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# AUDIT REPORT



## MUSKEGON HOUSING COMMISSION LOW RENT PUBLIC HOUSING, SECTION 8 AND SINGLE ROOM OCCUPANCY PROGRAMS

MUSKEGON, MICHIGAN

01-CH-202-1002

NOVEMBER 29, 2000

OFFICE OF AUDIT, MIDWEST  
CHICAGO, ILLINOIS

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Issue Date	November 29, 2000
Audit Case Number	01-CH-202-1002

TO: Michael A. Williams, Director, Troubled Agency Recovery Center North, PB1

/signed/

FROM: Dale L. Chouteau, District Inspector General for Audit, 5AGA

SUBJECT: Muskegon Housing Commission  
Audit of Low Rent Public Housing, Section 8 and Single Room Occupancy  
Programs  
Muskegon, Michigan

We completed an audit of Muskegon Housing Commission's financial operations, which included its Low Rent Public Housing, Section 8 and Single Room Occupancy Programs. The audit was conducted in response to a request from the Director, Troubled Agency Recovery Center North, and the Director, Office of Public Housing, Michigan State Office. The objectives of the audit were to determine: whether the Muskegon Housing Commission improperly transferred funds between its programs, and complied with the Annual Contributions Contract and other applicable HUD regulations.

We found that the Housing Commission transferred \$836,893 between housing programs without HUD authorization. In addition, we estimated that \$298,970 of Section 8 subsidy funds were improperly used by the Housing Commission to pay operating expenses of the Low Rent Public Housing Program. We also found that the Housing Commission: improperly pledged 14 Low Rent Public Housing Program homes and proceeds from the sales of those homes as collateral for a loan; paid \$51,233 of Public Housing funds to double insure its employees; and could not provide documentation to support expenses of \$12,989 charged to its credit card accounts.

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, or Ronald Huritz, Assistant District Inspector General, at (312) 353-6236, Extension 2675.

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# Executive Summary

We completed an audit of Muskegon Housing Commission's financial operations, which included its Low Rent Public Housing, Section 8 and Single Room Occupancy Programs. The audit was conducted in response to a request from the Director, Troubled Agency Recovery Center North, and the Director, Office of Public Housing, Michigan State Office. Our audit objectives were to determine: whether the Muskegon Housing Commission improperly transferred funds between its programs, and complied with the Annual Contributions Contract and other applicable HUD regulations.

We found that the Housing Commission transferred \$836,893 between housing programs without HUD authorization. In addition, we estimated that \$298,970 of Section 8 subsidy funds were improperly used by the Housing Commission to pay operating expenses of the Low Rent Public Housing Program. The Housing Commission pledged 14 Low Rent Public Housing Program homes and proceeds from the sales of those homes as collateral for a loan in violation of HUD regulations. The Housing Commission did not cease these activities after being instructed by HUD to do so.

We also found that the Housing Commission used \$51,233 of Public Housing funds to pay employee health insurance premiums for the same coverage the employees were also receiving from the City of Muskegon. The Housing Commission could not provide supporting documentation for \$12,989 in expenses charged to its credit card accounts.

As of August 1, 2000, HUD was in the process of instituting a Limited Denial of Participation action against the Executive Director. On the same date, the City of Muskegon Board of Housing Commissioners terminated his employment.

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## Unauthorized Transfers of Public Housing and Section 8 Funds

As of April 2000, the Housing Commission had transferred \$836,893 from its Public Housing Program to fund the Single Room Occupancy Program and operating expenses of the Family Investment Center. In addition, a combination of administrative fees and subsidy funds totaling \$665,000 were transferred from the Section 8 account to the Low Rent Public Housing account. Of the latter amount, we estimated that \$298,970 of Section 8 subsidy funds were improperly used to pay operating expenses of the Low Rent Public Housing Program. The Housing Commission had been making such transfers in varying amounts since at least October 1995. The Housing Commission did not comply with HUD instructions to discontinue the transfers. Transferring funds between housing programs is not permitted by the Annual Contributions Contract. As a result, sufficient funds were not available to satisfy Public Housing Program needs.

## Unauthorized Use Of Public Housing Assets

The Housing Commission obtained two loans, one from First of America Bank for \$480,000 secured by the Family Investment

Center building, and a second from the Michigan Housing Trust Fund for \$140,000. To secure the second loan, the City of Muskegon, acting on behalf of the Housing Commission, executed a blanket mortgage covering 14 Low Rent Public Housing (Turnkey III) homes, and pledged future income expected to be received from the sale of the homes. Part 2, Section 313 of the Annual Contributions Contract prohibits the Housing Commission from pledging income from the sale of these properties without approval from HUD. The 14 homes pledged as collateral were covered by a Declaration of Trust agreement. The Housing Commission sold nine of the Turnkey III homes, but did not release the Declaration of Trust for five of the homes. Consequently, HUD regulations were violated, and purchasers of the five homes did not receive clear title to their properties.

Double Health Insurance  
Premiums

The Housing Commission obtained Blue Cross/Blue Shield health insurance coverage for all Housing Commission employees, including the Executive Director, who were already covered under the City of Muskegon's health plan. Since November 1998, the Housing Commission has paid at least \$15,379 in premiums to the City for coverage, and \$47,989 to Blue Cross/Blue Shield for the same coverage. HUD instructed the Housing Commission on November 30, 1999, to stop paying the second premium for employees covered under the City of Muskegon's health plan, but it continued to pay the premiums. As a result, the funds, which could have been used for Public Housing Program needs, were misspent on unnecessary insurance.

Unsupported And Ineligible  
Charges

The Housing Commission had no supporting documentation for \$12,989 in charges to its credit card accounts, including: \$2,199 for airline tickets; \$1,485 for restaurant and retail purchases; and \$9,305 for hardware and miscellaneous items. In addition, we noted expenses totaling \$2,040 that were charged by the Executive Director for personal items, such as clothing and medicine. Management did not consistently follow its procurement policy to ensure that employees returned necessary support for credit card expenses. As a result, provisions of OMB Circular A-87 and the Housing Commission's policy were violated, and HUD housing funds may have been misspent on unallowable items.

Recommendations

We recommended that the Director, Troubled Agency Recovery Center, ensures that the Muskegon Housing Commission sells the Family Investment Center building to pay off any outstanding mortgages, implements a plan to repay the Public Housing Program for funds transferred to other programs; and strengthens controls to ensure compliance with HUD regulations and its own procurement policy.

Auditee Response To Draft Findings

Housing Commission interim management indicated in its response to our Draft Findings that its positions on all issues discussed in the audit were under review. Management began evaluating the effectiveness of its policies and procedures only a short time before we conducted the exit conference and could not give us specific details as to how the issues would be resolved.

We presented our draft findings to the Housing Commission during the course of the audit. We held an exit conference with the Interim Director on October 6, 2000. The Housing Commission provided comments to our draft findings, which are included in their entirety as an Appendix to this report. Excerpts of the comments are included with each finding. Where appropriate, changes were made to the draft findings to reflect additional information or clarification resulting from the exit conference and auditee comments.

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# Introduction

The Muskegon Housing Commission was established in 1965 under the laws of the State of Michigan. The Housing Commission was created to provide and manage decent, safe and sanitary housing for low-income residents according to programs approved by the City of Muskegon's Board of Housing Commissioners. The Board consists of five unpaid members who formulate and direct the Housing Commission's policies. The Chairman of the Board is Boyd Arthur. The Executive Director is responsible for the day-to-day operations. As of August 1, 2000, HUD was in the process of instituting a Limited Denial of Participation action against the former Executive Director. On the same date, the Board of Housing Commissioners terminated his employment. The Housing Commission's Interim Executive Director is Janet Williams. The Housing Commission's official records are maintained at 1823 Commerce Street, Muskegon, Michigan.

In January 1999, Muskegon Housing Commission was declared by HUD to be a "troubled" housing authority and was placed under supervision of the Troubled Agency Recovery Center in Cleveland, Ohio.

Of 196 total units managed by the Housing Commission, 160 units are designated for elderly and disabled individuals, including 36 units in the Single Room Occupancy Program. The Housing Commission also manages six multi-family apartment units in three duplex structures, and 30 units in the Homeownership Program. There are currently 164 Section 8 recipients. In Fiscal Years 1996 and 1999, HUD awarded the Housing Commission \$15,000 and \$261,843, respectively, for Comprehensive Improvement Assistance Program grants.

A legislative change in 1996 permitted Michigan housing authorities to seek a separation from the municipal bodies that previously controlled their operations. The State's Housing Facilities Act Amendment now allows a housing commission to own property in its own name and act as a separate legal entity when entering into contracts. Since the legislative change, the Muskegon Housing Commission had been attempting to separate from the City to control its operations. The separation became effective August 16, 2000.

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## Audit Objectives

The audit objectives were to determine whether the Muskegon Housing Commission improperly transferred funds between its programs, and complied with the Annual Contributions Contract and other applicable HUD regulations.

## Audit Scope and Methodology

To achieve our objectives, we interviewed Troubled Agency Recovery Center and other HUD staff regarding the Commission's operations. We reviewed Recovery Center records, including: monitoring review reports; correspondence with the Housing Commission; and subsidy disbursements. We

interviewed Housing Commission staff and reviewed Housing Commission records on-site, such as: monthly financial statements; the procurement policy; City of Muskegon's travel policy and reimbursement records; the Housing Commission's bank account statements and cancelled checks for the audit period; monthly credit card billing statements; and various accounts payable invoices.

The audit, which was conducted in accordance with generally accepted government auditing standards, covered the period November 1, 1995, through June 30, 2000. We performed the audit between December 1, 1999, and July 21, 2000.

We provided a copy of this report to the Commission's Interim Executive Director.

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# Muskegon Housing Commission Transferred Funds Between Housing Programs Without HUD Authorization

The Muskegon Housing Commission transferred \$836,893 from its Public Housing Program to finance operations of its Single Room Occupancy Program and the Family Investment Center. In addition, a combination of Section 8 administrative fees and subsidy funds totaling \$665,000 were transferred from the Section 8 account to the Low Rent Public Housing Program to pay operating expenses. Of this latter amount, we estimated that \$298,970 of the transferred funds represented an inappropriate use of Section 8 subsidy funds. Such transfers and uses were not permitted by the Annual Contributions Contract and other HUD regulations. The transfers took place over a four-year period beginning in October 1995. The Housing Commission continued this activity despite being instructed by HUD to cease the transfers. As a result, HUD requirements were violated, and sufficient funds may not have been available to operate Muskegon Housing Commission's Public Housing and Section 8 Programs.

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## Background

Public housing authorities in the State of Michigan operate under the Housing Facilities Act (Public Act 18) enacted in 1933. This act gave cities and other municipal bodies in the State the authority to create, construct, finance and operate housing commissions. In March 1996, the City of Muskegon purchased a commercial building located at 1823 Commerce Street in Muskegon, Michigan to be used as the Muskegon Housing Commission's administrative offices. A major portion of the building now serves as the Housing Commission's headquarters. An adjacent portion was reconfigured to accommodate 36 living units under HUD's Single Room Occupancy Program.

In September 1996, the Housing Commission was awarded \$403,520 in low income housing tax credits by the Michigan State Housing Development Authority. In order to benefit from the tax credits, the awardee must be an entity other than a municipal body. Therefore, prior to receiving the credits, the Housing Commission created a non-profit entity, the Family Investment Center Limited Housing Development Corporation (hereafter, "Family Investment Center"). In November 1996, the Family Investment Center Limited Dividend Housing Association Limited Partnership was formed. The Partnership

is comprised of the Corporation as the general partner, and the Executive Director of the Housing Commission as the limited partner.

Through a series of transfers, ownership of the Commerce Street building was transferred by quit claim deed from the City of Muskegon to the Family Investment Center Limited Dividend Housing Association Limited Partnership. The Housing Commission pays a monthly rental of \$887 to the Family Investment Center for the use of its office space.

HUD Requirements

Article IV, Section 401, Part D, of the Annual Contributions Contract allows the housing commission to “...withdraw monies from the General Fund only for 1) the payment of development costs, 2) the payment of operating expenditures, 3) the purchase of investment securities as approved by the Government, 4) other purposes specified in [the Annual Contributions Contract], and 5) other purposes specifically approved by the Government”.

Article IV, Section 422 of the Annual Contributions Contract states the housing commission “...shall not, without the approval of the Government, obtain, from any source whatsoever, any loan in connection with the Projects other than those specifically provided for under this Contract”.

HUD Handbook 7420.7, Section 8-2d(3)(a), Unauthorized Transfers, states that transfers of amounts from the Operating Reserve to another non-Section 8 program account does not constitute use of the Operating Reserve for other housing purposes, even if the account to which funds would be transferred is designated for housing purposes. Operating Reserve funds must be expended to be considered used for other housing purposes.

24 CFR Part 982, Section 982.152(v)(3), states that administrative fees may only be used to cover costs incurred to perform housing authority administrative responsibilities for the program in accordance with HUD regulations and requirements.

24 CFR Part 982, Section 982.155(b)(1), states that if funds in the administrative fee reserve are not needed to cover housing authority administrative expenses, the housing authority may use

these funds for other housing purposes permitted by State and local law. However, HUD may prohibit use of the funds for certain purposes.

Unauthorized Transfers Of  
Public Housing And Section 8  
Funds

As of April 2000, the Housing Commission had transferred \$836,893 from its Public Housing Program to fund the Single Room Occupancy Program and operating expenses of the Family Investment Center.

In addition, a combination of Section 8 administrative fees and subsidy funds totaling \$665,000 were transferred from the Section 8 account to the Low Rent Public Housing Program. These transferred funds were used by the Housing Commission to pay operating expenses of the Low Rent Public Housing Program. Regulation 24 CFR Part 982.155(b)(1) allows funds in the administrative fee reserve to be used for other housing purposes permitted by State and local law, but HUD may prohibit use of the funds for certain purposes. We were unable to find any documentation indicating that HUD imposed a restriction on the Housing Commission's use of the administrative fees. Because the administrative fees and subsidy funds were commingled, we could not determine what portion of the Section 8 transfers related to administrative fees. Between fiscal year 1996 and fiscal year 2000, the Housing Commission received \$366,030 in administrative fees for the Section 8 voucher and certificate programs. Using a conservative approach, we estimated that \$298,970 (\$665,000 minus \$366,030) of the Section 8 fund transfers represented an inappropriate use of Section 8 subsidy funds.

The Housing Commission had been making such transfers in varying amounts since at least October 1995. Transferring funds between housing programs is not permitted by the Annual Contributions Contract and HUD Handbook 7420.7. In March 1999, the Troubled Agency Recovery Center became aware of the situation and instructed the Housing Commission in writing to cease the transfers. However, the Housing Commission did not comply with this instruction and continued to make periodic transfers from the two programs.

Family Investment Center  
Could Not Meet Expenses

Since October 1995, the Family Investment Center has not been able to generate enough revenue on its own because it has failed to lease available office space in the Commerce Street

building to other businesses or services. It has also been unsuccessful at selling the low income housing tax credits. Because the cost to rehabilitate the Single Room Occupancy units and recurring operating costs exceeded the revenue generated by the Family Investment Center, the Housing Commission paid most of the Family Investment Center expenses directly out of Public Housing Funds. This depleted the Public Housing Program's operating budget, creating the need to transfer \$665,000 in administrative fees and subsidy funds from Section 8 to the Public Housing General Fund. The effect of this activity was that the Housing Commission became delinquent in paying its bills.

The Executive Director of the Housing Commission informed us that the main deterrent to bringing businesses or services into the building was the lack of a separate point of entry. Because of its layout, employees and patrons of such businesses or services would have to enter the building either through the Housing Commission's front office or an adjoining back alley. A further deterrent is that businesses cannot effectively advertise outside the building because of limited visibility from the alley and the Housing Commission entrance.

Housing Commission Could  
Not Sell Tax Credits

The tax credits were awarded to the Housing Commission to fund the rehabilitation of the Single Room Occupancy units. At the time of the award, Internal Revenue Service regulations did not allow municipal entities to sell the tax credits. As indicated earlier, prior to the 1996 amendment to the Housing Facilities Act, the Housing Commission could not own property in its own name, leading to the formation of the Corporation and Partnership. The City of Muskegon controlled Housing Commission operations and personnel, and at some point, replaced the original independent Board of Directors of the Corporation with its own appointees. Thus, the Housing Commission failed to sell the tax credits to investors because of the City's ties to the Corporation's Board of Directors.

As a result of the unauthorized transfers of funds and the inability to sell the tax credits, two critical housing programs were denied adequate funding.

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**Auditee Comments**

Excerpts from the auditee's comments on our draft finding follow. Appendix B contains the complete text of the comments:

Consultation with current on-site personnel, the Troubled Agency Recovery Center and assigned consultants are under review. Muskegon Housing Authority will continue its efforts to seek recovery and/or remedy for the Public Housing Program affected by the financial transactions identified. Strategies to replenish funds at a sufficient level to safeguard and restore trust in the financial and operational management systems are under consideration.

**OIG Evaluation of Auditee Comments**

Discussion at the exit conference of the various options available to Housing Commission management demonstrated their commitment to resolving the longstanding issues.

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**Recommendations**

We recommend that the Director, Troubled Agency Recovery Center, in conjunction with the Director, Office of Public Housing, Michigan State Office, assures that the Muskegon Housing Commission:

- 1A. Repays \$298,970 to the Section 8 Program for subsidy funds that were inappropriately used by the Housing Authority to pay operating expenses of the Low Rent Public Housing Program;
- 1B. Sells the Family Investment Center building to pay off any outstanding mortgages, and applies the balance of the sale proceeds to repay the Public Housing Program \$836,893 that were improperly transferred to the Single Room Occupancy Program;
- 1C. Sells any excess or unused assets it may have, such as vehicles or real estate, to repay the programs;
- 1D. Establishes procedures and controls to preclude prohibited inter-program fund transfers in the future.



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## Low Rent Homes Pledged To Secure Loans In Violation of HUD Regulations

The Muskegon Housing Commission pledged 14 Low Rent Public Housing Program homes, and proceeds from the future sale of the homes, as collateral for a \$140,000 loan obtained from the Michigan Housing Trust Fund. The purpose of the loan was to purchase and remodel the Family Investment Center building used for the Single Room Occupancy Program. As of May 2000, the Housing Commission had reduced the loan balance by \$90,000 resulting from the sale of nine homes. A Declaration of Trust in favor of HUD was not released for five of the property sales. This arrangement was not approved by HUD, and violates the Annual Contributions Contract, Administrative Use Plan and Declaration of Trust restrictions.

### Background

In March 1996, the Muskegon Housing Commission sought to purchase and renovate a commercial building to serve as the site of its Single Room Occupancy Program and the Housing Commission's administrative offices.

The City of Muskegon would not issue its full faith and credit to enable the Housing Commission to acquire one loan of sufficient amount to purchase the site, which was to become known as the Family Investment Center. Therefore, the Housing Commission obtained two loans, one from First of America Bank for \$480,000 secured by the Family Investment Center building, and a second from the Michigan Housing Trust Fund for \$140,000. To secure the second loan, the City of Muskegon, acting on behalf of the Housing Commission, executed a blanket mortgage covering the 14 homes, and pledged future income expected to be received from the sale of the homes, known as "Turnkey III" properties. The homes are part of the Housing Commission's inventory of Low Rent Public Housing Program homeownership properties.

The Turnkey III Homeownership Opportunity Program is a lease-purchase approach to help eligible low-income families buy homes in certain public housing projects developed specifically for homeownership.

### HUD Requirements

The HUD Declaration of Trust requires the Housing Commission to retain title to public housing property and to

“...refrain from transferring, conveying, assigning, leasing, mortgaging, pledging, or otherwise encumbering or permitting...any transfer, conveyance, assignment, lease mortgage, pledge or other encumbrance of said property...”.

Part 2, Section 313 of the Annual Contributions Contract prohibits the Housing Commission from pledging income from low rent public housing without approval from HUD.

Declaration Of Trust Not Released

In November 1993, the Housing Commission signed a Declaration of Trust giving HUD a secured interest in the properties listed in the agreement. The 14 homes pledged as collateral for the Michigan Housing Trust Fund Loan were covered by the Declaration of Trust agreement. The Housing Commission sold nine of the Turnkey III homes between 1997 and 1999. Of the nine, only four had a Partial Release of Declaration of Trust executed. The other five homes are still under the Declaration of Trust, according to a HUD attorney in the Michigan State Office. The title insurance company that closed the home sales apparently overlooked the Declaration of Trust that was recorded by the Muskegon County Registrar of Deeds on November 1, 1993.

In May 1999, HUD was aware that the Trust Fund had accepted the homes as collateral encumbered by the Declaration of Trust agreement. HUD was also aware that the Housing Commission did not initiate requests for Partial Releases for the five homes sold between 1997 and 1999. The Director of Public Housing for HUD’s Michigan State Office told us that she discussed this matter verbally with the Housing Commission Executive Director, but that no reference was made to the problem in HUD’s monitoring report dated June 18, 1999. She indicated further that HUD was waiting for the OIG to issue this Audit Report before taking corrective action. The Housing Commission is presently working with the title company to remove the clouded title from those homes.

When a property is sold that is encumbered by a Declaration of Trust, it is the Housing Commission’s responsibility to initiate a request to HUD to execute a Partial Release of Declaration of Trust. The Housing Commission did not have controls in place to ensure that Partial Releases were consistently obtained from HUD prior to the sales, and that the title insurance company

Unauthorized Use Of Public  
Housing Assets

was notified of the Declaration of Trust at the time title searches were conducted. As a result, the Declaration of Trust was violated, and purchasers of the homes will not receive clear title to their properties until all Partial Releases have been executed.

As of May 2000, the Housing Commission had reduced the Michigan Housing Trust Fund loan balance by \$90,000 through the sale of nine of the Turnkey III homes. This amount was a portion of the total obligation owed to the Public Housing Program by the Family Investment Center. As discussed in Finding 1, the Family Investment Center was obligated to the Public Housing Program in the amount of \$836,893 as of April 2000. This situation resulted from the Housing Commission's unauthorized interprogram transfers of funds from the Public Housing Program to the Single Room Occupancy Program.

In addition to the monthly mortgage payments of \$359, the Housing Commission was responsible for paying the Michigan Housing Trust Fund the lesser of \$10,000 or the net sale proceeds from the sale of each mortgaged home. This action is not permitted by the Declaration of Trust or the Annual Contributions Contract. The City of Muskegon Housing Commissioners told us they were not aware they were violating HUD regulations by pledging the 14 homes and a portion of the sales proceeds.

In a letter dated March 3, 1999, HUD instructed the Housing Commission that the use of sales proceeds in this manner was prohibited. The Housing Commission had been granted waivers by HUD in 1992 allowing it to retain and use the proceeds of Turnkey III home sales to provide housing assistance for low-income families. The waivers did not allow the sales proceeds to be used for any other purpose. The City of Muskegon Housing Commissioners voted in March 1999 to amend the Administrative Use Plan for the Turnkey III homes to allow the Housing Commission to use the sales proceeds for any program related to low-income families. However, the Housing Commission Executive Director failed to submit a formal request to HUD to amend the Administrative Use Plan.

As a result, the Housing Commission violated the Annual Contributions Contract and Administrative Use Plan.

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Auditee Comments

The center of this issue appears to rest with financial projections for the purchase and renovation of the property located at 1823 Commerce, which is the site of the Single Room Occupancy program as well as the Housing Commission administrative offices. A full analysis of all existing systems is currently underway, which includes the impact of the conceptual and financial projections originally calculated, versus project viability for the SRO project. Real property transactions and procedures for sales of all homes in the portfolio are under development.

OIG Evaluation of  
Auditee Comments

The Interim Director and Housing Commission staff indicated to us at the exit conference that they were considering terminating the Single Room Occupancy Program, an action that would be necessary if the Commerce Street building was sold. The Housing Commission's administrative offices would then be relocated to Hartford Terrace, one of the high-rise properties operated by the Housing Commission.

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Recommendations

We recommend that the Director, Troubled Agency Recovery Center, in conjunction with the Director, Office of Public Housing, Michigan State Office, assures that the Muskegon Housing Commission:

- 2A. Takes action to sell the Family Investment Center building and payoff any outstanding mortgages on the building;
- 2B. After the mortgages are retired, applies the remaining proceeds to pay down the Family Investment Center debt owed to the Public Housing Program;
- 2C. Immediately ceases using proceeds from Turnkey III home sales to pay the Michigan Housing Trust Fund loan; and
- 2D. Establishes a control procedure to notify HUD when Partial Releases of Declaration of Trust should be executed at the time homes are sold.

# Public Housing Funds Used To Double Insure Five Employees

The Muskegon Housing Commission used \$51,233 of Public Housing funds to pay insurance premiums to private insurance companies for the same types of coverage it was paying the City of Muskegon to provide. The Housing Commission paid twice for health, life and disability benefits for five of its employees who were also provided the same coverage by the City of Muskegon. In addition, duplicate premiums were paid for the Executive Director's health insurance coverage. As a result, Public Housing funds that could have been used for program needs were misspent on unnecessary insurance.

## OMB Requirement

OMB Circular A-87, Attachment A, Paragraph C.1 states that to be allowable under Federal awards, a cost must be necessary and reasonable for proper and efficient performance and administration of Federal awards.

## Double Health Insurance Premiums

The Housing Commission obtained Blue Cross/Blue Shield health insurance coverage for all Housing Commission employees, including the Executive Director, who were already covered under the City of Muskegon's health plan. Since November 1998, the Housing Commission has paid at least \$15,379 in premiums to the City for coverage, and \$47,989 to Blue Cross/Blue Shield for the same coverage. This double coverage has existed since the process of separating the Housing Commission from the City of Muskegon began. (See Background section of Finding 1.) The Housing Commission informed us that the private insurance was purchased to avoid any lapse of coverage when the separation took place; however, the separation has been delayed for several years due to a number of unresolved legal issues.

HUD instructed the Housing Commission on November 30, 1999, to stop paying the second premium for employees covered under the City of Muskegon's health plan, but it continued to pay the premiums.

## Duplicate Health Insurance Premiums Paid For Executive Director

In addition to the double coverage cited above, the Housing Commission has paid duplicate health insurance premiums to Blue Cross/Blue Shield for the Executive Director since

November 1998. The duplicate premiums total \$3,775 (this amount is included in the \$47,989).

The Housing Commission began paying the duplicate premiums because Blue Cross/Blue Shield required a minimum of ten employees to be enrolled in the plan to qualify for group health coverage. However, we noted that double paying for the Executive Director actually resulted in a total of 11 subscribers to the plan. We could not determine why the Executive Director was listed twice on premium invoices under slightly different Social Security numbers. The Executive Director offered no explanation for the duplicate coverage, but did indicate that only one of the two Social Security numbers was valid.

The City of Muskegon's Board of Housing Commissioners was aware of the duplicate payments for the Executive Director; however, the Board took no action to stop the duplicate payments. The effect of these duplicate payments for private coverage, in combination with the double coverage from the private carrier and the City, was that the Executive Director was triple-insured for the same type of insurance. (As of August 1, 2000, HUD was in the process of instituting a Limited Denial of Participation action against the Executive Director. On the same date, the City of Muskegon Board of Housing Commissioners terminated his employment.)

Double Life And Disability  
Insurance Payments

The Housing Commission paid double life and disability insurance premiums for five employees who were already covered by another life and disability plan offered through the City of Muskegon. Since December 1998, the Housing Commission has paid a least \$1,514 to the City of Muskegon for this insurance, and paid \$3,244 to the Business Men's Assurance Company of America for the same employees.

The reason for this double coverage is the same as that for the double health insurance. The Executive Director attempted to avoid any lapse of coverage when the Housing Commission separated from the City.

The double coverage and duplicate payments for health, life and disability insurance resulted in \$51,233 of Public Housing funds being misspent on unnecessary insurance.

These funds could have been put to better use to support Public Housing program needs.

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**Auditee Comments**

This particular issue is under analysis regarding the relationship to the separation/autonomy agreement with the City of Muskegon and its ultimate impact on protection of the current and future personnel.

**OIG Evaluation of Auditee Comments**

Discussion at the exit conference addressed the possibility of recovering some portion of the overpaid premiums directly from the insurance carrier. We consider this a viable option that should be pursued by Housing Commission management.

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**Recommendations**

We recommend that the Director, Troubled Agency Recovery Center North, assures that the Muskegon Housing Commission:

- 3A. Establishes a repayment plan to repay the Public Housing Program \$51,233 for the double insurance payments paid to the private insurance companies;
- 3B. Cancels the former Executive Director's insurance coverage with both the City of Muskegon and the private carrier.



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# Unsupported and Ineligible Expenses Charged to Housing Commission Credit Cards

The Muskegon Housing Commission could not provide documentation to support \$12,989 in expenses charged to its two Visa credit card accounts. The unsupported expenses were for restaurant and retail purchases and airline tickets. In addition, expenses totaling \$2,040 were charged by the Executive Director for personal items. The Housing Commission did not consistently follow its procurement policy that required all expenses to be documented. As a result, provisions of OMB Circular A-87 and the Housing Commission's policy were violated, and HUD housing funds may have been misspent on unallowable items.

## OMB Regulation And Housing Commission Policy

OMB Circular A-87, Section C (1a) states that allowable costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards.

OMB Circular A-87, Section C (1j) states that costs must be adequately documented to be allowable.

Muskegon Housing Commission's Procurement Policy and Procedures Amendment, Paragraph 4, requires all procurement of equipment, material, supplies and repairs or service to be documented.

## Unsupported And Ineligible Charges

The Housing Commission maintained two separate credit card accounts. One card is used primarily for expenses associated with out-of-town conferences attended by Housing Commission personnel; the other card is used for local purchases in Muskegon. Both cards bear the names "Muskegon Housing Commission" and that of the Executive Director. Visa would not issue a corporate card without including an individual's name.

We reviewed 58 monthly billing statements for both of the Housing Commission's Visa credit card accounts. Our review covered all charges to each account for the period September 1997 through January 2000. The Housing Commission had no supporting documentation for \$12,989 in charges, including: \$2,199 for airline tickets; \$1,485 for restaurant and retail purchases; and \$9,305 for hardware and miscellaneous items.

In addition, we noted expenses totaling \$2,040 that were charged by the Executive Director for personal items, such as clothing and medicine. We determined that the Housing Commission paid all credit card charges from either Public Housing or Section 8 program funds. These unsupported and ineligible charges are not allowed by OMB Circular A-87 or the Housing Commission's Procurement Policy and Procedures Amendment.

As of August 1, 2000, HUD was in the process of instituting a Limited Denial of Participation action against the Executive Director. On the same date, the City of Muskegon Board of Housing Commissioners terminated his employment.

Housing Commission Staff  
Were Aware Of  
Documentation Requirement

The Assistant Director informed us that the Housing Commission staff were aware of the policy requiring receipts to be submitted for all credit card purchases, but they sometimes failed to do so. The Executive Director admitted that he did not always return receipts after making credit card purchases. He said he was unaware that personal items could not be charged to the accounts. Although he indicated that he reimbursed the Housing Commission for his personal purchases, we could not independently verify his statement. Management did not consistently follow-up to ensure that employees returned necessary support for credit card expenses.

Credit Cards Not Properly  
Controlled

We noted that controls over the credit cards were weak. Although a lockable container was generally used to store the cards when not in use, on two occasions we observed that one card was in the Executive Director's possession although he had no need for the card at the time. In addition, the Housing Commission did not maintain a usage log for recording to whom the cards were issued and for what purpose. Improperly safeguarding the credit cards exposes a Housing Commission asset to possible misuse.

The Housing Commission's failure to obtain receipts from its employees to support all credit card purchases violated OMB Circular A-87 and its own procurement policy. As a result, HUD housing funds may have been misspent on non-program uses.

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**Auditee Comments**

Analyses are underway to establish a coherent and consistent policy addressing credit card issuance and usage. This effort will be coordinated with the review and re-development of all existing and required policies and procedures. It is the current consensus that a clear and consistent procurement policy will provide the necessary guidance for all areas affected by stronger internal controls within the organization .

**OIG Evaluation of  
Auditee Comments**

The Housing Commission's interim management indicated during the exit conference that it recognized the urgent need to adopt and enforce a policy controlling this Housing Commission asset.

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**Recommendations**

We recommend that the Director, Troubled Agency Recovery Center North, assures that the Muskegon Housing Commission:

- 4A. Directs the credit card issuer to remove the former Executive Director's name from both accounts, and reissues new cards in the names of the Housing Commission and the successor Executive Director;
- 4B. Obtains receipts from its employees to support the \$12,989 in undocumented charges, to the extent possible;
- 4C. Enforces its Procurement Policy and Procedures Amendment for future charges made to the credit cards; and
- 4D. Establishes a usage log to strengthen controls over credit card activity.

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# Management Controls

In planning and performing our audit, we considered the management controls of the Muskegon Housing Commission in order to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Management Controls

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

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

## Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- Program Operations

The Housing Commission's controls did not ensure that adequate oversight was exercised by the Commission's Board of Directors and the City of Muskegon's Housing Commissioners. In discussions with the Housing Commission's Chairman of the Board, we learned that a number of actions taken by the former Executive Director were not discussed with the Chairman or other directors, particularly the pledging of Turnkey III homes and proceeds of the home sales to secure a loan. (See Finding 2).

- Compliance with Laws and Regulations

The Housing Commission's former Executive Director did not comply with instructions received from HUD on various occasions. Specifically, HUD and the Troubled Agency Recovery Center directed the Housing Commission to discontinue making transfers of funds from its Low Rent Public Housing and Section 8 Programs to its Single Room Occupancy Program. In addition, the Housing Commission ignored HUD's instructions to discontinue paying double insurance premiums to obtain coverage for its employees. (See Findings 1 and 3).

- Safeguarding Resources

Controls over the Housing Commission's credit cards were weak. It did not ensure that only authorized persons used the cards for official Housing Commission business, and did not enforce its procurement policy requiring receipts to be submitted for all expenses charged to the credit cards. (See Finding 4).

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# Follow Up On Prior Audits

The Office of Inspector General issued an audit report on March 30, 1994, pertaining to the Muskegon Housing Commission's Low Income Housing and Turnkey III Homeownership Programs (Report 94-CH-202-1020). The audit objectives were to determine whether the Housing Commission administered its public housing and homeownership activities in an efficient, effective and economical manner, and complied with the terms of its Annual Contributions Contract and other applicable laws.

Seven recommendations resulted from this audit. All recommendations were closed by Management Decisions during 1994, and posted to the Departmental Automated Audit Management System.

None of the issues identified in the 1994 Audit Report were repeated in this report.



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# Schedule of Questioned Costs

<u>Recommendation</u> <u>Number</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible</u> <u>1/</u>	<u>Unsupported</u> <u>2/</u>
1A	\$298,970	
1B	836,893	
3A		\$51,233
4B	_____	<u>12,989</u>
Total	<u>\$1,135,863</u>	<u>\$64,222</u>

1/ Ineligible costs are questioned costs charged 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-financed or HUD-insured program or activity and eligibility cannot be determined at the time of 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 costs. Unsupported costs require a 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

September 25, 2000

Mr. Ronald F. Huritz, Asst. Director  
U.S. Dept. of Housing & Urban Development  
Office of Inspector General for Audit, Midwest  
77 West Jackson Blvd., Suite 2646  
Chicago, IL 60604-3507

Dear Mr. Huritz:

This is in response to your correspondence of September 15, 2000 which contained Draft Audit Findings resulting from your review of the Muskegon Housing Commission (MHC). The purpose of this reply is to acknowledge receipt of the summary of issues, with subsequent responsive comment as appropriate, with indication of agreement/disagreement of each area identified, and followed by preliminary/alternative options, to the extent possible at this time. Attached, please find MHC response(s) to the Draft Findings, in the order presented.

Understanding that final conclusions have not been made at this time, MHC would like to clarify that management position(s) at all levels are currently under review, with the intent to establish more functional/accountable means and methods for effective internal/management controls for an agency suited to accommodate the needs of the populace, i.e., program beneficiaries.

That said, MHC would like to extend a cooperative stance in addressing the issues at hand. We expect additional exchanges of information in the future; please remain in contact. Thanking you in advance for a prompt and courteous reply.

Sincerely,

**MUSKEGON HOUSING COMMISSION**

Janet Williams, Interim Director

Encl.

## OIG/DRAFT & MHC/RESPONSE

### MUSKEGON HOUSING COMMISSION TRANSFERRED \$1,501,893 BETWEEN HOUSING PROGRAMS WITHOUT HUD AUTHORIZATION

**OIG/DRAFT FINDING:** MHC transferred \$836,893 from its Public Housing Program to finance operations of its Single Room Occupancy Program. Transfers of \$665,000 in administrative fees and Section 8 subsidy funds made from the Section 8 account to the General Fund account were used to pay operating expenses. Such transfers and uses are not permitted by the Annual Contributions Contract and other HUD regulations. The transfers took place over a four-year period beginning in October 1995. The Housing Commission continued this activity despite being instructed by HUD to cease the transfers. As a result, HUD requirements were violated, and sufficient funds may not have been made available to operate Muskegon Housing Commission's Public Housing and Section 8 Programs.

**OIG/RECOMMENDATION** assures that MHC:

- 1A. Sells the Family Investment Center building to pay off any outstanding mortgages, and applies the balance of the sale proceeds to repay the Public Housing and Section 8 programs; and
- 1B. Sells any excess or unused assets it may have, such as vehicles or real estate, to repay the programs.

### MHC/Initial Response:

Consultation with current on-site personnel, HUD/TARC, and TARC-assigned consultants are under review, including the chronological and accuracy of information available at this time regarding the identified issues. These tasks involve extreme internal management review, coordinated with financial analyses of all current systems, which may ultimately impact alternative solutions to the draft recommendations to date. Certainly the sale of excess and/or unused assets may be viable considerations; however, MHC would like a coordinated approach to better address the issues, including the equation of past revenues generated by tenants into the financial overview, as well as projections for the future. It is our belief that short- and long-term solutions may be influenced by more detailed information at some point in the future. In the meantime, MHC will continue its efforts to seek recovery and/or remedy for the Public Housing Program, affected by the financial transactions identified. Additionally, strategies to replenish funds at a sufficient level to safeguard and restore trust in the

financial and operational management systems are under consideration, with consultation(s) with all interested parties.

**LOW RENT HOMES PLEDGED TO SECURE LOANS IN VIOLATION OF HUD  
REGULATIONS**

**OIG/DRAFT FINDING:** The Muskegon Housing Commission pledged 14 Low Rent Public Housing Program homes, and proceeds from the future sale of the homes, as collateral for a \$140,000 loan obtained from the Michigan Housing trust Fund. The purpose of the loan was to purchase and remodel the Family Investment Center building used for the Single Room occupancy Program. As of May 2000, the Housing Commission had reduced the loan balance by \$90,000 resulting from the sale of nine homes. A Declaration of trust in favor of HUD was not released for five of the property sales. This arrangement was not approved by HUD, and violates the Annual Contributions Contract, Administrative Use Plan and Declaration of Trust restrictions.

**OIG/RECOMMENDATION** assures that MHC:

- 2A. Takes action to sell the Family Investment Center building and payoff any outstanding mortgages on the building;
- 2B. After the mortgages are retired, applies the remaining proceeds to pay down the Family Investment Center debt owed to the Public Housing Program;
- 2C. Immediately ceases using proceeds from Turnkey III home sales to pay the Michigan Housing Trust Fund loan; and
- 2D. Establishes a control procedure to notify HUD when partial Releases of Declaration of Trust should be executed at the time homes are sold.

**MHC/Initial Response:**

As above, a review of the historical context and accuracy of information available at this time regarding this issue is underway. Also as above, the center of this issue appears to rest with financial projections for the purchase and renovation of the property located at 1823 Commerce, which is the site of the Single Room Occupancy (SRO) program, as well as the MHC administrative offices. A full analysis of all existing systems is currently underway, which includes the impact of the conceptual and financial projections originally calculated, versus project viability for the SRO project. Included in the analysis is the applicability of remaining debt to the Public Housing Program, possible re-use of current functions of the (Commerce) facility, the status of remaining units under the Turnkey III home sales and the projected revenue outcome with the Michigan Housing Trust fund balance. Real property transactions and/or procedures for sales of all homes in the MHC portfolio are under development, in conjunction with standard real estate property transactions, which include full disclosure on behalf of MHC upon transfer of ownership.

**PUBLIC HOUSING FUNDS USED TO DOUBLE INSURE**  
**FIVE EMPLOYEES**

**OIG/DRAFT FINDING:** The Muskegon Housing Commission used \$51,233 of Public Housing funds to pay insurance premiums to private insurance companies for the same types of coverage it was paying the City of Muskegon to provide. The Housing Commission paid twice for health, life and disability benefits for five of its employees who were also provided the same coverage by the City of Muskegon. In addition, duplicate premiums were paid for the Executive Director's health insurance coverage. As a result, Public Housing funds that could have been used for program needs were misspent on unnecessary insurance.

**OIG/RECOMMENDATION** assures that MHC:

- 3A. Establishes a repayment plan to repay the Public Housing Program \$51,233 for the double insurance payments paid to the private insurance companies;
- 3B. Cancels the Executive Director's insurance coverage with both the City of Muskegon and the private carrier.

**MHC/Initial Response:**

This particular issue is under analysis regarding the relationship to the 'separation/autonomy' agreement with the City of Muskegon and its ultimate impact on development of viable protection of the current and future personnel compliment. The financial review of this issue is underway including this amount, also for consideration in the equation for restoration to the Public Housing Program.

It is important to note at this time that the autonomy/separation issue has been resolved, effective August 16, 2000 and the impact upon on all real property assets, personnel compliment and associated benefit calculations will also be determined by the following areas in consideration for a viable and recoverable Housing Authority:

- 1. Governance – MHC *and/or* Family Investment Center;
- 2. Viability of PHA Programs vs. SRO;
- 3. Current and potential appraised valuation of all assets, including equipment, real property; and
- 4. A well-defined and coordinated strategy to replenish/restore the appearance of misappropriation of Public Housing and other funding sources, therefore restoring a level of public trust by affected client populations.



**UNSUPPORTED AND INELIGIBLE EXPENSES CHARGED TO HOUSING  
COMMISSION CREDIT CARDS**

The Muskegon Housing Commission could not provide documentation to support \$12, 989 in expenses charged to its two Visa credit card accounts. The unsupported expenses were for restaurant and retail purchases and airline tickets. In addition, expenses totaling \$2,040 were charged by the Executive Director for personal items. The Housing Commission did not consistently follow its procurement policy that required all expenses to be documented. As a result, provisions of OMB Circular A-87 and the Housing Commission's policy were violated, and HUD housing funds may have been misspent on unallowable items.

OIG/RECOMMENDATION assures that MHC:

- 4A. Directs the credit card issuer to remove the former Executive Director's name from both accounts, and reissues new cards in the names of the Housing Commission and the successor Executive Director;
- 4B. Obtains receipts from its employees to support the undocumented charges to the extent possible;
- 4C. Enforces its Procurement Policy and Procedures Amendment for future charges made to the credit cards; and
- 4D. Establishes a usage log to strengthen controls over credit card activity.

**MHC/Initial Response:**

As with all other financial issues, analyses are underway to establish a coherent and consistent policy addressing credit card issuance and usage. This effort will be coordinated with the review and re-development of all existing and required policies and procedures, with a particular focus toward regulatory and OMB compliance objectives. It is the current consensus that a clear and consistent procurement policy will provide the necessary guidance for all areas affected by stronger internal controls within the organization.



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