AUDIT REPORT

FAYETTE COUNTY HOUSING AUTHORITY
SECTION 8 HOUSING PROGRAM

CONNERSVILLE, INDIANA

2003-CH-1019

JULY 25, 2003

OFFICE OF AUDIT, REGION V
CHICAGO, ILLINOIS

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Issue Date	July 25, 2003
Audit Case Number	2003-CH-1019

TO: Thomas S. Marshall, Director of Public Housing Hub,
Cleveland Field Office

/Acting for

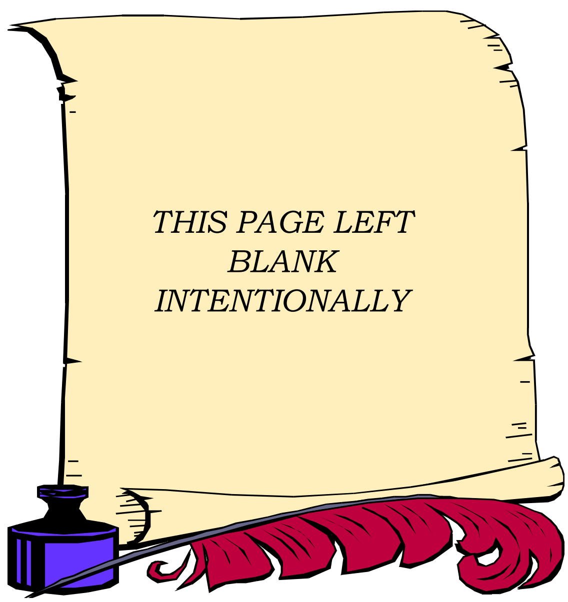
FROM: Heath Wolfe, Regional Inspector General for Audit, Region V

SUBJECT: Fayette County Housing Authority
Section 8 Housing Program
Connersville, Indiana

We completed an audit of the Fayette County Housing Authority's Section 8 Housing Program. The objective of our audit was to determine whether the Housing Authority operated its Section 8 Program in an efficient and effective manner and provided decent, safe and sanitary housing to its Section 8 tenants in compliance with HUD's requirements. We performed the audit in response to a request from HUD's Public Housing Program Center Coordinator, Indianapolis Field Office. The audit resulted in three findings.

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 contact Ronald Huritz, Assistant Regional 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 Fayette County Housing Authority's Section 8 Housing Program. The objective of our audit was to determine whether the Housing Authority operated its Section 8 Program in an efficient and effective manner and provided decent, safe and sanitary housing to its Section 8 tenants in compliance with HUD's requirements. We performed the audit in response to a request from HUD's Public Housing Program Center Coordinator, Indianapolis Field Office.

We found that the Fayette County Housing Authority did not administer its Section 8 Program in an efficient and effective manner, and failed to comply with HUD's Housing Quality Standards for its rental units.

The Housing Authority Requested Excessive Section 8 Funds

The Fayette County Housing Authority requested $538,458 in excess Section 8 funds from HUD over a four-year period to cover prior operating losses. This was contrary to HUD directives. HUD ordered the Housing Authority to cease the practice in February 2000. The excess funds were paid from HUD's Section 8 Certificate, Voucher, and Moderate Rehabilitation Programs. The Housing Authority did not have adequate cash to repay the funds to HUD and will take over 27 years to return the over-claimed subsidy at the current repayment rate of $20,000 per year. As a result, the Federal government has incurred unnecessary interest expense, and Section 8 funds that could have been used to assist other needy families were not available.

The Housing Authority Improperly Handled Cash

The Fayette County Housing Authority did not adequately control its receipt and use of cash. The Housing Authority paid $42,206 for expenses that were not eligible for payment under HUD's regulations, and $1,672 for expenses that were inadequately documented during the fiscal year ended September 30, 2000. In addition, an audit report issued by the Indiana State Board of Accounts on June 21, 2002, disclosed an additional $43,132 in unsupported expenses and $40,708 in ineligible costs incurred between January 1, 1996 and August 31, 2000, which were not included in the Office of Inspector General's finding. The Housing Authority's Board of Commissioners did not adequately monitor the Authority's operations.

The Housing Authority's Section 8 Properties Did Not Meet Housing Quality Standards

The Fayette County Housing Authority did not adequately maintain 15 units it rented to Section 8 tenants. A HUD Office of Inspector General Appraiser/Program Specialist inspected the units in March 2002 identifying 240 Housing Quality Standards violations . The Housing Authority's former Housing Inspector failed to identify 113 of these existing deficiencies at the time of his inspections between February 23, 1998 and July 25, 2001. The Housing Authority had identified 40 of the 240 Housing Quality Standards violations but failed to correct the defects. As a result, HUD paid the Housing Authority $60,399 in Section 8 Voucher subsidy between January 1, 1999 and March 31, 2002, for 15 rental units that did not meet HUD's Housing Quality Standards. Tenants occupying the units were subjected to conditions that were hazardous to their health and safety.

Recommendations

We recommend that HUD take administrative action against the former Executive Director and Board members of the Fayette County Housing Authority for the excessive request and improper use of Section 8 funds and their failure to properly maintain Section 8 rental units as cited in this report.

We recommend that HUD require the Housing Authority to provide adequate supporting documentation for expenditures cited in this report and repay its Section 8 Voucher Program from non-Federal funds for the ineligible and unsupported items. We recommend that HUD require the Housing Authority to repay its Section 8 Voucher Program from non-Federal funds for the Section 8 subsidies it received for rental properties that it owned but did not properly maintain.

We also recommend that HUD establish a formal workout agreement with the Housing Authority to recover the excess Section 8 Voucher funds paid to the Authority. The Authority should establish policies and controls to ensure that its Board of Commissioners is fully aware of the Housing Authority's operations and expenses prior to payment in order to avoid a recurrence of these problems.

We presented a draft of this Audit Report to the Housing Authority's Executive Director and HUD's Director of Public Housing HUB, Cleveland Field Office. We also provided schedules of unsupported and ineligible costs and the Section 8 Inspection Report created by the HUD Office of Inspector General Appraiser/Program Specialist. We held an exit conference with the Housing Authority on May 12, 2003.

The Housing Authority provided written responses to the findings and recommendations contained in this report. Included with each finding are paraphrased excerpts of comments we received from the Housing Authority and HUD. The complete text of the Housing Authority's comments, which were provided to HUD's Director of Public Housing HUB, Cleveland Field Office, is in Appendix B. The complete text of HUD's management comments is in Appendix C.


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Introduction

The Fayette County Housing Authority was organized under Indiana State Code 36-7-18-25 on August 16, 1976, by resolution of the Fayette County Council. The Housing Authority is a public housing agency in accordance with the U.S. Housing Act of 1937, and is governed by an Executive Director and seven-member Board of Commissioners. The Fayette County Council originally appointed five persons to the Housing Authority's Board of Commissioners. In January 2002, the County Council added two positions to the Board in accordance with Indiana House Enrolled Act Number 1952 that increased the number of Housing Authority Board Members to seven.

Under the Public Housing Reform Act enacted by Congress in 1998, the Section 8 Voucher and Certificate Programs were merged into the Housing Choice Voucher Program. The Certificate Program was combined into the Housing Choice Voucher Program during the fiscal year ending September 30, 2001.

The following table shows the number of the Housing Authority's Section 8 units under lease at various dates for which the Housing Authority maintained accurate and complete Section 8 unit records.

Date	Number Of Vouchers	Number Of Certificates	Number Of Units Moderate Rehabilitation	Totals
May 31, 1998	55	175	37	267
May 31, 1999	54	131	23	208
September 30, 2000	138	44	4	186
May 31, 2001	264	0	0	264
June 30, 2002	342	0	0	342

The following table shows the Section 8 funding provided by HUD to the Fayette County Housing Authority between October 1, 1998 and September 30, 2001.

Annual Subsidies Paid By HUD				
Fiscal Year	Certificate Program	Voucher Program	Moderate Rehabilitation Program	Totals
10/1/98-9/30/99	$351,655	$127,096	$109,780	$588,531
10/1/99-9/30/00	141,837	329,221	52,205	523,263
10/1/00-9/30/01	0	709,929	2,346	712,275

The Executive Director of the Housing Authority is Valerie Faris. The Chairperson of the Housing Authority's Board of Commissioners is Floyd Nutty. The Housing Authority's books and records are located at 353 West 3rd Street, Connersville, Indiana.

Audit Objective

Our audit objective was to determine whether the Fayette County Housing Authority operated its Section 8 Program in an efficient and effective manner and provided decent, safe, and sanitary housing to its Section 8 tenants in compliance with HUD's requirements.

Audit Scope And Methodology

We conducted our audit at HUD's Office of Public Housing, Indianapolis Field Office, and at the Fayette County Housing Authority's office in Connersville, Indiana. We performed our on-site audit work between December 2001 and May 2002.

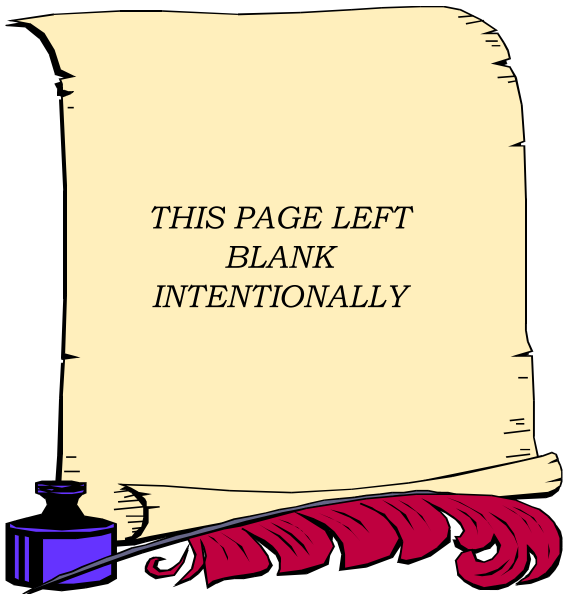
To accomplish our audit objectives, we interviewed HUD's Public Housing staff, Fayette County Housing Authority's staff, former and current Housing Authority Board Members, one Section 8 tenant, and the Housing Authority's former Housing Inspector. We analyzed the following items for the Section 8 Certificate, Voucher, and Moderate Rehabilitation Programs: Requisitions for Partial Payment of Annual Contributions and Year-End Settlement Statements for the fiscal years ending September 30, 1999 and 2000; audited financial statements for fiscal years 1999 and 2000; HUD's Public Housing files and correspondence pertaining to the Housing Authority; Board meeting minutes and resolutions; general ledgers for the year 2000; depository agreements, check registers, cancelled checks, paid invoices, and bank statements between October 1, 1999 and September 30, 2000; receipt books and deposit slips for the period January 1 through September 30, 2000; mortgage documents and correspondence for rental properties purchased by the Housing Authority; and employee files for former Housing Authority staff.

We also met with Indiana State Board of Accounts auditors and reviewed their workpapers and draft audit report for the Housing Authority for the period January 1, 1996 to August 31, 2000. The draft report was issued on June 21, 2002.

We also reviewed organizational documents for the Conner Community Development Corporation, a non-profit corporation established by the former Executive Director and Board Chairperson, that was provided to us by the Indiana State Board of Accounts. We reviewed the Housing Authority's property files, tenant cards, and files for the 30 rental units that the Housing Authority owned in March 2002. For the 18 units occupied by Section 8 tenants between January 1, 1999, and March 31, 2002, we reviewed prior unit inspection reports, work orders, and repair billings. Between March 13 and March 15, 2002, Housing Quality Standards inspections were performed at 17 of the 18 units by a HUD Office of Inspector General Appraiser/Program Specialist. An exterior inspection was conducted on one unit that was not accessible for an internal inspection.

Our audit covered the period January 1, 1999, through December 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 audit report to the Fayette County Housing Authority's Executive Director and to the Chairperson of the Board of Commissioners.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The Housing Authority Requested $538,458 In Excess Section 8 Funds

The Fayette County Housing Authority requested $538,458 in excess Section 8 funds from HUD over a four-year period to cover prior operating losses. This was contrary to HUD directives and continued until HUD ordered the Housing Authority to stop the practice in February 2000. The excess funds were paid from HUD's Section 8 Certificate, Voucher, and Moderate Rehabilitation Programs. The Housing Authority did not have adequate cash to repay the funds to HUD, and will take over 27 years to repay the excess amount at the current repayment rate of $20,000 per year. As a result, the Federal government has incurred unnecessary interest expense, and Section 8 funds that could have been used to assist other needy families were not available. The Housing Authority owed $533,432 to HUD as of July 11, 2003 for the excess Section 8 Voucher funds.

Annual Contributions Contract Requirements

Fayette County Housing Authority's Annual Contributions Contract, dated December 1997, Section 10(a), requires the Housing Authority to comply with applicable HUD regulations and requirements. Section 9(c) requires that if HUD payments exceed the approved contribution, the excess shall be applied as determined by HUD. Section 11(d) states that Housing Authority funds in excess of current needs shall be promptly remitted to HUD or shall be invested in accordance with HUD requirements.

HUD Requirements

The Public Housing Agency Administrative Practices Handbook for the Section 8 Existing Housing Program, 7420.7, Chapter 8, paragraph 6(d), requires Housing Authorities to accurately estimate their minimum requirements for annual contributions to achieve efficient cash management. The amounts requisitioned must be limited to funds absolutely needed by the Housing Authority. Effective management minimizes interest costs to the Federal government.

HUD issued Public and Indian Housing Notice 94-64 on September 16, 1994, revising the submission requirements of the Requisition for Partial Payment, HUD Form 52663. Paragraph IV(a) of the Notice requires the Housing Authority to use realistic estimates regarding housing assistance payments, costs, and fees.

The Housing Authority Requested Excessive Section 8 Funds

The Housing Authority did not maintain effective cash management controls over its Section 8 Program funds by requesting Section 8 funds in excess of its needs. The Housing Authority requested more funds than required to operate the Section 8 Program and incurred expenses that exceeded the administrative fees earned creating a deficit beginning with the fiscal year ending September 30, 1996. The following table shows the Fiscal Year ended; administrative fee earned; administrative expenses incurred; deficit (expenses that exceeded the administrative fee earned); and the cumulative amount due to HUD.

Fiscal Year Ending 9/30	Administrative Fee Earned	Administrative Expenses	Deficit	Due To HUD(Cumulative)
1996	$123,995	$161,044	($37,049)	$351,285
1997	96,841	177,478	(80,637)	502,401
1998	105,509	209,588	(104,079)	469,403
1999	104,282	179,539	(75,257)	538,458

Requesting Section 8 subsidy payments that exceeded the actual Section 8 subsidy payments and earned administrative fees required resulted in this debt. HUD recovered the excess funds requested prior to the fiscal year ending September 30, 1999, by deducting the year-end overpayments from payments made in each subsequent fiscal year.

On June 29, 1998, the former Executive Director of the Housing Authority submitted Requisitions for Partial Payment of Annual Contributions Forms for the fiscal year ending September 30, 1999, for the Housing Certificate, Housing Voucher, and Moderate Rehabilitation Section 8 Programs. The three requisitions estimated funding needs based on the total number of living units authorized, not on the actual number of units leased at the time the form was completed.

As a result of the excess funds requisitioned for the fiscal year ending September 30, 1999, the Housing Authority's debt to HUD for over-claimed subsidy increased to $538,458. Subsequent fund requests, repayments, and HUD payment deductions (offsets) have only reduced the outstanding debt to $533,432 as of January 13, 2003, as shown in the table on the following page.

Event	Section 8 Voucher	Certificate	Moderate Rehabilitation	Total	Cumulative Balance
Excess Requests 9/30/99	$42,603	$371,065	$124,790	$538,458	$538,458
2000 HUD Offsets	(42,603)			($42,603)	$495,855
Excess Requests 9/30/00	138,359	74,008	45,916	$258,283	$754,138
2000 Balance Transfer	445,073	(445,073)		$0	$754,138
2001 HUD Offset	(20,000)			($20,000)	$734,138
2001 Repayment			(170,706)	($170,706)	$563,432
Excess Request 9/30/01	212			$212	$563,644
2002 HUD Offset	(20,212)			($20,212)	$543,432
Excess Requests 9/30/02	5,271			$5,271	$548,703
2003 HUD Offset	(15,271)			($15,271)	$533,432
Owed To HUD 1/13/03	$533,432	$0	$0	$533,432	
Prior Years Excess Requests Recovered Through Payment Offsets By HUD.					

The Requisitions for Partial Payment of Annual Contributions contained certifications by the former Executive Director that housing assistance payment requests were made in accordance with HUD regulations and requirements, and that the requisitions were true, correct, and complete. The Housing Authority did not revise the September 30, 1999, funding requests for any of the Section 8 Programs during the year to reduce over-requested funds and avoid further overpayments.

Since the year ending September 30, 1999, funding requests were based on maximum authorized units rather than leased units per HUD's directives. The funding requests incorrectly certified that they were prepared in accordance with HUD regulations and requirements.

Housing Authority Commissioners And HUD Officials Were Aware Of The Problem

The former Executive Director and the Board of Commissioners were aware that the Housing Authority was over-requesting funds. The Board's Fiscal Officer and a former Housing Authority Board Member told us that the Commissioners were aware that funding requisitions were based on authorized units rather than actual units leased. The Board Members said that the Board was aware that overpayments would result, but the former Executive Director had assured the Board that the overpayments would not become a problem.

HUD knew that the former Executive Director was over requesting Section 8 funds since 1996. HUD's Public Housing Program Center Coordinator said that the former Executive Director had repeatedly promised HUD that he would stop over-requisitioning funds, but never did. HUD's attempts to implement corrective actions were ineffective, and the Housing Authority continued the practice.

HUD Required Changes To Requisitions For Fiscal Year Ending September 30, 2000

In a letter dated January 26, 2000, HUD's Public Housing Program Center Coordinator for the Indianapolis Field Office instructed the Housing Authority to revise its requisitions for the fiscal year ending September 30, 2000, based on the number of units currently under lease to eligible families. A subsequent letter from HUD's Public Housing Program Center Coordinator for the Indianapolis Field Office to the Housing Authority's Board Chairperson on February 7, 2000, indicated that the Housing Authority had been over-requisitioning funds to cover losses incurred in prior years.

On February 15, 2000, the Housing Authority submitted revised requisitions for the Housing Certificate and Voucher Programs to HUD that estimated Housing Assistance Payments based on the living units leased at the beginning of February 2000. HUD revised these requisitions to reflect certificates that were being converted to vouchers and recomputed the subsidy using the actual leases at the time the form was completed. As a result of the revisions, the funding requests for the fiscal year ended September 30, 2000 were more accurate.

At the end of fiscal year 2000, HUD transferred the Certificate Program's over-payment plus previous balance due to the Voucher Program in order to close out the Certificate Program. The total debt transferred from the closed out Certificate Program to the Voucher Program was $445,073.

Partial Repayments Were Made To HUD

In January and June 2001, the Housing Authority made payments totaling $170,706 to repay funds due to HUD for the fiscal year 1999 and 2000 Moderate Rehabilitation Program. HUD made annual offset deductions from Voucher Program subsidy payments during 2000, 2001, 2002, and 2003 to recover part of the excess subsidy owed.

As of July 11, 2003, the Housing Authority still owed HUD $533,432 for the over-payments in the Voucher Program. If HUD continues to make subsidy deductions at the current rate of $20,000 per year and no more overpayments occur, the remaining debt will be repaid in approximately 27 years. As a result of the over-requisitioned funds, the Federal government incurred unnecessary interest expenses.

A Program Integrity Bulletin issued by HUD's Office Of Inspector General in January 1986 stated that Housing Authority Boards of Commissioners should monitor operations to be certain that programs were carried out in an efficient and economical manner. Since the Housing Authority had been making requisitions for funding in excess of its needs since at least 1996, the former Executive Director and the Board of Commissioners then in place failed to follow HUD's directives by maintaining adequate controls over the Housing Authority's funding requisitions.

At the end of fiscal year 2000, the Housing Authority did not have enough cash available to repay the debt owed to HUD for the Certificate and Voucher Programs. This demonstrated that the Housing Authority spent the over-requested funds rather than allocating the funds for repayment to HUD as the Department had ordered.

Auditee Comments

[Excerpts paraphrased from the comments provided by Fayette County Housing Authority's Executive Director and HUD on our draft report follow. Appendix B, pages 45 to 56, contains the complete text of the Housing Authority's comments for this finding. Appendix C, pages 57 to 61, contains the complete text of HUD's comments for this finding.]

Fayette County Housing Authority's current Executive Director and Board of Commissioners agree with the recommendation of appropriate action being taken against the former Executive Director and prior members of the Board of Commissioners who were in office during the periods when over requisitioned funds were received. However, stating that administrative action should be taken against members of the Board for the year ending 2000 would include action against those members newly

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appointed to the Board during 2000. These new members are the reason changes took place in the operations and the program is now operating within HUD guidelines.

The housing authority does not receive funds in excess of what is required to meet programmatic needs. The only source of income is the Section 8 funding. The administrative fee earned by the housing authority minus the administrative expenses does not allow the housing authority to pay HUD from this funding.

Fayette County Housing Authority has paid $226,189 to HUD since October 2000. We were able to do this because the bank balance, prior to any October 1, 2000 funds received from HUD, was $230,326. This amount was left due to prior years' over requisitioned funds. By the housing authority only receiving earned funds, and using those earned funds for administrative expenses to operate the program, no additional funds are available for repayment of the debt. The administrative expenses are greatly reduced compared to prior years and expenses no longer exceed earned fees. Even with the reduced spending and increased administrative earnings, the housing authority has not created a nest egg that would allow future payments to be made on the existing debt. The housing authority is unable to calculate a payment amount for a formal repayment agreement. The housing authority also feels the debt, although owed to HUD, was allowed to be created due to the malfeasance of the former Director and lack of oversight by HUD. The housing authority requests, due to the facts above, the debt remaining be set aside.

A repayment of even $5,000 annually presents an unbearable burden on the housing authority. The administrative dollars are required in order to continue operating and increasing the program. Based on current budgeted amounts, withholding even one payment annually would leave the housing authority unable to meet expenses and result in detrimental effects.

HUD's Comments

The audit report states that the Housing Authority commissioners and HUD officials were aware of the problem of over-requisitioning funds and that HUD took no corrective action. We disagree with this characterization. The Indianapolis Office was responsible for bringing the deceptive practices of the former Executive Director to the attention of the County Council ultimately leading to a regime change. We worked over an extended period of time to control Fayette County Housing Authority's overspending, increase leasing to provide more income, solve major problems between the Housing Authority and landlords and participants, and reduce the deficits owed. Ultimately, actions by this office forced an end to over-requisitioning and led to a change of commissioners and the entire staff of the authority.

Regarding the recommendation to initiate administrative action against the former Executive Director and former members of the Board of Commissioners, we concur and our intent is to recommend debarment against the former Executive Director, two former Board chairpersons, and a former employee who left the Housing Authority with the former Executive Director to become staff of a Community Development Corporation, which was set up by the Housing Authority under the former Executive Director.

Regarding the recommendation to establish a formal repayment agreement, we concur that a formal repayment agreement should be negotiated, but feel that progress made to date by the new administration should be taken into account, including the repayment of $200,206 to date. The new administration has performed extremely well in turning the operations of the Housing Authority around, re-establishing the integrity of the Section 8 program in Connersville and Fayette County, leasing up to a degree never reached before, and planning to establish a family self-sufficiency program. We feel that these factors should be taken into account, as well as formal repayment of funds.

OIG Evaluation of Auditee Comments

The over requisitioning of Section 8 funds by the Housing Authority continued for four years while the debt to HUD continued to grow. We were provided no documentation indicating that HUD took any action to stop the over requisitioning practice until HUD required the Housing Authority to revise its Section 8 requisitions in February 2000, as cited in the finding.

After September 30, 2000, the Housing Authority based its requisitions on units anticipated to be leased during the period rather than on maximum units authorized. This should prevent the over-requisitioning of funds in the future assuming the practice continues. HUD's management decision needs to address any other repayment options that may be available to the housing authority to retire the existing debt.

Recommendations

We recommend that the Director of Public Housing Hub, Cleveland Field Office:

1A. Initiates appropriate administrative action against the Housing Authority's former Executive Director and former members of the Board of Commissioners who were responsible for the Authority's operations during the fiscal year ending September 30, 2000, and prior years for which excessive Section 8 funds were requested.

1B. Establishes a formal repayment agreement with the Housing Authority that will allow the current debt owed to HUD of $533,432 to be repaid without disrupting the Section 8 Program. The following should be included in the agreement: prior HUD approval of the Housing Authority's proposed budgets; and a requirement that the Housing Authority revise its funding requisitions when leasing levels materially change so that future overpayments will be avoided.

The Housing Authority Improperly Used $43,878 Of Its Section 8 Funds

The Fayette County Housing Authority did not adequately control its receipt and use of cash. The Housing Authority paid $42,206 from Section 8 Voucher funds for expenses that were not eligible for payment under HUD's regulations, and $1,672 for unsupported expenses during the fiscal year ending September 30, 2000. The ineligible expenses included $1,267 of missing tenant rent receipts. In addition, an audit report issued by the Indiana State Board of Accounts disclosed an additional $43,132 in unsupported and $40,708 in ineligible costs incurred between January 1, 1996 and August 31, 2000, not included in the Office of Inspector General's finding. The Housing Authority incurred the costs because it failed to exercise proper controls over the receipt and use of its cash, and the Board of Commissioners did not adequately monitor the Authority's operations. As a result, the Housing Authority did not have sufficient cash available to repay HUD for the excess Section 8 funds it received (see Finding 1) and the Housing Authority's continued operation may be jeopardized.

Annual Contributions Contract Requirements

The Annual Contributions Contract between Fayette County Housing Authority and HUD, dated December 1997, Section 10(a), requires the Housing Authority to comply with applicable HUD regulations and requirements. Section 9(c) requires that if HUD payments exceed the approved contribution, the excess shall be applied as determined by HUD. Section 11 (a) states that the Housing Authority shall use program receipts to provide decent, safe, and sanitary housing for eligible families in compliance with the U.S. Housing Act of 1937 and all HUD requirements. Program receipts may only be used to pay program expenditures.

Section 13(a) requires all program receipts to be promptly deposited with the depository. The Housing Authority may only withdraw program receipts for use in connection with the program in accordance with HUD regulations or requirements. Section 11(d) states that Housing Authority program receipts in excess of current needs shall be promptly remitted to HUD or shall be invested in accordance with HUD requirements.

HUD's Regulation

24 CFR Part 982.152(a)(3) states that the Housing Authority's administrative fees may only be used to cover the costs incurred to perform Housing Authority administrative responsibilities for the program in accordance with HUD regulations and requirements.

State Of Indiana Requirements For Operating Housing Authorities

Indiana Code Section 36-7-18-8 provides that commissioners of a Housing Authority shall receive a per diem allowance of $25 for attending a Housing Authority meeting as well as reimbursement for necessary expenses, including traveling expenses incurred in discharging the commissioner's duties. Section 36-7-18-24 (a) requires a Housing Authority to manage and operate its housing projects in an efficient manner so that it may set the rentals for dwelling accommodations at the lowest possible rates while providing decent, safe, and sanitary dwelling accommodations.

Housing Authority Incurred Excessive Rental Property Operating Costs

Between December 5, 1997 and November 3, 1999, the Housing Authority purchased 37 rental properties in and around downtown Connersville, Indiana, subject to mortgages totaling $704,000.

Between October 1, 1999 and September 30, 2000, the Housing Authority expended funds for operating and maintenance costs for the properties that exceeded their revenues. The excess expenses totaled $26,021 as shown by the table on the following page.

Rental Property Operating Loss 10/1/99 - 9/30/00		
Description	Amount	Combined Totals
Supported Payments of Operating and Maintenance Expenses for Rental Properties	$102,648	
Unsupported Rental Property Expenses	$0	
Total Rental Property Expenses		$102,648
Rental Receipts From Tenants (Cash)	$25,142	
Rental Receipts From Tenants (Checks)	$26,094	
Housing Assistance Payments From HUD for Subsidized Tenants of Housing Authority's Rental Units	$25,274	
Interest Earned on Rental Bank Account	$117	
Total Revenue From Operating Rental Properties		$76,627
Loss From Operating Rental Properties for Fiscal Year ended 9/30/00		$26,021

The Housing Authority improperly used its Section 8 Voucher Program funds to cover rental property operating losses.

Housing Authority Incurred Costs Not Required For Operating The Section 8 Program

Between October 1, 1999 and September 30, 2000, the Housing Authority expended Section 8 Voucher funds totaling $8,516 for expenses that were not necessary to operate the Section 8 Program. These costs consisted of $5,616 for a consultant to meet with HUD officials to dispute the requisitioned funds; $526 for late cancellation of facilities to sponsor a National Association of Housing and Redevelopment Officials Conference; $200 loss on purchase and resale of a riding lawnmower; $148 for cable television; $38 for a pen and pencil set; $85 for three auto fire extinguishers and two smoke detectors; $1,583 for an automobile leased for use by the former Executive Director; $150 paid to the former Executive Director to attend Board meetings; $124 for flowers; and $46 for unreimbursed personal travel. The former Executive Director's employment contract renewal, dated February 11, 1999, provided for a take-home vehicle but due to the size of Connersville and the proximity of the former Executive Director's residence to the Housing Authority, the leased vehicle was an excessive cost.

Since the above costs did not relate directly to operating the Section 8 Programs, the Housing Authority should reimburse

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its Section 8 Voucher Program from non-Federal funds for these costs, unless the authority can demonstrate that the costs directly benefited the programs.

Missing Cash Rent Receipts

We reviewed the rent receipts and the related deposits between January 1 and August 31, 2000, and determined that $1,267 in cash receipts was missing from five deposits. This amount was one percent of the total receipts for the period. The Housing Authority accepted rent from tenants in both cash and checks. The checks from tenants totaled $26,094 and cash receipts were $25,142. This was a significant amount of cash received from tenants and enhanced the possibility of theft, misuse, or loss.

The independent accountant's report for the Fiscal Year ending September 30, 1999, identified $2,711 in rent receipts that had not been deposited to the Housing Authority's bank account. The audit report stated that the receipts not traced to the bank account were due to the lack of proper internal controls being in place. The audit report stated that the same person collected cash, issued receipts, updated the tenant records, and reconciled month-end receivables.

Unsupported Administrative Costs Were Incurred

Between October 1, 1999 and September 30, 2000, the Housing Authority disbursed $1,672 for administrative expenses without supporting documentation to establish that the costs were reasonable and necessary for operating the Section 8 Programs. These unsupported costs consisted in part of a $600 per diem payment to the former Executive Director for a training seminar which Housing Authority records did not show he attended, a $49 unsupported petty cash replenishment, and various undocumented items purchased with the Authority’s charge card.

Housing Authority Paid Expenses Of A Non-Profit Corporation

The Housing Authority's former Executive Director and two former Chairpersons of the Board of Commissioners incorporated the Conner Community Development Corporation, a non-profit entity, on September 2, 1998.

Between October 1, 1999 and September 30, 2000, the Housing Authority disbursed 13 payments from Section 8 Voucher funds totaling $6,027 on behalf of the Conner Community Development Corporation. The disbursements were made for organizational and document filing fees for the Corporation; fees incurred for the Corporation to

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purchase a commercial property in Connersville which included the office leased by the Housing Authority; repair and maintenance costs for the property; and administrative expenses related to operating the Corporation.

The Corporation did not directly affect operation of the Housing Authority's Section 8 programs. As a result, the expenses were improperly paid from Section 8 funds and should be repaid from non-Federal funds to the Authority's Section 8 Voucher Program.

Housing Authority Paid Former Executive Director Per Diem For Costs Paid Directly By The Authority

The Housing Authority paid the former Executive Director $375 in per diem expenses for attending a three-day training seminar in Nashville, Tennessee during August 2000. However, he charged his hotel, food, and telephone calls directly to the Housing Authority's credit card. This made the per diem payment a duplicated and improper charge to the Housing Authority's Section 8 Voucher Program.

The Housing Authority's Employee Handbook, dated January 1, 1998, Section 512, contains its business travel policy. The section provides that the Housing Authority will pay travel costs directly to vendors but will reimburse employees for reasonable business travel expenses.

The Housing Authority provided its employees with a daily per diem for travel costs, meals, and hotel costs. If the employee's travel expenses exceeded the per diem allowance, the employee was to submit an expense report with attached receipts for the expenses that exceeded the per diem allowance.

The Housing Authority did not have expense reports to show that costs exceeded per diem for this or any other travel. Since the former Executive Director was paid per diem for this trip, he should not have charged his hotel and meal costs directly to the Housing Authority's charge card. This resulted in the Housing Authority paying travel costs for which the former Executive Director had already been reimbursed. Since the Housing Authority paid the charge card bill, this per diem was a $375 excess payment that should be reimbursed to the Authority's Section 8 Voucher Program from non-Federal funds.

State Of Indiana Auditors Identified Improper Uses Of Funds

On June 21, 2002, the Indiana State Board of Accounts issued an audit report on the Fayette County Housing Authority for the period of January 1, 1996 to August 31, 2000. The State's report questioned a total of $43,132 in unsupported costs and $40,708 in ineligible costs.

Items cited in the State of Indiana report included the same type of improper costs we identified during our review of the 1999-2000 fiscal year expenses, as follows:

- Salary overpayments to the former Executive Director;
- Personal travel costs paid for the former Executive Director and some costs paid twice;
- Per diem paid to the former Executive Director for attending meetings;
- Purchase of a firearm for the former Executive Director;
- Undocumented expenses;
- Missing cash receipts; and
- Amounts due to the Housing Authority from the Conner Community Development Corporation.

Board Of Commissioners Did Not Monitor Housing Authority Operations

A Program Integrity Bulletin issued by the HUD Office Of Inspector General in January 1986 stated that Housing Authority Boards of Commissioners should monitor Housing Authority operations to be certain that programs were carried out in an efficient and economical manner.

The Fayette County Housing Authority's Board allowed the former Executive Director to operate the Housing Authority without keeping the Board informed and disbursed funds without Board oversight. As a result, the former Executive Director and the Board failed to follow HUD's directives and maintain adequate controls over the Housing Authority's use of its cash resources.

Auditee Comments

[Excerpts paraphrased from the comments provided by Fayette County Housing Authority's Executive Director and HUD on our draft report follow. Appendix B, pages 45 to 56, contains the complete text of the Housing Authority's comments for this finding. Appendix C, pages

57 to 61, contains the complete text of HUD's comments for this finding.]

The $20,870 [see Recommendation 2A below] includes costs paid with housing authority funds for the rental account and Conner Community Development Corporation. Also included are costs paid with housing authority funds to cover Conner Community Development Corporation expenses. The expenses payable to the housing authority total $34,395. Currently the Indiana Attorney General's Office is in the process of filing a civil suit for reimbursement from Conner Community Development Corporation. If any of those funds are received, they will be remitted to HUD and applied to the current housing authority debt of $533,432.

In researching the payments made without proper documentation [see Recommendation 2B below], the housing authority was able to verify some payments were eligible Section 8 administrative expenses. Documentation has also been provided that shows some expenses were not housing authority expenses. The Attorney General's office is filing suit against the former Executive Director. If any funds are received, the housing authority will apply those funds to the accounts receivable from the former Executive Director.

The amount listed in the State Board of Accounts report [see Recommendation 2C below] is payable by the former Executive Director and Conner Community Development Corporation. Upon collection of any funds from either party, the housing authority will apply those funds to the debt owed and in turn remit those funds to HUD to be applied toward the $533,432 debt FCHA now owes HUD from prior years' over requisitioning.

The former Executive Director paid himself the amount shown in excess of his employment contract over a five year period of time. This amount cannot be documented by the housing authority because it was not a legitimate expense. Any amounts received from the former Executive Director or Conner Community Development Corporation will be forwarded to HUD to apply to the $533,432 owed for prior years' over-requisitioning.

The By-laws of the housing authority have been revised to require signatures of two Board members on all payments. The current Director provides an accounts payable list in each Board meeting packet for Board approval prior to payment. Any cost or unexpected expense not previously approved is approved by the Board prior to incurring the expense. The current Board is actively involved in the housing authority and requires the Director to present all information completely and accurately. The Board runs the meetings, not the Director.

The recommendation that HUD should offset any future funds indicates that this may be in addition to the amount due of $533,432. The housing authority does not agree with that statement entirely. The Administrative Fee earned for Fiscal Year 2000 totaled $106,837. The Administrative Expenses for Fiscal Year 2000 totaled $137,651. The information verified in Finding 2 indicates $21,750 was ineligible for payment under HUD's regulations and/or unsupported and therefore determined to be ineligible also. If a housing authority earns $106,837 in fees to operate the program, and spends more than earned, and uses funds over requisitioned in order to cover those additional costs, that housing authority is already in debt to HUD for the over requisitioned funds. The $533,432 debt includes any ineligible/unsupported costs because there were at a minimum $106,837 in eligible costs paid in Fiscal Year 2000. Therefore, if the audit recommendation is stating that HUD should offset monies due the housing authority to operate the current program requirements in order to reimburse HUD for amounts over and above the $533,432, the housing authority clearly disagrees. Any monies that may be received from the civil suit or any other source, or any funds earned above what is required to operate the program efficiently and with the correct staff in place, will be forwarded to HUD. Any monies forwarded to HUD by the housing authority will be applied to the debt of $533,432 as documented in Finding 1.

HUD's Comments

Recommendations 2A, 2B, 2C: It is likely that the amount cited in Finding number 1 as over-expenditure of administrative costs includes this amount. The housing authority should have an opportunity to support that eligible administrative costs at least equaled the actual earned administrative fee expended each year. Anything in excess of these eligible administrative costs are already disallowed under Finding 1 and reimbursement is recommended. To ask for repayment of the same costs again would be duplicative. If the housing authority is not able to support the necessary level of eligible administrative costs per year, then additional reimbursement would be supported.

Recommendation 2D: This reflects salary overpayments to the former Executive Director. It is likely that the amount cited in Finding number 1 as over-expenditure of administrative costs includes this amount. The housing authority should have an opportunity to support that eligible administrative costs at least equaled the actual earned administrative fee expended each year. Anything in excess of these eligible administrative costs are already disallowed under Finding 1 and reimbursement is recommended. To ask for repayment of the same costs again would be duplicative. If the housing authority is not able to support the necessary level of eligible administrative costs per year, then additional reimbursement would be supported.

Recommendation 2E: The Housing Authority Board drafted and implemented new By-laws after taking office, which the housing authority will provide in response to this recommendation. It is our belief that these By-laws have already established such controls and, therefore, meet this recommendation.

Recommendation 2F: We agree that any funds returned to the program from a non-federal source as reimbursement of disallowed costs should be utilized for necessary and eligible ongoing Housing Assistance Payment program costs and that a commensurate amount of new program funds be offset to repay the amount owed to HUD.

OIG Evaluation of Auditee Comments

The Housing Authority and HUD's Director of the Indianapolis Office of Public Housing were concerned that our recommendations for repayment of ineligible costs from non-federal funds, coupled with the debt caused by the over-requisitioned funds, were double counting since the improper expenses were likely paid out of the over-requisitioned funds.

We recommended that ineligible expenses cited in this report be repaid from non-federal funds to the Housing Authority's Section 8 Program. Our recommendation for future offsets of amounts so recovered means that, if the Housing Authority receives reimbursement for any of the ineligible costs, HUD should recover those funds as part of the over-requisitioned debt, not in addition to the debt. If the Housing Authority did not owe HUD for over requisitioned funds, the recovered funds would be retained by the Housing Authority to be used in program related activities.

The Housing Authority and HUD indicated that the Housing Authority's By-laws were revised to require two Board members' signatures on all payments and prior approval by the Board. This is a positive change. However, our concern is future compliance with such By-laws. HUD should enhance its monitoring of the Housing Authority to ensure that the improved cost controls continue.

The Housing Authority submitted copies of various documents to us in order to support recommended changes to our report and findings. We considered that supporting documentation and modified the findings and report as appropriate based on the new information. The documentation provided regarding operating losses, receipts, and rental expenses was too voluminous to properly review and address prior to report issuance. As a result, we provided the information to HUD program management for their analysis and management decision as it related to this finding.

Recommendations

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

2A. Reimburses its Section 8 Voucher Program $42,206 from non-Federal funds for the ineligible costs cited in this finding.

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2B. Provides documentation to support the $1,672 of unsupported payments cited in this finding. If documentation cannot be provided, then the Authority should reimburse its Section 8 Voucher Program from non-Federal funds for the amount that cannot be supported.

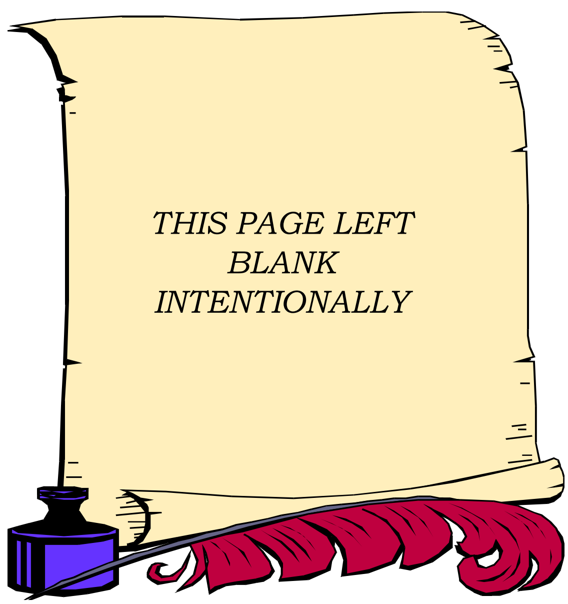
2C. Reimburses its Section 8 Voucher Program $40,708 from non-Federal funds for ineligible costs cited in the Indiana State Board of Accounts audit report.

2D. Provides documentation to support the $43,132 of unsupported payments cited in the Indiana State Board of Accounts audit report. If documentation cannot be provided, then the Authority should reimburse its Section 8 Voucher Program for the amount that cannot be supported from non-Federal funds.

2E. Implements controls to assure that the Board of Commissioners approves all disbursements from Housing Authority funds prior to actual payment.

We also recommend that the Director of Public Housing Hub, Cleveland Field Office:

2F. Offsets the Housing Authority's future Section 8 payments by the over-requisitioned amounts cited in this finding.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The Housing Authority's Section 8 Units Did Not Meet Housing Quality Standards

The Fayette County Housing Authority did not properly maintain 15 units it leased to Section 8 tenants. A HUD Office of Inspector General Appraiser/Program Specialist inspected the units in March 2002 and determined that they contained 240 Housing Quality Standards violations. The Housing Authority's former Housing Inspector failed to identify 113 of these existing deficiencies at the time the Housing Authority performed its own inspections between February 23, 1998 and July 25, 2001. The former Inspector identified 40 of the 240 Housing Quality Standards violations, but the Housing Authority failed to correct the defects. The former Housing Inspector did not identify all of the existing violations because the Housing Authority did not provide him with adequate Housing Quality Standards training and the Authority did not perform supervisory reviews of the inspections completed. The Housing Authority did not correct the violations because it did not have sufficient revenue to complete the necessary maintenance and repairs. As a result, HUD paid the Housing Authority $60,399 in Section 8 Voucher subsidies between January 1, 1999 and March 31, 2002, for 15 rental units that did not meet HUD's Housing Quality Standards. Tenants occupying the units were subjected to conditions that were hazardous to their health and safety.

Annual Contributions Contract Requirements

The Annual Contributions Contract between Fayette County Housing Authority and HUD, dated December 1997, Section 10(a), requires the Housing Authority to comply with applicable HUD regulations and requirements. Section 9(b) requires each requisition for periodic payments to contain a certification that housing assistance payments were made in accordance with HUD requirements and that units were inspected by the Housing Authority in accordance with HUD requirements.

Section 11(a) of the Contract requires that the Housing Authority shall use program receipts to provide decent, safe, and sanitary housing for eligible families in compliance with the U.S. Housing Act of 1937 and all HUD requirements.

HUD's Regulations

24 CFR, Part 982.401, established Housing Quality Standards for the Section 8 Tenant Based Assistance Program. All program housing must meet the Housing

Quality Standards requirements throughout the tenancy period.

24 CFR, Part 982.152(d) permits HUD to reduce or offset any Section 8 administrative fee to a housing authority, if the authority fails to perform its administrative responsibilities adequately, such as not enforcing HUD's Housing Quality Standards.

24 CFR, Part 982.405 requires housing authorities to inspect each leased unit at least annually to determine if HUD's standards are met. Housing authorities must conduct supervisory quality control inspections.

State Of Indiana Requirements For Operating Housing Authorities

Indiana Code 36-7-18 is the state law governing the creation and operation of housing authorities in the State of Indiana. Section 36-7-18-24(a) requires a housing authority to manage and operate its housing projects in an efficient manner so that it may set the rentals for dwelling accommodations at the lowest possible rates while providing decent, safe and sanitary dwelling accommodations.

Sample Selection And Inspection Reports

On December 5, 1997, the Housing Authority purchased 30 rental units in downtown Connersville, Indiana, subject to a mortgage for $500,000. The units were rented to Section 8 tenants as well as to those paying market rates. An appraisal obtained by the Housing Authority estimated the value of these properties to be $483,087, an average of $16,103 per unit. The buildings were constructed around 1910.

We selected all 15 Section 8 units owned by the Housing Authority at the time of our review that had been last occupied by Section 8 tenants between January 1, 1999 and March 31, 2002. These units were selected to determine whether the Housing Authority assured that its Section 8 units met HUD's Housing Quality Standards.

During March 2002, a HUD Office of Inspector General Appraiser/Program Specialist inspected the 15 units. The Housing Authority's Property Manager declined our invitation to accompany us during the Section 8 inspections due to other responsibilities.

We provided the inspection results to HUD's Director of Public Housing in the Cleveland Field Office and to the Housing Authority's Executive Director.

Section 8 Units Contained Health And Safety Violations

Between March 13 and March 15, 2002, we inspected 15 units assisted by a HUD Office of Inspector General Appraiser/Program Specialist. Our Appraiser/Program Specialist determined that the units contained a total of 240 violations of HUD's Housing Quality Standards. The table below shows the violations identified by type.

Deficiency Type	Number Of Deficiencies	Units With Deficiency	Percent Of Units Failing
Defective Floors	39	15	100
Defective Windows	24	11	73
Electrical Hazard	18	9	60
Defective Exterior Surfaces	19	14	93
Defective walls	14	9	60
Defective Paint Hazard	14	14	93
Defective Ceilings	10	6	40
Defective Sink	10	8	53
Defective Tub/Shower	7	7	47
Security Deficiency	8	7	47
Defective Stoves	9	9	60
Defective stairs, Rails or Porches	7	7	47
Defective Refrigerators	7	7	47
Inadequate Food Space	8	6	40
Defective Toilet	8	8	53
Defective Plumbing	7	5	33
Infestation	8	6	40
Defective Roofs/Gutters	5	4	27
Garbage/Debris	6	4	27
Defective Foundation	4	3	20
Deficient Stairs/Halls	3	2	13
Defective Chimneys	1	1	7
Defective Water Heater	2	2	13
Defective Ventilation/Cooling	1	1	7
Defective Sewer	1	1	7
Totals	240		
Summary of Fire Hazards in above violations	19	11	73

Nineteen potential fire hazard violations cited were identified in 11 of the Housing Authority's Section 8 units inspected. The violations included such items as old, altered, or otherwise unserviceable stoves; improper wiring;

unprotected electrical outlets; excess debris; and missing safety devices.

Defective Floors

Thirty-nine health and safety violations involving floors were identified in all 15 of the Housing Authority's Section 8 units. The floor violations included such items as a large hole and hazardously torn kitchen tile. These units were no longer occupied but we determined the problems existed for a long period of time.

The following pictures illustrate damaged interior floors.

Large hole in the bathroom floor existed at the entrance to the shower at 211 West 4th Street.

The kitchen floor tile was severely torn at 336 Western Avenue.

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Defective Paint Hazards, Exterior Surfaces, And Windows

Fourteen of the 15 Section 8 units (93 percent) contained defective paint surfaces that may pose a lead-based paint hazard due to the age of the units. Fourteen of the 15 units had a total of 20 violations related to badly deteriorated external surfaces, such as the siding, chimneys, fascias, roofs, and porches. Eleven units (73 percent) had a total of 24 violations consisting of defective windows that were deteriorated and/or lacked proper hardware. These units were vacant when inspected, but we determined the conditions were long existing problems. The following pictures illustrate these problems.

The porch railings and posts were broken, rotted, and deteriorated at 207 West 4th Street.

Roof fascia and brick chimney had excessive wear and were in need of repair at 321 Grand Avenue.

The rear of the unit had surface rot and the cellar door was not secure at 233 West 4th Street.

Windows had severe rot and water damage at 235 West 4th Street.

Electrical Hazards

Nine of the 15 units (60 percent) contained a total of 18 deficiencies that posed an electrical hazard. Deficiencies included non-Ground Fault Circuit Interrupter outlets near kitchen and bathroom sinks and bathtubs, as well as exposed outlets and wiring, improper wiring, and unmarked electrical service panels.

The following picture is an example of one electrical hazard.

No GFCI outlet installed in the bathroom at 235 West 4th Street.

Defective Ceilings And Walls

Nine of the 15 units (60 percent) had a total of 14 defective walls and six units (40 percent) had a total of 10 defective ceilings. These defects consisted of cracks and other

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deterioration that could allow moisture penetration and contribute to a lead-based paint hazard.

Defective Stoves And Refrigerators

Nine of the 15 units (60 percent) contained defective stoves and seven (47 percent) contained defective refrigerators. These deficiencies included old stoves that were unserviceable with missing or altered parts and refrigerators that were not sealed or otherwise unserviceable.

The following picture is one example of a defective appliance.

Unserviceable stove at 227 West 4th Street.

HUD Funds Were Not Used Efficiently And Effectively

24 CFR, Part 982.152(d) permits HUD to reduce or offset any Section 8 administrative fee to a housing authority if the authority fails to enforce HUD's Housing Quality Standards. The Housing Authority received a total of $60,399 in Section 8 Housing Voucher Program funds as rent subsidy for the 15 units that did not meet HUD's Housing Quality Standards and whose tenants may have been exposed to health and safety risks.

Of the 240 violations identified, we determined that 113 were existing deficiencies that the Housing Authority did not identify in its own inspections of the units. These violations included the following deficiencies: deteriorated windows; walls; doors; roofs; chimneys; exterior surfaces; flooring; toilets; sinks and stoves; stairs and porches; and non-GFCI (Ground Fault Circuit Interrupter) outlets in the kitchens and bathrooms.

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The Housing Authority failed to correct 40 deficiencies that it identified in nine of the units. There were also 34 deficiencies in 13 of the units that the Housing Authority had indicated to us were repaired but were not adequately corrected and still existed at the time of our March 2002 inspections.

Causes For Deficiencies

A former member of the Housing Authority's Board of Commissioners and the Board's Fiscal Officer told us that the former Executive Director convinced the Board that he could get tenants to rent the units despite their condition. The Housing Authority could then use the rent money to fix up the units, cover expenses, and eventually help fund the Housing Authority's operations. The Board never discussed the fact that HUD's Housing Quality Standards were not being met.

The Fiscal Officer informed us that no Board Member ever did supervisory reviews of inspections, reports, or tenant files. The only sources of information available to the Board were the former Executive Director, complaints received by the Board, Certified Public Accountant reports, and letters from HUD.

The former Housing Inspector who performed Housing Quality Standards inspections for the Housing Authority was a part-time employee. The Housing Authority could not provide any documentation that training was provided to the Inspector, who resigned from the Housing Authority on August 24, 2001.

The Housing Authority lacked documentation that it conducted periodic supervisory reviews of the inspections completed by the former Inspector.

Board Of Commissioners Responsibilities

A Program Integrity Bulletin issued by the HUD Office Of Inspector General in January 1986 stated that Housing Authority Boards of Commissioners should monitor Housing Authority operations to be certain that programs were carried out in an efficient and economical manner.

Since the Housing Authority's Board of Commissioners allowed the former Executive Director to operate the Housing Authority without adequate oversight by the Board, the former Executive Director and the Board of

Commissioners failed to follow HUD's requirements to maintain the Section 8 units according HUD's Housing Quality Standards.

Auditee Comments

[Excerpts paraphrased from the comments provided by Fayette County Housing Authority's Executive Director and HUD on our draft report follow. Appendix B, pages 45 to 56, contains the complete text of the Housing Authority's comments for this finding. Appendix C, pages 57 to 61, contains the complete text of HUD's comments for this finding.]

The Board of Commissioners and Executive Director of the housing authority disagree with numerous items listed within Finding 3 of the audit report. The significant problems were indications that the former Inspector failed to identify 128 deficiencies and the housing authority identified 42 violations but failed to correct the defects. The documentation submitted with this audit report response clearly identifies repairs were made to units within the time period of January 1999 and March 31, 2002 within the 18 units. The conclusion by the Inspector that repairs could not have been made based on the current status of the unit upon his inspection two years later is inaccurate in our opinion. Although the housing authority has not and cannot identify that each and every repair was made, documentation suggests that repairs were made prior to October 2000, and the housing authority can document that required repairs were made after October 2000 in order for subsidy payments to continue.

A large part of the inspection report noted violations that do not fall under Housing Quality Standards minimum requirements. If the housing authority is to be graded on Housing Quality Standards violations, those standards must be applied. A few of the listed fail items that are not Housing Quality Standards violations were mandatory Ground Fault Circuit Interrupter outlets and labels on breaker boxes.

The audit report suggests that no rental unit was graded unless the most recent tenant was a Section 8 client. This is inaccurate. The housing authority has verified at least one address (319 Grand) where an unsubsidized tenant resided in the unit for two months after the Section 8 client moved out. Again, time has not allowed further research to ensure no other unit was rented to non subsidized tenants.

The housing authority cannot completely dispute each item listed within Finding 3. The housing authority does agree that the units were not kept up to a standard that they should have been. However, the housing authority also states that the assisted units, at least from October 1, 2000 through March 31, 2002, did meet Housing Quality Standards guidelines once an inspection of a Section 8 unit was completed and repairs were made. The housing authority disputes that $71,063 is owed to HUD in addition to the $533,432 listed in Finding 1.

During the calendar year, if any question arises regarding inspections or a condition within a unit, the Inspector and/or the Executive Director make contact with other agencies, HUD's Indiana State Office, and/or the local building inspector, fire marshal or others, in order to ensure Fayette County Housing Authority meets not only HUD requirements in Housing Quality Standards, but also any State or local codes as well.

HUD's Comments

The documentation on the condition of the units may lack verifiability. In light of the fact that the new administration has divested the housing authority of these units and resolved the ongoing issue, it would be well to acknowledge the corrective action taken and not ask for reimbursement of the $71,063, which may ultimately be a contestable and/or unsupportable amount.

The current Inspector has received some training. We concur that a training plan should be developed to provide for adequate baseline training and ongoing updates to the training for any housing authority staff placed in a position to perform inspections.

Regarding implementing supervisory procedures and controls to monitor the quality of inspections, we concur. This already is being done under the new administration and they will be able to document both procedures and quality controls.

OIG Evaluation of Auditee Comments

The Housing Authority and HUD indicated that two deficiencies we cited were not Housing Quality Standards violations. One deficiency was unmarked breaker boxes. Based on further analysis, we agreed that this item was not a requirement and deleted it from our list of deficiencies.

The Housing Authority and HUD also said that Ground Fault Circuit Interrupter outlets were not required unless there was substantial upgrading to the property. We disagree with this assertion. The OIG Inspector provided us the National Electrical Code, Section 210-8, which requires Ground Fault Interrupter Circuit receptacles in bathrooms and near kitchen counter tops. The OIG Inspector also provided us an Electrical Hazards section from a Section 8 training course. The section states that wires near standing water or outlets near bathtubs pose a shock hazard. In addition, 24 CFR, Part 982.401 requires housing units to be free of dangers to the health, safety, and welfare of the tenants. The potential electrical hazard to tenants from electrical devices falling into sinks or bathtubs is extremely serious. We believe that Ground Fault Interrupter circuits at such locations are required whether original equipment or not, just as are smoke detectors.

When we selected units to review, we eliminated any that we could identify where non-Section 8 tenants subsequently occupied the units prior to our inspections. Neither the Housing Authority's records nor those of the property manager identified 319 Grand as having a non-Section 8 tenant. Based on the copy of a January 2002 rent register provided by the Housing Authority, we eliminated 203 West 4th Street, 231 West 4th Street, and 319 Grand Avenue from our Section 8 analysis and adjusted the cited deficiencies accordingly.

The Housing Authority, subsequent to our inspections, voluntarily surrendered the rental units back to the mortgage lender to abate the mortgage. The lender subsequently demolished the properties. Based on the Housing Authority's prior inspection reports and the conditions we observed during our inspections, the Housing Authority's former rental units were in a long-term state of disrepair. Despite the Housing Authority paying for various repairs during our audit period, the long existing conditions, such as rotting wood surfaces and deteriorating exteriors, demonstrated that the repairs done were not enough to address the generally poor condition of the units.

Recommendations

We recommend the Director of Public Housing Hub, Cleveland Field Office, ensures the Fayette County Housing Authority:

3A. Reimburses its Voucher Program from non-Federal funds $60,399 for Section 8 subsidy at units it incorrectly certified met Housing Quality Standards.

3B. Ensures that its Housing Inspector(s) receives the necessary training to perform inspections of the Authority's Public Housing units in accordance with HUD's requirements.

3C. Implements supervisory procedures and controls to ensure its management monitors the quality of its housing inspection program.

We also recommend the Director of Public Housing Hub, Cleveland Field Office:

3D. Takes appropriate administrative action against the former Executive Director and Board of Commissioners who were responsible for the operations of the Housing Authority during the time period when units failed to meet Housing Quality Standards.

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Management Controls

In planning and performing our audit, we considered the management controls of the Fayette County Housing Authority's Section 8 Program to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

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

- Program Operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Validity and Reliability of Data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

- Compliance with Laws and Regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

- Safeguarding Resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above during our audit of the Fayette County Housing Authority's Section 8 Housing Program.

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 Housing Authority did not: (1) request Section 8 funds in accordance with HUD requirements resulting in the Housing Authority's receipt of $533,432 in excess Section 8 funds; (2) properly use $82,914 of its Section 8 funds; (3) have documentation to support its use of $44,804 of Section 8 funds; (4) ensure its Section 8 housing units met HUD’s Housing Quality Standards; (5) ensure its Housing Inspector was properly trained; and (6) perform or timely perform quality control reviews of housing inspections (see Findings 1, 2, and 3).

- Compliance with Laws and Regulations

  The Housing Authority did not follow HUD’s regulations and the State of Indiana’s requirements regarding the request of excess Section 8 funds, the ineligible and unsupported use of Section 8 funds, and Housing Quality Standards violations (see Findings 1, 2, and 3).

- Safeguarding Resources

  The Housing Authority improperly requested $533,432 of Section 8 funds; improperly spent $82,914 of its Section 8 funds; did not have documentation to support the use of $44,804 of its Section 8 funds; and paid $60,399 in Housing Assistance Payments when Section 8 housing units did not meet HUD’s Housing Quality Standards (see Findings 1, 2, and 3).

Follow-Up On Prior Audits

This is the first audit of the Fayette County Housing Authority by HUD's Office of Inspector General.

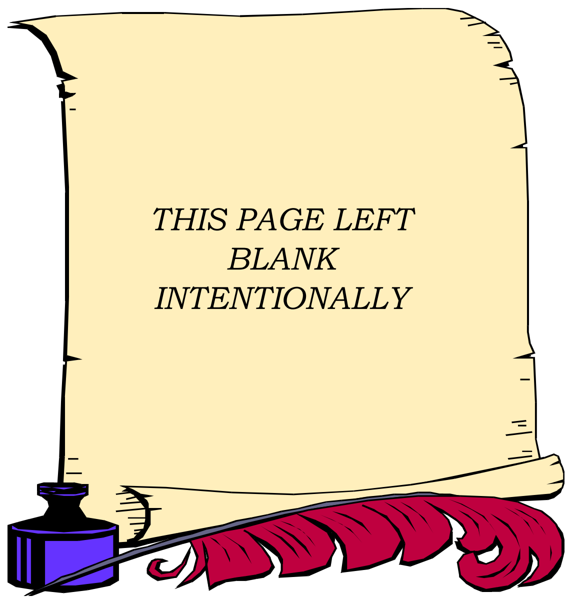
An Independent Audit report for the Fiscal Year ending September 30, 1999, was issued on March 1, 2000. The report contained two audit findings. The Independent Audit report for the Fiscal Year ending September 30, 2000, was issued on May 31, 2001, and repeated the prior year's first finding. The second finding was closed.

Independent Auditor's Report	This Report
Excessive Section 8 Funds Were Requested Annually To Cover Prior Year Spending Deficits (Finding 1)	The Housing Authority Requested $538,458 In Excessive Section 8 Funds (Finding 1)
$2,711 In Rental Collections Were Not Deposited and Rental Collection And Recording Of Rental Receipts Duties Were Not Segregated (Finding 2)	The Housing Authority Improperly Used $43,878 Of Its Section 8 Funds (Finding 2)

On June 21, 2002, the Indiana State Board of Accounts issued an audit report on the Fayette County Housing Authority for the period January 1, 1996 to August 31, 2000.

The following are issues raised by the Indiana State Board of Accounts in their report:

Indiana State Board Of Accounts Report issued June 21, 2002	This Report
The Housing Authority Improperly Used $101,530	The Housing Authority Improperly Used $101,530
	The Housing Authority Improperly Used $43,878 Of Its Section 8 Funds (Finding 2)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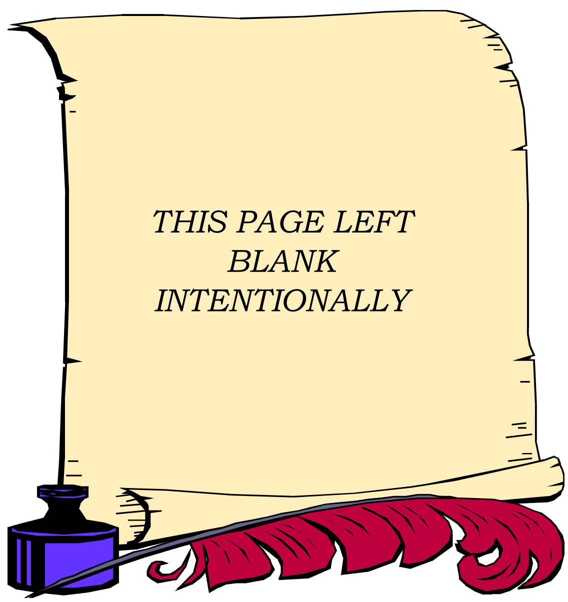
Schedule Of Questioned Costs

Recommendation Number	Type of Questioned Cost Ineligible 1/	Unsupported 2/
1B	$533,432	
2A	42,206	
2B		$1,672
2C	40,708	
2D		43,132
3A	60,399	
Total	$676,745	$44,804

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

2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.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Auditee Comments

FAYETTE COUNTY HOUSING AUTHORITY
353 W THIRD STREET
CONNERSVILLE IN 47331
765 825 4668
765 825 6602 fax

June 12, 2003

Ronald Hurwitz, Assistant Regional Inspector General for Audit
U.S. Dept. of HUD - Office of Inspector General
77 W. Jackson Boulevard, Suite 2646
Chicago, IL 60604

Dear Mr. Hurwitz:

Fayette County Housing Authority (FCHA) has reviewed the HUD audit report draft presented on May 8, 2003.

Enclosed please find the comments and suggestions for proposed changes based upon the compiled documentation provided under separate cover. As you will see numerous proposed changes have been presented for Findings 1 and 2. These changes are based upon compiling information from the same sources used by the Auditor, Doug Taylor, with additional supporting documentation being obtained within the last month.

FCHA has commented on Finding 3, but the comments are not as complete as we would have liked. The required response time did not allow for an in-depth review. We would like to note that we are not fully satisfied with the response due to the feeling that more documentation could have been supplied to you in order to dispute some of the information within the body of the report.

We would also like mention that with the exception of some information within Finding 2, FCHA does agree with the recommendations made by your office. We realize there were years during FCHA's operation when the Program was not ran efficiently or according to the ACC guidelines. We have made every effort to correct each deficiency and utilize funding for the benefit of Fayette County residents. We believe our efforts in the past few years are shown in the increased utilization as well as decreased spending and more accurate requisitions.

FCHA hopes this Audit Report will resolve problems that occurred during the previous Executive Director and Board of Commissioners reign of power and put FCHA on the path to operate as a Housing Authority is intended.

If you have any questions or further comments please feel free to contact the office at the above listed number.

Sincerely,
Valerie Faris

Floyd E. Nutty

Valerie Faris, Executive Director
Floyd Nutty, Chairperson,
FCHA Board of Commissioners

cc: file

Enclosures

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The information attached included FCHA comments to recommendations within the report. Also included are proposed changes to the report based on information compiled by FCHA. Supporting documentation has been provided for any proposed change.

Thank you.

Comment to 1A:

FCHA's current Executive Director and Board of Commissioners agree with the recommendation of appropriate action being taken against the former Executive Director and prior members of the Board of Commissioners who were in office during the periods when over requisitioned funds were received.

However, stating that administrative action should be taken against members of the Board for year ending 2000 would include action against those members newly appointed to the Board during 2000. These new members are the reason changes took place in the operations at FCHA and the Program is now operating within HUD guidelines.

Comment to 1B:

Establishing a formal repayment agreement that also allows the debt to be repaid without disrupting the Section 8 Program is another matter.

As previously stated FCHA does not receive funds in excess of what is required to meet programmatic needs. The year ending 2001 and 2002 amounts due to HUD ($212 and -$568 in 2001, and $5271 in 2002) verify this statement. FCHA's only source of income is the Section 8 funding. The Administrative Fee earned by FCHA minus the Administrative Expenses does not allow FCHA to pay HUD from this funding.

FCHA has paid $226,189 to HUD since 10/00. FCHA was able to do this because the bank balance, prior to any 10/1/00 funds received from HUD, was $230,326.27. This amount was left due to prior years' over requisitioned funds. By FCHA only receiving earned funds, and using those earned funds for administrative expenses to operate the program, no additional funds are available for repayment of the debt.

The Administrative Expenses are greatly reduced compared to prior years and expenses no longer exceed earned fees. FCHA has taken great measures in recent years to reduce the previous excessive spending. Even with the reduced spending and increase admin earnings, FCHA has not created a "nest egg" that would allow future payments to be made on the existing debt.

The annual requisition is submitted by FCHA in July of each year for the following 10/1 to 9/30 fiscal year. FCHA closely monitors, on a monthly basis, the HAP payments and Administrative fees earned. These figures are compared to the HUD contribution received each month. This monthly calculation is completed to ensure FCHA does not over requisition funds in excess of 5%. If FCHA is not receiving adequate funding due to an increase in lease up, or receives more than 5% in excess funds due to a decrease, a revision of the funding request is submitted in order to adjust funds received.

In addition to closely monitoring earned vs. received funds, FCHA also closely monitors earned admin fees compared to admin expenses. The earned fees are transferred to the "Admin" checking account. At no point are funds used for Admin Expenses if funds are not available in the Admin Account.

The FCHA Board and Executive Director compile an Admin Expense Budget for each fiscal year. This budget serves as a guideline based on prior years expense. FCHA has two years to review for compiling this budget, and many changes during this time. The lease up has increased from 186 on 10/00 to 326 on 5/03. With the increased lease up, FCHA earned increased Admin fees. However, the expenses increased as well.

FCHA is unable to calculate a payment amount for a formal repayment agreement.

FCHA also feels the debt, although owed to HUD, was allowed to be created due to the malfeasance of the former Director and lack of oversight by HUD. FCHA requests, due to the facts above, the debt remaining be set aside.

A repayment of even $5,000 annually presents an unbearable burden on FCHA. The Admin dollars are required in order to continue operating and increasing the Program. Based on current budgeted amounts, withholding even one payment annually would leave FCHA unable to meet expenses and result in detrimental effects to the PHA.

2A. Reimburses its Section 8 Voucher Program $20,870.36 from non-Federal funds for the ineligible costs cited in this finding.

FCHA Response: The $20,870.36 includes costs paid with FCHA funds for the Rental Account and CCDC. The Rental account owed FCHA $65,567 as of 9/30/00. The rental properties were returned to the banks they were mortgaged from, and the rental account was closed out. Upon closing of the Rental Account the balance of the account ($390.16) and a utility refund ($27.70) were applied to the accounts payable from the Rental Account to the Voucher Program. This leaves a remaining balance due of $65,149.14 as of 5/30/03. FCHA Rentals does have a few judgments against former tenants that collections may be received from, but otherwise, no income is expected. If any future payments are received they will be applied to the accounts receivable from the Rental Program.

Also included in the $20,870.36 are costs paid with FCHA funds to cover CCDC expenses. These expenses are listed in the FCHA receivables from CCDC. Prior years' expenses are included in the receivables also. The CCDC payable to FCHA total is $34,395.38. The State Board of Accounts reports this amount due as well. Currently the Indiana Attorney General's Office is in process of filing a civil suit for reimbursement from CCDC. If any of those funds are received they will be remitted to HUD and applied to the current FCHA debt of $533,432.

The duplicate payments have all been reimbursed or an additional invoice was located.

The $375 per diem payment to Mr. Colter is also included in the State Board of Accounts audit report. This amount is payable from Mr. Colter per the State Board of Accounts report to FCHA along with approximately $75,000 in other expenses.

2B. Provides documentation to support the $1,061.81 of unsupported payments cited in this finding. If documentation cannot be provided, then the Authority should reimburse its Section 8 Program the amount that cannot be supported from non-Federal funds.

FCHA Response:
In researching the payments made without proper documentation FCHA has been able to verify some payments were eligible Section 8 Administrative expenses. Documentation has also been provided that shows some expenses were not Housing Authority expenses and should be charged to Mr. Colter as amounts due. As stated previously the AG office is filing civil suit against Mr. Colter. If any funds are received FCHA will apply those funds to the accounts receivable from Mr. Colter.

2C. Reimburses its Section 8 Program $41,867.78 from non-Federal funds for ineligible costs cited in the State Board of Accounts audit report.

FCHA Response:
The $41,867.78 is listed in the State Board of Accounts report as amounts payable by James Colter, former Executive Director, and CCDC. As stated previously, upon collection of any funds from either party, FCHA will apply those funds to the debt owed FCHA and in turn remit those funds to HUD to be applied toward the $533,432 debt FCHA now owes HUD from Mr. Colter prior years' over requisitioning.

2D. Provides documentation to support the $43,935.50 of unsupported payments cited in the State Board of Accounts audit report. If documentation cannot be provided, the Housing Authority should reimburse its Section 8 Program the amount that cannot be supported.

FCHA Response:
The $42,935.50 is the amount Colter paid himself in excess of his employment contract over a five year period of time. This amount cannot be documented by FCHA because it was not a legitimate expense. The audit report shows the $42,935.50 owed to FCHA from Mr. Colter, among the other amounts due.

The manner in which Colter conducted business led to his indictments by a grand jury on 4 Class B felonies and 1 Class D. The case against him is still pending trial in Fayette County. FCHA would like to see Colter punished for his crimes as well as the civil suit filing to collect the documented $101,529.00 owed by Colter and CCDC.

Any amounts received from Colter and or CCDC by FCHA would then be forwarded to HUD to apply to the $533,432 owed by FCHA for prior years over requisitioning.

2E. Implements adequate controls to ensure that the Board of Commissioners approves all disbursements from Housing Authority funds prior to payment.

FCHA Response:
The By-Laws of FCHA have been revised to require signatures of two Board members on all payments.

The current Director provides an accounts payable list in each Board meeting packet for Board approval prior to payment. Any cost or unexpected expense not previously approved is approved by the Board prior to incurring the expense.

The current Board is actively involved in FCHA and requires the Director to present all information regarding FCHA completely and accurately. The Board runs the meetings, not the Director.

2F. Offsets the Housing Authority's future Section 8 payments by the appropriate amounts the Authority reimburses its Section 8 Program for the ineligible and unsupported costs cited in this finding and the Indiana State Board of Accounts Audit Report.

FCHA Response:
As previously stated, if and when FCHA might receive any funds as a result of the previously mentioned Indiana Attorney General's civil suit on behalf of FCHA, FCHA will forward any and all received funds to HUD. Any funds received will be applied to the debt owed HUD by FCHA as a result of the years of over requisitioning as stated in Finding 1 of this report. The recommendation that HUD should offset any future funds indicates that this may be in addition to the amount due of $533,432. FCHA does not agree with that statement entirely. The Administrative Fee earned by FCHA for Fiscal Year 2000 totaled $106,837.02. The Administrative Expenses for Fiscal Year 2000 totaled $137,650.57. The information verified in Finding 2 indicates $21,750.29 was ineligible for payment under HUD's regulations and/or unsupported and therefore determined to be ineligible also. If a Housing Authority earns $106,837.02 in fees to operate the Program, and spends more than earned, and uses funds over requisitioned in order to cover those additional costs, that Housing Authority is already in debt to HUD for the over requisitioned funds. The $533,432 debt FCHA owes HUD includes any ineligible/unsupported costs because there were at a minimum $106,837.02 in eligible costs paid in Fiscal Year 2000. Therefore, if the Audit recommendation is stating that HUD should offset monies due FCHA to operate the current Program requirements in order to reimburse HUD for amounts over and above the $533,432, FCHA clearly disagrees. Any monies due FCHA that may be received from the civil suit or any other source, or any funds earned above what is required to operate the Program efficiently and with the correct staff in place, will be forwarded to HUD. Any monies forwarded to HUD by FCHA will be applied to the debt of $533,432 as documented in Finding 1.

Fayette County Housing Authority still cannot explain how, in creating CCDC, that company was an arm of FCHA created, per FCHA Board minutes, as a way for FCHA to create capital. As of early 2000, with no changes in CCDC by-laws, that non-profit suddenly became it's own company separate from FCHA. This information is derived only from statements by Colter with no legal documentation to support his statements.

If this non profit, created with FCHA HUD funds, was to create capital for FCHA, how does it suddenly become its own corporation? Why is this not still a subsidiary of FCHA? If CCDC is still a subsidiary of FCHA, why couldn't FCHA use those assets to pay amounts due HUD? Why can no one answer the question of why CCDC is not still a subsidiary of FCHA and what FCHA can do, legally, to draw this company back under its wing? If FCHA still had this company, and it was run properly, it could possibly realize a profit that could be paid to HUD toward the $533,432 debt owed.

3A. Reimburses its Voucher Program from non-Federal funds $71,063 for Section 8 subsidy at units it incorrectly certified met Housing Quality Standards.

FCHA RESPONSE:
The Board of Commissioners and Executive Director of FCHA disagree with numerous items listed within Finding 3 of the Audit report. Due to time constraints place on FCHA to respond to the Audit draft, a detailed account of the discrepancies is unavailable.

The significant problems were indications that the Former Inspector failed to identify 128 deficiencies and FCHA identified 42 violations but failed to correct the defects. The documentation submitted with this audit report response clearly identifies repairs were made to units within the time period of January 1999 and March 31, 2002 within the 18 units. The conclusion by the Inspector that repairs could not have been made based on the current status of the unit upon his inspection two years later is inaccurate in our opinion. Although FCHA has not and cannot identify that each and every repair was made documentation suggests that repairs were made prior to October 2000, and FCHA can document that required repairs were made after October 2000 in order for subsidy payments to continue.

A large part of the Inspection report noted violations that do not fall under HQS minimum requirements. If FCHA is to be "graded" on HQS violations the HQS standards must be applied. A few of the listed fail items that are not HQS violations were mandatory GFCI outlets, and labels on breaker boxes. There are several other noted fail items within the report, but again, FCHA has not concluded the report in order to dispute each one as of June 13, 2003.

The Audit report suggests that no rental unit was "graded" unless the most recent tenant was a Section 8 client. This is inaccurate. FCHA has verified at least one address (319 Grand) where an unsubsidized tenant resided in the unit for two months after the Section 8 client moved out. Again, time has not allowed further research to ensure no other unit was rented to non subsidized tenants.

The Audit report does not explain that from January 2001 through March 2002 the rental units were listed with a realtor. The report does not indicate that in November 2001 FCHA received an offer to purchase the properties from a corporation that would demolish the buildings and build a restaurant. Upon signing the acceptance of the offer, FCHA prepared the units for demolition. In doing so antique items such as doorknobs, woodwork, mantles, etc., were removed. Some items listed as "failed" were a result of preparation for demolition, the units were not rented in that condition. (This sale did not materialize because the bank was not willing to settle for $375,000 for ½ of the listed property).

In short, due to the buildings no longer existing, FCHA cannot completely dispute each item listed within Finding 3. FCHA does agree that the units were not kept up to a standard that they should have been. However, FCHA also states that the units, at least from 10/1/00 through 3/1/2002, did meet HQS guidelines once an inspection of a Section 8 unit was completed and repairs were made. FCHA disputes that $71,063 is owed to HUD in addition to the listed $533,432 in Finding 1.

3B. Ensures that its Housing Inspector(s) receives the necessary training to perform inspections of the Authority's Public Housing units in accordance with HUD's requirements.

FCHA RESPONSE:

In July of 2001, FCHA contacted the Indiana State Office regarding HQS inspection training. FCHA explained funds were not available for training expenses and complications had been noted regarding the performance of the then employed Inspector. The Indiana State Office provided for Hubert Tyrone Collins to conduct a training at FCHA for the Executive Director, newly hired Inspector, and three retired Board of Commissioner members. During this training, each member present was became a certified HQS inspector per HUD requirements.

In July of 2002 the FCHA Inspector attended Nan McKay HQS training in order to remain updated as well.

During the calendar year, if any question arises regarding inspections or a condition within a unit, the Inspector and/or the Executive Director make contact with other agencies, Indiana State Office, and/or the local building inspector, fire marshall or others, in order to ensure FCHA meets not only HUD requirements in HQS, but also any State or local codes as well.

3C. Implements supervisory procedures and controls to ensure its management monitors the quality of its housing inspection program.

FCHA RESPONSE

In January 2001 Tyrone Collins, Indiana State Office, conducted eight inspections of units assisted by FCHA. Due to the transition and inexperience of not only the Executive Director at that time but also the Board of Commissioners, and the lack of funds to hire someone to perform Quality Control Inspections, Mr. Collins stated that his inspections could be considered for this requirement.

In 2002 the Executive Director (Valerie Faris) performed Quality Control Inspections on 21 units assisted on the Section 8 Program. The Quality Control Inspections are conducted within two weeks after the final inspection by the Inspector of FCHA. This information is maintained in the SEMAP documentation.

For 2003 the Executive Director will again perform 21 inspections for Quality Control. As of June 13, 2003, only 1 of the required 21 have been completed. The remaining 20 will be completed prior to the FCHA fiscal year end of 9/30/03.

3D. Takes appropriate administrative action against the former Executive Director and Board of Commissioners who were responsible for the operations of the Housing Authority during the time period when units failed to meet Housing Quality Standards.

FCHA RESPONSE

Although FCHA would like to see administrative action, or more, taken against the former Executive Director and those members of the previous Board of Commissioners, we refer you to our response to 3A above. Since the units were not "graded" on the same scale as HQS requirements and the

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units no longer exist, FCHA does not see how it is possible to take any type of action based on this information. Again, in the time allowed to respond to this report, FCHA has uncovered numerous items that should not have been noted as deficiencies. And, although the previous Executive Director and former Board Members have allowed and/or created the mess FCHA is now faced with, proving the HQS violations is near impossible due to the discrepancies in the grading scale.


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HUD's Comments

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Public Housing Program Center

June 13, 2003

MEMORANDUM FOR: Ronald Huritz, Assistant District Inspector General for Audit

FROM: Forrest D. Jones, Program Center Coordinator, Indianapolis

SUBJECT: Field Office Comments
Draft Audit Report
Fayette County Housing Authority

Overview:

The audit was performed at the request of the Indianapolis Field Office Public Housing Program Center. This was due to numerous problems being identified with the manner in which the former Executive Director was conducting business including issues of fiscal mismanagement. It was important to HUD to verify what was already suspected, as well as to ascertain whether any additional problems existed beyond those already known. Since the Executive Director resigned and left before the audit was conducted, it was important to the new administration of the Fayette County Housing Authority (FCHA) to be able to identify the full scope of problems attributable to the former administration.

The OIG audit report findings are consistent with issues previously identified and with an audit conducted recently by the Indiana State Board of Accounts. In addition, the report develops information about the condition of certain rental units purchased and leased by the former Executive Director, some to Section 8 participants in the FCHA program. Although, previous HUD inspections cited Housing Quality Standards (HQS) deficiencies as well, the documentation on the OIG finding may, in part, be open to challenge. The draft report cites deficiencies that are presumed to have existed at a point in time in the past based on inspections undertaken at a later date. Documentation in the report is not specific as to HQS deficiencies at the time of the Section 8 tenancy and whether subsequent non-Section 8 tenancy may have existed in the interim before the OIG inspections were completed. The inspections were reportedly done by an appraiser/Program Specialist, who is an OIG employee, who, it appears, may have not been reviewing the units specifically against Housing Quality Standards (HQS), but in some cases against BOCA codes. One example is citing the absence of GFI

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outlets in kitchens and bathrooms as an HQS violation. The units were all existing units, in quite old buildings, which had never been subject to substantial upgrading. Therefore, GFI outlets would not have been required. Further, many of the pictures used to verify conditions are registered with a date of 12/94. It was indicated that the inspector neglected to re-set his camera to the appropriate date.

These rental units, which were purchased and managed by the former Executive Director, have all been vacated, the Section 8 tenants relocated, and the buildings all turned back to the mortgage holder by the new FCHA administration. The bank, which held the mortgage demolished the units and cleared the land. It seems clear that physical conditions were a problem in these units over time. However, given the fact that the documentation on the condition of the units may lack the ability to be verified in terms of what may have been the amount of Section 8 payments inappropriately paid to the FCHA for HQS substandard units and the fact the new administration has divested the FCHA of these units and resolved the ongoing issue, it would be well to acknowledge the corrective action taken and not ask for reimbursement of the $71,063, which may ultimately be a contestable and/or unsupportable amount.

The audit states that the Housing Authority Commissioners and HUD Officials were aware of the problem of over-requisitioning funds and that HUD took no corrective action. We disagree with this characterization. The Indianapolis Office was responsible for bringing the deceptive practices of the former Executive Director to the attention of the County Council ultimately leading to a regime change. We worked over an extended period of time to control FCHA overspending, increase leasing to provide more income, solve major problems between the FCHA and landlords and participants, and reduce the deficits owed. Ultimately, actions by this office forced an end to over-requisitioning and led to a change of commissioners and the entire staff of the authority. The re-establishment of a viable new FCHA administration, to their credit, has led to turning the program around, operating within budget and in strict compliance, leasing up to a level never reached before, and reimbursing HUD a substantial amount.

Comments on Specific Recommendations:

1A Initiate administrative action against former Executive Director and former members of Board of Commissioners.

We concur and our intent is to recommend debarment against the former Executive Director (E.D.), two former Board Chairpersons, and a former employee who left the FCHA with the former Executive Director to become staff of a Community Development Corporation, which was set up by the FCHA under the former E.D.

1B formal repayment agreement

We concur that a formal repayment agreement should be negotiated but feel that progress made to date by the new administration should be taken into account, including the repayment of $200,206 to date. The new administration has performed extremely well in turning the operations of the FCHA around, re-establishing the integrity of the Section 8 program in Connersville and Fayette County, leasing up to a degree never reached before, and planning to establish a family self-sufficiency program and we feel that these factors should be taken into account, as well as formal repayment of funds. Both the tangible repayment and the intangible program enhancements should be taken into account in determining a repayment/offsetting scenario, which may provide for part of the funds owed to be forgiven.

2A Reimburse Section 8 program $43,546 for ineligible costs

It is likely that the amount cited in finding number 1 as over-expenditure of administrative costs includes this amount. The FCHA should have an opportunity to support that eligible administrative costs at least equaled the actual earned administrative fee expended each year. Anything in excess of these eligible administrative costs are already disallowed under finding 1 and reimbursement is recommended. To ask for repayment of the same costs again would be duplicative.

If the FCHA is not able to support the necessary level of eligible administrative costs per year then additional reimbursement would be supported.

2B Provide documentation to support $7196 of unsupported payments or reimburse Section 8 program

It is likely that the amount cited in finding number 1 as over-expenditure of administrative costs includes this amount. The FCHA should have an opportunity to support that eligible administrative costs at least equaled the actual earned administrative fee expended each year. Anything in excess of these eligible administrative costs are already disallowed under finding 1 and reimbursement is recommended.

To ask for repayment of the same costs again would be duplicative.

If the FCHA is not able to support the necessary level of eligible administrative costs per year then additional reimbursement would be supported.

2C Reimburse Section 8 program $40,708 for ineligible costs cited in State audit

It is likely that the amount cited in finding number 1 as over-expenditure of administrative costs includes this amount. The FCHA should have an opportunity to support that eligible administrative costs at least equaled the actual earned administrative fee expended each year. Anything in excess of these eligible administrative costs are already disallowed under finding 1 and reimbursement is recommended. To ask for repayment of the same costs again would be duplicative.

If the FCHA is not able to support the necessary level of eligible administrative costs per year then additional reimbursement would be supported.

2D Provide documentation to support $43,132 of unsupported payments cited in State audit or reimburse Section 8 program

This reflects salary overpayments to the former Executive Director. It is likely that the amount cited in finding number 1 as over-expenditure of administrative costs includes this amount. The FCHA should have an opportunity to support that eligible administrative costs at least equaled the actual earned administrative fee expended each year. Anything in excess of these eligible administrative costs are already disallowed under finding 1 and reimbursement is recommended. To ask for repayment of the same costs again would be duplicative.

If the FCHA is not able to support the necessary level of eligible administrative costs per year then additional reimbursement would be supported.

2E Implements adequate controls to ensure that the Board of Commissioners approves all disbursements prior to payment

The FCHA Board drafted and implemented new By-Laws after taking office, which the FCHA will provide in response to this recommendation. It is our belief that these by-laws

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have already established such controls and, therefore, meet this recommendation.

2F Offsets future Section 8 payments by amounts reimbursed.

We agree that any funds returned to the program from a non-federal source as reimbursement of disallowed costs should be utilized for necessary and eligible ongoing HAP program costs and that a commensurate amount of new program funds be offset to repay the amount owed to HUD.

3A Reimburse program $71,063 for subsidy paid on units not meeting HQS.

As stated in the overview above, the documentation on the condition of the units may lack verifiability. In light of the fact that the new administration has divested the FCHA of these units and resolved the ongoing issue, it would be well to acknowledge the corrective action taken and not ask for reimbursement of the $71,063, which may ultimately be a contestable and/or unsupportable amount.

3B Ensure FCHA receives training to perform inspections.

Current inspector has received some training. We concur that a training plan should be developed to provide for adequate baseline training and ongoing updates to the training for any FCHA staff placed in a position to perform inspections.

3C Implements supervisory procedures and controls to monitor quality of inspections.

We concur. This already is being done under the new administration and they will be able to document both procedures and quality controls.

3D Take administrative action against former Executive Director and Board.

This recommendation essentially duplicates recommendation 1A and should just refer back to it.