authority's official records are located at 2711 Church Avenue, Cleveland, Ohio.

The Housing Authority is authorized to administer low-income housing programs throughout Cuyahoga County, which includes the Cities of Cleveland, East Cleveland, Cleveland Heights, and Oakwood. The Housing Authority executed cooperation agreements with these four municipalities which provides the legal basis for the Authority's operations.

On December 31, 1945, the Federal Government amended Title V of the Lanham Act. The Act authorized funds to the Veterans Administration for disassembling, transporting, reerecting, and converting surplus war structures supplied by educational institutions, State and local bodies, and nonprofit organizations to provide housing for veterans, their families, and distressed families of servicemen. In 1953, the Veterans Administration transferred the housing in Cuyahoga County to the Housing Authority.

The Housing Authority sold its veterans housing in 1958 and invested the proceeds into its Title V bank account. There was very little activity to the Authority's Title V bank account until 1990. At that time, the Housing Authority's former Chief Executive Officer and the former Chief Operating Officer paid expenses from the Title V account which HUD would not permit the Authority to pay from Federal funds.

Between January 1990 and July 1998, the Housing Authority's Title V account consisted of funds from various sources such as the Authority's veterans housing, Section 8 Program, Low-Income Public Housing Program, Comprehensive Improvement Assistance Program, and excess bond proceeds. The excess bond proceeds resulted from the refinancing by the owners of Ambleside, Puritas Place, and Rock-Glen Apartments. The Housing Authority was HUD's Section 8 contract administrator for the three apartment projects.

HUD and the Housing Authority executed a Memorandum of Understanding in December 1994 which outlined the use of the excess bond proceeds from Ambleside Apartments. The Memorandum of Understanding required the Authority to use the bond proceeds to construct additional low-income housing. HUD and the Authority did not execute an agreement in relation to the bond proceeds from Puritas Place and Rock-Glen Apartments.

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## Audit Objectives

Our audit objective was to determine whether the Authority's use of funds from the Title V account was proper.

## Audit Scope And Methodology

We conducted the audit at HUD's Cleveland Area Office, the State of Ohio's Auditor of State Office, and the Housing

Authority. We performed our on-site audit work between August 1998 and February 2000.

To determine whether the Housing Authority's use of funds from the Title V account was proper, we reviewed the Housing Authority's: personnel files; general ledgers; cash receipts and disbursements journals; canceled checks and bank statements; travel vouchers; Board meeting minutes; vendor files and contracts; and payroll records. We also reviewed HUD's files and the State of Ohio's Auditor of State audit files for the Housing Authority. We interviewed: HUD's staff; State audit officials; and the Housing Authority's Commissioners and employees.

The audit covered the period January 1, 1990 to July 31, 1998. We extended our audit period as necessary. We conducted our audit in accordance with generally accepted government auditing standards. However, we did not assess the Authority's management controls since our review was to determine whether the Authority's use of funds from the Title V account was proper, and our testing of the account included 100 percent of the transactions.

We provided a copy of this report to the Housing Authority's Executive Director and the Chairman of the Board.



# The Housing Authority Inappropriately Used \$11,267,209 In Title V Funds

The Cuyahoga Metropolitan Housing Authority did not follow HUD's requirements, Office of Management and Budget Circular A-87, State of Ohio law, and the Authority's policies regarding the use of Title V funds. Between January 1, 1990 and July 31, 1998, the Housing Authority inappropriately used \$11,267,209 in Title V funds. The inappropriate payments included \$10,735,243 in Title V funds without adequate supporting documentation and another \$531,966 for costs that were not reasonable and necessary low-income housing expenses. The Housing Authority's former Chief Executive Officer and/or the former Chief Operating Officer approved \$301,357 of the \$531,966 (57 percent) in unnecessary and unreasonable payments. The problems occurred because the Housing Authority's former top management and Board of Commissioners failed to adequately exercise their duties. The Housing Authority's former top management also circumvented the Authority's policies. As a result, funds were not available for other low-income housing purposes. HUD also had no assurance that the Housing Authority paid only reasonable and necessary low-income housing costs.

## Veterans Housing Projects' Income Requirement

Section 3735.37 of the Ohio Revised Code requires that a metropolitan housing authority, which received as a gift from the Federal government certain buildings erected as temporary homes for veterans, use the income from the housing project to eliminate slum areas, and prepare plans and construct housing for low-income families.

## Section 8 Program Requirements

The Consolidated Annual Contributions Contract for the Section 8 Housing Certificate Program and Housing Voucher Program requires the Cuyahoga Metropolitan Housing Authority to use Program receipts to provide housing to low and moderate income families. Program receipts may only be used to pay Program expenditures.

The Contract also requires the Housing Authority to maintain an Operating Reserve account consisting of the Section 8 administrative fees earned and interest earned on the Operating Reserve. The Housing Authority may use the Operating Reserve funds for other housing purposes consistent with State and local law.

## Low-Income Public Housing And Comprehensive Assistance Grant Requirements

24 CFR Part 85.20 requires the Housing Authority to maintain accounting records that adequately identify the application of funds as well as expenditures. 24 CFR Part

85.22(b) requires that State, local, and Indian tribal governments follow Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments. 24 CFR Part 85.3 defines a local government to include any public housing agency.

Office of Management and Budget Circular A-87, Attachment A, paragraph C(1)(a), requires that all costs be necessary and reasonable for proper and efficient performance and administration of Federal awards. In addition, paragraph C(1)(j) requires that all costs be adequately documented. Circular A-87 applies to the Low-Income Public Housing and the Comprehensive Improvement Assistance Programs, not the Section 8 Program.

The Annual Contributions Contract, Section 401(D), says the Cuyahoga Metropolitan Housing Authority may withdraw monies from the Low-Income Public Housing General Fund for the payment of low-income housing development costs and operating expenditures.

HUD Handbook 7485.1 REV-4, The Public and Indian Housing Comprehensive Improvement Assistance Program Handbook, Chapter 1, Paragraph 1, requires housing authorities to use Comprehensive Improvement Assistance Program funds to improve the physical condition and upgrade the management and operation of existing public housing projects to assure that such projects continue to provide housing to low-income families.

Use Of Ambleside  
Apartments' Excess Bond  
Proceeds

The Memorandum of Understanding dated December 28, 1994, between HUD and the Cuyahoga Metropolitan Housing Authority, requires the Housing Authority to use the bond proceeds from Ambleside Apartments to construct housing units for very low-income elderly, handicapped, and disabled households.

General Requirements For  
Housing Authorities

Section 3735.37 of the Ohio Revised Code requires metropolitan housing authorities to keep an accurate account of all receipts and expenditures.

24 CFR Part 24 allows HUD to take administrative action against individuals who violate HUD's requirements.

Responsibilities Of Board  
Of Commissioners And  
Management Staff

Public Housing Authority Commissioners have a responsibility to HUD to ensure national housing policies

are carried out, and to the Authority's management staff and employees to provide sound and manageable directives. The Commissioners are accountable to their locality and best serve it by monitoring operations to be certain that housing programs are carried out in an efficient and economical manner.

The responsibility for carrying out the Commissioners' policies and managing the Housing Authority's day-to-day operations rests with the Authority's principal management staff. In particular, the management staff must maintain the Housing Authority's overall compliance with its policies and procedures and Federal, State, and local laws.

Disbursements Reviewed  
And Schedules Provided

We reviewed 100 percent of the disbursements from the Housing Authority's Title V account for the period between January 1, 1990 and July 31, 1998. We reviewed the disbursements to determine whether the costs were reasonable and necessary low-income housing expenses. The Authority paid \$16,593,565 from the Title V account for the time period reviewed. The Housing Authority's Title V account consisted of funds commingled from various sources such as the Authority's veterans housing, Section 8 Program, Low-Income Public Housing Program, Comprehensive Improvement Assistance Program, and excess bond proceeds. The excess bond proceeds resulted from the owners' refinancing of Ambleside, Puritas Place, and Rock-Glen Apartments. We were unable to determine which funds were used for the disbursements reviewed.

We determined that the Housing Authority paid unsupported and ineligible costs from the Title V account. We prepared schedules showing the unsupported and ineligible payments and provided the schedules to HUD's Cleveland Area Office Director of Public Housing Hub, HUD's Ohio State Office Director of Columbus Multifamily Hub, and the Housing Authority's Executive Director.

The Authority Lacked  
Documentation To Support  
Over \$10 Million In  
Payments

The Cuyahoga Metropolitan Housing Authority improperly used \$10,735,243 in Title V funds that were not adequately supported. The payments occurred between January 1, 1990 and July 31, 1998. HUD's regulation, Office of Management and Budget Circular A-87, and State of Ohio law require housing authorities to maintain records that adequately identify the use of funds by the authorities. Housing

authorities must ensure funds are expended for reasonable and necessary low-income housing expenses.

In order to determine whether the Housing Authority used its Title V funds properly, we reviewed such items as the Authority’s general ledgers, canceled checks, and check request forms. The Housing Authority lacked documentation to show that Title V funds were used for other low-income housing purposes or that funds were used for only reasonable and necessary low-income housing expenses. A Housing Authority Commissioner said the Authority’s Board relied on the principal management staff to ensure funds were used appropriately. He also said the Board relied on the Authority’s management staff to maintain documentation to support disbursements. The Authority’s former Chief Executive Officer and the former Chief Operating Officer were the Authority’s principal management staff. They were responsible for ensuring that the Authority complied with its policies and procedures and Federal, State, and local laws. However, this was not done.

The \$10,735,243 of unsupported payments represented 65 percent of the total funds used from the Housing Authority’s Title V account between January 1990 and July 1998. Given the large percentage of unsupported payments, we believe the Housing Authority’s Board of Commissioners failed to ensure that the Authority operated in an efficient and economical manner. The following table shows the amount of unsupported payments per year.

<i>Year</i>	<i>Unsupported Payments</i>
1990	\$ 219,155
1991	3,267,674
1992	1,956,832
1993	1,325,416
1994	453,253
1995	3,218,742
1996	147,991
1997	141,939
1998	<u>4,241</u>

Total	<u>\$10,735,243</u>
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As a result, HUD had no assurance that the Housing Authority paid only reasonable and necessary low-income housing costs.

The Authority Inappropriately Used \$531,966 In Title V Funds

The Housing Authority paid \$531,966 of Title V funds for costs that were not reasonable and necessary low-income housing expenses, did not provide for additional low-income housing, and violated the Authority's policies. The expenses included: (1) \$109,873 for payments on the former Chief Executive Officer's townhouse; (2) \$53,571 for meals at local restaurants; (3) \$195,127 in payments to the former Chief Operating Officer for monetized vacation time, compensatory time, and the cost of the Operating Officer's additional life and disability insurance; (4) \$164,001 for political and charitable contributions; and (5) \$9,394 for flowers. The payments occurred between January 1990 and July 1998.

Funds Were Used To Pay For The Former Chief Executive Officer's Townhouse

The Housing Authority inappropriately used Title V funds for payments toward the former Chief Executive Officer's townhouse in Alexandria, Virginia. The former Chief Executive Officer claimed the townhouse payments were approved by three of the Housing Authority's Commissioners. She also claimed the payments were part of her relocation package when she was hired by the Authority.

The three Commissioners denied ever approving the townhouse payments. The townhouse payments were not included in the former Chief Executive Officer's contract with the Authority. Resolution 188-90, adopted by the Housing Authority effective October 3, 1990, required the Authority's employees to follow the Federal Government's travel regulations. Federal travel regulations prohibit reimbursement of relocation expenses after two years from the date the employee reports to the new duty station. However, the townhouse payments started after the former Chief Executive Officer was employed with the Housing Authority for over two years. Therefore, the townhouse payments violated the Authority's travel policy. The payment of these expenses also prevented funds from being spent for other low-income housing purposes.

The Authority Used Title V Funds To Pay For Meals At Local Restaurants

The Authority inappropriately paid \$53,571 in Title V funds for meals at restaurants located in the Cleveland, Ohio

metropolitan area. The meal expenses violated Office of Management and Budget Circular A-87 because the expenses were not reasonable and necessary low-income housing costs. The payment of these expenses also prevented funds from being spent for other low-income housing purposes as required by HUD's Section 8 Annual Contributions Contract, the Memorandum of Understanding with HUD, and State of Ohio law. The Authority lacked documentation to show the meal expenses were associated with legitimate low-income housing purposes.

Title V Funds Were Inappropriately Used To Benefit The Former Chief Operating Officer

The Authority paid \$155,546 in Title V funds to the former Chief Operating Officer for monetized vacation and compensatory time. The Authority also used \$39,581 in Title V funds to pay for additional life and disability insurance coverage for the former Chief Operating Officer. The payments of the monetized vacation time, compensatory time, and insurance coverage were not reasonable and necessary low-income housing expenses, and were not available to be used for other low-income housing purposes as required by State of Ohio law, HUD's Section 8 Annual Contributions Contract, and the Memorandum of Understanding with HUD. The payments also did not follow the Authority's policies.

Page 15 of the Personnel Policy adopted by the Housing Authority on October 6, 1993, says all personnel employed by the Authority who occupy positions which are exempt from the Fair Labor Standards Act of 1938 and are not subject to a collective bargaining agreement are not entitled to the payment of overtime or compensatory time. The Authority's Management Bulletin 13-91, dated November 8, 1991, showed that the former Chief Operating Officer was exempt from the Fair Labor Standards Act. The Authority's Personnel Policy also did not permit employees to monetize their vacation. However, the Authority routinely paid the former Chief Operating Officer for monetized vacation time and compensatory time. The Authority lacked documentation showing the compensatory time worked by the former Chief Operating Officer.

Title V funds were used to pay the former Chief Operating Officer's disability and additional life insurance, making these funds unavailable for other low-income housing purposes. Based upon Office of Management and Budget Circular A-87, the payment of the insurance expense was not

a reasonable and necessary low-income housing cost. The payment of the former Chief Operating Officer's insurance expense was also not permitted by the Authority's policies. Page 12 of the Authority's Personnel Policy says all regular full-time employees and their legal dependents will be eligible for group health, dental, prescription drug, and vision coverage 120 days after employment. The Personnel Policy says all regular full-time employees will be eligible for basic life insurance coverage. The Personnel Policy does not provide for the payment of an employee's additional life or disability insurance by the Authority.

The Authority Used Title V Funds To Pay Political Contributions, Charitable Donations, And Flowers

The Housing Authority inappropriately used \$164,001 in Title V funds to make political and charitable contributions, and an additional \$9,394 in Title V funds were used for floral expenses. The charitable and political expenses included such items as luncheons benefiting local non-profit groups and advertisements endorsing a local political official. The political, charitable, and floral expenses violated State of Ohio law, HUD's Section 8 and Low-Income Housing Annual Contributions Contracts, and the Memorandum of Understanding with HUD. The expenses were not reasonable and necessary low-income housing costs, and precluded their use for other low-income housing purposes as required by HUD's requirements and State law.

The Authority's Former Management Approved The Ineligible Expenses

The Housing Authority's former Chief Executive Officer and/or the former Chief Operating Officer approved \$301,357 of the \$531,966 (57 percent) in unnecessary and unreasonable payments. The former Chief Executive Officer and the former Chief Operating Officer were the Authority's principal management. As such, they were responsible for ensuring the Housing Authority's overall compliance with its policies and procedures and Federal, State, and local laws.

HUD suspended the Authority's former Chief Executive Officer from participating in HUD's programs in 1998. Based upon this and the failure of the former Chief Executive Officer to ensure that Title V funds were used appropriately, we believe that HUD should debar the former Chief Executive Officer from participating in any Federal programs. The Authority's former Chief Operating Officer is currently the Executive Director of the San Francisco Housing Authority. In this capacity, he controls a substantial

portion of HUD funds. We believe that HUD should pursue the strongest administrative action against the Authority's former Chief Operating Officer based upon the information contained in this finding and HUD's exposure to additional loss of funds given the former Chief Operating Officer's current employment.

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Auditee Comments

[Excerpts paraphrased from the Executive Director's comments on our draft finding follow. Appendix B, pages 23 to 26, contains the complete text of the comments.]

Review of Unsupported Payments

Of the total 1,708 payments questioned, the Housing Authority initially reviewed a sample of 25 totaling \$2,284,043 to determine if there was any documentation to support the payments. Our review discovered:

1. Ten of the 25 (40 percent) payments were supported with proper documentation and approval signatures. Two of the expenditures were wire transfers for \$1,000,000 each to the Section 8 and Low-Income Public Housing bank accounts. The transfers were made to cover Housing Assistance Payments to Section 8 landlords and operating expenses for the Low-Income Public Housing Program because the HUD subsidy payments to the Authority were late; and
2. Fifteen of the 25 (60 percent) voucher packages could not be located. However, three of the voucher packages were never returned from the HUD auditors and one from the Executive Office (prior administration).

Upon completing the review of the initial sample of 25 payments, the Housing Authority proceeded to select 34 debit memos and wire transfers totaling \$9,021,727 (accounting for approximately 84 percent of the total questioned costs). From the second sample, the review concluded that:

1. Four payments totaling approximately \$3.6 million were made to ensure funds were available to cover Section 8 Housing Assistance Payments and Low-



Income Public Housing expenses when the HUD subsidy to the Authority was late. In each instance, funds were transferred back to the Title V account upon receipt of the HUD subsidy;

2. Supporting documentation was identified for nine payments totaling \$414,675; and
3. Combining items #1 and #2, approximately 13 of the 34 (38 percent) payments were supported with documentation.

Based on the two samples researched by the Housing Authority, the Authority respectfully submits the additional documentation for consideration.

OIG Evaluation Of  
Auditee Comments

The Housing Authority did not provide adequate supporting documentation with its comments. The Authority submitted two spreadsheets showing the date of the payments sampled, the payment amount, the vendor’s name, and a description of the payment. The Authority needs to provide HUD documentation to support the \$10,735,243 of unsupported payments cited in this finding. If documentation cannot be provided, then the Housing Authority should reimburse its Title V account from non-Federal funds for the amount that cannot be adequately supported.

We returned all of the Housing Authority’s records at the conclusion of our review.

Auditee Comments

Review of Unnecessary and Unreasonable Payments

The Housing Authority is presently reviewing the costs cited in the audit in relation to State laws and the Authority’s requirements. In the past, the Authority used the Title V account to fund costs that may not be eligible for Federal funding.

The Housing Authority was awarded a judgment to recapture the [townhouse] payments related to the former Chief Executive Officer.

OIG Evaluation Of  
Auditee Comments

The Housing Authority used Title V funds for costs that were not reasonable and necessary low-income housing expenses, were not available for other low-income housing purposes,

and violated the Authority's policies. The expenses included: payments on the former Chief Executive Officer's townhouse; meals at local restaurants; payments to the former Chief Operating Officer for monetized vacation time, compensatory time, and the cost of the Operating Officer's additional life and disability insurance; political and charitable contributions; and flower expenses.

The Housing Authority should reimburse its Title V account from non-Federal funds for the ineligible payments. If the Authority receives funds from the judgment against the former Chief Executive Officer, those funds should be deposited to the Title V account.

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**Auditee Comments**

Of more importance to note are the reforms and procedures that the Housing Authority's Board and current administration have implemented to restore fiscal soundness, adherence to policy, and program compliance within the Authority. The most significant controls achieved to date include:

- Restructuring the Authority's Internal Audit Department function and reporting structure, and establishing an external Audit Committee to the Authority's Board of Commissioners;
- Restructuring the Authority's Financial Services Department organizational structure, hiring a new Chief Financial Officer, and closely monitoring the operations of the budget and accounting sections; and
- Completing the 1997 and 1998 financial audits, and preparing corrective action plans to address all findings.

The full attention and effort of the Housing Authority's Board and current administration is to establish and maintain appropriate controls and accountability expected of an agency that receives public funds.

**OIG Evaluation Of  
Auditee Comments**

Based upon the actions taken or planned, the Housing Authority will improve its controls over disbursements, if the procedures are fully implemented. Disbursements from the Authority's Title V account should meet HUD's requirements, the Office of Management and Budget Circular

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A-87, the State of Ohio's Revised Code, and the Authority's policies.

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## Recommendations

We recommend that the Cleveland Area Office Director of Public Housing Hub, in conjunction with the Ohio State Office Director of Columbus Multifamily Hub, assures that the Cuyahoga Metropolitan Housing Authority:

- 1A. Provides documentation to support the \$10,735,243 of unsupported payments cited in this finding. If documentation cannot be provided, then the Housing Authority should reimburse its Title V account from non-Federal funds for the amount that cannot be adequately supported.
- 1B. Reimburses its Title V account \$531,966 from non-Federal funds for the ineligible payments cited in this finding.
- 1C. Establishes procedures and controls to ensure that disbursements from the Title V account meet HUD's requirements, the Office of Management and Budget Circular A-87, the State of Ohio's Revised Code, and the Authority's policies.

We also recommend that the Cleveland Area Office Director of Public Housing Hub, in conjunction with the Ohio State Office Director of Columbus Multifamily Hub:

- 1D. Initiates debarment action against the former Chief Executive Officer as authorized by 24 CFR Part 24.
- 1E. Takes administrative action against the former Chief Operating Officer as authorized by 24 CFR Part 24.

## The Housing Authority Inappropriately Deposited \$45,292 In Its Title V Account

The Cuyahoga Metropolitan Housing Authority did not follow its Annual Contributions Contract with HUD regarding the deposit of low-income housing monies. Between January 1, 1990 and July 31, 1998, the Housing Authority inappropriately transferred \$45,292 in Low-Income Housing Program funds to its Title V bank account. The problem occurred because the Housing Authority's Board of Commissioners and former top management failed to establish adequate controls over the deposit of low-income housing funds. As a result, the Authority had less funds for its Low-Income Housing Program.

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### Annual Contributions Contract

The Annual Contributions Contract, Section 401(B), says all monies received by the Cuyahoga Metropolitan Housing Authority in connection with the Projects shall constitute the General Fund. Section 401(C) of the Contract requires the Housing Authority to deposit promptly all monies constituting the General Fund with such bank or banks per the terms of the General Depository Agreement.

### Responsibilities Of Board Of Commissioners And Management Staff

Public Housing Authority Commissioners have a responsibility to HUD to ensure national housing policies are carried out, and to the Authority's management staff and employees to provide sound and manageable directives. The Commissioners are accountable to their locality and best serve it by monitoring operations to be certain that housing programs are carried out in an efficient and economical manner.

### Deposits Reviewed And Schedule Provided

The responsibility for carrying out the Commissioners' policies and managing the Housing Authority's day-to-day operations rests with the Authority's principal management staff. In particular, the management staff must maintain the Housing Authority's overall compliance with its policies and procedures and Federal, State, and local laws.

We reviewed 100 percent of the monies deposited into the Housing Authority's Title V bank account for the period between January 1, 1990 and July 31, 1998. We reviewed the transactions to determine whether the Housing Authority appropriately deposited funds to its Title V account. The Authority deposited \$16,036,057 to its Title V account for the time period reviewed. As of February 29, 2000, the Housing Authority had \$282,981 in its Title V bank account.

During our review, we determined that the Housing Authority inappropriately deposited monies to the Title V account. The Authority was required to deposit the monies to its Low-Income Housing Program General Fund bank account. A schedule was prepared showing the inappropriate deposits. We provided the schedule to HUD's Cleveland Area Office Director of Public Housing Hub and the Housing Authority's Executive Director.

The Authority Improperly Transferred \$45,292 To Its Title V Account

The Cuyahoga Metropolitan Housing Authority inappropriately deposited \$45,292 in low-income housing funds to its Title V bank account. The deposits occurred between January 1, 1990 and July 31, 1998. The Annual Contributions Contract between the Housing Authority and HUD required the Authority to deposit all proceeds from its Projects to the Low-Income Housing Program General Fund. However, this was not always done.

The following table shows the amount of funds inappropriately deposited to the Housing Authority's Title V bank account per year.

<i>Year</i>	<i>Diverted Deposits</i>
<b>1990</b>	\$ 509
<b>1991</b>	9,590
<b>1992</b>	0
<b>1993</b>	10,000
<b>1994</b>	0
<b>1995</b>	0
<b>1996</b>	0
<b>1997</b>	21,193
<b>1998</b>	<u>4,000</u>
<b>Total</b>	<u>\$45,292</u>

The \$45,292 of inappropriate deposits to the Housing Authority's Title V bank account included: (1) \$24,000 of rental payments from AT&T; (2) \$10,000 in legal settlements; (3) \$5,783 in insurance claims or refunds; (4) \$5,000 for contractor default fees; and (5) \$509 in laundry and vending machine income.

For example, the \$24,000 in deposits from AT&T were for rental payments for satellite dishes installed on the Housing Authority's low-income housing high rise Projects. The

Housing Authority made the deposits in 1997 and 1998. The Annual Contributions Contract required the Housing Authority to deposit monies received from its Projects to the Low-Income Housing Program General Fund.

The problem occurred because the Housing Authority's Board of Commissioners and former top management did not establish adequate controls over the deposit of low-income housing funds. A Housing Authority Commissioner said the Authority's Board relied on the principal management staff to ensure funds were accounted for properly. He also said the Board relied on the Authority's management staff to administer the Housing Authority in accordance with all applicable requirements. The Authority's former Chief Executive Officer and the former Chief Operating Officer were the Authority's principal management staff. They were responsible for ensuring that the Authority complied with the Annual Contributions Contract. As a result, the Housing Authority had less funds for its Low-Income Housing Program.

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**Auditee Comments**

[Excerpts paraphrased from the Executive Director's comments on our draft finding follow. Appendix B, pages 23 to 26, contains the complete text of the comments.]

Review of Inappropriate Deposits

All regular activity with the Title V account was suspended in 1998 and the last transaction was recorded in April 1999. All funds deemed to be inappropriately deposited will be returned to the Authority's General Fund for the Low-Income Housing Program. The Authority's Internal Audit and Legal Departments are reviewing the Annual Contributions Contract related to this finding.

**OIG Evaluation Of  
Auditee Comments**

The proposed action by the Housing Authority to return the funds inappropriately transferred from the Low-Income Public Housing General Fund should resolve this finding. However, the Authority should establish procedures and controls to ensure that the applicable program funds are deposited to the appropriate account in the future.

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Recommendations

We recommend that the Director of Public Housing Hub, Cleveland Area Office, assures that the Cuyahoga Metropolitan Housing Authority:

- 2A. Transfers the \$45,292 of inappropriate deposits cited in this finding from its Title V bank account to the Low-Income Housing Program General Fund.
- 2B. Establishes procedures and controls to ensure that the applicable program funds are deposited to the appropriate account.





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# Follow Up On Prior Audits

This is the first audit of the Cuyahoga Metropolitan Housing Authority's Title V account by HUD's Office of Inspector General. The latest single audit for the Authority covered the fiscal year ended December 31, 1998. The report contained 29 findings. Two of the 29 findings are repeated in this report.

## Single Audit Report

## This Report

Control and Financial Reporting  
Environments (Finding 98-1) and  
Compliance with the Memorandum of  
Agreement and Allowable Costs  
(Finding 98-2).

The Housing Inappropriately Used  
\$11,267,209 in Title V Funds  
(Finding 1).

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# Schedule Of Questioned Costs

<u>Recommendation Number</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1A		\$10,735,243
1B	\$531,966	
2A	<u>45,292</u>	
Total	<u>\$577,258</u>	<u>\$10,735,243</u>

1/ Ineligible costs are questioned costs to a HUD 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 costs charged to a HUD program or activity and eligibility cannot be determined at the time of the audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

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# Auditee Comments

March 20, 2000

Mr. Heath Wolfe  
Assistant District Inspector General  
for Audit, Midwest  
U.S. Department of HUD  
Ralph H. Metcalfe Federal Building  
77 West Jackson Boulevard, Suite 2646  
Chicago, Illinois 60604-3507

Dear Mr. Wolfe:

This letter is in response to the draft audit findings of the Office of Inspector General for Audit, HUD dated February 23, 2000 and March 8, 2000. Given the comprehensive scope of the investigation that includes the time between January 1, 1990 and July 31, 1998; and the large number of transactions reviewed and cited, the Cuyahoga Metropolitan Housing Authority (CMHA) staff was not able to research each item in the amount of time provided to submit this reply. In compliance, however, with your request, and without in any way waiving any rights herein, we are providing this response and specifically reserve the right to provide additional documentation for consideration as it becomes available.

CMHA's responses are organized to address the three principle areas cited in the draft audits:

\$ 10,735,243 in Title V funds (were made) without adequate supporting documentation;

\$ 531,966 in Title V funds (were made for) costs that were not reasonable and necessary to the Authority's operations; and

\$ 45,292 (was) inappropriately diverted (from) Low-Income Housing Program funds to its Title V bank account.

Staff from CMHA's Internal Audit and Financial Services Departments were assigned to review the payments noted in the draft audits. The results of our review are summarized in this document (and copies of internal memos are attached for your review).

## Review of Unsupported Payments

Of the total 1,708 items questioned, we initially reviewed a sample of 25 items totaling \$2,284,042.72 to determine if there was any documentation to support the payments that were made and thus eliminate findings. Our review discovered:

1. 40% or 10 of 25 payments were supported with proper documentation and approval signatures. It is noted that two of these expenditures were wire transfers in the amount of \$1,000,000 each relating to Section 8 and Low Income Public Housing bank accounts. It appears that these transfers were made to cover Housing Assistance Payments to the Section 8 landlords and operating expenses for LIPH because the HUD subsidy payments to the Authority were late.
2. 60% or 15 of 25 voucher packages could not be located. However, it should be noted that three of the vouchers packages were never returned from the HUD auditors and one from the Executive Office (prior administration).

Upon completing the review of the initial sample of 25 payments, the Agency proceeded to select for review 34 debit memos and wire transfers totaling \$9,021,727.41 (accounting for approximately 84% of the total questioned costs). Of the second sample, our review concluded:

1. Four (4) payments totaling approximately \$3.6 million were made to ensure funds were available to cover Section 8 Housing Assistance Payments and Low Income Public Housing expenses when the HUD subsidy to the Agency was late. In each of these instances, funds were transferred back into the Title V account upon receipt of the HUD subsidy payments.
2. Supporting documentation was identified for nine (9) payments totaling \$414,674.53.
3. Combining items #1 and #2 above, approximately 38% or 13 of 34 payments were determined to be supported with documentation.

Based on the two samples of payments researched by CMHA staff, the Agency respectfully submits the additional documentation for consideration and questions why these transactions were cited. If provided a longer period of time to respond to the draft audit, it is possible to conclude additional documentation could be identified from Agency records.

#### Review of Unnecessary and Unreasonable Payments

The Board and its legal counsel have pursued and been awarded a judgment to recapture the payments cited related to the former Chief Executive Officer.

We are presently reviewing the other costs cited in this section of the audit in relation to State laws and the CMHA Charter and administrative policies. In the past, the Agency used the Title V account to fund costs that may not be eligible for federal funding purposes.

#### Review of Inappropriate Deposits

All regular activity with the Title V account was suspended in 1998 and the last

transaction was recorded in April 1999. As of today there is an account balance of \$282,981. All funds deemed to be inappropriately deposited (in violation of the Annual Contribution Contract (ACC)) will be returned to the Agency's general fund for Low-Income Housing Programs. The Internal Audit and Legal Departments are reviewing the ACC related to this finding.

At the core of the three principle findings cited in the draft audit are issues of overall lack of adequate controls, inconsistency in accounting for expenditures and failure to comply with applicable regulations during the administration of the former Chief Executive Officer. In preparing this response to the draft audit, we have been able to identify some documentation not previously reviewed by your auditors and request modification of the audit.

Of more importance to note in this response are the reforms and procedures the CMHA Board and current administration have implemented to restore fiscal soundness, adherence to policy, and program compliance within the Agency.

The most significant controls achieved to date include:

Restructuring the Internal Audit Department's function and reporting structure and establishing an external Audit Committee of the Board of Commissioners. (Attached is a comparative analysis of our audit structure to other government and non-profit agencies.)

Restructuring the Financial Services Department's organizational structure, hiring a new Chief Financial Officer, and closely monitoring the operations of the budget and accounting sections.

Completing the 1997 and 1998 external financial audits and preparing corrective action plans to address all findings.

There is no doubt the full attention and effort of the CMHA Board and current administration is to put in place and maintain appropriate controls and accountability expected of an agency that receives public funds. We are all committed to that end and to providing quality public housing within Cuyahoga County.

In concluding this response to the draft audit of the Title V account, CMHA pledges to continue to fully cooperate with the Office of the Inspector General, HUD and to provide additional documentation and responses as appropriate in the future.

Sincerely,

Terri Hamilton Brown  
Executive Director

THB/dar

Attachments

cc: Bracy Lewis, Board Chairperson



# Distribution

Secretary's Representative, Midwest (2)  
 Senior Community Builder/State Coordinator, Cincinnati Area Office  
 Senior Community Builder, Cleveland Area Office  
 Director of Public Housing Hub, Cleveland Area Office (2)  
 Director of Columbus Multifamily Hub, Ohio State Office (2)  
 Deputy Secretary, SD (Room 10100)  
 Chief of Staff, S (Room 10000)  
 Special Assistant to the Deputy Secretary for Project Management, SD (Room 10100)  
 Assistant Secretary for Administration, A (Room 10110)  
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 Deputy Assistant Secretary for Public Affairs, W (Room 10222)  
 Special Assistant for Inter-Faith Community Outreach, S (Room 10222)  
 Executive Officer for Administrative Operations and Management, S (Room 10220)  
 Senior Advisor to the Secretary for Pine Ridge Project, W (Room 10216)  
 General Counsel, C (Room 10214)  
 Director of Federal Housing Enterprise Oversight, O (9<sup>th</sup> Floor Mailroom)  
 Assistant Secretary for Housing-Federal Housing Commissioner, H (Room 9100)  
 Office of Policy Development and Research, R (Room 8100)  
 Assistant Secretary for Community Planning and Development, D (Room 7100)  
 Executive Vice President, Government National Mortgage Association, T (Room 6100)  
 Assistant Secretary for Fair Housing and Equal Opportunity, E (Room 5100)  
 Chief Procurement Officer, N (Room 5184)  
 Assistant Secretary for Public and Indian Housing, P (Room 4100)  
 Chief Information Officer, Q (Room 8206)  
 Director of Departmental Operations and Coordination, I (Room 2124)  
 Chief Financial Officer, F (Room 2202)  
 Deputy Chief Financial Officer for Finance, FF (Room 2202)  
 Director of Enforcement Center, V (200 Portals Building)  
 Director of Real Estate Assessment Center, V (1280 Maryland Avenue, SW, Suite 800)  
 Director of Multifamily Assistance Restructuring, Y (4000 Portals Building)  
 Assistant Deputy Secretary for Field Policy and Management, SDF (Room 7108) (2)  
 Director of Budget, FO (Room 3270)  
 Internal Control and Audit Resolution Officer, 3AFI (2)  
 Audit Liaison Officer, PC (Room 5156) (3)  
 Audit Liaison Officer, HF (Room 6232) (3)  
 Departmental Audit Liaison Officer, FM (Room 2206) (2)  
 Acquisitions Librarian, Library, AS (Room 8141)  
 Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug Policy & Human Resources, B 373 Rayburn House Office Building, Washington DC 20515

The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340 Dirksen Senate Office Building, United States Senate, Washington DC 20510  
The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706 Hart Senate Office Building, United States Senate, Washington DC 20510  
Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn Building, United States House of Representatives, Washington DC 20515  
Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Building, United States House of Representatives, Washington DC 20515  
Ms. Cindy Foglemen, Subcommittee on Oversight and Investigations, Room 212, O'Neil House Office Building, Washington DC 20515  
Director, Housing and Community Development Issue Area, United States General Accounting Office, 441 G Street, N.W., Room 2474, Washington DC 20548 (Attention: Judy England-Joseph)  
Steve Redburn, Chief, Housing Branch, Office of Management and Budget, 725 17<sup>th</sup> Street, N.W., Room 9226, New Executive Office Building, Washington DC 20503  
Executive Director, Cuyahoga Metropolitan Housing Authority  
Chairman of the Board of Commissioners, Cuyahoga Metropolitan Housing Authority