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# AUDIT REPORT



HOUSING AUTHORITY OF THE  
CITY OF NORTHPORT  
NORTHPORT, ALABAMA

2004-AT-1009

MAY 20, 2004

OFFICE OF AUDIT, REGION 4  
ATLANTA, GEORGIA

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Issue Date	May 20, 2004
Audit Case Number	2004-AT-1009

TO: R. Edmond Sprayberry, Director, Office of Public Housing, 4CPH

*James D. McKay*

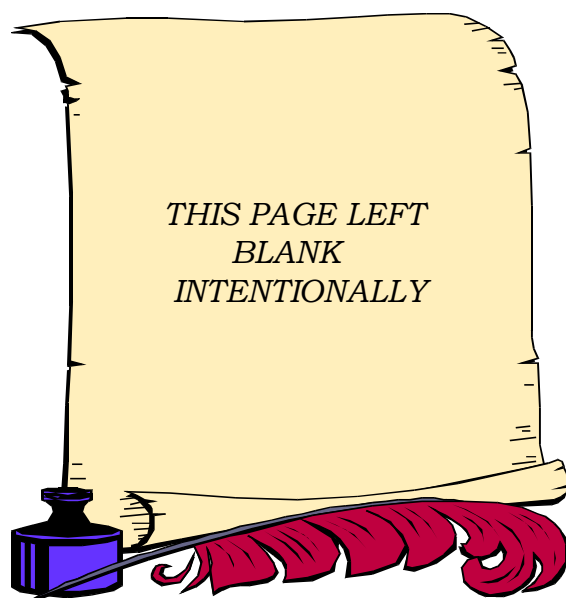
FROM: James D. McKay  
Regional Inspector General for Audit, 4AGA

SUBJECT: Housing Authority of the City of Northport  
Northport, Alabama

We have completed a review of the Housing Authority of the City of Northport's (Authority) administration of housing development activities with its related entities, Northport Housing Limited (NHL) and Northport Housing Limited II (NHII). The review focused on the Authority's development of Hampton Point and Grand View Apartments, private housing developments. We performed the review as part of our audit of the Department of Housing and Urban Development's (HUD) oversight of Public Housing Agency (PHA) development activities with related non-profit entities. Our primary objective was to determine whether the Authority diverted or pledged resources subject to an Annual Contributions Contract (ACC) or other agreement or regulation to the benefit of other entities without specific HUD approval. Our report includes two 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 me or Sonya D. Lucas, Assistant Regional Inspector General for Audit at (404) 331-3369.



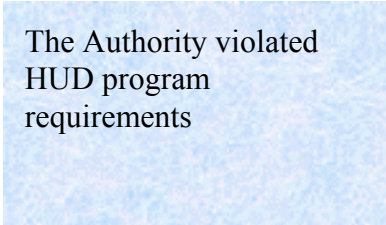
# Executive Summary

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We have completed a review of the Housing Authority of the City of Northport's administration of housing development activities with its related entities, NHL and NHII. The review focused on the Authority's development of Hampton Point and Grand View Apartments, private housing developments. We performed the review as part of our audit of HUD's oversight of PHA development activities with related non-profit entities. Our primary objective was to determine whether the Authority diverted or pledged resources subject to an ACC or other agreement or regulation to the benefit of other entities without specific HUD approval.

Our assessment showed that the Authority improperly advanced public housing funds for a non-Federal development, and inappropriately guaranteed performance for its tax credit properties.

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The Authority violated HUD program requirements

The Authority violated its ACC by advancing \$434,735 of public housing funds for a non-Federal development. Subsequent repayments of \$375,000 left \$59,735 due to the Authority. However, HUD should recapture \$78,334 of the \$375,000 repayments. Additionally, the Authority did not allocate costs, including salaries and rental space, attributable to non-profit activities. The Authority advances were for up-front funding for a private development, until tax credits were received. The Executive Director (ED) said he advanced the funds based on verbal approval from prior HUD management. Further, Authority management instructed staff to perform certain tasks for its tax credit properties, without full knowledge of HUD rules for such activities. As a result, \$434,735 of ineligible advances reduced funds for its Low Rent Housing and Capital Fund Programs. Also, tax credit development costs were understated because the Authority did not charge any direct or indirect costs to its development activities.

In violation of its ACC, the Authority inappropriately guaranteed performance for both of its tax credit properties. The Authority's ED signed guaranty agreements and loan obligations, without HUD approval. The ED also signed other documents that included inappropriate guarantees by the Authority as a guarantor or key principal. These actions occurred because the ED stated the tax credit attorneys and building consultant had assured him that the guarantees did not physically encumber the Authority. Additionally, the ED acknowledged that he did not read each document, but totally relied on legal counsel because of the massive paperwork involved. Further, the ED

violated the ACC's conflict of interest provision by functioning as the Authority's ED while serving as President of both General Partnerships. The ED stated he was not aware he had violated any requirements, particularly since HUD had approved a conflict of interest waiver for the Section 8 Program. These actions could result in the Authority assuming liabilities for non-Federal activities and conflicts of interest, which could unjustly enrich private developments at the Authority's expense.

#### Recommendations

We recommend you require the Authority to: (1) obtain repayment from NHL of the \$59,735 balance owed from the \$434,735 advanced; (2) ensure that no further advances/expenditures of HUD funds are made on behalf of non-HUD entities, without prior HUD approval; (3) recapture \$78,334 of the repayment; (4) ensure reasonable allocations of salaries and other costs, such as use of office space and equipment, and reimburse the Authority any ineligible costs attributable to any non-HUD entity; (5) pursue terminating inequitable guarantees; (6) obtain HUD's approval prior to any future encumbrance of Authority assets; and, (7) establish adequate controls to monitor the Authority's interactions with its non-profit and limited partnerships and ensure transactions comply with the ACC, particularly as it relates to conflict of interest situations.

#### Auditee comments

We presented our results to the Authority and HUD officials during our review. We provided a copy of the draft report to the Authority and HUD's Alabama State Office on April 6, 2004, for their comments. We discussed the report with the officials at the exit conference on April 15, 2004. The Authority provided written comments to our draft on April 15, 2004. The Authority's comments are summarized in the findings and included in their entirety as Appendix B.

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## Abbreviations

ACC	Annual Contributions Contract
ED	Executive Director
HUD	U.S. Department of Housing and Urban Development
NHL	Northport Housing Limited
NHII	Northport Housing Limited II
PHA	Public Housing Authority
WAAHC	West Alabama Affordable Housing Corporation

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# Introduction

The Housing Authority of the City of Northport was organized pursuant to the Housing Act of 1937 and the laws of the State of Alabama. Its primary objective is to provide low-income housing to the citizens of Northport, Alabama and surrounding areas in compliance with its ACC with HUD.

A five-member Board of Commissioners governed the Authority with members appointed by the Mayor of the City of Northport. The Board is responsible for signing contracts, hiring personnel, setting income limits, and approving budgets. Jim Handley is the Board Chairman and Milo Pearson is the Executive Director.

The Authority's major program activities included administering 330 Conventional units, 393 Rental Voucher units, 28 Section 8 Moderate Rehabilitation units, and 25 Section 8 Rental Certificate units. HUD's Alabama State Office in Birmingham, Alabama, Office of Public Housing is responsible for overseeing the Authority.

On July 2, 1996, the Authority created West Alabama Affordable Housing Corporation (WAAHC), a non-profit organization, to provide safe, decent, sanitary, and affordable housing, to very low to moderate-income groups. From the WAAHC, the Authority created two limited partnerships, NHL and NHII, to purchase and develop 60 and 72-unit properties known as Hampton Point and Grand View Apartments, respectively. The new units would be financed with private loans and capital contributions from John Hancock, invested limited partner, for tax credits. To date, Hampton Point is completed and fully occupied, with Grand View to be completed by Summer 2004.

The Authority's financial records are maintained primarily at its office located at 3500 West Circle #39, Northport, Alabama.

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## Audit Objectives

Our primary objective was to determine whether the Authority diverted or pledged resources subject to an ACC or other agreement or regulation to the benefit of other entities without specific HUD approval.

## Audit Scope and Methodology

To accomplish the objective, we reviewed applicable HUD requirements and regulations, the Authority's ACC (executed October 27, 1995), and other requirements. We interviewed the Alabama State Office of Public Housing Program officials, and Authority management and staff. We reviewed various documents including: financial statements, general ledgers, bank statements, minutes from Board meetings, check vouchers, and invoices. We also reviewed NHL and NHII records, including applicable incorporation and partnership documents, bank statements,

and Board minutes. In addition, we obtained an understanding of the Authority's accounting system as it related to our review objective.

We performed our on-site review from November 17, 2003 through February 12, 2004, and covered the period July 1, 1999 to June 30, 2003. We extended the period as necessary. We performed our review in accordance with generally accepted government auditing standards.

## The Authority Improperly Advanced Funds

The Authority violated its ACC by advancing \$434,735 of public housing funds for a non-Federal development. Subsequent repayments of \$375,000 left \$59,735 due to the Authority. However, HUD should recapture \$78,334 of the \$375,000 repayments. Additionally, the Authority did not allocate costs, including salaries and rental space, attributable to non-profit activities. The Authority advances were for up-front funding for a private development, until tax credits were received. The ED said he advanced the funds based on verbal approval from prior HUD management. Further, Authority management instructed staff to perform certain tasks for its tax credit properties, without full knowledge of HUD rules for such activities. As a result, \$434,735 of ineligible advances reduced funds for its Low Rent Housing and Capital Fund programs. Also, tax credit development costs were understated because the Authority did not charge any direct or indirect costs to its development activities.

### HUD requirements

Section 9, Depository Agreement and General Fund, of the ACC states that the Authority may withdraw funds from the General Fund only for: (1) payment of the costs of development and operation of the projects under the ACC with HUD; (2) purchase of investment securities as approved by HUD; and (3) such other purposes as may be specifically approved by HUD.

Public and Indian Housing Notice 2000-43, Section D (2), states that eligible PHAs may expend Capital Fund Program funds by reporting the funding amount on Budget Line Item 1406 in the Annual Statement, Part I, and drawing the funds down for operating expenses. Amounts allocated by PHAs to Budget Line Item 1406 must only be used for non-capital operating expenses.

The ACC, Section 2, Definitions, defines operating expenses as all costs incurred by the PHA for administration, maintenance, and other costs and charges that are necessary for the operation of its HUD project(s). Operating expenses shall not include any cost incurred as part of the development or modernization costs, or payment of principal and interest of bonds and notes. Section 11 (D) states the PHA shall not incur any operating expenditures except pursuant to an approved budget.

The Authority improperly advanced \$434,735

The Office of Management and Budget Circular A-87 establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally-recognized Indian tribal governments. Costs must be allocable to the Federal award. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

The Authority improperly advanced \$434,735 of public housing program funds for non-Federal activities. Of this amount, \$277,179 was from its operating subsidy and \$157,556 from its Capital Fund program. The advances covered expenses incurred for the non-profit activities, including application fees, until tax credits were received. The Authority received repayments totaling \$375,000, therefore \$59,735 remains due to the Authority.

The ED stated that the public housing funds were advanced based on verbal approval from HUD's Alabama State Office prior Director of Public Housing. The ED stated that their Section 8 Administrative and Public Housing reserves were consistently significant, which was the basis for the verbal approval. Further, the ED stated that the Authority was verbally informed that:

- funds could be advanced from various HUD programs, including operating subsidy and Capital Funds, with an executed note that such funds would be repaid.
- the Section 8 Administrative reserve funds could be advanced without repayment, since the Authority earned these fees from administering the Section 8 Program.

In a May 8, 2003, letter, HUD granted the Authority approval to advance Section 8 Administrative reserve funds for other housing development activities, relating to NHIL. However, the \$434,735 was advanced from February 2002 to May 2002 for NHL. Further, the funds advanced to NHL were from other HUD program funds and not its Section 8 Administrative reserves.

HUD officials stated they would not have approved a request to pay tax credit project costs, since it was not covered under the ACC. Without approval, the Authority should have either obtained funds from other sources or advanced funds from its Section 8 Administrative reserves, as approved by HUD. As a result, the Authority improperly advanced \$434,735 from its Low Rent Housing and Capital Fund Programs.

HUD should recapture \$78,334

Although the Authority received repayments of \$375,000, HUD should recapture \$78,334 of the funds. The \$78,334 was originally advances from Budget Line Item 1406, Operations, of the Authority's fiscal year 2000 Capital Fund programs. Subsequently, HUD recaptured 2000 fiscal year funding due to the Authority not obligating Capital Funds within the required two-year period.

HUD officials stated that funds passed through Budget Line Item 1406 lose their identity and can be utilized for any operation expenses relating to HUD programs. However, the Authority redirected these funds to its related entity without HUD's approval. HUD's Acting Director of Public Housing, at that time, stated they would not have approved a request to advance Capital Funds to Hampton Point (non-Federal project) since it was not covered under the ACC or noted as an eligible expense. Therefore, since HUD recaptured the Capital Funds, which should have included the budgeted \$78,334, this amount should also be recaptured.

The Authority did not properly allocate costs

According to the ED, the Authority did not allocate costs, including salaries, to the non-profit or other related entities. However, the ED and Authority's staff performed work for the entities. Further, non-profit operations were conducted from the Authority's office. The ED did not fully understand HUD rules regarding work performed for the non-profit had to be allocated to that activity. Certain staff members performed work on behalf of the tax credit properties, as instructed by ED. HUD provided correspondence that confirmed cost allocation was needed for its tax credit activities.

In addition, the Supplemental Management Agreements, as noted in its Limited Partnership Agreements, required the Authority to materially participate in management responsibilities, which included utilizing Authority staff resources for non-subsidized activities up to 500 hours. As a result, the tax credit development costs were understated because the Authority did not charge any direct or indirect costs to its development activity.

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**Auditee Comments**

Excerpts from the Authority's written comments on our draft finding follow. The complete text is included as Appendix B.

"\$434,735 of public housing funds were advanced to the nonprofit for the develop [sic] Hampton Point and Grand View Apartments until tax credits were received....Unfortunately, costs associated with the non-profit activities were not allocated. \$375,000 has been repaid by the non-profit to the Authority, leaving \$59,735 due.

"We respectfully disagree concerning the finding that \$157,556 is due to be repaid to HUD. CFP 2001 was not recaptured by HUD, therefore, the \$79,222.00 in account 1406 was not subject to recapture and should not have to be repaid. However, HUD did recapture CFP 2000 because we failed to obligate on time. HUD only recaptured the funds in CFP 2000 that were not obligated.

"The \$78,334.00 in account 1406 was not recaptured because it was obligated and drawn down on time. Therefore, it should not have to be repaid.

"As it is our goal to maintain a solid and cohesive relationship with the Department, this Authority will comply with all recommendations of the Office of Inspector General..."

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**OIG Evaluation of  
Auditee Comments**

We agree that HUD did not recapture the 2001 Capital Funds. Therefore, we adjusted the finding and reduced the recommended amount to be recaptured to \$78,344.

However, the Authority's proposal that the \$78,334 should not be repaid is incorrect. The use of the funds violated its Capital fund grant agreement. Capital funds budgeted in line item 1406 must be used for operating expenses for HUD programs rather than advancing the funds to cover nonprofit expenses. Although the funds were expended prior to recapture, its usage was noncompliant with those expenses noted as eligible HUD operating expenses. Therefore, HUD should recapture the \$78,334 as recommended.

We believe the Authority's actions will strengthen controls over expenditures and cost allocations. However, HUD should ensure reimbursement of ineligible costs is pursued from NHL and Authority.

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## Recommendations

We recommend that the Director of the Office of Public Housing:

- 1A. Require the Authority to obtain repayment from NHL for the \$59,735 balance owed from the \$434,735 advanced.
- 1B. Ensure that no further advances/expenditures of HUD funds are made on behalf of non-HUD entities, without prior HUD approval.
- 1C. Recapture \$78,334 of the repayment of Capital Funds (this amount is included in the \$434,735 advance).
- 1D. Require the Authority to allocate the salaries and other costs, such as use of office space and equipment, attributable to any non-HUD entity and reimburse the Authority all ineligible costs.



# The Authority Inappropriately Guaranteed Performance

In violation of its ACC, the Authority inappropriately guaranteed performance for both of its tax credit properties. The Authority's ED signed guaranty agreements and loan obligations, without HUD approval. The ED also signed other documents that included inappropriate guarantees by the Authority as a guarantor or key principal. These actions occurred because the ED stated the tax credit attorneys and building consultant had assured him that the guarantees did not physically encumber the Authority. Additionally, the ED acknowledged that he did not read each document, but totally relied on legal counsel because of the massive paperwork involved. Further, the ED violated the ACC's conflict of interest provision by functioning as the Authority's ED while serving as President of both General Partnerships. The ED stated he was not aware he had violated any requirements, particularly since HUD had approved a conflict of interest waiver for the Section 8 Program. These actions could result in the Authority assuming liabilities for non-Federal activities and conflicts of interest, which could unjustly enrich private developments at the Authority's expense.

## HUD requirements

Part A, Section 7 of the ACC, Covenant Against Disposition and Encumbrances, states in part, with the exception of entering into dwelling leases with eligible families for dwelling units in the projects covered by this ACC, and normal uses associated with the operation of the project(s), the housing authority shall not in any way encumber any such project, or portion thereof, without the prior approval of HUD. In addition, the housing authority shall not pledge, as collateral for a loan, the assets of any project covered under this ACC.

Part A, Section 19 of the ACC, Conflict of Interest, prohibits the Authority from entering into any contract or arrangement in connection with any project under the ACC in which any Authority employee who formulates policy or who influences decisions with respect to the project(s), has an interest, direct and indirect, during his tenure or for one year thereafter.

## Background

The Authority created WAAHC as a non-profit corporation to provide safe, decent, sanitary, affordable housing to very low, low, and moderate-income residents and to prevent the spread of slum conditions. To fulfill this purpose, the non-profit was to raise necessary funding to finance housing

construction and/or redevelopment, and could own, manage, or operate housing on its own behalf or on behalf of others whose housing promoted the corporation's purposes. The Authority created two limited partnerships, NHL and NHII, through the non-profit. The partnerships purchased and developed properties known as Hampton Point Apartments and Grand View Apartments, respectively. For-profit entities Port Development Corporation (WAAHC's subsidiary) and Northport Affordable Housing Corporation (Authority's subsidiary) were the eventual Co-General Partners for both limited partnerships. The Authority's Executive Director served as the President of both General Partnerships. The Developer was WDM L.L.C. and Bob Morrow Construction Company was the Builder for both properties.

#### Guaranty Agreements

The Authority signed as a guarantor for the Guaranty Agreements dated May 21, 2002, for NHL and May 15, 2003, for NHII. Each Agreement was part of the respective Partnership Agreement between the Co-General Partners and applicable John Hancock companies, as limited partner(s). Section H of each Agreement's Recitals Section states, in part, the Guarantors expect to receive substantial economic benefits as a result of the construction and development of the property and the admission of the Limited Partners to the Partnership. Section H further states that:

The guarantors hereby unconditionally and irrevocably jointly and severally guarantee to the Limited Partners, to the extent not paid or performed by the General Partner, the Developer, or the Builder, as the case may be, the punctual payment when due, and at all times thereafter, of each and every obligation of the General Partner to make any payment or advance any funds under the terms and conditions of the Partnership Agreement. The guarantee also required the Authority to cover the General Partner's obligation to advance operating deficit loans and other funds pursuant to the Partnership Agreement.

The guarantors additionally hereby unconditionally and irrevocably jointly and severally guarantee to the Limited Partners, the due and punctual performance of all obligations of the General Partner, the Developer, and the Builder pursuant to the terms of the Partnership

Agreement, the Development Agreement, and the Construction Contract, including, without limitation, the Developer's and the Builder's obligations to cause the completion of the construction of the Property.

The Guarantors agree to: (i) assume all responsibility for the completion of the construction of the Property and, at the Guarantors' own cost and expense, to cause the construction of the Property to be fully completed in accordance with the Construction Documents, the Partnership Agreement and the Development Agreement, (ii) pay all bills in connection with the construction of the Property, and (iii) indemnify and hold harmless the Limited Partners from any and all Adverse Consequences that the Limited Partners may suffer by reason of any such non-compliance by the General Partner, the Developer, or the Builder.

#### Other document guarantees

The Authority also was a guarantor/key principal for five other documents regarding NHL, and as one of three guarantors for the First Amended and Restated Limited Partnership Agreement, dated May 15, 2003, for NHII, as follows:

- Loan Commitment Letter from Regions Bank, dated September 17, 2001, included the Authority as one of two guarantors for a \$5,657,700 loan commitment.
- First Amended and Restated Limited Partnership Agreement, dated May 21, 2002, showed the Authority as one of three guarantors.
- Permanent Loan Commitment Letter, dated April 1, 2002, showed the Authority as one of two key principals. The key principals were jointly and severally liable for the outstanding indebtedness, including without limitation principal, interest, and other amounts due and owed from the Borrower (NHL) under the proposed Mortgage Loan.
- Construction and Term Loan Agreement, dated May 22, 2002, showed the Authority as one of four guarantors.

- Regions Bank Promissory Note, dated May 22, 2002, included the Authority as one of five guarantors for a \$1,623,500 Note.

The Guaranty states, in part, that the Authority absolutely and unconditionally guarantees and promises to pay to Regions Bank or its order, the indebtedness of NHL. The guarantor's liability is unlimited and the obligations of the guarantor are continuing. The indebtedness guaranteed by this Guaranty, includes any and all of the Borrower's (NHL) indebtedness to Lender and is used in the most comprehensive sense and means and includes any and all of the Borrower's liabilities, obligations, and debts to the Lender, now existing or hereinafter incurred or created. The Guaranty was executed at the Borrower's request, not the Lender's.

The ED stated he had been assured by the tax credit attorneys and building consultant that the guarantees did not physically encumber the Authority. Additionally, the ED acknowledged that he had not read each document, but totally relied on legal counsel because of the massive paperwork involved.

We did not locate any written HUD approval for these actions. As a result, these actions could result in the Authority assuming liabilities for non-Federal activities that enrich private developments at the Authority's expense.

#### Conflict of interest

The ED violated the ACC conflict of interest restrictions by serving in dual capacities for both the Authority and the two limited partnerships. The signing of the Guaranty Agreements as a guarantor or key principal placed Authority assets at risk to the benefit of the limited partner(s). When signing the documents, the Authority's ED was also the President of both limited partnerships.

The ED stated he was not aware he had violated any requirements, particularly since HUD had approved a conflict of interest waiver for the Section 8 Program. However, the Section 8 waiver did not apply to the other HUD programs.

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## Auditee Comments

Excerpts from the Authority's written comments on our draft finding follow. The complete text is included as Appendix B.

"Relative to item 2A however, the Authority requests forgiveness of inappropriately guaranteed performances. The present circumstances, relative to the completion of the projects in question, make it extremely difficult, if not impossible, to terminate the guarantees.

"Although we agree that mistakes have been made, we take comfort in knowing that your findings are based on our mistakes, and not fraudulent or deceitful conduct.

"This Authority, and its governing Board, is committed to all necessary actions to correct those mistakes.

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## OIG Evaluation of Auditee Comments

The Authority presented a willingness to work with HUD to resolve the deficiencies, and ensure its non-profit activities are properly monitored and adhere to HUD regulations. However, the Authority must attempt to seek removal of inequitable guarantees or demonstrate legal actions if such arrangements are not removed. The potential risk to Authority assets for assuming liability for non-Federal activities could reduce needed resources for its HUD programs and ultimately, its residents. If such attempts are not achieved, HUD should require the Authority to appropriately document its inability to dissolve the guarantees and continually monitor the projects.

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## Recommendations

We recommend the Director of the Office of Public Housing:

- 2A. Require the Authority to pursue terminating inequitable guarantees.
- 2B. Require the Authority to obtain HUD's approval prior to any future encumbrance of Authority assets.

- 2C. Require the Authority to establish adequate controls to monitor Authority interactions with its non-profit and related entities and ensure transactions comply with the ACC, particularly as it relates to conflict of interest situations.

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# Management Controls

Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Management Controls

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

- 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.

To assess the relevant controls, we:

- Reviewed the laws and regulations governing the program;
- Interviewed HUD officials and Authority staff;
- Reviewed general ledgers, bank statements, and Board minutes;
- Reviewed available non-profit records, including general ledgers, bank statements, and bank loan documents; and
- Analyzed reports from the independent public accountant.

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

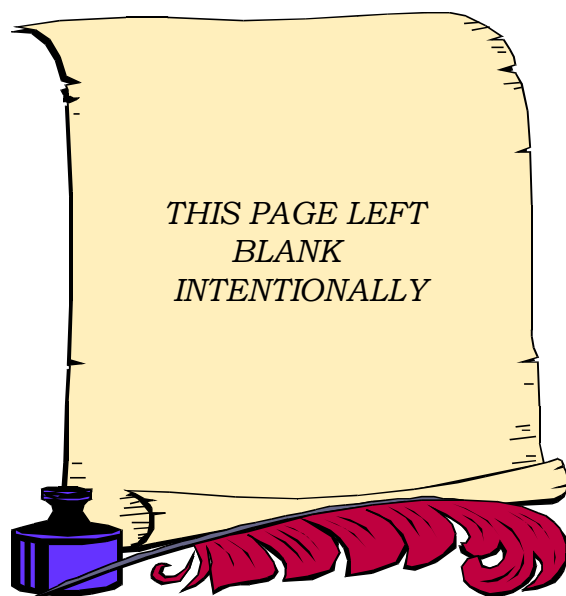
Based on our review, we identified significant weaknesses in the above management controls. See Findings 1 and 2.

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# Follow-Up On Prior Audits

This is the first Office of Inspector General audit of the Housing Authority of the City of Northport.

LeCroy, Hunter, & Company, Certified Public Accountants, completed the most recent audit of the Authority's financial statements for the 12-month period ended June 30, 2002. The report did not contain any findings. However, a Note to the financial statements indicated the Authority advanced \$430,000 to Northport Housing Limited, with \$311,000 repaid. The balance of \$119,000 was an accounts receivable-miscellaneous to the Authority.



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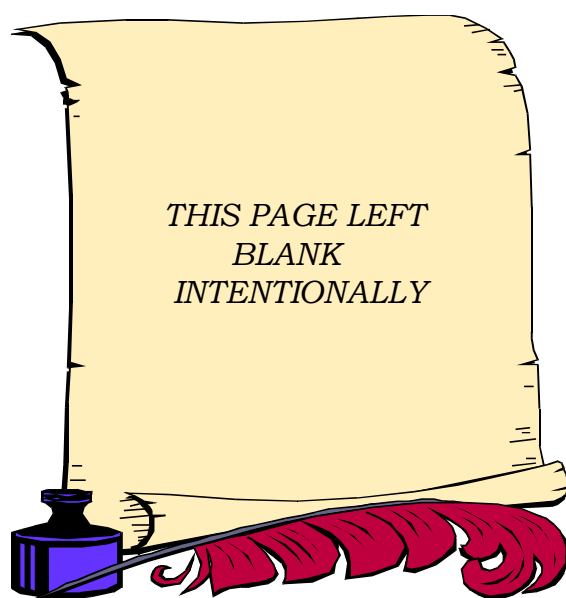
## Schedule of Questioned Costs and Funds Put to Better Use

<u>Recommendation</u>	<u>Ineligible<sup>1</sup></u>	<u>Funds Put to Better Use<sup>2</sup></u>
1A	\$434,735	
1C	( 78,334)	\$78,334
Total	<u>\$356,401</u>	<u>\$78,334</u>

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<sup>1</sup> Ineligible costs are not allowed by law, contract, HUD, or local agency policies, or regulations.

<sup>2</sup> Funds Put to Better Use are costs that will not be expended in the future if our recommendations are implemented. These funds include costs not incurred, and de-obligation of funds.



# Auditee Comments

April 15, 2004



**THE HOUSING AUTHORITY**  
*of The City of Northport*  
Post Office Drawer 349 Northport, Alabama 35476

James D. McKay  
Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office of the Inspector General for Audit, Region 4  
Richard B. Russell Federal Building  
75 Spring Street, SW Room330  
Atlanta, Georgia 30303-3388

**RE: Audit of the Housing Authority of the City of Northport**

Dear Mr. McKay:

Thank you for the opportunity to respond and provide comments to your Department's draft findings relative to the recently completed audit of our operations.

As you are aware, it is our mission to provide safe, decent, sanitary, and affordable housing for very low to moderate income individuals and families. It is with this mission in mind that we undertook the development of Hampton Point and Grand View Apartments. These developments would provide a combined 132 available units for deserving tenants.

In accomplishing these goals, numerous decisions were made with the advice of legal counsel and with the permission and approval from previous HUD officials. It was not the intent of the Authority to act improperly or in conflict of the public's interest. It was our desire to complete these goals in good faith and with complete compliance to all applicable Federal Rules and Regulations.

**Finding 1: Improperly Advanced Funds**

\$434,735 of public housing funds were advanced to the non-profit for the develop Hampton Point and Grand View Apartments until tax credits were received. These activities were discussed and approved by legal counsel and prior HUD management. Unfortunately, costs associated with the non-profit activities were not allocated. \$375,000 has

been repaid by the non-profit to the Authority, leaving \$59,735 due.

We respectfully disagree concerning the finding that \$157,556 is due to be repaid to HUD. CFP 2001 was not recaptured by HUD, therefore, the \$79,922.00 in account 1406 was not subject to recapture and should not have to be repaid. However, HUD did recapture CFP 2000 because we failed to obligate on time. HUD only recaptured the funds in CFP 2000 that were not obligated.

The \$78,344.00 in account 1406 was not recaptured because it was obligated and drawn down on time. Therefore, it should not have to be repaid. Because of these facts, we feel that \$157,556.00 should not have to be repaid to HUD.

As it is our goal to maintain a solid and cohesive relationship with the Department, this Authority will comply with all recommendations of the Office of Inspector General. Specifically, the Authority will:

- 1A. Obtain repayment of \$59,735 from NHL of the amount advanced;
- 1B. Take all necessary measures to ensure that no further advances/expenditures of HUD funds are made on behalf of non-HUD entities without prior HUD approval;
- 1C. Immediately begin allocating costs associated with any non-HUD entity and make the necessary arrangements for the repayment of ineligible costs.

**Finding 2: Inappropriately Guaranteed Performance**

Guaranty Agreements on behalf of the Co-General Partners, the Developer, and the Builder were executed by myself, as Executive Director of the Authority after advice and counsel of our attorney, and approval by the Board of Commissioners. Furthermore, approval of the conflict of interest waiver was given by HUD. All reasonable efforts were made to adhere to and comply with the ACC requirements concerning the Guaranty Agreements and conflicts of interest provisions.

As it is our goal to maintain a solid and cohesive relationship with the Department, this Authority will comply with all recommendations of the Office of Inspector General. To that end, the Authority will:

- 2B. Obtain prior HUD approval in writing prior to any future encumbrance of Authority assets;
- 2C. Establish adequate controls to monitor Authority interactions with its non-profit and related entities, and ensure that the ACC governs all transactions;

Relative to item 2A however, the Authority requests forgiveness of inappropriately guaranteed performances. The present circumstances, relative to the completion of the projects in question, make it extremely difficult, if not impossible, to terminate the guarantees.

As previously stated, it is the mission of the Housing Authority of the City of Northport to provide safe, decent, sanitary, and affordable housing for very low to moderate income individuals and families. We strive to achieve our mission with good faith efforts to meet and comply with the requirements and rules governing our purpose. Although we agree that mistakes have been made, we take comfort in knowing that your findings are based on our mistakes, and not fraudulent or deceitful conduct.

This Authority, and its governing Board, is committed to all necessary actions to correct those mistakes.

Sincerely,



Milo Pearson  
Executive Director