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# AUDIT REPORT



## HOUSING AUTHORITY OF THE CITY OF ALTON LOW-INCOME HOUSING AND PUBLIC HOUSING DRUG ELIMINATION PROGRAMS

ALTON, ILLINOIS

2002-CH-1002

MARCH 29, 2002

OFFICE OF AUDIT, MIDWEST  
CHICAGO, ILLINOIS

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Issue Date March 29, 2002
Audit Case Number 2002-CH-1002

TO: Linford Coleman, Director of Public Housing Hub, Illinois State Office

FROM:   
Heath Wolfe, District Inspector General for Audit, Midwest

SUBJECT: Housing Authority Of The City Of Alton  
Low-Income Housing And Public Housing Drug Elimination Programs  
Alton, Illinois

We completed an audit of the Housing Authority of the City of Alton's Low-Income Housing and Public Housing Drug Elimination Programs. The audit resulted from citizen complaints to our Office. The objectives of our audit were to determine whether the complainants' allegations were substantiated and whether HUD's rules and regulations were followed. The complainants' specific allegations were: (1) the Authority's former Executive Director was granting preferential treatment to certain tenants; (2) improper use of HUD funds by the Authority; and (3) poor controls over the Authority's equipment.

We found no evidence that the Housing Authority's former Executive Director was granting preferential treatment to certain tenants. However, we found that the Housing Authority did not follow HUD's requirements, the Annual Contributions Contract, and its policies to ensure the Authority's Low-Income Housing and Public Housing Drug Elimination Programs were operated efficiently and effectively. Specifically, the Authority: failed to make required tax payments totaling \$50,870; claimed at least \$38,823 in excess operating subsidies over a four year period; did not make sufficient efforts to collect tenant accounts receivable totaling \$39,701; inappropriately charged expenses of \$144,767 to its Drug Elimination Grants; and improperly paid its former Executive Director \$6,635 for accrued but unused sick leave. We also found that the Housing Authority's system of management controls were weak. The Housing Authority's controls did not assure that it adhered to its policies concerning performance appraisals, inventory of equipment, allocation of unit size, tenant grievances, rental collections and evictions, and travel reimbursements to members of the Board of Commissioners and the Authority's staff for authorized travel. As a result, HUD lacks assurance that the Housing Authority's resources were used to the maximum extent to benefit low and moderate income tenants.

## Management Memorandum

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

Should you or your staff have any questions, please contact Ronald Huritz, Assistant District Inspector General for Audit, at (312) 353-6236 extension 2675 or me at (312) 353-7832.

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# Executive Summary

We completed an audit of the Housing Authority of the City of Alton's Low-Income Housing and Public Housing Drug Elimination Programs. The audit resulted from citizen complaints to our Office. The objectives of our audit were to determine whether the complainants' allegations were substantiated and whether HUD's rules and regulations were followed. The complainants' specific allegations were: the Authority's former Executive Director was granting preferential treatment to certain tenants; improper use of HUD funds by the Authority; and poor controls over the Authority's equipment.

We found no evidence that the Housing Authority's former Executive Director was granting preferential treatment to certain tenants. However, the Housing Authority did not follow HUD's requirements, the Annual Contributions Contract, and its policies to ensure the Authority's Low-Income Housing and Public Housing Drug Elimination Programs were operated efficiently and effectively. Specifically, the Authority: failed to make required tax payments totaling \$50,870; claimed at least \$38,823 in excess operating subsidies over a four year period; did not make sufficient efforts to collect tenant accounts receivable totaling \$39,701; improperly charged expenses of \$144,767 to its Drug Elimination Grants; and inappropriately paid its former Executive Director \$6,635 for accrued but unused sick leave.

We also found that the Housing Authority's system of internal accounting and management controls were weak. The Housing Authority's controls did not assure that it adhered to the Authority's policies concerning performance appraisals, inventory of equipment, allocation of unit size, tenant grievances, rental collections and evictions, and travel reimbursements to members of the Board of Commissioners and the Authority's staff for authorized travel.

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The Authority Must  
Resolve Significant  
Monetary Issues Totaling  
\$280,796

The Housing Authority: did not make required tax payments totaling \$50,870; claimed at least \$38,823 in excess operating subsidies over a four year period; did not make sufficient efforts to collect tenant accounts receivable totaling \$39,701; inappropriately charged expenses of \$144,767 to its Drug Elimination Grants; and improperly paid its former Executive Director \$6,635 for accrued but unused sick leave. As a result, HUD lacks assurance that the Housing Authority's resources were used to the maximum extent to benefit low and moderate income tenants.

The Authority Needs To  
Strengthen Its Controls

The Housing Authority's system of internal accounting and management controls were weak. Specifically, controls did not assure that the Housing Authority adhered to its own policies concerning performance appraisals, inventory of equipment, allocation of unit size, tenant grievances, rental collections and evictions, and travel reimbursements to members of the Board of Commissioners and the Authority's

Recommendations

staff for authorized travel. As a result, HUD's and the Housing Authority's requirements were violated, and the Authority's operations were not conducted in an efficient and effective manner.

We recommend that HUD's Director of the Illinois State Office of Public Housing Hub assure that the Housing Authority reimburses HUD for the ineligible use of funds and implements controls to correct the weaknesses cited in this report.

We presented our draft findings to the Housing Authority's Interim Executive Director and HUD's staff during the audit. We held an exit conference with the Authority on November 26, 2001. The Authority agreed to implement corrective action to improve its controls over: Payments-In-Lieu-Of-Taxes; operating subsidy requests; tenant rental collections; payment of Drug Elimination expenses; performance appraisals; allocation of unit size; equipment; and travel expenses and authorizations. The Authority disagreed that its former Executive Director was improperly paid for unused sick leave.

We included paraphrased excerpts of the Housing Authority's comments with each finding. The complete text of the comments is in Appendix B.

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# Table Of Contents

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Management Memorandum	i
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---

Executive Summary	iii
-------------------	-----

---

Introduction	1
--------------	---

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## Findings

1 The Authority Must Resolve Significant Monetary Issues Totaling \$280,796	3
--	---

2 The Authority Needs To Strengthen Its Controls	15
--	----

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Management Controls	23
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Follow Up On Prior Audits	25
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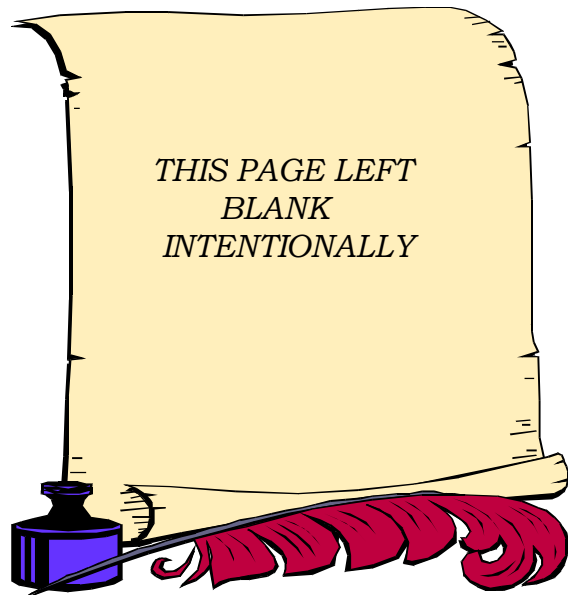
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## Appendices

A Schedule of Ineligible Costs	27
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B Auditee Comments	29
--------------------	----

C Distribution	33
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# Introduction

The Housing Authority of the City of Alton was established under State of Illinois law. The Housing Authority contracts with HUD to provide low and moderate-income persons with safe and sanitary housing through rent subsidies. A five member Board of Commissioners governs the Authority. The Chairperson of the Board is Mary Eckhouse. During our audit, the Authority's former Executive Director Stanley Henderson resigned effective June 5, 2001. The Authority's Interim Executive Director is Jeffrey W. Copley. The Authority's books and records are located at 2406 Crawford Street, Alton, Illinois.

As of February 2002, the Housing Authority operated three HUD-funded programs: (1) a Low-Income Housing Program consisting of 329 units; (2) a Public Housing Drug Elimination Grant Program; and (3) a Comprehensive Improvement Assistance Program. The Low-Income Housing Program is designed to provide housing to low and moderate income individuals whose annual income does not exceed 80 percent of the median income for the surrounding community. HUD's Drug Elimination Grant Program provides grants to public housing authorities to reduce drug-related crime in and around public housing sites. The Comprehensive Improvement Assistance Program funds capital improvements and related management improvements in public housing developments to upgrade living conditions, correct physical conditions, and achieve operating efficiency and economy.

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## Audit Objectives

The objectives of our audit were to determine whether the complainants' allegations were substantiated and whether HUD's rules and regulations were followed.

## Audit Scope And Methodology

We conducted the audit at HUD's Illinois State Office and the Housing Authority's office. We performed our on-site audit work between February 2001 and September 2001.

To accomplish our audit objectives, we interviewed: HUD's staff; the Housing Authority's former and current officials, former and current staff, and the fee accountant, nine of the Authority's tenants; and the Mayor of the City of Alton.

We analyzed the following items: tenant files; cash disbursements and invoices; vendor files; vacancy reports; all of the Public Housing Drug Elimination Program Grant vouchers for January 1, 1997 to March 31, 2001; Board meeting minutes; payroll records and personnel files; Line of Credit Control System reports; bank statements and canceled checks; equipment records; cash receipts and registers; all of the travel vouchers for travel outside of the Housing Authority's jurisdiction (defined as the St. Louis metropolitan area and the entire State of Illinois) for the



period April 1, 1997 to March 31, 2001; general ledgers; tenant accounts receivable-occupancy reports; audited financial statements; waiting list; rent rolls; and the Authority's policies and procedures.

We also reviewed: HUD's files for the Housing Authority; Sections 6 and 309 of the Annual Contributions Contract between HUD and the Authority; Parts 85, 761, 886, 966, and 990 of Title 24 of the Code of Federal Regulations; HUD's Public and Indian Housing Notice 96-35; HUD Form 52723-Calculation of Performance Funding System Operating Subsidy; HUD Form 52267-Computation of Payments-In-Lieu-Of-Taxes; HUD Form 52728-Housing Authority Calculation of Occupancy Percentage for a Requested Budget Year; and the Cooperation Agreement dated August 19, 1958 between the Authority and the City of Alton.

The audit covered the period April 1, 1997 to March 31, 2001. This period was adjusted as necessary. We conducted the audit in accordance with generally accepted government auditing standards.

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

## The Authority Must Resolve Significant Monetary Issues Totaling \$280,796

The Housing Authority of the City of Alton did not follow HUD's requirements, the Annual Contributions Contract, and its policies to ensure the Housing Authority's Low-Income Housing and Public Housing Drug Elimination Programs were operated efficiently and effectively. Specifically, the Housing Authority: (1) failed to make required tax payments totaling \$50,870; (2) claimed at least \$38,823 in excess operating subsidies over a four year period; (3) did not make sufficient efforts to collect tenant accounts receivable totaling \$39,701; (4) inappropriately charged expenses of \$144,767 to its Drug Elimination Grants; and (5) improperly paid its former Executive Director \$6,635 for accrued but unused sick leave. The Housing Authority's former and current Executive Directors did not exercise their responsibilities to implement effective controls over the Authority's Programs. As a result, HUD lacks assurance that the Housing Authority's resources were used to the maximum extent to benefit low and moderate income tenants.

### HUD's Requirements

24 CFR Part 990.109(b)(3)(iii)(B) states if the recalculated vacancy percentage is greater than three percent or more than five vacant units, housing authorities will adjust their requested budget year occupancy percentage by excluding from their calculation of unit months available all units vacant for longer than 12 months that are not vacant units undergoing modernization or are not units vacant due to circumstances and actions beyond authorities' control. These units are considered long-term vacancies.

24 CFR Part 990.109(b)(3)(iv)(A) requires that housing authorities are to reduce their operating subsidy calculations to 20 percent of the allowable expense level for long-term vacancies. This requirement is also outlined in HUD's Public and Indian Housing Notice 96-35.

HUD Form 52723, Calculation of Performance Funding System Operating Subsidy instructions, states housing authorities should not include units defined as long-term vacant units or units approved for non-dwelling use in the calculation for unit months available. Housing authorities receive operating subsidy from HUD based upon their unit months available.

24 CFR Part 761.15(d)(2) specifically states that costs incurred prior to the effective date of a Public Housing Drug Elimination Grant Agreement are ineligible expenses.

Annual Contributions Contract

Section 6 of the Annual Contributions Contract, between HUD and the Housing Authority of the City of Alton, requires that during the development and operation of the Housing Authority's projects, the Authority will perform and comply with all applicable provisions of the Cooperation Agreement, including the provisions relating to Payment-In-Lieu-Of-Taxes. In return for exempting the Housing Authority's low-income housing developments from property taxes and special assessments, the Authority agrees to remit Payment-In-Lieu-Of-Taxes to the local governing body.

Section 309 of the Annual Contributions Contract requires the Housing Authority to submit accurate and complete financial data to HUD.

Housing Authority's Policies

The Housing Authority's Rent Collection Policy, effective January 1, 1996, states prompt payment of rent and charges is required for continued occupancy by a public housing resident. Payments not received by the Housing Authority on the 10th day of each month are considered delinquent. On or after the 11th day of the month, the Housing Authority will serve the resident with a written Notice of Termination. The Notice includes a demand for immediate payment of the delinquent charges and a 14-day grace period before the Housing Authority may begin the eviction process.

The Housing Authority's 1982 Personnel Policy Benefits Manual states an employee who is separated for unsatisfactory job performance or resignation will not be paid for any accumulated sick leave.

The Authority Did Not Make Payments-In-Lieu-Of-Taxes

The Housing Authority was properly accruing for a liability known as Payments-In-Lieu-Of-Taxes for Fiscal Years 1998 to 2000. However, the Authority failed to make any payments on the \$50,870 owed to Madison County, Illinois. The amount owed did not include Fiscal Year 2001.

Payment-In-Lieu-Of-Taxes is an assessment paid to the local governing body having jurisdiction over a housing authority in return for the governing body exempting the authority's

low-income housing developments from property taxes and special assessments. The calculation of Payments-In-Lieu-Of-Taxes is based on five percent of an authority's dwelling income (rental, non-rental, and excess utilities) less utility expenses or the amount of the property taxes, if the properties were not exempted, whichever is less.

The Housing Authority's Independent Auditor reported this situation as a finding in both the Fiscal Year 1998 and 1999 audit reports. The Authority's Interim Executive Director said he was uncertain why the Payments-In-Lieu-Of-Taxes were not made on a timely basis. Payment of these monies was the responsibility of the Housing Authority's former Executive Director who resigned from the Authority on June 5, 2001.

On July 31, 2001, the Authority's Interim Executive Director sent a letter to the Madison County Treasurer's Office proposing to make twelve payments of \$4,239 each beginning September 2001. The Authority's Interim Executive Director said he intended to liquidate some of the Authority's investment securities to remit the payments.

As a result of the Housing Authority's failure to make the Payments-In-Lieu-Of-Taxes when due, the Annual Contributions Contract and the Cooperation Agreement between the Authority and Madison County were violated. The Authority could have faced a severe cash shortage if the County rejected the Authority's payment proposal and demanded that the funds be immediately paid in full.

The Authority Claimed  
Excess Operating Subsidy  
For Long-Term Vacant  
Units

The Housing Authority claimed and was paid at least \$38,823 in excess operating subsidy between April 1, 1997 and March 31, 2001. Operating subsidies are paid to housing authorities to cover the difference between an allowable level of operating expenses and available income. Because the Housing Authority included units that were vacant for as long as 20 years in prior years' operating subsidy calculations, the total amount of excess subsidy paid to the Authority is higher.

Four apartment complexes totaling 329 units are under the Housing Authority's jurisdiction. At least 20 years ago, six units at the Joesting Terrace complex were vandalized and the building's water heater, furnace, and plumbing were

destroyed. The Authority's Board of Commissioners at that time decided it would be too expensive to make repairs, so the units were gutted but never rehabilitated for occupancy, leaving only 323 units for occupancy.

When the Housing Authority's former Executive Director prepared the Calculation of Performance Funding System Operating Subsidy forms, he used 329 units as the basis for claiming subsidy rather than 323 units. We also determined that in subsequent calculations the Authority's former Executive Director made estimates or used incorrect amounts for the rent roll and units-occupied portions of the subsidy calculations. HUD's Illinois State Office of Public Housing Hub made adjustments to the calculations based on verbal information obtained from the Authority's former Executive Director; however, the information the former Director provided was incorrect.

The Housing Authority's former Executive Director said he received training on how to complete HUD Form 52723 - Calculation of Performance Funding System Operating Subsidy. In addition, the Authority's former Executive Director said he received and read HUD's Notices and regulations regarding the calculation of operating subsidy for long-term vacant units. However, the former Executive Director said he was not aware that the six units were included in the calculations for operating subsidies or that the units should have been categorized as long-term vacancies. The explanation by the Authority's former Executive Director is inconsistent since he acknowledges that he received training on how to complete HUD Form 52723 and read HUD's requirements. Regardless, the Authority received excess operating subsidies from HUD.

The Housing Authority's incorrect reporting of long-term vacancies resulted in the Authority receiving excess operating subsidies between April 1, 1997 and March 31, 2001. The table on page 7 of this report shows the excess subsidies paid to the Authority by Fiscal Year.

<b>Fiscal Year</b>	<b>Subsidy Amount Paid To Authority</b>	<b>Corrected Subsidy Due To Authority</b>	<b>Excess Subsidy Paid</b>
1997	\$480,878	\$482,862	\$(1,984)
1998	498,649	474,811	23,838
1999	488,564	480,307	8,257
2000	508,653	499,941	8,712
<b>Total</b>			<b><u>\$38,823</u></b>

The excess subsidy paid to the Housing Authority for the Fiscal Years shown above could have been used to support the operations of other housing authorities or for other program related purposes.

The Authority's Efforts To Collect Receivables Were Poor

The Housing Authority did not make sufficient efforts to collect its Tenants Accounts Receivable balance that totaled \$39,701 as of March 31, 2001. This amount was nearly equal to total rent receipts for a one-month period. In addition, the Housing Authority violated its Rent Collection Policy by extending collection efforts before it initiated eviction procedures.

According to the Housing Authority's Interim Executive Director, the amount of the Authority's Tenant Accounts Receivable grew because more units were occupied, but an increasing number of tenants did not meet their lease obligations. Some tenants consistently paid late; thus, incurring late charges that further increased the Receivable balance. The Authority's Interim Executive Director said he began his collection efforts by going door-to-door to request payment to avoid delivering 14-day eviction notices to delinquent tenants. Several written Notices of Termination were issued to at least 13 tenants more than once. In some of these cases, the Housing Authority failed to follow through with the eviction process and allowed residents to become delinquent on rental payments for an average of three to seven months.

The Housing Authority's Rent Collection Policy requires collection procedures to be initiated on or after the 11th day of the month, if the tenant fails to make the required payment. The Authority's Interim Executive Director said he did not actively pursue collection until tenants became two months behind on their payments. Sometime during the second month of not receiving payments, the Authority's

Interim Executive Director said he started the process of issuing the 14-day notice.

The Housing Authority allowed tenants who were delinquent on their rental payments, including those who were in the eviction process, to arrange a payment plan to bring their accounts current. According to the Authority's Interim Executive Director, most tenants made some type of payment each month but the amount paid was never the minimum amount due. Section B, paragraph 3(e)(ii), of the Authority's Rent Collection Policy states after the eviction process is initiated, the tenant must make payment of all rent in arrears in full and no partial payments will be accepted.

Between August 1998 and March 2001, the Housing Authority wrote-off 129 delinquent tenant accounts totaling \$78,989. This included 14 tenants who made no rental payments and 25 tenants who paid less than half of the amount due. Unless the Housing Authority actively starts to collect delinquent rents or evict tenants according to its Rent Collection Policy, the Authority's Tenants Accounts Receivable balance will continue to increase. This situation creates the possibility that the Authority may be unable to meet its monthly expenses.

The Authority Charged Costs To Drug Grants Before The Grants Were Awarded

The Housing Authority improperly used Public Housing Drug Elimination Grant funds to pay expenses that were incurred prior to the effective dates of the Grants, and for expenses that were not eligible under the Drug Elimination Grant Program.

HUD awarded Drug Elimination Grants totaling \$246,474 to the Housing Authority in 1998, 1999, and 2000 as follows:

<i>Year of Award</i>	<i>Amount of Award</i>
<b>1998</b>	\$98,700
<b>1999</b>	72,360
<b>2000</b>	<u>75,414</u>
<b>Total</b>	<u>\$246,474</u>

We reviewed all of the vouchers charged to the Authority's Public Housing Drug Elimination Grants for period April 1, 1997 to March 31, 2001. We considered these charges with respect to the effective dates of each Grant, noting that

\$140,890 in expenses was improperly charged to the Grants before their respective effective dates as follows:

<i>Year of Award</i>	<i>Amount Charged Before Effective Date of Grant</i>
1998	\$ 85,038
1999	27,615
2000	<u>28,237</u>
Total	<u>\$140,890</u>

24 CFR Part 761.15 states costs incurred prior to the effective date of the Grant Agreement are not allowable expenses. The charges occurred between three to 11 months before the Agreements' effective dates. HUD's Acting Director of the Illinois State Office of Public Housing Operations Division said expenses incurred prior to the effective dates of the Grants should have been charged to the specific Grant that was effective at the time the expenses were incurred. As of March 26, 2002, there was only \$16,990 in funds left for the Authority to draw down from the 1998 and 1999 Grants, and no monies were left from the 2000 Grant.

In addition, the Housing Authority charged \$3,877 of ineligible expenses to its Public Housing Drug Elimination Grants as follows:

<b>Ineligible Expense</b>	<b>Amount Charged</b>
<b>Stripping and waxing floors</b>	\$1,695
<b>Supplies for Christmas Party</b>	105
<b>Polo shirts for Housing Authority's staff and tablecloth with Authority's logo</b>	379
<b>Supplies for Thanksgiving Dinner</b>	132
<b>Supplies for Halloween Party</b>	348
<b>Winter caps for maintenance staff</b>	96
<b>Circus tickets</b>	965
<b>Food for chili cook-off and resident council meeting</b>	<u>157</u>
<b>Total</b>	<u>\$3,877</u>

The payment of expenses before the effective date of the Public Housing Drug Elimination Grants and the ineligible



expenses occurred because the Housing Authority's personnel responsible for administering the Grants were unfamiliar with the Grants' requirements. Also, the Authority's accounting controls were weak and not closely supervised by the Board of Commissioners (see Finding 2).

The Authority Improperly Paid Its Former Director For Unused Sick Leave

The Housing Authority's former Executive Director received payment for \$6,635 in accrued, but unused sick leave in violation of the Authority's Personnel Policy Benefits Manual.

Section C, paragraph 6, of the Housing Authority's Personnel Policy Benefits Manual states an employee who is separated for unsatisfactory job performance or resignation will not be paid for any accumulated sick leave. Paragraph 8 of the Authority's Manual states employees who have applied for retirement will be permitted to receive pay for any unused sick leave accumulated up to 90 days. The Authority's Board of Commissioners must approve the final payment of the accumulated sick leave.

The Housing Authority's former Executive Director did not retire, but resigned from his position effective June 5, 2001. Therefore, the former Director's actions made him ineligible to receive payment for the accumulated sick leave. The Housing Authority was also unable to locate a Board of Commissioners' resolution that approved the payment. One of the Authority's Commissioners said he did not recall the Board granting such approval.

The improper payment of the accumulated sick leave to the Housing Authority's former Executive Director occurred because the Authority's management did not adhere to its Benefits Manual. Additionally, the Authority's accounting controls were weak and not closely supervised by the Board of Commissioners (see Finding 2). As a result, HUD lacks assurance that the Housing Authority's resources were used to the maximum extent to benefit low and moderate income tenants.

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Auditee Comments

[Excerpts paraphrased from the Housing Authority of the City of Alton's comments on our draft finding follow.]

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Appendix B, pages 29 to 31, contains the complete text of the comments for this finding.]

The Housing Authority is presently making payments on its past due Payment-In-Lieu-Of-Taxes. The first payment was made in October 2001. The Housing Authority intends to continue to make monthly payments until the past due amount is paid in full. The Housing Authority will also pay future obligations relating to Payment-In-Lieu-Of-Taxes as the obligation comes due.

In regard to the Excess Performance Funding System Operating Subsidy, it is the Housing Authority's position that the finding is correct in that the Authority currently has only 323 occupiable units. The Housing Authority agrees that it received excess subsidy for the six units. The Housing Authority's Board of Commissioners authorized and directed the Authority's Interim Executive Director to deprogram the six units from the Authority's roles so the mistake will not be repeated in the future.

The Housing Authority agrees that it failed to strictly comply with the Rent Collection Policy. The Authority intends to carefully review and revise its Policy in an effort to more aggressively collect rents and accounts receivable. This will include the filing of Citations to Discover Assets and Wage Garnishments if current and former tenants who owe rent to the Authority are currently employed.

The Authority will repay HUD \$3,877 for the ineligible expenses charged to the Drug Elimination Grants during the audit period. The Housing Authority's former Executive Director informed the Board of Commissioners that the expenditures were proper.

The Housing Authority believes that the finding requiring it to seek recovery of \$6,635 for sick leave paid in error to the Authority's former Executive Director is incorrect. Apparently, the HUD audit personnel did not examine the Housing Authority's Personnel Policy Benefits Manual adopted on April 1, 1997. It is the opinion of the Housing Authority's attorney that the Authority would be unsuccessful in a court proceeding attempting to recover the amount paid to the former Executive Director.

OIG Evaluation Of  
Auditee Comments

We confirmed that the Housing Authority made six Payment-In-Lieu-Of-Taxes disbursements to Madison County beginning in September 2001.

The April 1, 1997 revision to the Authority's Personnel Policy Benefits Manual makes no direct reference to the issue of accumulated sick leave payments. Instead, the Manual references and incorporates an earlier version of the Policy, which does not directly mention this issue. In reviewing the Authority's Benefits Manual back to 1982 that does make a direct reference to sick leave payments, the 1982 Manual permits payment of accumulated, unused sick leave to employees who retired from the Authority. Additionally, the Authority's 1982 Benefits Manual expressly prohibits such payments to employees who resign from the Authority. Therefore, the Housing Authority was not permitted to pay its former Executive Director for the unused sick leave.

The actions planned by the Housing Authority, if fully implemented, regarding the deprogramming of the six units and collection of Tenant Accounts Receivable should improve the Authority's operations.

Besides repaying HUD \$3,877 for the ineligible expenses charged to the Public Housing Drug Elimination Grants, the Housing Authority should also reimburse HUD for the \$140,890 in expenses that were improperly charged to the Grants before their respective effective dates. Repayment to HUD should be made from non-Federal funds.

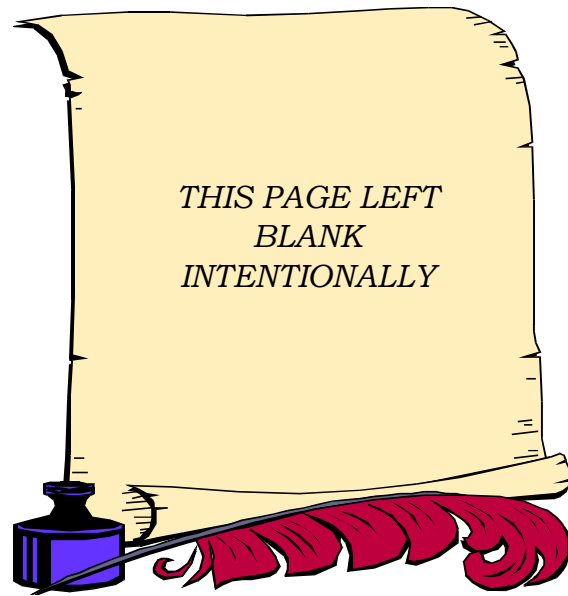
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Recommendations

We recommend that the Illinois State Office Director of Public Housing Hub assure that the Housing Authority of the City of Alton:

- 1A. Makes all the required Payments-in-Lieu-of-Taxes to Madison County.
- 1B. Reimburses HUD \$38,823 from non-Federal funds for the excess operating subsidy claimed between April 1, 1997 and March 31, 2001.

- 1C. Reimburses HUD \$144,767 (\$140,890 plus \$3,877) from non-Federal funds for the payment of costs charged to the Grants before their effective dates and the ineligible expenses paid from Grant funds.
  
- 1D. Takes any and all appropriate action to recapture the \$6,635 of unused sick leave that was improperly paid to the former Executive Director. If the Housing Authority is unable to recapture the money, the Authority should reimburse the improper sick leave payment from non-Federal funds to the appropriate program.
  
- 1E. Implements procedures and controls to follow HUD's requirements, the Annual Contributions Contract, and/or the Authority's policies regarding: (1) Payment-In-Lieu-Of-Taxes; (2) claims for operating subsidies; (3) use of Public Housing Drug Elimination Grant funds; and (4) payment of unused sick leave.



# The Authority Needs To Strengthen Its Controls

The Housing Authority of the City of Alton's system of internal accounting and management controls were weak. Specifically, controls did not assure that the Housing Authority adhered to its own policies and procedures concerning performance appraisals, inventory of equipment, allocation of unit size, tenant grievances, rental collections and evictions, and travel reimbursements to members of the Board of Commissioners and the Authority's staff for authorized travel. In addition, the Board of Commissioners did not exercise adequate supervisory control over the Authority's financial activities and the former Executive Director. As a result, HUD's and the Housing Authority's requirements were violated, and the Authority's operations were not conducted in an efficient and effective manner.

## Management Control Requirements

Management controls comprise the plan of organization, methods, and procedures adopted by management to ensure the safeguarding of resources against waste, loss, and misuse. Management should establish physical controls to secure and safeguard vulnerable assets. Periodic comparisons of resources with the recorded accountability should be made to help reduce the risk of errors, fraud, misuse, or unauthorized alteration.

## HUD's Regulations

24 CFR Part 85.32 requires housing authorities to maintain detailed property records, take a physical inventory every two years, and reconcile the inventory with property records. Authorities' records must show the property description, source, title, cost, acquisition date, location, use, and condition.

24 CFR Part 966.52 states housing authorities will furnish each tenant and resident organization a copy of its grievance procedures.

24 CFR Part 886.325 requires housing authority residents to notify their authority if there is a change in the family's composition and transfer to the appropriate sized unit. Upon receipt of this notification, the authority agrees to offer the family a suitable unit as soon as one becomes vacant and ready for occupancy. The family will have priority over individuals on the authority's waiting list seeking the same sized unit.

Authority's Requirements

The Housing Authority's Employee Manual, effective April 1997, requires annual performance appraisals to be done for all of the Authority's employees.

The Housing Authority's By-Laws, dated March 19, 1986, requires the Authority's Secretary-Treasurer or designee to have the care and custody of the Authority's funds and deposit the funds in the Authority's bank account(s). The Secretary-Treasurer will keep regular books of accounts showing receipts and expenditures and will provide to the Authority at each regular meeting, or more often if requested, an account of transactions and the financial condition of the Authority. The Secretary-Treasurer will keep in safe custody the seal of the Authority and will have the power to affix such seal to all contracts and instruments authorized for execution by the Authority.

The Housing Authority's Travel Policy, effective March 4, 1997, states all travel outside of the Authority's jurisdiction will be approved by Board resolution. The Policy also states all travel expenses will be recorded, signed by the traveler, and approved by the Authority's Executive Director prior to reimbursement.

The Housing Authority's Rent Collection Policy, dated January 1, 1996, states after the 10th day of each month, rent is considered delinquent and on the 11th day of the month tenants will be served a termination notice by the Authority.

The Housing Authority's Inventory Control Policy requires an inventory of materials and supplies be performed at least once a year.

Responsibilities Of Board Of Commissioners

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

Commissioners' Oversight Was Inadequate

The Housing Authority's Board of Commissioners did not maintain adequate oversight of the Authority's assets and

operations. The Commissioners were not completely aware of their duties either as a Board or as individual officers because significant Board responsibilities were left to the Housing Authority's former Executive Director, Quality Control and Fiscal Director, and Office Manager.

As an example, the Housing Authority's Secretary-Treasurer was not adequately performing the financial oversight or custodial responsibilities as required by the Authority's By-laws. The Secretary-Treasurer did not have custody of the Housing Authority's corporate seal, did not properly control the Authority's bank accounts and the deposits made to those accounts, failed to keep proper records showing receipts and expenditures, and generally did not control the financial transactions of the Authority. These duties were apparently delegated to the Housing Authority's staff; however, such delegation would have required the Board of Commissioners to adopt a formal resolution. The Authority was unable to provide us a resolution that authorized the delegation of authority.

The Housing Authority's Board of Commissioners said they did not consistently receive reports of the Authority's financial condition from the former Executive Director. In addition, the Commissioners said they did not fully understand the reports they did receive that dealt with other Housing Authority business matters. We observed Board members signing the Authority's checks without thoroughly reviewing the supporting documentation. The former Executive Director resigned from the Authority on June 5, 2001. The Housing Authority's former Executive Director routinely presented disbursements to the Authority's Board without providing the purpose of the disbursements.

During the course of the audit in May 2001, the Housing Authority's Secretary-Treasurer died; thus, creating more uncertainty over the adequacy of the Authority's controls. As a result of the minimal oversight exercised by the Housing Authority's Board of Commissioners, the Commissioners had inadequate knowledge of the Authority's financial condition. A stronger system of management controls over the Authority's assets and activities of the former Executive Director would have



Performance Appraisals  
Were Not Conducted

avoided the previously cited problems, enabling the Board to set appropriate and attainable goals for the Authority.

Between April 1, 1997 and March 31, 2001, the Housing Authority's Board of Commissioners did not perform annual performance appraisals of the Authority's former Executive Director to achieve the annual goals set forth by the Board. The Authority's Employee Manual required appraisals be performed of all of the Authority's employees. The Authority's Commissioners said performance evaluations were not completed for the former Executive Director because he either did not make himself available at the time his evaluations were scheduled or he failed to provide requested information on his accomplishments to facilitate the evaluations. Although evaluations were not done, the Authority's Board of Commissioners awarded salary increases to the former Executive Director between April 1997 and March 2001.

HUD's Regulations  
Regarding Inventory, Unit  
Allocation, And Tenant  
Grievances Were Not  
Followed

The Housing Authority violated HUD's regulations concerning equipment inventory, unit size allocations, and grievance procedures for tenants.

The Housing Authority's control over equipment was insufficient and inconsistent. Inventories were not performed on a two-year cycle, and the Authority's inventory records lacked serial or identification numbers for all items of equipment. Although the Authority's personnel said an inventory was performed in 1998, they were unable to provide supporting documentation.

The Housing Authority allowed individuals and families, including a Board Commissioner and Authority employees, to occupy units for as long as seven years when they did not meet the family composition guidelines to occupy the units. This condition is known as over housing. In one case, an individual tenant was housed in a three-bedroom unit since 1985. A one-bedroom unit is required by HUD's regulation. Appropriately sized units became available, but in most cases the Housing Authority made no attempt to transfer the tenants. As of September 10, 2001, 39 tenants appeared on the Authority's over housed list.

The Housing Authority's written grievance procedures included three of the four elements required by 24 CFR Part

966.52. However, the Housing Authority did not provide a copy of the grievance procedures to each tenant as required.

The Housing Authority's Interim Executive Director and other staff members said they were unaware of the complete content of HUD's regulation. The Authority's staff was aware that inventories of equipment were required to be reconciled every two years, but they said they were unaware that serial or identification numbers were also required. The Housing Authority was unable to explain why over housed tenants were not transferred to smaller units. Personnel for the Authority said a copy of the grievance procedures were posted in the Housing Authority's office lobby, but they said they were not aware that a copy was required to be provided to each tenant.

As a result of these violations, the Housing Authority was not operated in an efficient and effective manner.

Control procedures over the Housing Authority's Board-approved Rent Collection and Travel Policies were weak.

The Authority's Rental  
Collection And Travel  
Policies Were Violated

The Authority's Rent Collection Policy was not consistently enforced with respect to tenant lease violations. According to the Policy, tenants' rents were considered delinquent after the 10th day of the month. On the 11th day, the Policy required that a non-paying tenant be served with a termination notice. However, this was not always done.

We reviewed 67 of the Housing Authority's tenant files and determined that in at least 10 cases, the Authority waited at least two months to serve termination notices. Payment agreements were then made between the Authority and tenants, but the agreements were not enforced and eviction actions were not taken. Additional delays in serving termination notices may have occurred that were not included in our review.

Travel completed and travel expenses claimed by the Housing Authority's personnel did not always comply with the Authority's Travel Policy. The Travel Policy required that all travel outside of the Housing Authority's jurisdiction (defined as the St. Louis metropolitan area and

the entire State of Illinois) be approved by a Board resolution.

Of the 45 trips taken by the Housing Authority's personnel between April 1, 1997 and March 31, 2001, 19 travel vouchers were submitted. The Housing Authority was unable to locate travel vouchers for the remaining 26 trips. Of the 19, the Authority's Board only adopted resolutions authorizing six trips. All 19 trips required approval by the Housing Authority's Board in advance by resolution.

The Housing Authority's Travel Policy also required that all travel expenses were to be recorded, signed by the traveler, and approved by the Authority's Executive Director prior to reimbursement. Of the 19 travel vouchers submitted between April 1, 1997 and March 31, 2001, the Housing Authority's Executive Director approved only four vouchers (21 percent).

The Housing Authority's Interim Executive Director, who previously served as the Authority's Housing Manager, said the former Executive Director controlled most of the Authority's operations and was responsible for the situations previously noted.

As a result of the previously mentioned violations, the Housing Authority's tenant accounts receivable balance steadily increased because the Authority failed to enforce its Rent Collection Policy (see Finding 1). In addition, the Authority exposed itself to unauthorized personal travel because Board resolutions were not adopted and travel vouchers were not consistently submitted or properly processed.

In summary, management controls were extremely weak because of the Housing Authority's Board of Commissioners and former Executive Director's failure to implement the necessary controls to ensure the Authority was operated according to program requirements.

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**Auditee Comments**

[Excerpts paraphrased from the Housing Authority of the City of Alton's comments on our draft finding follow.

Appendix B, pages 31 and 32, contains the complete text of the comments for this finding.]

The Housing Authority’s Board of Commissioners and employees intend to correct the problem of inadequate oversight over the Authority’s assets and operations by implementing additional training; additional oversight of the reporting of the Authority’s financial condition; careful review of expense check documentation prior to the signing of checks; and annual performance appraisals of the Executive Director and other employees.

The Housing Authority filed 10 new evictions and forcibly evicted eight households. Seven households voluntarily vacated their units after receiving either a Notice to Terminate or a summons to appear in Court. The Authority entered into Past Due Rent Repayment Plans with approximately 30 tenants.

Travel expense vouchers will be more carefully reviewed and the Executive Director will ensure that vouchers are submitted for each trip taken by Housing Authority’s personnel.

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OIG Evaluation Of  
Auditee Comments

The actions planned by the Housing Authority, if fully implemented, should improve its controls over program operations.

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Recommendations

We recommend that the Illinois State Office Director of Public Housing Hub assure that the Housing Authority of the City of Alton:

- 2A. Implements procedures and controls to assure that HUD’s regulations and/or the Housing Authority’s requirements are followed regarding performance appraisals, inventory of equipment, allocation of unit size, tenant grievances, rental collections and evictions, and travel reimbursements.

We also recommend that the Illinois State Office Director of Public Housing Hub:

- 2B. Pursues administrative action against the Housing Authority's Board of Commissioners if within six months they do not improve their oversight of the Authority's operations.

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# Management Controls

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

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## Relevant Management Controls

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

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

We assessed all of the relevant controls identified above.

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

## Significant Weaknesses

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

- Program Operations

The Housing Authority was not operated according to program requirements. Specifically, the Authority: failed to make required tax payments totaling \$50,870; claimed at least \$38,823 in excess operating subsidies over a four year period; did not make sufficient efforts to collect tenant accounts receivable totaling \$39,701; improperly charged expenses of \$144,767 to its Public Housing Drug Elimination Grants; improperly paid its former Executive Director \$6,635 for accrued but unused sick leave; did not perform annual performance appraisals of its former Executive Director; failed to follow HUD's regulations regarding equipment inventory, unit size allocations, and grievance procedures for tenants; and did not ensure that its staff travel was properly authorized and travel expenses complied with the Authority's Policy (see Findings 1 and 2).

- Validity and Reliability of Data

The Housing Authority: provided inaccurate information to HUD regarding the number of long-term vacant units; and failed to include serial or identification numbers for equipment in the Authority's inventory records (see Findings 1 and 2).

- Compliance with Laws and Regulations

The Housing Authority did not follow HUD's regulations regarding: requests for operating subsidies; payment of expenses from its Public Housing Drug Elimination Grants; controls over equipment; allocation of unit sizes; and procedures concerning tenant grievances (see Findings 1 and 2).

- Safeguarding Resources

The Housing Authority improperly: claimed at least \$38,823 in excess operating subsidies over a four year period; charged expenses of \$144,767 to its Public Housing Drug Elimination Program; and paid its former Executive Director \$6,635 for accrued but unused sick leave (see Findings 1 and 2).

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# Follow Up On Prior Audits

This is the first audit of the Housing Authority of the City of Alton by HUD's Office of Inspector General. The latest Independent Auditor's Report for the Housing Authority covered the fiscal year ended March 31, 2000. The Report contained three findings. One of the three findings is reported in this report.

Independent Auditor's Report	This Report
Excessive Tenants Accounts Receivable (Finding 1).	The Authority Must Resolve Significant Monetary Issues Totaling \$280,796 and The Authority Needs To Strengthen Its Controls (Findings 1 and 2).



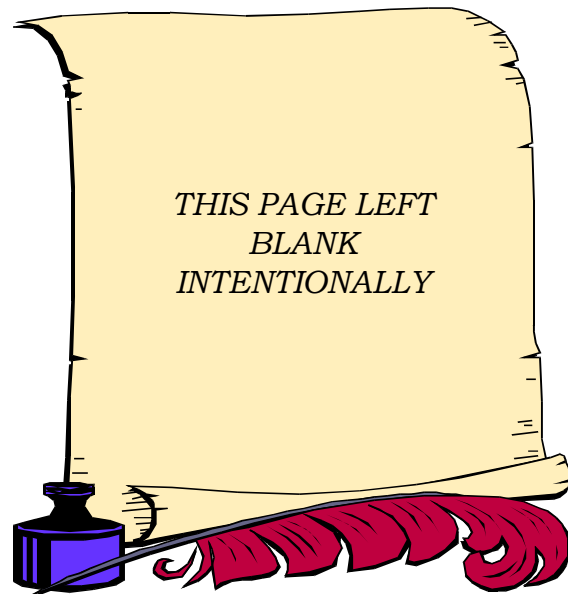


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# Schedule Of Ineligible Costs

<u>Recommendation</u> <u>Number</u>	<u>Ineligible Costs</u> <u>1/</u>
1B	\$ 38,823
1C	144,767
1D	<u>6,635</u>
Total	<u>\$190,225</u>

1/ Ineligible costs are costs charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.



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# Auditee Comments

November 16, 2001

U.S. Department of Housing and Urban Development  
Office of Inspector General for Audit, Midwest  
77 West Jackson Boulevard, Room 2646  
Chicago, Illinois 60604-3507

Attention: Ronald F. Huritz

In re: City of Alton Housing Authority Audit Findings

Dear Mr. Huritz:

The purpose of this letter is to respond to your letter of October 25, 2001 as requested.

## **The Alton Housing Must Resolve Significant Monetary Issues Totaling \$318,085.00**

The Alton Housing Authority admits the accuracy of the information in the "Criteria" section except that the Housing Authority disagrees with the statement that "...an employee who is separated for unsatisfactory job performance or resignation shall not be paid for any accumulated sick leave." is found in the Employee Manual of the Housing Authority of the City of Alton as adopted on April 1, 1997. The quoted language is contained in prior Employee Manuals that have been pre-empted by the April 1, 1997 Manual.

The Alton Housing Authority is presently making payments on its past due Payment in Lieu of Taxes Obligation to the Madison County Treasurer pursuant to an oral agreement. The agreement calls for payment of the past due amount owed to Madison County in the amount of \$50,870.00 in equal monthly installments of \$4,239.00. The first of such payments was made in October of 2001. The Housing Authority intends to continue to make monthly payments as agreed until the past due amount is paid in full. The Housing Authority will also pay future obligations relating to PILOT payments as the obligation comes due. The Board of Commissioners of the Alton Housing Authority was not informed by the former Executive Director that the Housing Authority failed to make the PILOT payments when due.

In regard to the Excess Performance Funding System Operating Subsidy, it is the Housing Authority's position that the finding is correct in that the Housing Authority currently has only 323 occupiable units as indicated in the Audit finding. The Housing Authority agrees that it has received excess subsidy for the six units for the audit period as indicated. The Board of Commissioners of the Housing Authority has authorized and directed the Interim Executive Director of the Housing Authority to deprogram the six units from the Housing Authority roles so that the mistake will not be repeated in the future. Three of the units are the subject matter of a Demolition Application to be submitted to HUD.

The Housing Authority agrees that it has failed to strictly comply with the Rent Collection Policy of the Housing Authority. The Housing Authority intends to carefully review and revise its Rent Collection Policy in an effort to more aggressively collect its rent and accounts receivables. The Housing Authority has pursued a more aggressive eviction procedure that has resulted in the following actions in the past 120 days:

- 1) The Housing Authority has filed ten (10) new evictions; and
- 2) The Housing Authority has forcibly evicted eight (8) households on which prior Judgments of Possession had been obtained through the use of the Madison County Sheriff's Department; and
- 3) Seven (7) households have voluntarily vacated their units after receiving either a Notice to Terminate Lease, or a Summons to appear in a State Court; and
- 4) The Housing Authority has entered into Past Due Rent Repayment Plans with approximately thirty (30) tenants.

The Alton Housing Authority also intends to more aggressively pursue collection of the post occupation or post judgment Tenants Account Receivable balance. This will include the filing of Citations to Discover Assets and Wage Garnishments if the tenants or former tenants owing rents to the Housing Authority are currently employed.

The Alton Housing Authority has established a separate interest-bearing account and has deposited \$30,440.00 into that account to segregate the Tenant Security Deposits. Tenant Security Deposits received in the future will be deposited into the account.

The Housing Authority will repay HUD \$3,877.00 for ineligible expenses charged to Drug Elimination Grants during the audit period. The Housing Authority Commissioners were told by the former Executive Director that the expenditures were proper.

The Housing Authority has contacted its accountant and will adjust Housing Authority records to associate expenses with the Drug Elimination Grant that was in effect at the time the expenses were incurred. The Housing Authority Commissioners were unaware of the incorrect accounting practice that occurred under the direction of the former Executor Director.

The Housing Authority intends to seek technical assistance from HUD on accounting procedures relating to Drug Elimination Grants and to provide proper training for its personnel on the proper treatment of expenses incurred.

The Housing Authority believes that the finding requiring it to seek recovery of \$6,635.00 for sick leave paid in error to the former Executive Director is incorrect. Apparently, HUD audit personnel did not examine the most recent Housing Authority Personnel Policy Benefits Manual which was adopted on April 1, 1997. The current policy does not provide as indicated in the HUD finding. In addition, certain employees (including the former Executive Director) were promised that they would receive the accumulated sick pay upon severance of their employment. It is the Housing Authority's attorney's opinion that the Housing Authority would be unsuccessful in a court proceeding attempting to recover the amount paid to the former Executive Director.

## **The Alton Housing Authority Must Strengthen its Internal Controls**

The Alton Housing Authority admits the accuracy of the information in the "Criteria" section.

However, the Housing Authority states that the By-Laws of the Housing Authority of the City of Alton were amended on June 5, 2001 to delete the position of Secretary-Treasurer.

The Board of Commissioners and employees of the Housing Authority of the City of Alton intend to correct the problem of inadequate oversight over the Housing Authority's assets and operations by the Housing Authority Commissioners implementing the following:

- 1) Additional Board of Commissioner training; and
- 2) Additional Board of Commissioner oversight of the reporting of the Housing Authority's financial condition; and
- 3) Board of Commissioner careful review of expense check documentation prior to the signing of checks; and
- 4) Board of Commissioners annual performance appraisal of the Executive Director position. The Board of Commissioners will further require job performance appraisals to be made by the Executive Director relating to all Housing Authority Department Heads; and

- 5) The violation of the Federal Regulations concerning equipment inventory requirements, unit size allocations, and grievance procedures for tenants will be corrected and will not occur in the future.
- 6) That additional training for Housing Authority staff on Federal Regulations which impact its programs and operations will be addressed.

The Housing Authority agrees that it has failed to strictly comply with the Rent Collection Policy of the Housing Authority. The Housing Authority intends to carefully review and revise its Rent Collection Policy in an effort to more aggressively collect its rent and accounts receivables. The Housing Authority has pursued a more aggressive eviction procedure that has resulted in the following actions in the past 120 days:

- 1) The Housing Authority has filed ten (10) new evictions; and
- 2) The Housing Authority has forcibly evicted eleven (11) households on which prior Judgments of Possession had been obtained through the use of the Madison County Sheriff's Department; and
- 3) Seven (7) households have voluntarily vacated their units after receiving either a Notice to Terminate Lease, or a Summons to appear in a State Court;
- 4) The Housing Authority has entered into Past Due Rent Repayment Plans with approximately thirty (30) tenants.

The Alton Housing Authority also intends to more aggressively pursue collection of the post occupation or post judgment Tenants Account Receivable balance. This will include the filing of Citations to Discover Assets and Wage Garnishments if the tenants or former tenants owing rents to the Housing Authority are currently employed.

That Travel Expense Vouchers will be more carefully reviewed, and the Executive Director will ensure that Travel Expense Vouchers are submitted for each trip taken by Housing Authority personnel.

Very truly yours,

Housing Authority of the City of Alton

By           /signed/          

Jeffrey W. Copley, Interim Executive Director

# Distribution

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 Director of Public Housing Hub, Illinois State Office (2)  
 Secretary, S (Room 10000)  
 Deputy Secretary, SD (Room 10100)  
 Senior Advisor to Deputy Secretary, SD (Room 10100)  
 Assistant to the Secretary for White House Liaison, S (Room 10216)  
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 President of Government National Mortgage Association, T (Room 6100)  
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 Assistant Secretary for Public and Indian Housing, P (Room 4100)  
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 Acting Deputy Assistant Secretary for Public Housing Investments, PT (Room 4130)  
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 Director of Enforcement Center, V (200 Portals Building)  
 Acting Director of Multifamily Assistance Restructuring, Y (4000 Portals Building)  
 Acquisitions Librarian, Library, AS (Room 8141)  
 Acting Director of Federal Housing Enterprise Oversight, (1700 G Street NW, Room 4011)  
 Director of Healthy Homes and Lead Hazard Control, L (3206 Portals Building)  
 Chief Executive Officer, S (Room 10220)  
 Assistant Deputy Secretary for Field Policy and Management, M (Room 7108)  
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The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform,  
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Clinton C. Jones, Senior Counsel, Committee on Financial Services, B303 Rayburn Building,  
United States House of Representatives, Washington DC 20515

Interim Executive Director, Housing Authority of the City of Alton (2)  
Chairperson of the Board of Commissioners, Housing Authority of the City of Alton