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June 29, 2001

**2001-FW-1806**

MEMORANDUM FOR: Diana Armstrong  
Director, Office of Public Housing, 6JPH

*/SIGNED/*

FROM: D. Michael Beard  
District Inspector General for Audit, 6AGA

SUBJECT: Citizens' Complaint  
Housing Authority of the City of Edinburg  
Edinburg, Texas

We completed a limited review of the Housing Authority of the City of Edinburg (Authority) because of a request for audit assistance from our Office of Investigations who had received a complaint from concerned citizens. The complaint included allegations of missing assets and records and abusive management practices at the Authority. The allegations involved various HUD programs including: Low Rent, Comprehensive Grants, Public Housing Drug Elimination Grants, Section 8 Voucher, Section 8 Certificate, and Section 8 Moderate Rehabilitation Programs. The complaint alleged the Authority staff:

- Used the Authority's Tax Exempt Certificate to purchase personal vehicles;
- Bypassed the Section 8 waiting list to provide housing for friends and relatives;
- Housed friends in Low Rent units at zero or reduced rents;
- Housed employees in Low Rent units at reduced rents;
- Paid landlords, who are friends, higher than authorized rents for Section 8 Moderate Rehabilitation units;
- Failed to maintain an inventory of equipment purchases in the Public Housing Drug Elimination Program;
- Took equipment from the Public Housing Drug Elimination Program; and
- Transferred money from the Public Housing Drug Elimination Program to a personal account.

Our primary objective was to determine whether the allegations were valid. Generally, our objectives were to:

(1) Determine if the Authority is adequately safeguarding cash and assets, vehicles, and inventory in the public housing programs, including the Public Housing Drug Elimination Program and Comprehensive Grant Program and

(2) Determine if the Authority is violating HUD regulations and their own admissions policies in the Low Rent and Section 8 Programs and giving favorable treatment to Section 8 landlords. The review covered the period from April 1996 through March 2001.

To accomplish our objectives, we:

- Reviewed the complaint and audit request;
- Interviewed HUD and Authority staffs, Internal Revenue Service Agents, Texas Department of Transportation staff, and other third parties;
- Reviewed supporting documentation provided by interviewees;
- Reviewed the Authority's board minutes, personnel and admissions policies, bank statements, cancelled checks, check vouchers, general ledgers, inventory records, Independent Public Accountant audit reports, and tenant files from April 1, 1996, through March 31, 2001;
- Reviewed the Low Rent and Section 8 Annual Contributions Contracts, Public Housing Drug Elimination Program Agreements, and other supporting documentation in the HUD files; and
- Reviewed other applicable criteria including the Code of Federal Regulations (CFR), Office of Management and Budget (OMB) Circular A-87, Cost Principles, and HUD Guidebooks relating to the allegations and objectives.

We concluded that the allegations are not valid. Vehicle history records show that the Authority registered all the vehicles purchased with the Tax Exempt Certificate. The vehicles are included in the Authority's vehicle inventory. Our review of the Low Rent and Section 8 Programs did not indicate that the Authority bypassed people on the waiting list or paid or charged inappropriate rents to friends, relatives, or employees. We were also able to account for the cash, equipment, and assets related to the Public Housing Drug Elimination Program. However, during the review, we found that the Authority did not maintain a control system to ensure adequate safeguards for equipment. The Authority has already taken steps to address our concerns. During our review, the Board of Commissioners adopted a policy to capitalize and inventory equipment. We are recommending HUD to follow-up on the policy implementation to

ensure the adequacy of controls over equipment. We provided a draft and had an exit conference with the Authority on May 9, 2001. The Authority agreed with our finding.

### Background

The Authority has 469 units under the Public Housing (Low Rent) Program, 792 units under the Section 8 Voucher Program, and 55 units under the Section 8 Moderate Rehabilitation Program. The Authority received the following HUD subsidies from Fiscal Years 1996 through 2000:

<b>Fiscal Year</b>	<b>Operating Subsidies</b>	<b>PHDEP Grants</b>	<b>COMP Grants</b>	<b>Section 8 Vouchers</b>	<b>Section 8 Certificates</b>	<b>Section 8 Mod Rehab</b>	<b>Total Subsidies</b>
1996	476,210		447,073	635,248	2,491,898	680,161	4,730,590
1997	396,084	233,500	435,108	570,440	2,471,561	685,605	4,792,298
1998	440,685	140,100	457,607	631,764	2,884,136	706,956	5,261,248
1999	436,578	103,152	535,600	634,200	2,910,876	706,956	5,327,362
2000	440,219	107,506	785,593	2,147,252	1,844,434	405,731	5,730,735
<b>Totals</b>	<b>\$2,189,776</b>	<b>\$584,258</b>	<b>\$2,660,981</b>	<b>\$4,618,904</b>	<b>\$12,602,905</b>	<b>\$3,185,409</b>	<b>\$25,842,233</b>

Within 60 days please give us, for each recommendation made in this memorandum report, a status report on: (1) corrective action taken; (2) proposed corrective action and date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directive issued because of this audit.

If you have any questions, please call Jerry Thompson, Assistant District Inspector General Audit, at (817) 978-9309.

Attachment

## Finding - The Authority Did Not Maintain an Adequate Financial Management System for Control of Equipment

We found that the Authority failed to follow HUD requirements for maintaining an adequate financial management system for control and effective management of its equipment. The Authority did not:

- Maintain adequate accounting records that identify the source and application of funds utilized for equipment;
- Capitalize the equipment in the General Ledger;
- Maintain adequate inventory records; or
- Follow their capitalization policies.

Because of this, it was difficult to identify the purchased equipment or to determine what housing program had incurred the costs. Thus, HUD has no assurance that Authority assets are safeguarded or being used for their intended purpose.

### HUD Requirements

The Low Rent Annual Contributions Contract (ACC) between HUD and the Authority incorporates by reference the regulations for Public and Indian Housing Authorities contained in Title 24 of the Code of Federal Regulations (CFR). Title 24 of the CFR, part 85, establishes the uniform administrative rules for federal grants and cooperative agreements and sub-awards to State, local, and Indian tribal governments. This part also establishes OMB Circular A-87<sup>1</sup> as the cost principles for housing authorities to follow when determining allowable costs to federal programs.

Title 24 CFR 85.20, requires grantees' financial management systems to include fiscal and accounting controls that permit the tracing of funds to adequately identify the source application of the funds. Grantees must maintain effective control and accountability to adequately safeguard cash, real, and personal property. Grantees must assure that they use assets solely for authorized purposes.

Title 24 CFR 85.32 requires grantees to develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of the property. Property records must include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, cost of the property, and percentage of federal participation in the cost, the location, use and condition of property, and any ultimate disposition data of the property.

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<sup>1</sup> Cost Principles for States and Local Governments.

OMB Circular A-87, Attachment B, Section 19, defines “equipment” as an article of nonexpendable, tangible personal property having a useful life of more than 1 year and an acquisition cost which equals the lesser of the capitalization policy of the governmental unit or \$5,000.

Equipment purchases were difficult to identify from Authority accounting records.

We performed a limited review of equipment purchases over \$300<sup>2</sup> from April 1, 1999, through March 31, 2001. However, we could not use the asset accounts in the General Ledger to identify equipment purchases because the Authority did not capitalize equipment. In addition, the General Ledger did not contain sufficient detail to determine if the Authority purchased services, equipment, or supplies from vendors. The Authority’s Finance Department provided a Vendor History Report from the General Ledger that contained data from April 1999 through March 2001. The data in the report was limited to the Vendor Name, Vendor Number, Invoice Number, Check Number, Date, and Check Amount. The data did not include sufficient detail of purchases nor distinguish vendors by services and product purchases. Consequently, the Authority’s Financial Management System was not adequate to identify equipment and material purchases.

The Authority did not capitalize equipment purchased for \$51,897.

Because of the difficulties identifying equipment purchases, we had to perform a detailed review of vendor files. The review was limited to files the Procurement Officer had created. The Authority did not always keep a vendor file for all equipment and supplies purchased. The files included purchase orders from the Authority’s Maintenance and Administration Departments, bid tabulations, and the Authority Board of Commissioner’s approvals. However, the invoices and check vouchers were not in the files. We were only able to identify 58 separate purchase orders over \$300. We scheduled over \$209,000 in materials and supplies. Ten of the 58 purchase orders, totaling \$51,897, were for equipment purchases. The Authority did not capitalize this equipment even though the cost ranged from \$580 to \$19,325. The Authority expensed the equipment identified in the table below, including the stoves, refrigerators, power equipment, and office furniture. The Authority did not capitalize and properly record the assets in the General Ledger.<sup>3</sup>

We could not accurately identify appliances.

We were able to identify and locate all the equipment purchased except the stoves, refrigerators, and water heaters. According to Authority staff, these appliances are currently in the Low Rent units.

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<sup>2</sup> The Capitalization Policy in effect from January 19, 1993, through March 16, 2000, required the capitalization of all items of equipment that cost more than \$300 and have a useful life of more than 1 year. At a minimum, the Authority will capitalize major items such as ranges, refrigerators, motor vehicles, power equipment, office furniture, and office equipment. From March 16, 2000, to March 29, 2001, the policy changed to capitalize only equipment over \$1000 with a useful life of more than 1 year.

<sup>3</sup> During the period from April 1, 1996, through March 31, 2001, the only asset capitalized was a 1999 vehicle purchased for the Public Housing Drug Elimination Program.

<b>Purchase Orders</b>	<b>Equipment Purchased</b>	<b>Equipment Located</b>
1	(5) Stoves	Could not be identified
2	(55) Refrigerators	Could not be identified
3	(5) Stoves	Could not be identified
4	(1) Air Conditioner	Yes
5	(1) Air Compressor	Yes
6	(40) Water Heaters	Could not be identified
7	(2) Time Clocks	Yes
8	(1) Okidata Microcline Dot Matrix	Yes
9	(1) Floor Buffer	Yes
10	(1) Tractor Sprayer	Yes

Because the Authority has not capitalized equipment or maintained adequate inventory records, HUD had no assurance that the Authority is safeguarding assets or using them for their intended purpose. However, the Authority has since completed the inventory of stoves, refrigerators, and water heaters at the low rent sites. Inventory records show the site or development, unit or apartment number, the model and serial numbers of each stove, refrigerator, and water heater.

The Executive Director agreed with our conclusions and results of the review. She was not aware that the former Authority Finance Department Staff were not following the capitalization policies. She stated that HUD, the Fee Accountants, Independent Auditors, or the Authority Finance Department had never brought this issue to her attention.

The Authority Board of Commissioners has recently taken action and approved a new capitalization policy. The new policy does not have a dollar threshold and states they will capitalize all items of equipment with a useful life of more than 1 year. The new capitalization policy will be effective immediately. The implementation of the policy, physical inventories, and the entry of the assets into the computer inventory module should allow the Authority to accurately identify assets with accounting records and to know their physical location.

Although the Authority has taken action to comply with HUD requirements, we believe the new capitalization policy may not be cost effective to implement because the policy does not establish a dollar value at which to begin capitalizing equipment. We believe the original \$300 threshold for capitalizing equipment was reasonable for the type of equipment purchases the housing authority made.

### **Recommendations:**

We recommend HUD require the Authority to provide evidence showing:

- 1A. They have implemented the new capitalization policy and accounting controls that permit the tracing of funds to adequately identify the source and application of funds in the General Ledger Accounts. At a minimum, the Authority should capitalize and inventory

all new purchases of stoves, refrigerators, water heaters, vehicles, power equipment, office furniture, and office equipment.

- 1B. The current property and inventory records comply with the requirements of 24 CFR 85.32 to ensure adequate safeguards to prevent loss, damage, or theft of the property.

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