



U.S. Department of Housing and Urban Development
Office of District Inspector General for Audit
Capital District
800 North Capitol Street, N. W.
Suite 500
Washington, DC 20002

Audit Memorandum
00-AO-202-1801

April 4, 2000

MEMORANDUM FOR: Lee A. Palman, Director, Office of Public Housing,
District of Columbia Field Office, 3GPH

FROM: Sandra G. Elion, District Inspector General for Audit, Capital District, 3GGA

SUBJECT: Hotline Allegations – District of Columbia Housing Authority

We reviewed the District of Columbia Housing Authority (DCHA) in response to a complaint to the Department of Housing and Urban Development (HUD) Hotline. The complainant alleged that the DCHA improperly used public funds while in Puerto Rico, mismanaged the Occupied Unit Rehabilitation Program, and used questionable hiring practices.

We concluded that the DCHA improperly used \$82,714 of public funds to pay salary and travel costs to Puerto Rico for its staff members. The salary and travel costs are ineligible because they are not consistent with the DCHA jurisdictional authority. Specifically, District of Columbia law empowers the DCHA to operate only within the District of Columbia. We also concluded that the DCHA Internal Audit Office has identified and addressed many of the issues pertaining to the allegations of mismanagement of the Occupied Unit Rehabilitation Program and the questionable hiring practices.

Within 60 days, please give us a status report on each recommendation made in the report. The status report should include the corrective action taken, the proposed corrective action and the date to be completed, or why the action is considered unnecessary. Also, please give us copies of any correspondence or directives issued because of this review.

SCOPE AND METHODOLOGY

In conducting our review, we:

- Reviewed applicable laws and regulations;
- Reviewed DCHA documents, including vendor invoices, accounts payable files, and internal audit reports;
- Interviewed the DCHA Receiver, Chief of Staff, and the Director of the Internal Audit Office; and
- Obtained a legal opinion from our OIG Counsel on the District of Columbia Housing Authority's use of Section 8 Administrative Fee Reserve funds.

BACKGROUND

On May 3, 1995, the Superior Court of the District of Columbia appointed a Receiver to manage the DCHA. By Court Order, the Receiver is to transform the DCHA into a public housing authority that provides decent, safe, and sanitary housing to all people the DCHA is meant to serve.

On September 24, 1998, the President declared Puerto Rico a major disaster area and made millions of dollars in Federal aid available to help the Commonwealth of Puerto Rico and its people recover from severe damage caused by Hurricane Georges. HUD's portion of the assistance included almost \$39 million in new emergency grants to the Puerto Rico Public Housing Authority. Other HUD assistance to Puerto Rico included sending disaster recovery specialists to Puerto Rico to help speed up rebuilding efforts.

At the verbal request of the Mayor of Las Res, Puerto Rico, the DCHA Receiver sent 25 employees to Puerto Rico to help with the disaster relief mission. The DCHA Receiver granted administrative leave to employees who volunteered to participate in the disaster relief mission. This volunteer staff consisted of 11 administrative staff persons, including the Chief of Staff, and 13 skilled crafts persons. The volunteers contributed 259 staff-days to the relief effort. The salary cost was based on yearly wages that ranged from \$21,070 for a skilled craftsworker to \$93,995 for a senior administrator.

REVIEW RESULTS

The DCHA incurred \$43,319 of salary cost and \$39,395 of travel cost to assist the Commonwealth of Puerto Rico with the clean-up effort that resulted from Hurricane Georges. These were ineligible program costs, because by District of Columbia law, the DCHA is only authorized to operate within the District of Columbia. As a result, the DCHA used \$82,714 of funds that could have been used for other critical District of Columbia housing needs.

The DCHA charged \$35,311 of the \$43,319 of salary cost to the Comprehensive Grant Program. Through the Comprehensive Grant Program, HUD makes funds available to help public housing

agencies correct physical and management deficiencies and to keep housing units safe and desirable places to live. HUD uses a formula to determine the amount of assistance that the housing agency will receive from the Comprehensive Grant Program. This formula considers factors such as backlogs and the accrual of modernization needs.

The DCHA charged \$5,393 of the \$43,319 salary cost to the annual operating subsidy. HUD makes annual contributions to public housing agencies for the operation of low-income housing projects. HUD uses a formula to determine the amount of the operating subsidy. This formula considers the monthly cost to operate a housing unit, local inflation factors, and other income. HUD includes the provisions for the annual contributions in a contract (Annual Contribution Contract) guaranteeing their payments subject to the availability of funds.

The DCHA charged \$2,615 of the \$43,319 of salary cost to the Section 8 Program. HUD makes Section 8 tenant-based assistance payments to housing agencies under the rental voucher and rental certificate programs. Under these programs, HUD provides rent subsidies so eligible families can afford rent for decent, safe, and sanitary housing.

Also, the DCHA charged the entire \$39,395 of travel cost to the Section 8 Administrative Fee Reserve. Under the Section 8 Program, HUD provides funds to a housing authority for program administration costs. HUD requires housing authorities that receive Section 8 Program assistance to maintain an administrative fee reserve for the program. The reserve is the total of the administrative fees HUD pays a Housing Authority minus the incurred administrative expenses for the fiscal year, plus any interest earned on the reserve.

If the Housing Authority does not need the administrative fee reserve funds to cover current administrative expenses, HUD allows the Housing Authority to use the reserve for “other housing purposes.” The HUD guidance did not define or provide specific examples of “other housing purposes;” however, the guidance does require that State and local law must permit the use of funds for “other housing purposes.” At the time of our review, the DCHA had accumulated approximately \$6 million in the administrative fee reserve account.

The funds that the DCHA used to assist the Commonwealth of Puerto Rico with the clean-up effort were ineligible costs because by District of Columbia law, the DCHA is only authorized to operate within the District of Columbia. The Counsel to the Inspector General¹ believes that the trips to Puerto Rico to help alleviate deteriorating living conditions caused by a natural disaster can qualify as “other housing purposes” under Section 8 Administrative Fee Reserve. However, Counsel had to also consider whether the District of Columbia law allowed the expenditures.

Counsel concluded that the DCHA’s use of the Comprehensive Grant Program, Annual Contribution for Operating Subsidy, Section 8 Program, and the Section 8 Administrative Fee Reserve to assist a local government in Puerto Rico was not consistent with the DCHA’s jurisdictional authority. Specifically, the District of Columbia law empowers the DCHA to operate only within the District of Columbia. The statutory authority for the establishment of the DCHA, 3A D.C. Code § 5-122, Subsection (b), contains an explicit restriction on DCHA’s jurisdiction. The code states that, “The Authority [DCHA] shall govern public housing and

¹ This is an opinion of the Counsel to the Inspector General and does not represent HUD’s official position. The Office of the General Counsel is responsible for issuing opinions that set forth HUD’s official legal position.

implement the United States Housing Act of 1937 (42 U.S.C. § 1401 et seq.) in the District of Columbia.” Furthermore, Counsel did not find any extraterritorial statement of jurisdiction that explicitly grants the DCHA jurisdiction to operate outside of the District of Columbia. The only exception found was that the District of Columbia could enter into agreements with other states for mutual benefits such as the orderly removal of disabled vehicles from bridges over the Potomac. No agreements could be located that provided another state with disaster relief.

DCHA used \$43,319 from various program accounts and \$39,395 from its Section 8 Administrative Fee Reserve to fund salary and travel cost to Puerto Rico. Although it is laudable that the DCHA provided humanitarian assistance to Puerto Rico, District of Columbia law does not provide DCHA with the jurisdictional authority to do so. As a result, the DCHA used \$82,714 of funds to support other jurisdictions that could have been used for other critical District of Columbia housing needs. The following table is a summary of the ineligible travel cost.

Summary of Ineligible Travel Cost

<u>Ineligible Cost</u>	<u>Amount</u>
Airfare	\$13,442
Lodging	8,100
Rental Cars	5,761
Meals	7,464
Miscellaneous:	
Phone & Pager	\$1,012
T-Shirts	577
Memorabilia	215
Equipment Shipment	470
Promotional Items	790
Labor & Materials	532
Other	<u>1,032</u>
Total Ineligible Cost	<u>\$39,395</u>

RECOMMENDATIONS

We recommend that you:

- 1A. Require the DCHA to reimburse \$35,311 to the Comprehensive Grant Program for salary cost associated with the trip to Puerto Rico.
- 1B. Require the DCHA to reimburse \$5,393 to the Annual Contribution Operating Subsidy (Low Rent Programs) for salary cost associated with the trip to Puerto Rico.
- 1C. Require the DCHA to reimburse \$2,615 to the Section 8 Program for salary cost associated with the trip to Puerto Rico.
- 1D. Require the DCHA to reimburse \$39,395 to the Section 8 Administrative Fee Reserve for ineligible travel cost used on the trip to Puerto Rico.

Appendix A -- Distribution

Mr. David Gilmore, Receiver, District of Columbia Housing Authority, 1133 North Capitol Street, NE, Suite 133, Washington, DC 20002 (2)

Secretary's Representative, 3AS, HUD Philadelphia Office, The Wanamaker Building, 100 Penn Square, East, Philadelphia, PA 19107-3380 (2)

Director, Office of Public Housing, 3GPH (2)

Audit Liaison Officer, Public and Indian Housing, PF (2)

Audit Liaison Officer, Philadelphia, 3AFI (2)

Assistant Deputy Secretary for Field Policy and Management, SDF, Room 7108 (2)

Departmental Audit Liaison Officer, FM, Room 2206 (2)

Acquisitions Librarian, Library, AS, Room 8141

Director, Office of Troubled Agency Recovery, PB, (Room 4112) (2)

Real Estate Assessment Center, The Portal Building, 1280 Maryland Avenue SW, Suite 800, Washington, DC 20024

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

The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn Building, House of Representatives, Washington, DC 20515

Mr. Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Building, House of Representatives, Washington, DC 20515

Ms. Cindy Fogleman, 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, NW, Room 2474, Washington, DC 20548
ATTN: Judy England-Joseph

Steve Redburn, Chief, Housing Branch, Office of Management and Budget, Room 9226 725 17th Street, NW, New Executive Office Building, Washington, DC 20503