



Issue Date	October 24, 2002
Audit Case Number	2003-CH-1001

TO: Linford Coleman, Director of Public Housing Hub, Chicago Field Office

FROM: 
Heath Wolfe, Regional Inspector General for Audit, Region V

SUBJECT: Housing Authority of Champaign County
Citizen Complaint
Champaign, Illinois

INTRODUCTION

We have completed an audit of the Housing Authority of Champaign County. The audit resulted from a citizen complaint to our Office. The objectives of our audit were to determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations were followed. The complainant's specific allegations were the Housing Authority: (1) inappropriately used monies from its Comprehensive Improvement Assistance Grant, Public Housing Drug Elimination Grant, and Resident Opportunities for Self Sufficiency Grant Programs; and (2) did not maintain its units in a decent, safe, and sanitary condition.

To accomplish our audit objectives, we reviewed the Housing Authority's policies and procedures for the period April 1, 1999 through March 31, 2000. We also reviewed and evaluated the Housing Authority's: management controls for safeguarding cash and other monetary assets and segregating of staff duties; annual financial audit reports and its Board of Commissioners' minutes for the period April 1999 through March 2000; and expenditures charged to the Resident Opportunities for Self Sufficiency Grant, Drug Elimination Grant, and Comprehensive Improvement Assistance Grant Programs for the period April 1999 through March 2000. In addition, we conducted site visits to all ten of the Housing Authority's Public Housing complexes.

We reviewed the Housing Authority's records and HUD's records for the Authority. We interviewed the Housing Authority's staff, HUD's staff, and 27 of the Authority's Public Housing residents. We performed our on-site audit work between February 2001 and December 2001. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, 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. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

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

SUMMARY

We found that the Housing Authority charged its HUD-funded Grants (Public Housing, Drug Elimination, and Comprehensive Improvement Assistance) \$27,360 in unallowable expenses. Of this total, \$23,599 was ineligible and \$3,761 was unsupported. The ineligible amount consists of stipends paid to the Housing Authority's residents who were not eligible to receive them because they were not officers of the Authority's Resident Council as required. The \$3,761 in unsupported expenses consists of \$2,135 charged to the Drug Elimination Grant and \$1,626 charged to the Comprehensive Improvement Assistance Grant.

BACKGROUND

The Housing Authority was established in 1939 under the laws of the State of Illinois. A seven member Board of Commissioners governs the Housing Authority. The Chairperson of the Board is Patricia K. Stebbins. The Authority's Executive Director is Elawrence Davis. The Housing Authority's books and records are located at 205 West Park Avenue, Champaign, Illinois. The Housing Authority's maintenance files are located at 201 East Bradley Avenue, Champaign, Illinois.

As of June 1, 2002, the Housing Authority operated seven HUD programs: (1) Public Housing Program consisting of 600 units; (2) Section 8 Program consisting of 1,002 units; (3) Comprehensive Improvement Assistance Grant Program; (4) Public Housing Drug Elimination Grant Program; (5) Elderly Services Grant Program; (6) Resident Opportunities for Self Sufficiency Grant Program; and (7) Section 8 New Construction Program consisting of 50 units.

FINDING

The Housing Authority Charged HUD For Ineligible And Unsupported Costs

The Housing Authority of Champaign County charged HUD \$27,360 in unallowable expenses. Of this total, \$23,599 was ineligible and \$3,761 was unsupported. The ineligible amount consists of stipends paid to Housing Authority residents who were ineligible to receive them. The unsupported amount consists of undocumented charges of \$2,135 and \$1,626 to the Drug Elimination Grant and Comprehensive Improvement Assistance Grant Programs, respectively.

The Housing Authority did not follow Federal requirements and/or its Travel Policy regarding the use of HUD funds. As a result, funds were not used in an efficient and effective manner.

Federal Requirements And The Authority’s Travel Policy

24 CFR Part 964.150(b)(1) permits housing authorities to provide stipends to resident council officers who serve as volunteers in their public housing units. The housing authority and its resident council decide the maximum amount of the stipend, not to exceed \$200 per month for each officer.

24 CFR Part 85.20(b)(2) requires housing authorities to maintain accounting records that adequately identify the application of funds as well as expenditures. 24 CFR Part 85.22(b) requires that State, local, and Indian tribal governments follow Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments. 24 CFR Part 85.3 defines a local government to include any public housing agency.

Office of Management and Budget Circular A-87, Attachment A, paragraph C(1)(a), requires that all costs be necessary and reasonable for proper and efficient performance and administration of Federal awards. In addition, paragraph C(1)(j) requires that all costs be adequately documented. Circular A-87 applies to the Public Housing Drug Elimination Grant and Comprehensive Improvement Assistance Grant Programs.

Section 10.2 of the Housing Authority’s Travel Policy, effective February 26, 1997, requires that all travel costs except meals, tips, laundry, and cleaning be supported by receipts. No expense will be reimbursed without receipts.

Stipends Were Improperly Paid To Residents

As indicated in the table below, the Housing Authority charged its Public Housing Grant Program \$23,599 in Fiscal Years 1999, 2000, and 2001 for stipends paid to Resident Aides. Resident Aides are the Housing Authority’s tenants who received monthly stipends for performing various tasks in and around the Authority’s Public Housing complexes, such as turning lights on or off and locking and unlocking doors to units and common areas. The Housing Authority paid the Resident Aides with funds allocated to the Public Housing Grant Program from the Performance Funding System to support tenant services. None of the Resident Aides selected by the Housing Authority were resident council officers as required by 24 CFR 964.150(b)(1). Therefore, the Housing Authority did not comply with HUD’s regulation regarding the payment of resident stipends.

<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>Total</i>
\$6,630	\$7,809	\$9,160	\$23,599

Approximately 20 percent of the total stipends paid were incorrectly calculated. Payments to nine of the Resident Aides were made two to three times a month, exceeding the \$200 per month/per person maximum allowed by HUD’s regulation. This resulted in some of the Resident Aides receiving stipends up to \$555 per month, or \$355 over HUD’s limit of \$200.

The Housing Authority's staff was not aware of HUD's regulation regarding the payment of resident stipends to officers of the Authority's Resident Council. Instead, the Authority's staff repeated the practices of previous employees. The Housing Authority also lacked supporting documentation to show the services or activities provided by the Resident Aides.

The Authority Paid Unsupported Expenses

The Housing Authority lacked adequate supporting documentation to support \$2,135 in expenses charged to its 1998 and 1999 Public Housing Drug Elimination Grants. The unsupported expenses were for travel costs, purchases of supplies, staff training, and undefined administrative costs. The Authority provided us with partial documentation that was not sufficient to identify the exact details of the expenses.

In addition to the unsupported Public Housing Drug Elimination Grant charges, the Housing Authority could not support \$1,626 in expenses charged to its 1998 and 1999 Comprehensive Improvement Assistance Grants. This amount consisted of \$1,519 in hotel expenses and \$107 in transportation expenses. The Housing Authority lacked supporting documentation for \$1,519 in hotel and travel expenses because it did not ensure that its employees consistently turned in receipts to support travel expenses as required by the Authority's February 1997 Travel Policy. As a result, HUD had no assurance that the Housing Authority paid only reasonable and necessary Drug Elimination and Comprehensive Improvement Assistance Grant Program expenses. The Housing Authority's Finance and Accounting Manager said the Authority needed to tighten up its controls to ensure that documentation was maintained to support all expenses.

AUDITEE COMMENTS

We provided our draft finding to the Housing Authority's Executive Director and HUD's staff during the audit. We held an exit conference with the Authority's Executive Director and Chairperson of the Board of Commissioners on December 13, 2001. The Housing Authority provided its comments on December 6, 2001. We included the Authority's comments in Appendix B of this report. The Housing Authority's Executive Director and Board Chairperson were provided with copies of this audit memorandum report.

[Excerpts paraphrased from the Housing Authority of Champaign's comments on our draft finding follow. Appendix B, pages 10 to 13, contains the complete text of the comments for this finding.]

The Board agrees, at least in part, that this finding [*pertaining to payment of stipends*] is correct. It appears information provided may have indicated that no resident councils were active. We understand from this a conclusion was drawn that all of the stipend payments must not be in compliance with the requirements of 24 CFR 964.150(b), since under that regulation the resident councils need to identify the residents that are to perform services for which the payments were being made. We believe it is important to keep in mind that the payments were made for services actually performed by residents, and the services were specifically to the benefit of the housing complex and the other residents in each housing complex. While it

appears that the Authority may not have been current on the regulations with regard to these payments, none of the payments were fraudulent, made with improper intent, or otherwise inappropriate in any way. We believe the payments did foster the important purpose of the resident participation and opportunities programs in that these payments to residents for actual work performed helped to foster resident involvement in creating a positive living environment.

The Board agrees with the finding [*pertaining to unsupported Drug Elimination Grant and Comprehensive Improvement Assistance Grant expenses*] that certain expenses were not properly documented. It is the understanding of the Board that all of the amounts in question were in fact appropriate expenses and were paid from the proper funds; however, the proper supporting documentation for these expenses was not in the Authority's files.

OIG EVALUATION OF AUDITEE COMMENTS

The Housing Authority failed to follow 24 CFR Part 964.150(b) when it paid Resident Aides who were not officers of the Authority's Resident Councils. While the Housing Authority claims the payments were made for services actually performed by the Resident Aides, the Authority lacked supporting documentation to show the type of services or activities provided by the Aides. The Authority needs to reimburse its Public Housing Program for the \$23,599 of improper payments to the Resident Aides.

While the Housing Authority claims the \$3,761 in unsupported payments were for appropriate expenses, the Authority is required by 24 CFR Part 85.20 and Office of Management and Budget Circular A-87 to maintain records of all payments. Therefore, the Authority needs to provide documentation to support the \$3,761 in unsupported payments or reimburse the appropriate Grant for the applicable amount. We modified our finding to reflect the supporting documentation provided by the Housing Authority.

RECOMMENDATIONS

We recommend that the Director of Public Housing Hub, Chicago Field Office, ensures that the Housing Authority of Champaign County:

- 1A. Reimburses its Public Housing Program \$23,599 from non-Federal funds for stipends that were improperly paid to the Resident Aides.
- 1B. Establishes procedures and controls to follow HUD's regulations, Office of Management and Budget Circular A-87, and/or the Authority's Travel Policy regarding the payment of resident stipends and maintaining of supporting documentation for expenses.
- 1C. Provides documentation to support the \$3,761 in unsupported expenses or reimburses the unsupported amount to the appropriate program from non-Federal funds.

MANAGEMENT CONTROLS

In planning and performing our audit, we considered the management controls of the Housing Authority of Champaign County 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. 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.

Based upon 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: improperly paid \$23,599 in stipends to Resident Aides who were not eligible to receive them because they were not officers of the Authority's Resident Council as required; and failed to maintain documentation to support \$3,761 in payments (see Finding).

- Validity and Reliability of Data

The Housing Authority lacked documentation to support \$3,761 in payments from its Public Housing Drug Elimination and Comprehensive Improvement Assistance Programs (see Finding).

- Compliance with Laws and Regulations

The Housing Authority did not follow HUD's regulations and/or Office of Management and Budget Circular A-87 regarding resident stipends and maintaining of supporting documentation for expenses (see Finding).

- Safeguarding Resources

The Housing Authority improperly: paid \$23,599 in stipends to Resident Aides who were not eligible to receive them because they were not officers of the Authority's Resident Council; and used \$3,761 from its Public Housing Drug Elimination and Comprehensive Improvement Assistance Programs without supporting documentation (see Finding).

FOLLOW-UP ON PRIOR AUDITS

HUD's Office of Inspector General issued a prior audit report (#94-CH-202-1012) of the Housing Authority of Champaign County on January 11, 1994. The audit report included eight findings. The recommendations for the eight findings are all closed. None of the eight findings are repeated in this audit memorandum report.

The latest Independent Auditor's Report for the Housing Authority covered the fiscal year ended March 31, 2001. The Report contained no findings.

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation Number</u>	<u>Type of Questioned Cost</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1A	\$23,599	
1C		\$3,761
Totals	<u>\$23,599</u>	<u>\$3,761</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.

Appendix B

AUDITEE COMMENTS

December 6, 2001

**VIA FEDERAL EXPRESS AND
ELECTRONIC DELIVERY ON DISKETTE**

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

Re: Draft Audit Finding with regard to the Housing Authority of Champaign County

Dear Mr. Huritz:

The Board of Commissions of the Housing Authority of Champaign County (the "Authority") has met to review the Draft Audit Finding forwarded with your letter of November 13, 2001. We submit this letter as the response of the Authority to each of the two specific issues and four specific recommendations proposed in the Draft Audit Finding. We have addressed each of these by separate paragraphs below.

First, we would like to take a moment to thank the Office of the Inspector General and Mr. Yama Burkley, the auditor in charge, for the courtesies shown to this Authority during the more than five months Mr. Burkley spent in what we understand to be a very thorough review of the practices and procedures at this Authority. Mr. Burkley and other members of your staff were very professional and courteous at all times. We trust representatives of the Authority were equally courteous and professional and responded promptly and appropriately to all requests from your staff.

Response to Issues

Issue #1: "Some stipends were improperly paid to residents"

The Board agrees, at least in part, that this finding is correct. It appears information provided to your staff may have indicated that no resident councils were active. We understand from this a conclusion was drawn that all of the stipend payments must not be in compliance with the requirements of 24 CFR 964.150(b), since under that regulation the

resident councils need to identify the residents that are to perform services for which the payments were being made.

You may be aware that although the Authority can encourage the formation and continuation of resident councils, the residents must themselves take responsibility for the operations of the resident councils. Despite encouragement by the Authority, resident councils that have been formed in the past have not been able to be continued, and although most of the Authority's housing communities have had resident councils at one time or another, they have not remained in continuous operation for each housing communities. The Board agrees that some of the complexes with respect to which these payments were being made did not have active resident councils at the time of the payments. The Board is not clear, however, that the individuals who were receiving these payments had not previously been approved for these positions by a then-active resident council and simply continued performing them after the resident council became inactive.

We also want to address the issue raised that some of these individuals received more than the maximum amount allowed per month. We understand that this most likely arose because some of the residents performing these services decided they did not want to continue with those responsibilities. We understand few residents were willing to take on these responsibilities, but some residents who were already performing services were willing to pick up the additional responsibilities of the residents who did not want to continue. We believe the overpayments arose simply as a result of trying to allow these services to continue to be performed by residents.

In each of the above situations, we believe it is important to keep in mind that the payments were made for services actually performed by residents, and the services were specifically to the benefit of the housing complex and the other residents in each housing complex. While it appears that the Authority may not have been current on the regulations with regard to these payments, none of the payments were fraudulent, made with improper intent, or otherwise inappropriate any way. Although the payments were not made in full compliance with the cited regulations that we were able to review, we believe the payments did foster the important purpose of the resident participation and opportunities programs as noted in 24 CFR 964.1, in that these payments to residents for actual work performed helped to foster resident involvement in creating a positive living environment and in actively participating in the operation of the Authority.

Issue #2: "Unsupported drug elimination grant and comprehensive grant expenses"

The Board agrees with the finding under this issue that certain expenses were not properly documented. It is the understanding of this Board that all of the amounts in question were in fact appropriate expenses and were paid from the proper funds, however, the proper supporting documentation for these expenses was not in the Authority's files.

Response to Recommendations

Recommendation 1A: “Repays HUD \$23,599 from non-Federal funds for the stipends that were paid to ineligible tenants”

The Board respectfully requests that this recommendation not be implemented. This Board does not sanction payments that are not in compliance with the regulations applicable to programs in which it participates; however, the Board strongly believes that these funds, although perhaps not spent in compliance with the requirements of the relevant regulations and policies, were in fact expended for, and helped to advance, the important purposes of the Authority’s Tenant Participation Program. As noted above, these funds were paid to residents for work that was actually performed and that did in fact benefit the housing complex where the work was performed and all the residents of those complexes. Although the Authority will, as noted below, take action to see that any issues of compliance are promptly addressed, the Board requests that the recommendation for repayment of \$23,599 from non-Federal funds be waived.

Recommendation 1B: “Establishes procedures to ensure compliance with regulations and Housing Authority policies regarding the payment of stipends to residents”

The Authority agrees and has already taken steps to accomplish this. All active resident councils have been contacted to coordinate an item on the agenda for the next meeting to address these issues. The Board has directed the appropriate Authority staff members to coordinate with each resident council to help assure that the appropriate procedures are established and maintained so that payment of the stipends to residents will be in compliance.

Recommendation 1C: “Provides HUD with documentation to support \$8,653 in unsupported expenses, or repays the unsupported amount to HUD from non-Federal funds”

The Authority agrees with this recommendation. We would note that steps are currently underway to obtain the necessary documentation with regard to each of these expenses. The Authority requests an additional 30 days to complete the gathering of this documentation and will then forward it to Mr. Burkley. We believe the Authority should be able to properly document substantially all of these expenses and that minimal, if any, reimbursement should be required.

Recommendation 1D: “Establishes procedures to ensure compliance with Federal requirements and its Tenant Participation Procurement and Travel policies regarding support for reimbursable expenses”

The Authority agrees with this recommendation and has already implemented it.

In summary, although this Board is never pleased to find that the Authority is not in compliance with any applicable regulation or policy, we would like to note that after the extensive on-site audit that was conducted, only one audit finding was presented. This

Appendix C

DISTRIBUTION OUTSIDE OF HUD

The Honorable Joseph Lieberman, Chairman, Committee on Government Affairs, 706
Hart Senate Office Building., United States Senate, Washington, DC 20510

The Honorable Fred Thompson, Ranking Member, Committee on Governmental Affairs,
340 Dirksen Senate Office Building, United States Senate, Washington, DC 20510

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

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

Andy Cochran, Committee on Financial Services, 2129 Rayburn House Office Building,
United States House of Representatives, Washington DC 20515

Clinton C. Jones, Senior Counsel, Committee on Financial Services, B303 Rayburn Building,
United States House of Representatives, Washington DC 20515

Sharon Pinkerton, Senior Advisor, Subcommittee on Criminal Justice, Drug Policy &
Human Resources, B373 Rayburn House Office Building, United States Housing of
Representatives, Washington, DC 20515

Stanley Czerwinski, Director, Housing and Telecommunications Issues, United States
General Accounting Office, 441 G Street, NW, Room 2T23, Washington, DC 20548

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

Linda Halliday (52P), Department of Veterans Affairs, Office of Inspector General, 810
Vermont Avenue, NW, Washington, DC 20420

William Withrow (52KC), Department of Veterans Affairs, Office of Inspector General
Audit Operations Division, 1100 Main, Room 1330, Kansas City, Missouri 64105-
2112

Kay Gibbs, Committee on Financial Services, 2129 Rayburn House Office Building,
United States House of Representatives, Washington DC 20515

George Reeb, Assistant Inspector General for Health Care Financing Audits

Elawrence Davis, Executive Director of the Housing Authority of Champaign County

Patricia K. Stebbins, Chairperson of the Board of Commissioners of the Housing Authority
of Champaign County