
AUDIT REPORT



SAGINAW HOUSING COMMISSION
Low-Income Housing, Section 8 and
Drug Elimination Grant Programs

SAGINAW, MICHIGAN

2001-CH-1003

JANUARY 4, 2001

OFFICE OF AUDIT, MIDWEST
CHICAGO, ILLINOIS



Issue Date	January 4, 2001
Audit Case Number	2001-CH-1003

TO: Joann L. Adams, Director, Office of Public Housing, Michigan State Office,
5FPH

/signed/

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

SUBJECT: Audit of Saginaw Housing Commission
Low-Income Housing, Section 8 and Drug Elimination Grant Programs
Saginaw, Michigan

We completed an audit of Saginaw Housing Commission. The audit was conducted in response to a HUD request and a complaint to the OIG Hotline. The objectives of the audit were to determine whether the Housing Commission operated its programs effectively and in compliance with HUD requirements and other applicable regulations. Generally, the Housing Commission's programs were effectively administered, but we noted problems involving drug elimination grant expenses, a property disposition transaction, and Section 8 unit inspections that did not comply with HUD requirements.

The Housing Commission disbursed \$19,552 in ineligible and unsupported Drug Elimination Grant funds, and did not assure that one of its subrecipients properly administered its own drug elimination program. As a result, grant activity reports submitted to HUD were inaccurate. The Housing Commission also did not obtain HUD approval before selling a parcel of land, and City of Saginaw officials appeared to have undisclosed conflicts of interest regarding the property sale. HUD regulations were violated as a result, and the Housing Commission may not have acted in its best interests or those of its tenants. In addition, we inspected 18 public housing units and found 278 Housing Quality Standards violations that subjected tenants to hazardous and unhealthy living conditions.

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 for Audit, at (312) 353-6236, extension 2675.

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Executive Summary

We completed an audit of the Saginaw Housing Commission. The audit resulted from a HUD request and a complaint to the Hotline. The complainant alleged that the President of the Board of Commissioners of the Housing Commission created a conflict of interest by voting on matters that benefited an outside organization of which he was the executive director. The objectives of our audit were to determine whether the Housing Commission operated its programs effectively and in compliance with HUD requirements and other applicable regulations. Generally, the Housing Commission's programs were effectively administered, but we noted problems involving drug elimination grant expenses, a property disposition transaction, and Section 8 unit inspections that did not comply with HUD requirements.

The Housing Commission disbursed \$19,552 in ineligible and unsupported Drug Elimination Grant funds, and did not assure that one of its subrecipients properly administered its own drug elimination program. As a result, grant activity reports submitted to HUD were inaccurate.

The Housing Commission also did not obtain HUD approval before selling a parcel of land, and City of Saginaw officials appeared to have undisclosed conflicts of interest regarding the property sale. HUD regulations were violated as a result, and the Housing Commission may not have acted in its best interests or those of its tenants. In addition, we inspected 18 public housing units and found 278 Housing Quality Standards violations that subjected tenants to hazardous and unhealthy living conditions.

Payroll Costs Were Unsupported

The Housing Commission paid \$3,632 in unsupported payroll costs to the Saginaw Police Department for two pay periods. These costs resulted from patrol services that were furnished to public housing sites. We determined that the Housing Commission's Accounting Department reimbursed the costs to the police department before discovering that supporting time records were incomplete.

Scholarships Exceeded Limit

The Housing Commission overpaid \$3,157 in scholarship money to subrecipient Delta College for eight public housing residents. Awards for these residents exceeded the limit of \$500 per individual cited in the Notice of Funding Availability. The over-payments ranged from \$78 to \$813. The Housing Commission informed us that it was not aware of the \$500 limit.

Tenants Organization Had Weak Controls Over Its Grant Funds; Disbursed Funds That Should Have Been Returned To HUD

The Saginaw Tenants Organization had weak controls over its grant funds. We reviewed 100 percent of the financial transactions for Drug Elimination Program Year 1997. The Tenants Organization did not keep track of the costs that were or were not reimbursed to it by the Housing Commission.

The Tenants Organization disbursed checks from its grant-funded bank account totaling \$5,947 after February 1, 1999, the date on which the Saginaw Housing Commission stopped funding the Tenants Organization. The disbursements continued until November 1999, nine months after funding was stopped. The \$5,947 should have been returned to HUD at the time the Tenants Organization was notified by the Housing Commission that funding was being stopped, but the Housing Commission failed to seek repayment of the funds. The disbursements made after February 1, 1999, resulted from the Tenant Organization's poor accountability for its drug elimination grant activities.

Housing Commission Sold Land Below Fair Market Value Without HUD Approval

The Housing Commission obtained two appraisals for 2.2 acres of land, but sold the land at the lower appraised value of \$9,000 without HUD approval and without justifying its action to the Housing Commission's Board of Directors. The former Housing Commission Executive Director informed us that a Board Member employed by a Saginaw organization having an interest in the land sale recommended to the Board that the \$9,000 figure be accepted as the selling price. An Application for Disposition of Real Property, required to be submitted along with both appraisals to HUD prior to the land sale, was submitted six months after the Housing Commission Board authorized the sale. Only the \$9,000 appraisal accompanied the application. As a result, HUD requirements were violated, and the Housing Commission may not have received fair compensation for the property.

Section 8 Units Had Health And Safety Violations

We inspected 18 public housing units and found 278 health and safety violations, 271 of which existed at the time the Housing Commission performed its own inspections. The violations primarily involved structure and materials problems, electrical problems and sanitation issues. The Housing Commission's inspector cited only 22 of the 278 violations that were noted by the OIG's inspector. As a result of these problems, HUD's Housing Quality Standards were violated, and tenants were subjected to living conditions that were hazardous to their health and safety.

Recommendations

We recommended that the Director, Office of Public Housing, Michigan State Office, assures that the Saginaw Housing Commission: repays to HUD \$3,632 in unsupported

Police Department payroll costs; repays to HUD \$3,157 for scholarship awards that exceeded the \$500 individual limit; implements a system to measure its Drug Elimination Grant activities; seeks repayment of \$5,947 from the Saginaw Tenants Organization for funds that should have been returned to HUD; obtains fair market value for the parcel of land by re-soliciting bids and selling it at no less than the highest appraised value; and corrects the health and safety violations in the 18 units we inspected.

Auditee Response To Draft Findings

We presented our draft findings to the Housing Commission during the course of the audit. We held an exit conference with the Executive Director on November 3, 2000. The Housing Commission provided written comments to our draft findings, which are included in their entirety as an Appendix to this report.

In his response to our draft findings, the Housing Commission's new Executive Director (appointed on March 27, 2000) acknowledged that the Housing Commission had lacked a strategic vision to guide management and staff toward the achievement of sound programs and controls. He indicated his belief that in his seven months of service, the Housing Commission had begun to strategically plan and improve its operations. He generally agreed with our recommendations related to improving grant administration and correcting the health and safety violations (Findings 1 and 4), and generally disagreed with the recommendations related to the Tenants Organization and the sale of the land parcel (Findings 2 and 3).

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 Saginaw Housing Commission was established in 1947 under the Michigan Housing Act of 1937. The Housing Commission was created to provide and manage decent, safe and sanitary housing facilities for low income families.

The Housing Commission operates Low Income Housing, Section 8 and Drug Elimination Grant programs. It manages five high-rise buildings consisting of 492 low income housing units designated for elderly and disabled residents. An additional 112 single family scattered site units receive Section 8 rental assistance. Between 1995 and 1997, 365 units comprising two multifamily developments known as Daniels Heights were demolished due to deteriorating conditions.

The Low Income Housing Program is designed to promote homeownership opportunities for families whose annual income does not exceed 80 percent of the median income for the surrounding community. The Section 8 Rental Assistance Program increases affordable housing choices for low-income households by allowing families to choose privately owned rental housing. Families or individuals apply to a local public housing authority or other government agency for a rental certificate or voucher. The housing authority pays the landlord the difference between 30 percent of the household's income and the fair market rent. HUD's Drug Elimination Grant Program, in existence since 1988, awards competitive grants to public housing authorities to reduce drug-related crime in and around public housing sites.

A five-member Board of Commissioners, appointed by the Mayor of Saginaw, is the Housing Commission's governing board. The Executive Director is Troy White, and the President of the Board of Commissioners is Frederick D. Price. The Housing Commission's official records are maintained at 1803 Norman Street, Saginaw, Michigan.

Audit Objectives

The objectives of the audit were to determine whether the Housing Commission operated its programs effectively and in compliance with HUD requirements and other applicable regulations.

Audit Scope and Methodology

To achieve our objectives, we interviewed both the former and current Saginaw Housing Commission Executive Directors regarding the Commission's operations, and other staff members as necessary. We reviewed Housing Commission and HUD records, including: subrecipient monitoring reports, independent audits, budgets and financial statements, the Housing Commission's bank account statements, accounts payable invoices, personnel records, and minutes of the Board of Directors' meetings. We used attribute sampling techniques to test disbursements that were made during the audit period.

To analyze the disposition of Housing Commission property, we reviewed Board of Directors' resolutions and other correspondence, the Application for Disposition of Real Property, and appraisal and environmental assessment reports.

To determine the adequacy of the Housing Commission's Section 8 housing unit inspection program, we interviewed personnel responsible for overseeing the function, and examined inspection procedures and reports.

Regarding the Housing Commission's subrecipient, Saginaw Tenants Organization, we reviewed its funding and disbursement records, consulting contracts and Board minutes, and interviewed its management personnel.

The audit, which was conducted in accordance with generally accepted government auditing standards, covered the period January 1, 1997, through August 31, 1999. We extended our audit period as necessary. We performed the audit between August 16, 1999, and September 30, 2000.

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

The Saginaw Housing Commission Needs to Improve Grant Administration and Evaluate Its Effectiveness

The Saginaw Housing Commission needs to improve its Drug Elimination Grant administration and evaluate its effectiveness. The Housing Commission disbursed \$6,789 in unallowable costs, and could not demonstrate the benefit or results of its drug elimination activities. As noted in Finding 2, the Housing Commission also did not assure that one of its subrecipients properly administered its Drug Elimination Grant activities. This occurred because the Housing Commission did not execute contracts with its subrecipients; did not establish controls over its planned expenditures to assure that only eligible costs were charged to the grants; and did not implement a system for evaluating, monitoring and reporting program outcomes and benefits. As a result, grant activity reports submitted to HUD were inaccurate, and HUD could not be assured that the Saginaw Housing Commission met the objective of the drug elimination program.

Drug Elimination Program Objective

The objective of the drug elimination program is to curtail drug-related crime in and around public housing sites. Applicants for grant funds must develop a comprehensive program to eliminate drug-related crime in their developments. To achieve this desired outcome, sound management practices must be implemented. Management must develop a system to measure program effectiveness. The elements of such a system include the setting of quantifiable performance standards and a monitoring process to measure program effectiveness.

HUD Requirements

24 CFR 761.35 establishes that grantees are responsible for managing the day to day operations of the grant and subgrant activities. Grantees must monitor grant and subgrant activities to assure compliance with applicable regulations.

The 1997, 1998 and 1999 Notices of Funding Availability state that education scholarships may be awarded in amounts not exceeding \$500 per individual award.

24 CFR Part 761.35 (a)(1) requires the Housing Commission to submit a semi-annual performance report that evaluates the grantee's performance against its plan. The report should include: any change or lack of change in crime statistics or other indicators drawn from the applicant's plan assessment and an explanation of any differences; a discussion of any

problems encountered in implementing the plan and how they were addressed; an evaluation of whether the rate of progress met expectations; a discussion of the grantee's efforts in encouraging residents' participation; and a description of any other programs that may have been initiated, expanded or deleted as a result of the plan, with an identification of the resources and the number of people involved in the programs and their relation to the plan.

Police Payroll Costs Were Unsupported

The Housing Commission paid \$3,632 in unsupported payroll costs to the Saginaw Police Department for pay periods beginning December 19, 1997, and January 16, 1998. These costs resulted from police patrol services furnished to public housing sites. The Housing Commission's Accounting Department reimbursed the costs to the police department before discovering that supporting time records were incomplete. The Accounting Department made no attempt to obtain the necessary records or recover the unsupported payments from the police department.

Scholarships Exceeded Limit

The Housing Commission overpaid \$3,157 in scholarship money to subrecipient Delta College for eight public housing residents. Awards for the eight residents exceeded the limit of \$500 per individual cited in the Notices of Funding Availability. The over-payments ranged from \$78 to \$813. The Housing Commission informed us that it was not aware of the \$500 limit.

Incomplete Performance Reports

The Housing Commission submitted semi-annual performance reports to HUD. However, the narratives generally lacked one or more of the elements required by the regulations to evaluate the grantee's progress in reducing or eliminating drugs from its developments. The Housing Commission did not have a plan against which progress could be evaluated. Progress reports for the 1997 Drug Elimination Grant contained some elements, including descriptions of drug prevention services, levels of participation, and crime statistics for the period. However, the reports generally did not describe changes in crime statistics. Reports also did not state whether any of the activities were successfully completed, whether any problems were encountered, or whether the rate of progress met expectations. As a result, the Housing Commission did not have an adequate system for measuring and evaluating the accomplishments, benefits and effectiveness of its

various grant-funded activities, such as those discussed below:

Computer Learning Center. The semi-annual reports contained examples of educational activities conducted during the prior six month period, but there was no information indicating how many students participated, if any grade improvements resulted from the activities, or if there was any effect on school drop outs. There were no quantifiable goals or measurements of results.

Policing. The semi-annual reports generally showed the total number of crimes committed in Saginaw and the number of crimes committed at Housing Commission properties, but there were no crime reduction goals or outcome measures. The reports did not demonstrate the extent to which policing efforts had reduced drug-related crime in the projects. The Housing Commission had reports of suspected criminal activity and other details, but did not establish a management information system to compile, summarize and compare this information, or to measure the program's effectiveness in reducing drug-related crime.

Delta College. The semi-annual reports stated that eight students were enrolled. However, there were no measurable goals or outcome measures. There were no indications of how many students graduated, changes in the employment rate of program participants, or annual income increases resulting from the schooling.

As a result, the semi-annual reports were incomplete and HUD could not be assured that the Saginaw Housing Commission had met the objective of the drug elimination program.

Auditee Comments

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

Housing Commission staff will contact the Saginaw Police Department and request the supporting payroll documentation for the periods beginning December 19, 1997 and January 16, 1998. If the information is not available, the Housing Commission will request a letter from the Saginaw

Police Department to verify the specific dates the officer was on duty.

In September 2000, the scholarship program was discontinued due to the lack of program goals and exceeding the limits of funding per individual. The Housing Commission will repay HUD the overpayment amount of \$3,157 for not following the notice of funding program guidelines.

The Housing Commission will develop a quantitative performance evaluation measurement system that encompasses all of the elements of the Drug Elimination Grant regulation within 90 days. The new system will be implemented within 30 days from the completion of the new evaluation system.

The submission of completed semi-annual reports to HUD will be achieved through the new reporting requirement to subgrantees and staff. A quarterly review will be instituted for all activity under the Drug Elimination funding. The review will be done through a monthly activity report staff will be required to submit to the Executive Director for review and comment. The monthly report will serve as a guide to determine if program measures are being met.

OIG Evaluation of Auditee Comments

The auditee's comments were responsive to our recommendations. Discussion of these items at the exit conference confirmed that the Executive Director was committed to improving the Housing Commission's Drug Elimination Grant reporting.

Recommendations

We recommend that the Director, Office of Public Housing, Michigan State Office, assures that the Saginaw Housing Commission:

- 1A. Recovers from the Saginaw Police Department and repays to HUD \$3,632 in unsupported payroll costs, or obtains time records that support the dollar amount;
- 1B. Repays HUD \$3,157 for scholarship awards that exceeded the \$500 individual limit;

- 1C. Implements a system for measuring the effects of its Drug Elimination Grant funded activities encompassing all the elements required by the regulations; and
- 1D. Submits complete semi-annual reports to HUD describing program progress and accomplishments in sufficient detail to allow HUD to assess the Housing Commission's effectiveness in administering the Drug Elimination Grant Program.

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The Saginaw Housing Commission Did Not Assure That The Tenants Organization Properly Administered Its Drug Elimination Grant

The Saginaw Housing Commission did not assure that the Saginaw Tenants Organization, a grant subrecipient, properly administered the Outreach portion of the Drug Elimination Grant Program. As a result, the Tenants Organization: had weak controls over its grant funds; improperly disbursed \$5,947 of grant funds that should have been returned to HUD; did not maintain support for its program accomplishments; and paid unsupported consultant fees which were not included in the budget approved by HUD. These conditions occurred because: a Sub-recipient Agreement was not in effect; the Housing Commission's Board of Directors did not provide adequate guidance to the Tenants Organization; and the Tenants Organization staff were not properly trained on accounting and recordkeeping requirements. Consequently, Drug Elimination Grant funds were not used for their intended purpose, and financial reports and reports of program accomplishments submitted to HUD were not accurate.

HUD Requirements

24 CFR 85.20 (b)(3) states that subgrantees must maintain effective control and accountability for all subgrant cash, real and personal property, and other assets. Subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

24 CFR 85.20 (b)(6) states that accounting records must be supported by source documentation such as canceled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents.

24 CFR 761.35 states that Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved.

24 CFR 761.35 (d)(1) states that the final accountability report to close out the grant will be a cumulative summary of expenditures to date and must indicate the exact balance of unexpended funds. The Grantee shall remit all Drug Elimination Program funds, including any unexpended funds, to HUD.

24 CFR 961.28 (a)(1) requires that semi-annual and annual reports of program accomplishments contain detailed evidence of activities that satisfy program objectives, such as: expectations of the program; the rate of progress toward achieving the expectations; efforts in encouraging resident participation; and an identification of the resources and number of people involved in the programs.

NOFA Requirements

Section (I)(C)(6) of the 1997 Notice of Funding Availability states that funding is permitted for reasonable, necessary and justified program costs, such as meals, beverages and transportation incurred only for prevention programs, employment training, education and youth activities directly related to reducing or eliminating drug-related crime.

Section (I)(C)(7) of the Notice states that in order to implement a HUD-approved activity, the housing authority must be the grantee, and must enter into a subgrantee contract with the Resident Organization setting forth: the amount of funds; applicable terms and conditions; financial controls; payment schedule; performance and financial report requirements; special conditions, including sanctions for violation of the agreement; and monitoring. Expenditures for activities will not be incurred by the Housing Authority and funds will not be released by the local HUD Field Office until the grantee has met all of the above requirements.

OMB Requirements

OMB Circular A-122, Attachment B, Paragraph 39a, states that costs of professional and consultant services rendered by persons who are members of a particular profession or who possess a special skill, and who are not officers or employees of the organization, are allowable when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal government.

OMB Circular A-122, Attachment B, Paragraph 16, states that costs of fines and penalties resulting from violations of, or failure of the organization to comply with Federal, State, and local laws and regulations, are unallowable.

Sub-recipient Agreement Was Not In Effect

Throughout the life of the 1997 Drug Elimination Grant, no sub-recipient agreement existed between the Housing Commission and the Tenants Organization, as required by the 1997 Notice of Funding Availability. Housing Commission personnel advised us that they attempted to

execute an agreement with the Tenants Organization, but the Tenants Organization's management insisted on including various terms in the agreement that were not acceptable to the Housing Commission. This led to a stalemate that resulted in the grant activities being conducted without a contractual relationship between the parties. HUD disbursed grant funds to the Housing Commission without being aware that the required agreement was not in effect.

Tenants Organization Had Weak Controls Over Its Grant Funds

The Saginaw Tenants Organization had weak controls over the way it accounted for its grant funds. We reviewed 100 percent of the financial transactions for Drug Elimination Program Year 1997. Of \$46,083 in grant funds disbursed between March 6, 1998, and May 7, 1999, the Tenants Organization failed to keep track of the majority of costs that were or were not reimbursed to it by the Housing Commission. As a result, the Tenants Organization was not assured that its records accurately reflected all disbursement and reimbursement activity, and the Saginaw Housing Commission was not assured that Drug Elimination Grant funds were being used for their intended purpose.

Housing Commission Overpaid Tenants Organization For Payroll Taxes

The Housing Commission paid the gross wage amount when it reimbursed the Tenants Organization for payroll costs. The reimbursed amount included the employee withheld portion as well as the employer portion. Only the employer portion should have been reimbursed. As a result, the Housing Commission overpaid the Tenants Organization for payroll taxes and other items by at least \$2,466.

Tenants Organization Disbursed Funds That Should Have Been Returned To HUD

Because of the Tenants Organization's poor accountability for its Drug Elimination Grant activities, the Housing Commission advised the Tenants Organization that it would not be reimbursed for any costs incurred after February 1, 1999. The Housing Commission was not aware that the Tenants Organization had unused grant funds because of poor communication between the parties caused by tensions over the subrecipient agreement discussed above. This caused the Housing Commission to decrease its monitoring of the Tenants Organization's financial activity, allowing the unused funds to go undetected.

The Tenants Organization disbursed checks from its grant-funded bank account totaling \$5,947 after February 1 for expenses such as telephone bills, payroll, consultant fees,

Internal Revenue Service taxes and penalties, and insurance premiums. Some, but not all, of these expenses were incurred by the Tenants Organization prior to February 1, but all were paid after that date. The disbursements continued until November 1999, nine months after funding was stopped. The funds in the account should have been returned to HUD at the time the Tenants Organization was notified by the Housing Commission that funding was being stopped, but the Housing Commission failed to seek repayment of the unused funds.

Payroll Taxes And Quarterly Reports Not Submitted Timely

The Housing Commission did not assure that the Tenants Organization paid its payroll taxes on a timely basis. On several occasions, after being reimbursed by the Housing Commission, a Tenants Organization accounting clerk prepared the payroll tax deposit check and placed it in a desk drawer. The clerk did not submit the check to the Internal Revenue Service for the calendar quarter it was due; however, she indicated on the quarterly report submitted to the Internal Revenue that the taxes were paid. The delays in submitting the tax payments ranged from 10 days to 296 days. At one point in 1998, the IRS placed a lien against the Tenant Organization's checking account in the amount of \$2,148 until the delinquent taxes were paid. We could not determine the exact amount of penalties and interest that were assessed by the Internal Revenue Service as a result. This failure to make timely Federal tax deposits violated OMB Circular A-122.

Reported Accomplishments Were Not Supported

The Housing Commission did not assure that the Tenants Organization established well-defined goals for its Drug Elimination Grant activities. The Tenants Organization also did not have an effective system to determine whether program objectives were accomplished.

We reviewed the semi-annual and annual progress reports submitted by the Tenants Organization to HUD for Calendar Year 1998. Of 57 accomplishments listed in the reports, 50 were not properly supported. The remaining seven items were supported only with participant sign-in sheets that did not detail the nature of the accomplishments. HUD regulations at 24 CFR 961.28 require detailed reporting of program expectations, the rate of progress toward achieving the expectations, and activities completed to satisfy the expectations.

Consultant Fees Not Included In HUD-Approved Budget

In 1998 and 1999, the Tenants Organization paid fees of \$4,350 from 1997 grant funds to an outside financial consultant. The fees were not included in the budget approved by HUD. Although the consultant was engaged to provide a package of accounting and training services for the organization, we could not locate supporting documentation to determine the specific deliverables for which the consultant was paid.

Summary of Questioned Costs

The following costs were ineligible expenses under the 1997 Notice of Funding Availability:

- \$2,466 – Overpaid by Saginaw Housing Commission to Saginaw Tenants Organization for payroll withholding taxes;
- \$5,947 – Disbursed after the Drug Elimination Grant was closed out.

The following costs lacked supporting documentation:

- \$4,350 – Paid to financial consultant

Auditee Comments

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

As a subcontractor or subgrantee to the Housing Commission, the Saginaw Tenants Organization would be responsible to make all payroll tax payments without any direction from the Housing Commission. If an overpayment occurred, it would be the responsibility of the grantee to repay HUD the funding and seek repayment from the subgrantee. The Housing Commission's possible error in the overpayment will be resolved in reviewing the original program budget with the Tenants Organization and providing supporting documentation for the total payroll tax payments.

The Housing Commission informed the Tenants Organization that no costs incurred after February 1, 1999 would be reimbursable. The Housing Commission distributed the \$5,947 to the Tenants Organization prior to

the funding restriction. The fact that the Tenants Organization paid its expenses months later does not invalidate the funding especially since the Housing Commission did not seek a lien on the Tenant Organization's bank account. I believe these funds should not be repaid to HUD.

The Housing Commission will request the Saginaw Tenants Organization to submit all supporting documentation and deliverables that the Organization received from the consultant.

OIG Evaluation of
Auditee Comments

At the exit conference, the Director of Public Housing, Michigan State Office, indicated to the Housing Commission's Executive Director that the Tenants Organization was a subgrantee, not a subcontractor, and that it was the Housing Commission's responsibility to make sure that the Tenants Organization followed all HUD requirements.

Because there was no subrecipient agreement in effect between the Housing Commission and the Tenants Organization during the time period of the Drug Elimination Grant, the original budget submitted by the Housing Commission to HUD was the controlling instrument for reimbursable payments. The expenses that were paid by the Tenants Organization after February 1, 1999, were not part of that budget, and therefore, were not eligible costs allowable by the Notice of Funding Availability.

Recommendations

We recommend the Director, Office of Public Housing, Michigan State Office, assures that the Saginaw Housing Commission:

- 2A. Repays HUD \$2,466 for excess payroll withholding taxes paid by the Housing Commission to the Saginaw Tenants Organization;
- 2B. Instructs the Tenants Organization to repay HUD \$5,947 disbursed after February 1, 1999; and
- 2C. Provides documentation to HUD supporting \$4,350 in fees paid to the Tenant Organization's consultant.

The Saginaw Housing Commission Did Not Follow HUD Requirements When It Sold Housing Commission Land

The Saginaw Housing Commission did not get prior HUD approval when it sold 2.2 acres of land to a developer in August 1999. A legal closing took place for the transaction but the settlement funds were placed into escrow due to an unresolved contingency. The Housing Commission ignored HUD regulations by not: submitting to HUD an Application for Disposition of Public Housing property prior to sale of the land; performing an environmental assessment in accordance with environmental regulations before taking an action committing HUD or local funds; and obtaining HUD approval before disposing of the land at less than fair market value.

This activity occurred, in part, because the Housing Commission had not developed a formal long range revitalization plan for the area encompassing the 2.2 acre parcel, formerly known as the Daniels Heights Public Housing site. Such a plan would have disclosed if the land was to be disposed of or retained for future development. Also, Housing Commission Board members approved a resolution disposing of the property without conducting research into HUD disposition requirements. Further, some Board members appeared to have conflicts of interest between the Housing Commission and their private employers, who, along with the City of Saginaw, would have benefited from the land sale. Consequently, the Housing Commission: (1) may not have acted in the best interests of the Housing Commission and its tenants; (2) did not obtain an impartial environmental assessment as required; and (3) did not receive fair compensation for the property it attempted to sell.

HUD Regulations

HUD Regulations at 24 CFR Part 970.8 require written approval by HUD before the Housing Commission may undertake any transaction involving disposition of real property. The Housing Commission must submit an application to the appropriate HUD Office with various documentation justifying the proposed disposition to allow HUD to determine what is in the best interests of the tenants and the Housing Commission.

24 CFR Part 970.4 and 24 CFR Part 50 require that the disposition meet Environmental Review Regulations and prohibits acquiring, rehabilitating, converting, leasing, repairing or constructing property or committing HUD or local funds to the activity until HUD approval is obtained.

24 CFR Part 970.9(a) requires the Housing Commission to dispose of real estate promptly by soliciting bids at fair

market value unless HUD authorizes a negotiated sale for reasons in the best interests of the Housing Commission or the Federal Government.

Annual Contributions
Contract

A Comprehensive Grant Program Amendment dated October 19, 1998, to the Consolidated Annual Contributions Contract Paragraph 5, requires the Housing Commission to continue to operate each development as low-income housing in compliance with the Annual Contributions Contract and all HUD regulations for a period of 20 years after the last disbursement of comprehensive grant assistance. Furthermore, no disposition of any development covered by the amendment can occur for a period of ten years following the last payment of operating subsidy unless approved by HUD.

Disposition Application
Submitted To HUD After
Land Was Sold

The Saginaw Housing Commission sold a 2.2-acre parcel of vacant land in August 1999. The parcel was part of the former Daniels Heights Development, a public housing site in northeast Saginaw, Michigan, that was demolished in 1997. The Housing Commission's Board approved the disposition of this parcel of land in Board Resolution 99-04 on June 23, 1999. The Purchase Agreement, originally prepared in June, was executed and signed on August 3, 1999. The closing date was identified as August 13, 1999. The sale price was \$9,000 with a deposit of \$1,000 dated June 17, 1999, from the buyer, K-Properties Leasing, LLC. After the closing, a warranty deed transferring ownership of the land was executed on September 1, 1999, and given to Lawyers Title Insurance Company. However, the title transfer was not recorded by the Saginaw County Registrar of Deeds because the title company identified unpaid bonds in a Declaration of Trust that needed to be resolved first. Thus, a closing took place but all documents were held in trust by the title company and the settlement funds were placed in escrow until the condition cited by the title company could be resolved. This situation has remained unresolved as of December 15, 2000.

HUD approval for the disposition of the land was not formally requested until the Housing Commission submitted an Application for Disposition of Real Property on December 15, 1999, to HUD's Special Applications Center. This action was nearly six months after the Housing Commission Board approved its resolution to dispose of the

Environmental
Assessment Prepared
After The Sale Closed

site. Prior HUD approval is required by Title 24 Part 970 regulations regarding disposition of real property. By selling the land without HUD approval, the Housing Commission also violated its obligation under the Annual Contributions Contract to operate the property as low-income housing. As of August 2000, the Application for Disposition of Real Property was still pending HUD approval.

The 2.2 acre tract is one of three parcels on which manufacturing plants for two new General Motors suppliers were planned to be built. The two plants, financed with \$6.7 million in revenue bonds issued through Saginaw County's Economic Development Corporation, have already been constructed on the other two parcels. No construction has started on the 2.2 acre site pending HUD approval of the sale. All three parcels were purchased by the same developer.

A Phase I Environmental Site Assessment Report covering all three parcels was issued June 21, 1999, and a Phase II Environmental Site Assessment Report covering the same parcels was issued August 25, 1999. However, the Housing Commission did not submit its completed environmental assessment to the Detroit HUD Office in compliance with HUD's environmental regulations until about April 14, 2000. As indicated earlier, the closing took place on August 13, 1999, and the warranty deed between the Housing Commission and the buyer was signed on September 1, 1999. These dates passed before the Housing Commission completed its environmental assessment. Consequently, the Housing Commission failed to comply with the environmental requirements because it sold the land before the environmental assessment report was completed.

The environmental assessment was not prepared prior to the sale because of confusion over who had responsibility for the activity. The Saginaw Housing Commission expected the City to perform the assessment; the City expected HUD to perform the assessment. Responsibility for this activity shifted from HUD to the City as a result of a change in the Federal Regulations that became effective May 30, 1996. HUD decided in February 2000 to allow the Housing Commission to contract out this activity since neither the City nor the Housing Commission had the time or expertise to conduct the assessment in house.

Land Was Sold At Less Than Fair Market Value

The Housing Commission obtained two independent appraisals for the subject parcel in July 1999. The first appraisal was for \$9,000; the second was for \$13,250. The appraisals were prepared on July 12 and July 16, respectively. The second appraisal was more extensive and was based on six comparable sales while the first appraisal was based on only three comparable sales.

The Housing Commission established \$9,000 as the sale price for its parcel based on the lower of the two appraisals without giving any justification to the Housing Commission's Board. We examined the Board Meeting Minutes and Board Advisories covering the period May through September of 1999 but could not locate any references to the property being sold for less than fair market value. The former Executive Director informed us that the Board Member employed by Saginaw Future, Inc. recommended that the \$9,000 figure be accepted as the selling price.

HUD Regulations at 24 CFR Part 970.8 describe what documents must be included in the Housing Commission's application seeking HUD approval. Part 970.8(l) requires an estimate of fair market value for the property, established on the basis of one independent appraisal, unless HUD determines that more than one appraisal is warranted. In this case, HUD's Grand Rapids Office requested two independent appraisals, according to statements made by the Executive Director in the Board Minutes of July 26, 1999. However, the second appraisal that resulted in a higher valuation for the property was apparently ignored by the Housing Commission. HUD files indicated that only the \$9,000 appraisal was received with the Application for Disposition of Real Property, preventing HUD from considering the higher valuation.

Board Members And The Mayor Had Undisclosed Conflicts Of Interest

The Saginaw Housing Commission Board consists of five members appointed by the Mayor of the City of Saginaw to staggered five year terms. At least two of the Board Members and the Mayor appeared to have conflicts of interest because the property sale would have benefited one or more General Motors suppliers. One of the members works for Saginaw Future, Inc., the agency responsible for initiating the idea of attracting companies to Saginaw with an interest in building new facilities in close proximity to

General Motors. The other Board Member and the Mayor of Saginaw are both employed by Delphi Automotive, a major supplier that was part of General Motors until it was spun off as an independent company in 1999.

Based on our review of Board Minutes, we concluded that neither Board member disclosed their potential conflict of interest during the Board Meeting at which Resolution 99-04 was passed that authorized the land sale. Neither Board member abstained from voting on the resolution. The Minutes do not reflect that the \$9,000 selling price was voted on by the Board, or that the price was advocated by a particular Board member.

Since the Mayor of Saginaw appoints the Board Members, and the Mayor and the Board Members in question work for a General Motors supplier and an organization promoting business for General Motors suppliers, there is an appearance that the disposition of the land may not have been in the best interests of the Housing Commission. The transaction would have primarily benefited the City of Saginaw.

Conclusion

The Saginaw Housing Commission ignored HUD's Part 970 Regulations by: (1) not preparing an application to HUD for disposition of public housing property prior to selling the land; (2) not performing an environmental assessment in accordance with the environmental regulations before taking an action committing HUD or local funds; and (3) failing to obtain HUD approval before selling the land at less than fair market value. Board members approved a resolution authorizing the sale of the property without conducting research into HUD's disposition requirements. Furthermore, conflict of interest relationships existed between some Board members and their private employers that appeared to influence the decision to sell the property for less than fair market value before the environmental assessment was completed.

Consequently, an impartial environmental assessment could not be prepared, the disposition action may not have been in the best interests of the Housing Commission, and fair compensation for the property was not assured.

Auditee Comments

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

Under a previous administration, the Housing Commission started the disposition process for the 2.2 acres of land without regard to HUD regulations that are very clear about disposition of property. A security deposit for the property in the amount of \$1,000 was issued and held by the Housing Commission. However, a formal closing did not take place because of the unpaid bond on the land. A closing cannot take place when land has not been legally cleared of all obligations. As a result, the signed warranty transfer was not valid.

The Housing Commission did comply with the environmental requirements because the land was never legally transferred or sold.

I disagree that two Board Members and the Mayor had undisclosed conflicts of interest. The fact that the Board Members and Mayor were advocating for the selling of the property to increase economic opportunity for the residents of the City of Saginaw does not constitute a conflict of interest in my opinion. The appearance and actual conflict of interest are two vastly different issues. The Mayor and Board Member that work for a General Motors supplier did not benefit directly or indirectly from the transaction. As the Executive Director, I will assure HUD that the Housing Commission has and will take all necessary safeguards to ensure compliance of regulations and address conflicts of interest.

OIG Evaluation of Auditee Comments

A formal closing did occur at Lawyer's Title Insurance Company on August 13, 1999. Documents were signed acknowledging the legal requirements needed before the closing could be recorded at the Saginaw County Registrar of Deeds Office. Thus, a closing did take place but it could not be legally recorded until the conditions cited by the title company were removed.

The environmental requirements at 24 CFR Part 970.4 prohibit any disposition activity committing HUD or local funds to the activity until HUD approval is obtained. The

purchase agreement for the land was executed on August 3, 1999. A lease was executed between the Housing Commission and the purchaser in January 2000. Both actions took place before the environmental review was completed. These activities show that the Housing Commission did not comply with the environmental requirements even if the Housing Commission disagrees that a closing for the land took place on August 13, 1999.

Conflict of interest disclosure requirements cover both actual and apparent conflicts. The Mayor and two Board Members should have disclosed their interest in the land sale to the rest of the Board and the public. We disagree with the Executive Director that the Board Member employed by Saginaw Future, Inc. did not benefit indirectly from the land sale. Without the sale, there would not have been two manufacturing plants built in the area, and Saginaw County's Economic Development Corporation would not have financed part of the construction with \$6.7 million in revenue bonds. Since securing jobs had been a major concern for the City, the sale of the land would have benefited General Motors by having its suppliers nearby. Actions that benefited the community may have influenced the Mayor to re-appoint the Board Members to another five-year term.

Recommendations

We recommend that the Director, Public Housing, Michigan State Office, assures that the Saginaw Housing Commission:

- 3A. Considers taking appropriate action against Board members for not disclosing potential conflicts of interest to the full Board and for authorizing disposition of Housing Commission land without ensuring that HUD requirements were followed.

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Section 8 Units Had Health and Safety Violations

The Saginaw Housing Commission's Section 8 units contained numerous health and safety violations. The 18 units inspected by OIG's Inspector had a total of 278 violations, 271 of which existed at the time of the Housing Commission's last inspection. These deficiencies existed because: the Housing Commission's contract inspector did not properly report violations; the Housing Commission did not consistently do quality control inspections to evaluate the performance of its contracted inspector; the Housing Commission did not remove landlords from the program who consistently had units with large numbers of Housing Quality Standards violations; and the Housing Commission did not remove tenants from the program who abused their units. As a result, HUD's Housing Quality Standards were violated, and tenants were subjected to conditions that were hazardous to their health and safety.

HUD Requirements

24 CFR Part 982.1(a) requires that Section 8 dwelling units be decent, safe and sanitary.

24 CFR Part 982.401(a)(1) says that Section 8 housing must comply with the Housing Quality Standards, both at initial occupancy of the dwelling unit, and during the term of the assisted lease.

24 CFR Part 982.404 says that a family [occupying the unit] is responsible for a breach of the Housing Quality Standards that is caused by any member of the household or guest damaging the dwelling unit or premises (damages beyond ordinary wear and tear). If the family has caused a breach of the quality standards, the public housing authority must take prompt and vigorous action to enforce the family obligations, which may include terminating assistance for the family.

The Housing Quality Standards address 13 conditions:

- Sanitary Facilities
- Food Preparation and Refuse Disposal
- Space and Security
- Thermal Environment
- Illumination and Electricity
- Structure and Materials
- Interior Air Quality
- Water Supply
- Lead-based Paint
- Access

Finding 4

- Site and Neighborhood
- Sanitary Conditions
- Smoke Detectors

Sample Selection and Inspections

We judgmentally selected units for inspection from a total universe of 318 units. Of the 318 units, our sample selection was limited to the same 13 units that had been inspected by the Housing Commission between October 1999 and February 2000. We expanded our scope to include five additional units inspected by the Housing Commission during the same time period that were identified to us as having landlords with a history of repeat quality standards violations. Our inspections were conducted between March 15 and March 22, 2000. We provided photographs of the units and copies of the inspection reports to the Housing Commission’s Section 8 Manager.

Units Contained Health and Safety Violations

Of the 18 units we inspected, all had health and safety violations. OIG’s inspector determined that 271 of the 278 violations he observed existed at the time of the Housing Commission’s last inspection. The Housing Commission’s inspector identified only 22 of the violations in his reports. The following is a list of the violations by category of Housing Quality Standard:

HOUSING QUALITY STANDARD	Violations Found	Percent of Total	Identified by SHC
Structure and Materials	120	43.17%	8
Illumination and Electricity	53	19.06%	0
Sanitary Bathroom Facilities	19	6.83%	3
Site and Neighborhood	19	6.83%	1
Food Preparation and Refuse Disposal	17	6.12%	1
Lead-based Paint	15	5.40%	0
Interior Air Supply	11	3.96%	2
Space and Security	10	3.60%	0
Thermal Environment	4	1.44%	2
Access	4	1.44%	0
Smoke Detectors	4	1.44%	1
Water Supply	1	0.36%	4
Sanitary Conditions(pest free)	1	0.36%	0
TOTALS	278	100.00%	22

Structures and Materials

In the Structures and Materials category, 120 violations were identified in 18 units. Violations included air infiltration due

to windows and exterior doors not fitting properly, rotted window trim, torn carpet, chimney mortar missing, broken windows, foundations with severe cracks, unsafe stoop steps, and deteriorated floors.

To satisfy this standard, the unit must be structurally sound. The structure must not present any threat to the health and safety of the occupants and must protect the occupants from the environment.

Foundation has a large horizontal crack at 2615 Prescott. This condition existed during the Housing Commission's last inspection.



Foundation is severely cracked and a few inches out of alignment at 2126 Collingwood. This condition existed during the Housing Commission's last inspection.



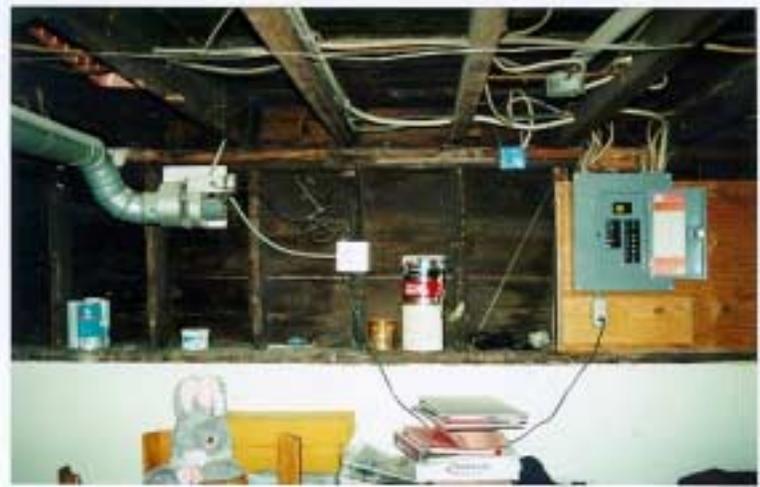
Illumination and Electricity

Twelve units had 53 illumination and electricity violations. The violations included missing and broken outlet covers, exposed electrical wiring, a bedroom not having a ceiling fixture controlled by a wall switch or a wall outlet controlled by a wall switch, a kitchen did not have a permanent light fixture operated by a wall switch. Kitchen and bathroom outlets were not protected by Ground Fault Circuit Interrupters.

Finding 4

HUD regulations require that each room have adequate natural or artificial illumination to permit normal indoor activities and support the health and safety of occupants. Sufficient electrical sources must be provided to permit the use of essential electrical appliances while assuring safety from fire. Fires and electrical shock can result from inadequate or improperly installed electrical facilities. Although ground fault protected outlets are not a requirement under HUD's Housing Quality Standards, they are required by the City of Saginaw Housing Code, the Consumer Product Safety Commission and the National Electrical Code.

Basement at 717 North Fayette has many electrical hazards.



Sanitary Bathroom Facilities

Eleven units had 19 Sanitary Bathroom Facilities violations. The violations included lack of privacy due to missing bathroom door hardware, toilets leaking at the base, and basins and tubs not in proper operating condition.

HUD Regulations require that the dwelling unit must include sanitary facilities located in the unit and the facilities must be usable in privacy. The regulations also require that the dwelling unit have a fixed basin, shower or tub in proper operating condition with hot and cold running water.

Bathroom toilet leaking at the base at 2414 Narloch Street

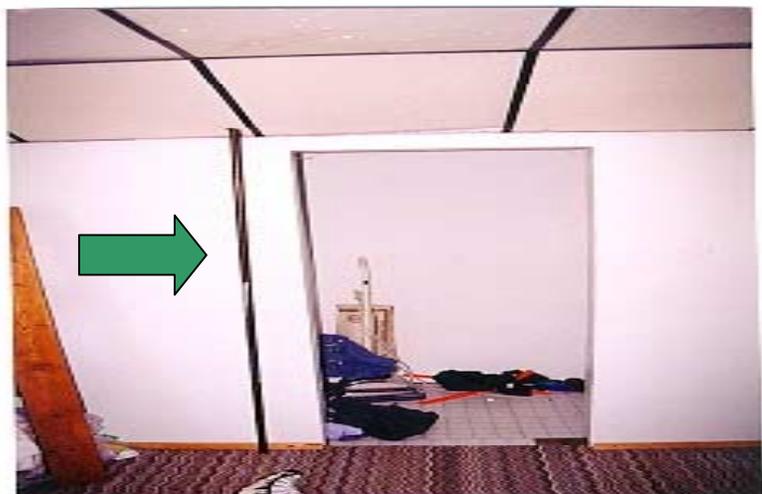


Site and Neighborhood

Twelve units had 19 violations in Site and Neighborhood. Violations included standard one-hour fire-rated door missing from an unfinished mechanical room next to the finished living area, and hot water pipes in the living area not insulated to protect children from burns.

HUD regulations require that site and neighborhood may not be subject to serious adverse environmental conditions, natural or manmade, such as dangerous walks or steps, instability, flooding, poor drainage, septic tank backups or sewage hazards, excessive accumulations of trash, vermin or rodent infestation, or fire hazards.

Exposed hot water pipe in the living area (arrow) is not insulated to protect children from burns at 1531 Comelia Street



Finding 4

Food Preparation And Refuse Disposal

Nine units had 17 Food Preparation violations. The violations included inoperable appliances, missing refrigerator parts causing food to not maintain a low enough temperature, and dripping faucets.

HUD Regulations require that the dwelling unit must have suitable space and equipment to store, prepare and serve foods in a sanitary manner.

Lead Based Paint

Eight units had 15 violations in Lead Based Paint. HUD's Housing Quality Standards state that lead-based paint is a serious health hazard to small children living in older structures. All chewable, protruding, painted surfaces up to five feet from the floor or ground which are readily accessible to children under six years of age and have cracking, chipping, peeling or loose surfaces may contain harmful amounts of lead-based paint. All chewable surfaces must be tested and if lead-based paint is found, the surfaces must be treated.

Interior Air Supply

Seven units had 11 Interior Air Supply violations. They included water flue pipe severely pinched, plumbing sewer clean out cap missing, open sewer lines not properly capped, water heater and furnace room not properly ventilated, and bath vent fan inoperative.

HUD Regulations require that the dwelling unit must be free from dangerous levels of air pollution from carbon monoxide, sewer fuel gas, dust and other harmful pollutants.

Plumbing sewer clean-out cap is missing at 1531 Cornelia. Sewer gas is permeating the unit.



Space and Security

Five units had 10 violations related to Space and Security. The violations included missing and non-functional locks on windows and doors.

All windows and doors that are accessible from the outside must be lockable to reduce the risk of burglary or other unlawful entry into the dwelling. The following picture shows that a bedroom window accessible from the outside was missing the locking mechanism. A mother and her two young daughters lived in the unit.

Bedroom window with exterior access is missing a locking mechanism.



Contract Inspector Failed To Cite Violations

The Housing Commission's Contract Inspector failed to properly cite violations. OIG determined that 271 of the violations identified during our inspections existed at the time of the Housing Commission's last inspection. We based this conclusion on information received from tenants in relation to the nature of the violations. Of the 18 units failed by OIG, all 18 were passed by the Housing Commission inspector.

Excessive Inspections In Narrow Time Frame

The Housing Commission entered into an agreement on April 1, 1997, with a contractor to perform Housing Quality Standard inspections. He was to perform initial and annual inspections, and quality control audits of units requested by the Section 8 Coordinator or the Administrator of Housing Operations. The contractor received \$35.00 per completed inspection which included a follow-up inspection verifying that all deficiencies had been corrected.

In reviewing a billing submitted by the contractor, we noted that he performed 15 follow-up inspections on August 11, 1999, 26 follow-up and four initial/annual inspections on August 18, 1999, 24 follow-up inspections on August 19, 1999, 25 initial/annual inspections on August 20, 1999, and 16 initial/annual inspections on August 24, 1999. The inspector operates as a single individual, not as part of a larger staff that might have been able to accomplish the number of inspections billed. According to a HUD official, it was unlikely that the inspector could complete as many as 25 inspections in one day. Tenants advised us that the inspector spent very little time in their units. He asked tenants if there were any known problems.

Quality Control Inspections
Not Consistently Performed

The Housing Commission did not consistently perform quality control inspections to evaluate the performance of its contracted inspector. The Commission's Section 8 housing manager informed us that one contracted inspector performed quality control inspections on units inspected by a second contracted inspector, but we were unable to confirm this. The Housing Commission did not have documentation to support those quality control inspections. Therefore, the Housing Commission had no assurance that its inspection program for Section 8 units was adequate or that deficiencies were properly cited and corrected.

Landlords Not Terminated

The Housing Commission has not terminated landlords who have a history of units that did not pass HUD's Housing Quality Standards. However, the Housing Commission has denied housing assistance payments to some landlords until the deficiencies were corrected.

When landlords sign the Housing Assistance Payment Contract, they certify that they will maintain the unit in accordance with Housing Quality Standards. The Housing Commission may terminate a Housing Assistance Payment contract for a breach of the Housing Quality Standards.

Tenants Not Terminated

The Housing Commission has not terminated tenants who have violated the Housing Quality Standards, as provided in 24 CFR Part 982.404. The Housing Commission has denied tenants access to the program if the tenants owed money to a landlord, but when they paid what was owed, they were allowed to continue with the program. However, the Housing

Commission took no action against tenants who failed to correct housing violations for which they were responsible.

Thirty six of the 278 violations cited were the responsibility of the tenant to correct. In all, 13 tenants were cited for one or more violations.

As a result of the problems detailed above, HUD's Housing Quality Standards were violated, and tenants were subjected to conditions that were hazardous to their health and safety.

Auditee Comments

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

After reviewing this section, it is clear that the Housing Commission needs to improve the inspection process for all of its Section 8 Certificate and Voucher holders. I agree with the report that the inspection of properties has been a weak link in the program. The 18 Section 8 units will be re-inspected by the Housing Commission's staff inspector to determine if the violations in the report have been repaired. If the landlord has not made repairs, the inspector will issue a letter indicating the items that need to be repaired and a reasonable time period to make them. If all repairs are not completed in the allotted time, the Housing Commission will stop housing assistance payments to the landlord(s). The contract inspector's services were discontinued during the audit, and we began utilizing a staff member familiar with the Housing Quality Standards inspection protocol.

OIG Evaluation of Auditee Comments

The auditee's comments were responsive to our recommendations.

Recommendations

We recommend that the Director, Office of Public Housing Hub, Michigan State Office, in coordination with the Michigan State Office's Director of Community Planning and Development, assures that the Saginaw Housing Commission:

- 4A. Advises property owners to correct the deficiencies in the 18 Section 8 units where we identified violations;
- 4B. Ensures that its contract or internal inspectors receive sufficient training on HUD inspection procedures to assure that violations noted during their inspections are reported in compliance with HUD reporting requirements; and
- 4C. Establishes and maintains an effective quality control system to evaluate the performance of its inspectors.

Management Controls

In planning and performing our audit, we considered the management controls of the Saginaw 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.

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 a system was established for evaluating, monitoring and reporting Drug Elimination Grant Program outcomes and benefits. (See Finding 1.) Also, controls did not ensure that landlords who had a repeat history of housing quality standards violations, and tenants who abused their living units, were removed from the housing subsidy program. (See Finding 4.)

- Compliance with Laws and Regulations

The Housing Commission did not exercise adequate control over its planned expenditures to assure that only eligible costs were charged to its grant programs. (See Finding 1.) Also, controls were inadequate to assure that HUD requirements were met regarding the need to submit an Application for Disposition of Real Property and environmental assessment report before attempting to sell the 2.2-acre parcel of land. (See Finding 3.)

Follow Up On Prior Audits

This is the first audit conducted by the HUD Office of Inspector General of the Saginaw Housing Commission in at least the past eight years.

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Schedule of Questioned Costs

<u>Recommendation</u> <u>Number</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1A		\$3,632
1B	\$ 3,157	
2A	2,466	
2B	5,947	
2C		<u>4,350</u>
Total	<u>\$11,570</u>	<u>\$7,982</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured 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

Saginaw Housing Commission

October 30, 2000

Mr. Ronald F. Huritz
Assistant District Inspector General for Audit
U. S. Department of Housing and Urban Development
Office of Inspector General
77 West Jackson Boulevard, Room 2646
Chicago, IL 60604

Dear Mr. Huritz:

Enclosed are my comments to the Draft Audit Findings at the Saginaw Housing Commission. I have been the new Executive Director since March 27, 2000, and I have taken some actions prior to the completion of the audit to improve program management, provide more staff accountability, and improve the delivery of services. Although the Saginaw Housing Commission has been a standard performing agency over the past three years under PHMAP, the Housing Commission has lacked a strategic vision to guide management and staff toward the achievement of sound programs with controls. In my short seven months, the Housing Commission has begun to not only strategically plan but also more importantly, improve.

Should you have any questions, please do not hesitate to contact me at (517) 755-8183, extension 137.

Sincerely,

Troy D. White
Executive Director

Saginaw Housing Commission Needs to Improve Grant Administration and Evaluate its Effectiveness

Finding 1

Police Payroll Cost Were Unsupported

It is my understanding from speaking to staff that cross communication between divisions was extremely poor between December 1997 and January 1998. The lack of consistent cross dialog with the various departments caused poor program management. However, I disagree that the accounting department made no attempts to obtain the supporting documentation from the Saginaw Police Department. The accounting department contacted the housing operations department responsible for program management of all social service funds. The accounting department paid the billing based on the information submitted. Since my arrival as Executive Director, the payment structure has been changed.

Scholarships Exceed Limits

I agree with this finding. The Housing Commission did not follow the HUD notice of funding available which clearly states that scholarships are not to exceed \$500.00 per individual.

Incomplete Performance Reports

I agree that the semi-annual performance reports need to improve in terms of measurable quantifiable outcomes for each program. Unfortunately, under another administration the Housing Commission did not provide specific performance measures for programs funded under Drug Elimination. The information on file does not provide true program measures because staff was not required to be responsible to measure program performance.

The Computer Learning Center, Policing, and Delta College reporting is lacking detail on program outcomes that should be included in the semi-annual reports.

Recommendations Office Of Inspector General

1A. Recover from the Saginaw Police Department and repay to HUD \$3,632 in unsupported payroll cost, or obtain time records that support the dollar amount.

Housing Commission staff will contact the Saginaw Police Department and request the supporting payroll documentation for the period beginning December 19, 1997 and January 16, 1998. If the information is not available the Housing Commission will request a letter from the Saginaw Police Department, Chief of Police, to verify the specific dates the officer was on duty.

Currently, the billing for the Saginaw Police Department is reviewed and approved by the Resident Initiative Coordinator. The documentation is sent over to the Administrator of Business Operations for review and approval. Payments are recorded on the computer system and presented to the Executive Director in weekly payment reviews.

As of November 6, 2000 the process will be changed as follows; the billing for the Saginaw Police Department will be reviewed and approved by the Resident Initiative Coordinator, the supporting documentation will be sent over to the Accounting Coordinator for review and approval. The Accounting Coordinator will review all Supportive Service payments with the Executive Director weekly for approval. Bills to be paid weekly are recorded on the computer system and presented to the Administrator of Business Operations for approval, then given to the Executive Director for final approval prior to a check being issued for payment.

1B. Repay HUD \$3,157 for scholarship awards that exceeded the \$500 individual limit.

The scholarship program was put on hold internally in August 2000 because the program did not have any specific guidelines or goals. In September 2000 the entire program was discontinued due to the lack of program goals and exceeding the limits of funding per each individual. The last payment made on this program was within the program guidelines on August 24, 2000. The Housing Commission will repay HUD the overpayment amount of \$3,157 for not following the notice of funding program guidelines.

1C. Implement a system for measuring the effects of its Drug Elimination Grant funded activities encompassing all the elements required by the regulations.

The Housing Commission will develop a quantitative performance evaluation measurement system that encompasses all of the elements of the Drug Elimination Grant regulation within 90 days. The new system will be implemented within 30 days from the completion of the new evaluation system. The Housing Commission will incorporate these changes into all newly executed sub grantees funded under the Drug Elimination Grant.

1D. Submit complete semi-annual reports to HUD describing program progress and accomplishments in sufficient detail to allow HUD to assess the Housing Commission's effectiveness in administering the Drug Elimination Grant Program.

The submission of completed semi-annual reports to HUD will be achieved through the new reporting requirement to sub grantees and staff. A quarterly review will be instituted for all activity under the Drug Elimination funding. The review will be done through a monthly activity report staff will be required to submit to the Executive Director for review and comment. The monthly report will serve as a guide to determine if program measures are being met.

Saginaw Housing Commission Did Not Assure That The Tenants Organization Properly Administered Its Drug Elimination Grant

Finding 2

Sub-recipient agreement
Was not in effect

The former agreement between the Saginaw Housing Commission and the Saginaw Tenants Organization was executed on February 19, 1996. I agree that there was no formal contractual agreement in place during the time of funding.

Tenants Organization did
Not maintain control over

its grant funding	I disagree with this finding. The Saginaw Tenants Organization did have control over the funding and was aware of disbursements from the Saginaw Housing Commission.
Housing Commission overpaid Tenants Organization for Payroll taxes	The Saginaw Housing Commission should have been paying the Saginaw Tenants Organization as a sub contractor to the Saginaw Housing Commission. The Saginaw Tenants Organization would then be responsible to pay all cost as any business that works with the Saginaw Housing Commission.
Tenants Organization disbursed Funds that should have been returned to HUD	The Housing Commission informed the Saginaw Tenants Organization that no costs incurred after February 1, 1999 would be reimbursable. The Housing Commission prior to the funding restriction distributed the \$5,947 of funding the Saginaw Tenants Organization used. The fact that the expenditures occurred considerably after the date they were received does not make them ineligible. Additionally, I have not seen any documentation from the Housing Commission requesting funding back from the Saginaw Tenants Organization or an attempt to put a hold/lien on the Saginaw Tenants Organization's bank account during this time period by the Saginaw Housing Commission. I disagree that this funding should be returned to HUD.
Payroll taxes and quarterly reports not submitted timely	Paying prompt payroll taxes is an important and key element of operating a business. The Saginaw Tenants Organization was treated in many respects as an independent consultant. As such, the Housing Commission would not have been directly responsible to ensure payment of payroll taxes.
Reported accomplishments were not supported	The establishment of specific program measures was and is lacking in the Drug Elimination Program. The Housing Commission should have requested detailed information from the Saginaw Tenants Organization

to measure the performance of the programs. I agree that the information was not sufficient. However the Housing Commission should instruct all sub grantee of what type of quantifiable reports are acceptable.

Consultant fees not included
In HUD approved budget

The Housing Commission is responsible for requesting and approving additional services if those services impact the Drug Elimination budget. The funding to support the consultant should have been included in the budget when submitted to HUD.

Recommendations Office Of Inspector General

2A. Repay HUD \$2,466 for excess payroll withholding taxes paid by the Housing Commission to the Saginaw Tenants Organization.

As a sub contractor or sub grantee to the Housing Commission, the Saginaw Tenants Organization would be responsible to make all payroll tax payments without any direction from the Housing Commission. If an overpayment occurred it would be the responsibility of the grantee to repay HUD the funding and seek repayment from the sub grantee. The Housing Commissions possible error in the overpayment will be resolved in reviewing the original program budget with the Saginaw Tenants Organization and providing supporting documentation for the total payroll tax payments.

2B. Instruct the Tenants Organization to repay HUD \$5,947 disbursed after February 1, 1999.

The funding received prior to the Housing Commission discontinuing funding were eligible expenses as per both the Housing Commission and Saginaw Tenants Organization. The fact that the Saginaw Tenants Organization paid its expense months later does not invalidate the funding especially since the Housing Commission did not seek a lien on the Saginaw Tenants Organizations bank account. I believe these funds should not be repaid to HUD.

2C. Provide documentation to HUD supporting the fees paid to the Tenant Organization's consultant.

The Housing Commission will request the Saginaw Tenants Organization to submit all supporting documentation and deliverables the Organization received from the consultant.

Saginaw Housing Commission Did Not Follow HUD Requirements When It Sold Housing Commission Land

Finding 3

Disposition application submitted to HUD after land was sold

Unfortunately, this was partly true. Under a previous Administration the Housing Commission started the disposition process for the 2.2 acres of land without regards to HUD regulations that are very clear in regards to the disposition of property. A security deposit for the property in the amount of \$1,000 was issued and held by the Housing Commission. However, a formal closing did not take place because of the unpaid bond on the land. A closing cannot take place when land has not been legally cleared of all obligations. As a result the signed warranty transfer was not valid. This document supposedly transferred ownership of the property. It should be noted that on September 23, 1999 during this transaction the Executive Director voluntarily resigned. The application for disposition of real property was submitted once the Board of Commissioners appointed a new Interim Executive Director.

Environmental Assessment prepared after the sale closed

Again, I disagree that a legal closing took place on August 13, 1999 when the property still had obligations and debt against it. Thus, the execution of the warranty was void. However, I do agree that the final environmental information was not submitted until April 2000. This was done under the Interim Executive Director and issued to the Detroit HUD Field Office by the current Executive Director. The Housing Commission did comply with the environmental requirements because the land was never legally transferred or sold.

Land was sold at less than

fair market value

In my review of the disposition application, I did not see any documentation regarding a higher sales price for the parcel. The former Executive Director had an obligation to ensure that the highest amount or at least fair market value would be received for the property. This was a failure in the system. Additionally, it was not revealed in my review that the Board Member that works at Saginaw Futures, Inc. ever stated what the former Executive Director alleged.

Board members and the Mayor had undisclosed conflict of interest

I disagree that two Board Members and the Mayor had undisclosed conflicts of interest. The fact that the Board Members and Mayor were advocating for the selling of the property to increase economic opportunity for the residents of the City of Saginaw specifically, the residents within the proximity of the new plants does not constitute a conflict of interest in my opinion. The appearance and actual conflict of interest are two vastly different issues. The Mayor and Board Member that work for a General Motors supplier did not benefit directly or indirectly from the transaction. Whether the land was sold or not had and has no bearing on the employment of these two individuals. The Board Member that works at Saginaw Futures, Inc. did not benefit directly or indirectly from the transaction. Additionally, this individual was never the primary staff person responsible for the completion of the land sale at Saginaw Futures, Inc. I believe that all three members listed in the report are guilty of trying to improve the economic prosperity of the northeast section of Saginaw by advocating for jobs and economic opportunity for the residents of the neighborhood where the new plants were to be constructed. This section of Saginaw has the lowest median income and highest unemployment rate in the City of Saginaw. I do not believe that there was a conflict of interest on the disposition of land.

Recommendations
Office Of Inspector General

3A. Take appropriate action against Board members for not disclosing potential conflicts of interest to the full Board and requesting any necessary waivers from HUD.

I do not believe the Board Members had a conflict of interest in the selling of the 2.2 acres of land in Daniels Heights. The responsibility of following HUD regulations and safe guarding the Housing Commission from any irregularities was the responsibility of the past administration. The Board Members interest was for the community where the new facilities are to be constructed. The area serves Public Housing and Section 8 residents that the Housing Commission administers. As the Executive Director, I will assure HUD that the Housing Commission has and will take all necessary safe guards to ensure compliance of regulations and address conflicts of interest.

3B. Obtain fair market value compensation for the subject property by either (1) accepting the higher appraised value of \$13,250 or (2) publicly resoliciting bids for the property and selling it at no less than the highest appraised valued.

On September 7, 2000 the Office of the Assistant Secretary for Public and Indian Housing approved the Saginaw Housing Commission's request for the disposition of 2.2 acres of vacant land at Daniels Heights. The approval was for the fair market value of \$9,000. If the Housing Commission sells any land in the future it will be done following HUD regulations for the highest appraised amount.

3C. Consider removing the current Board members who were responsible for authorizing disposition of Housing Commission land without adequate oversight to assure that the disposition met HUD requirements.

Providing adequate oversight begins with the administration running the day-to-day operations of the Saginaw Housing Commission. The Executive Director is responsible to provide direction to the Board of

Commission. The Board of Commissioners are the policy makers and were, unfortunately put in a position to be involved in more than policy decisions. The disposition process should have been clearly discussed with the full Board of Commissioners. The failure of providing direction resulted in a process that was nearing violation of HUD regulations. The Board of Commissioners Interim Executive Director followed the appropriate HUD regulations to begin to dispose of the property. I do not believe that the Board Members should be removed. As the Executive Director, I have taken responsibility to inform the Board Members of HUD regulations.

Section 8 Units Had Health and Safety Violations

Finding 4

After reviewing this section it is clear that the Housing Commission needs to improve the inspection process for all of its Section 8 Certificate and Voucher holders. I agree with the report that the inspection of properties has been a weak link in the program. Obviously, when the OIG inspector finds 278 violations and the Housing Commissions contracted inspector identifies only 22 at the same 18 units there is a serious problem in the program. Additionally, the photographs of the violations concrete the gross negligence by the hired inspection contractor and lack of staff over sight in the process.

Recommendations Office Of Inspector General

4A. Ensure that the owners correct the violations in the 18 Section 8 units where we identified violations.

The 18 Section 8 units in this report will be re-inspected by the Housing Commissions staff inspector to determine if the violations in the report have been repaired. If the landlord has not made repairs, the inspector will issue a letter indicating the items that need to be repaired and a reasonable time period to make these repairs. If all of the repairs are not completed in the allotted time period the Housing Commission will stop HAP payments to the landlord(s).

4B. Ensure that its contract inspector properly cites all violations during his inspections. If the inspector fails to identify all violations, the Housing Commission should take action to obtain a new inspector.

The contract inspector services were discontinued on June 7, 2000. The Housing Commission began utilizing a staff member familiar with the HQS inspection protocol to inspect the Section 8 properties. The staff member was sent to Uniform Physical Condition Standards training in July 2000 to learn the new inspection standards. A temporary staff member was also hired to assist in the inspection of Section 8 properties and public housing annual inspections. A request for qualifications (RFQ) was issued in June and September of this year to secure contracted inspection services to assist staff in a limited capacity. The Housing Commission rejected all bidders. Currently, the Housing Commission has a full and part time staff member responsible for Section 8 inspections. This new system has improved the quality and control of inspections at the Section 8 properties. As the Section 8 program expands at the Housing Commission additional inspection staff will be added to safe guard health and safety violations at Section 8 properties.

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