AUDIT REPORT

FINANCIAL MANAGEMENT OF HUD PROGRAMS

HOUSING AUTHORITY OF THE
CITY OF CORPUS CHRISTI

CORPUS CHRISTI, TEXAS

2004-FW-1004

March 26, 2004

OFFICE OF AUDIT, REGION 6
FORT WORTH, TEXAS

Issue Date
March 26, 2004
Audit Case Number
2004-FW-1004

TO: Diana Armstrong
Director, Office of Public Housing, 6JPH

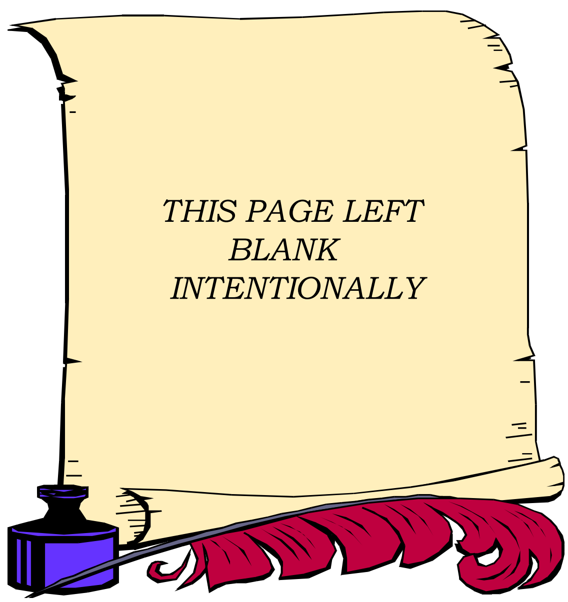
FROM: D. Michael Beard
Regional Inspector General for Audit, 6AGA

SUBJECT: Financial Management of HUD Programs
Housing Authority of the City of Corpus Christi
Corpus Christi, Texas

As requested by your office, we conducted an audit of the Housing Authority of Corpus Christi, Texas (the Authority). The audit generally covered the Authority's financial transactions for the period October 1, 2001, through April 30, 2003. The objectives of the audit were to determine whether the Authority used funds in accordance with HUD requirements under the Low Rent, Section 8, Drug Elimination, and Resident Opportunity and Self Sufficiency (ROSS) Programs. In addition, our objectives were to determine if the Authority allocated common costs equitably among its federal and non-federal programs and if the Authority complied with its new procurement policy adopted in February 2003. This audit contains one finding.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without management decisions, 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 Jerry Thompson, Assistant Regional Inspector General for Audit, at (817) 978-9309.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Executive Summary

At the request of the Director of Public Housing, we conducted an audit of the Housing Authority of Corpus Christi, Texas (the Authority). The objectives of the audit were to determine whether the Authority used funds in accordance with HUD requirements under the Low Rent, Section 8, Drug Elimination, and Resident Opportunity and Self Sufficiency (ROSS) Programs. In addition, our objectives were to determine if the Authority allocated common costs equitably among its federal and non-federal programs and if they complied with its new procurement policy adopted in February 2003.

The Authority violated HUD program requirements.

The Authority had implemented and complied with its new procurement policy and HUD procurement requirements. However, the Authority violated HUD program requirements by spending $4,052,302 in HUD funds for ineligible and questionable purposes. The Authority management used $1,031,872 in HUD program funds for unauthorized purposes and cannot support $3,020,430 in arbitrary payroll allocations and other program costs.

The Authority used $2,932,086 in Low Rent funds to pay: (1) development and salary costs of an affiliated nonprofit's housing project; (2) Section 8 Program salary and benefit costs; (3) common administrative costs for Section 8 Programs and for the nonprofits; and (4) arbitrary salary and benefits cost allocations.

The Authority used $533,694 in Section 8 Voucher Program funds to pay the development and salary costs of an affiliated nonprofit's housing project and arbitrary salary and benefits cost allocations.

The Authority used $228,470 in Drug Elimination Grant funds to pay: (1) the development and salary costs of an affiliated nonprofit's housing project; (2) questionable program costs; and (3) arbitrary salary and benefits cost allocations.

The Authority used $194,292 in Capital Funds to pay arbitrary salary and benefits cost allocations.

The Authority used $160,358 Hampton Port Section 8 funds to pay: (1) development and salary costs of an affiliated nonprofit's housing project; (2) non-project salary and benefit costs; and (3) other arbitrary salary and benefits cost allocations.

The Authority used $3,402 in ROSS funds to pay arbitrary salary and benefits cost allocations.

Authority managers told us they were not familiar with the provisions of the Low Rent and Section 8 contracts, federal cost principles, and other HUD program requirements for cost eligibility. Authority managers also told us they thought that all HUD program funds could be used for the purpose of providing any affordable housing for people throughout the city. Therefore, they did not implement procedures to ensure they charged only eligible costs to HUD programs or develop adequate cost allocation plans. As a result, the Authority diverted funds from programs for which HUD intended the funds to be used and violated HUD annual contribution contracts, grant agreements, and other requirements.

During the audit, the Authority officials indicated they took action to address our concerns by implementing cost allocation plans and timekeeping procedures to properly allocate salaries and benefits. In addition, the Authority paid back to HUD programs or recorded interfund payables for $488,810 of the unallowable costs we identified for nonprofit activities and common cost allocations. The Authority still needs to provide satisfactory support to HUD for the questioned costs.

Recommendations

We are recommending HUD require the Authority to implement effective procedures to ensure costs are eligible and adequately documented. Also, the Authority needs to repay all ineligible costs incurred during and subsequent to the audit period ending May 31, 2003, to the appropriate HUD programs. Also, we are recommending HUD obtain sufficient support for the arbitrary salary and benefit allocations, common cost allocations, other questionable costs, and recover any remaining unsupported costs.

Auditee Comments

We provided a draft report to officials of the Corpus Christi Housing Authority on January 12, 2004, and held an exit conference on February 3, 2004. The Authority said they had already taken steps to resolve all of the recommendations. The Authority provided a formal written response dated March 2, 2004, which is attached as Appendix B.

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Abbreviations

ACC	Annual Contribution Contract
CFR	Code of Federal Regulations
HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
ROSS	Resident Opportunity and Self Sufficiency

Introduction

The City of Corpus Christi established the Housing Authority of Corpus Christi (Authority), Texas, in 1938. The Mayor appoints a five-member Board of Commissioners to govern the Authority. The Board hires an executive director to manage the Authority's day-to-day operations. The Authority has 1,836 Low Rent and 949 Section 8 units (839 Section 8 Voucher and 110 Project Based Section 8 units at the Hampton Port Project). As of April 17, 2003, the Authority had $21,833,844 in program funds available from HUD's Line of Credit Control System, as shown in the table below. The Authority keeps its records at its central office at, 3701 Ayers, Corpus Christi, Texas.

Program	Authorized	Disbursed	Available Balance
Capital Fund Program	$10,618,855	$ 5,631,084	$ 4,987,771
Drug Elimination Program	917,788	755,832	161,956
Section 23 Lease	463,559	0	463,559
Operating Fund	3,765,889	1,970,329	1,795,560
Public Housing Development Grants	1,268,750	1,230,687	38,063
Resident Opportunities & Self Sufficiency	30,000	221	29,779
Section 8 Housing (from HUD Multifamily)	5,310,411	1,400,607	3,909,804
Section 8 Certificates	12,805,262	9,123,517	3,681,745
Section 8 Contract Administrators	7,875,000	2,492,751	5,382,249
Section 8 Vouchers	1,982,044	598,686	1,383,358
Totals	$45,037,558	$23,203,714	$21,833,844

The Authority's troubled past.

HUD considered the Authority troubled from 1999 through April 2001. During this period, the Authority was under the control of the Memphis Troubled Agency Recovery Center to help improve its performance. HUD reassigned control and monitoring functions to the San Antonio Office of Public Housing in April 2001, when the Authority reached the "standard performer" status. The current Executive Director, Richard Franco, told us the Board of Commissioners hired him in December 2001 to help improve the administration of the programs. Over 10 years ago, HUD employed him as an Area Manager of a HUD field office. The San Antonio Office of Public Housing requested we conduct an audit due to indications of possible continued problems.

Active nonprofits.

The Authority currently has two active nonprofit corporations: the Corpus Christi Finance Corporation and the Thanksgiving Homes Corporation. The purpose of the nonprofits is to assist the Authority in meeting its goals of providing affordable housing to low and moderate-income citizens and residents throughout the community and surrounding areas. The Authority Commissioners serve as the Directors on both Boards of the active nonprofits.

In July 1996, the Corpus Christi Finance Corporation was formed and funded with $926,000 by the Corpus Christi Housing Opportunities Corporation. The Corpus Christi Housing Opportunities Corporation is a dormant nonprofit the Authority formed in April 1994 when it transferred $1,046,498 in profits from the purchase and sale of a Resolution Trust Corporation property.

In December 2002, the Authority Commissioners passed a resolution that authorized and approved the creation of the Thanksgiving Homes Corporation. The Thanksgiving Homes Corporation plans to construct 30 homes and related infrastructure, which it plans to sell to qualified low-income families. The Thanksgiving Homes Development Team consists solely of Authority staff. Sixteen people from the Authority worked on the development of the Thanksgiving Homes Project. The Authority's Executive Director is the Chief Executive Officer and Developer of the Thanksgiving Homes Project. In May 2003, the Corpus Christi Finance Corporation Board of Directors conveyed property and guaranteed the construction loan for the Thanksgiving Homes Project.

Audit Objectives.

The objectives of the audit were to determine whether the Authority used funds in accordance with HUD requirements under the Low Rent, Section 8, Drug Elimination, and Resident Opportunity and Self Sufficiency (ROSS) Programs. In addition, our objectives were to determine whether the Authority allocated common costs equitably among its federal and non-federal programs and to determine whether the Authority complied with its new procurement policy adopted in February 2003.

Audit Scope and Methodology

To achieve the objectives, we:

- Reviewed the files of the HUD Office of Public Housing;
- Reviewed HUD Handbooks, Annual Contribution Contracts, Grant Agreements, Code of Federal Regulations, and OMB Circulars that apply to the Public Housing Grants and Programs to identify the requirements for: (1) financial management, (2) uses of program funds, and (3) cost eligibility;
- Reviewed the Authority's organizational charts, personnel and procurement policies, PHA Plan, contract registers, nonprofit corporation files and bank statements, grant files, and the accounting system data;
- Reviewed the Authority's audited financial statements for fiscal years 1999, 2000, 2001, and 2002;
- Reviewed the Authority's board minutes, bank statements, check vouchers, invoices, contracts, receipts, cancelled checks, general ledgers, accounts payable ledgers, payroll reports, computerized accounting records, HUD Line of Credit Control System drawdown requests, and other supporting financial statements and documents for transactions between October 1, 2001, and July 31, 2003.
- Interviewed HUD and Authority Staff as necessary.
- With regard to the Authority's computerized accounting records, we reviewed documentation supporting the transactions therein recorded and did not rely on the computerized accounting records to make the conclusions in our report.

Transactions and programs audited.

We reviewed over $14 million in transactions in the following areas and grants in the table below:

Transaction Type	Reviewed
Payroll	$ 6,141,259
Capital Fund Draw Downs	5,980,609
Procurement	929,098
Drug Elimination Grants	833,148
Interfund Payables	618,937
Common Cost Allocations	110,920
ROSS Grants	48,595
Total	**$14,662,566**

Where we did not review all transactions in certain expense categories as indicated below, the results of the review apply only to the items selected and cannot be projected to the universe or total population.

We reviewed all the Authority's payroll expenses, totaling $6,141,259 for about 200 employees, from October 1, 2001, through April 30, 2003.

We reviewed all the 2000, 2001, and 2002 Capital Fund drawdowns, totaling $5,980,609 that occurred from July 15, 2001, through April 26, 2003.

We reviewed all procurement claims over $10,000, from all funds and programs, paid from May 1, 2003, through June 24, 2003. The Authority did not award any contracts over $25,000 since the inception of its new procurement policy on February 1, 2003. In the Accounts Payable Report there were 28 claims, totaling $929,098. We selected three claims, totaling $47,478, to test for compliance with the procurement policy. The other claims were not selected because the payments related to Pre-February 2003 contracts, utility payments, payroll and benefit payments, or were for police services.

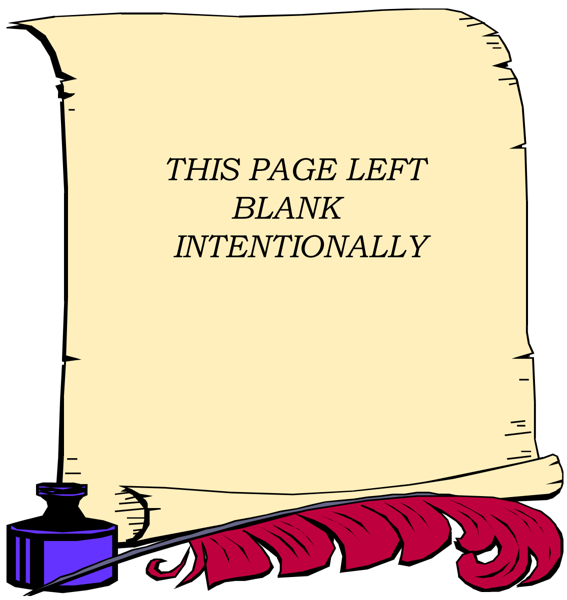
We reviewed all the 2000 and 2001 Drug Elimination Grant drawdowns, totaling $833,148 from August 2001 through June 2003.

We reviewed all the Interfund transfers totaling $618,937 from the Low Rent Program to the Section 8 Voucher Program, the Corpus Christi Finance Corporation, the Thanksgiving Homes Corporation, and the Hampton Port Section 8 Project.

We reviewed the Authority's Cost Allocation Plans for the Section 8 Voucher Program, the Corpus Christi Finance Corporation, and the Thanksgiving Homes Corporation that were implemented in May 2003 and July 2003. We also identified the common costs allocations for the Authority's Hampton Port Section 8 Project. We scheduled $110,920 in common costs allocations for these programs and entities, from October 2001 through May 2003.

We reviewed all the Resident Opportunities and Self Sufficiency (ROSS) Grant drawdowns totaling $48,595 for the fiscal year 2001, 2002, 2003 grants, drawn down during October 2001 through July 2003.

We conducted the audit from April 2003 through October 2003 in accordance with Generally Accepted Government Auditing Standards. The audit generally covered the Authority's operations from October 1, 2001, through April 30, 2003. We limited our scope to begin with the Authority's first full fiscal year since their transition from the Memphis Troubled Agency Recovery Center to the Office of Public Housing in April 2001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$4.1 Million Used for Questionable and Ineligible Purposes

The Authority violated HUD program requirements by spending $4,052,302 in HUD funds for ineligible and questionable purposes. The Authority management used $1,031,872 in HUD program funds for unauthorized purposes and cannot support $3,020,430 in arbitrary payroll allocations and other program costs. Specifically, the Authority: (1) used $267,814 in HUD funds for a nonprofit's housing project; (2) used $476,088 in Low Rent funds to pay ineligible salaries and benefits for the Section 8 Programs; (3) used $110,920 in Low Rent funds to pay the common administrative costs for the nonprofits and other HUD programs; (4) used $32,381 in Drug Elimination Grant funds for questionable purposes; and (5) paid unauthorized or questionable salaries and benefits of $177,050 from the Drug Elimination Grant Program and cannot support the propriety of $2,988,049 in arbitrary payroll allocations to all of the HUD programs. Authority managers told us they were not familiar with the provisions of the Low Rent and Section 8 contracts, federal cost principles, and other HUD program requirements for cost eligibility. Authority managers also told us they believed all HUD program funds could be used for the purpose of providing any affordable housing for people throughout the City. Therefore, they did not implement procedures to ensure that only eligible costs were charged or allocated to HUD programs. As a result, the Authority diverted funds from HUD programs and violated HUD Annual Contribution Contracts (ACC), grant agreements, and other requirements.

HUD requirements.

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

Section 2 of the Low Rent Program ACC states that operating expenditures shall mean all costs incurred by the Authority for administration, maintenance, and other costs and charges that are necessary for the operation of the public housing projects other than Section 8.

Section 9 (C) of the Low Rent Program ACC, regarding the General Fund states, Program funds are not fungible; withdrawals shall not be made for a specific program in excess of funds available for that program. Section 10 (C), regarding pooling of funds states, "the Housing Authority shall not withdraw from any of the funds or accounts authorized under this section amounts for the projects under ACC, or for the other projects or enterprises, in excess of the amount then on deposit in respect thereto."

Sections 11 and 12 of the Section 8 Voucher ACC states that the Authority must use program receipts only to pay program expenditures in accordance with the HUD approved budget estimate and supporting data for the program. The Authority must also maintain an administrative fee reserve account and credit the account by the amount by which program administrative fees paid by HUD for a fiscal year exceed administrative expenses. Funds in the administrative fee reserve account can be used to pay administrative expenses in excess of program receipts or for other housing purposes.

Part 2, Section 2.6 (b) of the Section 8 Housing Assistance Payment Program Contract for Hampton Port states that project funds must be used for the benefit of the project, to make mortgage payments, to pay operating expenses, and to make the required deposits to the replacement reserve account. Any surplus project funds that are withdrawn must have HUD approval and be only for project purposes.

Article II (1 and 14) of the Public Housing Drug Elimination Grant Agreement, states that Grantees must follow applicable OMB Cost Principles, agency program regulations, and the terms of the grant agreements in determining cost reasonableness, eligibility, or proper cost allocations.

Title 24, CFR 85.20 (b)(2, 3, 5) requires Grantee's Financial Management Systems to include fiscal and accounting controls that permit the tracing of funds to adequately identify the source and application of the funds. Grantees must maintain effective control and accountability to adequately safeguard cash, real, and personal property to assure that assets are used solely for authorized purposes. Grantees must follow applicable OMB cost principles, agency program regulations, and the terms of grant agreements in determining the cost reasonableness, cost eligibility, and if necessary the proper cost allocation. In addition, accounting records must be supported with source documentation, such as cancelled checks, paid bills, payrolls, time and attendance records, contract award documents, etc.

OMB Circular A-87, Attachment A, Part C, Basic Guidelines, requires costs to be necessary, reasonable, and adequately documented for proper and efficient performance and administration of federal awards. Costs must conform to any limitations or exclusions set forth in these principles, federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items. The Circular also provides that costs should be allocated or charged to a particular cost objective or program according to the relative benefits received. In addition, any cost identified or allocated to a particular program may not be charged to other federal programs: to overcome funding shortfalls; to avoid restrictions imposed by law or terms of the federal awards; or for other reasons.

OMB Circular A-87, Attachment A, Part E and F, define direct costs and indirect costs. Direct costs are identified with a particular final cost objective. Compensation for employees is for the time devoted and specifically identified with the performance of the award or federal program. Indirect costs are costs incurred for common or joint purposes that benefit more than one program and are not readily assignable to a particular cost objective or award. Indirect costs apply to costs incurred by grantee departments supplying goods, services, and facilities to the other departments. It may be necessary for an agency to establish indirect cost pools or cost allocation plans to facilitate equitable distribution of indirect costs to the cost objectives and programs that benefit from common administrative costs or services.

OMB Circular A-87, Attachment B, Section 11 (h), Support of salaries and wages, sets the standards for payroll documentation regarding time distribution. Specifically:

- Charges for salaries and wages of employees who work solely on a single federal award or cost objective must be supported, at least semi-annually, by signed periodic certifications.

- Salary and wage distribution for employees who work on multiple activities, federal or non-federal awards, direct or indirect cost activities or other cost objectives, must be supported by personnel activity reports or equivalent documentation as approved by the cognizant federal agency. Personnel activity reports must be signed, prepared at least monthly, coincide with one or more pay periods, and reflect an after-the-fact distribution of the actual total activity for which the employee is compensated; Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards. The awarding federal agency must approve any other substitute system for estimates or percentages. In all cases, the government entity must use monthly activity reports and perform quarterly comparisons of actual costs to budgeted distributions. Adjustments to the estimates must be made if the difference is more than 10 percent. If the difference is less than 10 percent the adjustments can be recorded annually.

OMB Circular A-87, Attachment B, Section 11 (d), Fringe benefits, states that the cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance, pension plan costs, and other similar benefits shall be allocated to federal awards in the same manner as employees' salaries and wages.

OMB Circular A-87, Attachment B, Section 18, entertainment, states that costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

Section (IV)(E)(10) of the 1999 Drug Elimination Program Notice of Funding Availability in the Federal Register, dated May 12, 1999, lists indirect costs as ineligible program charges. Further, the "Public Housing Drug Elimination Program Monitoring and Reporting Guide for Field Office Staff and Grantees" provides rules and instructions for monitoring and administration of the Drug Elimination Grant Program. In part three of the guide, HUD specifically states, that indirect costs cannot be charged to the Drug Elimination Grant Program.

The Authority diverted $267,814 in HUD funds to develop a nonprofit's project.

The Authority Management violated HUD contract requirements by diverting $267,814 in Public Housing and Section 8 Program funds to other purposes instead of program operations. The Authority management used Low Rent and Section 8 Program funds, intended for the operation of the projects, to develop and build 30 homes for the Thanksgiving Homes Project. The Thanksgiving Homes Project is owned by the Thanksgiving Homes Corporation which is an affiliated nonprofit of the Authority.

In June 2002, the Authority advanced $25,000, from the Section 8 Voucher Program, to the Corpus Christi Finance Corporation, another affiliated nonprofit that is financing the project, to purchase the land. The Section 8 Voucher Program had no reserves at the time, or at any time since September 30, 2000, so the funds actually came from advances HUD made to the Authority for the Section 8 Voucher Program.

In April 2003, the Authority advanced an additional $100,000 in Hampton Port Section 8 funds, to the Corpus Christi Finance Corporation, to pay the architectural services for the project. During that same month, the Authority used $142,814 of Low Rent funds to purchase building materials to build the houses.

In May 2003, the Corpus Christi Finance Corporation deeded the land to the Thanksgiving Homes Corporation for the Thanksgiving Homes Project. We noted the Authority did not have to finance the Thanksgiving Homes Project with Low Rent or Section 8 funds, because the Corpus Christi Finance Corporation had over $1,000,000 in cash and investments it could have used for the Thanksgiving Homes Project.

The Authority used Low Rent funds to pay Section 8 Program costs.

As of April 30, 2003, the Authority's Section 8 Programs owed its Low Rent Program $476,088. The Authority used Low Rent funds to pay for Section 8 Program salaries and benefits for staff that work on the Section 8 Voucher

Program and the Hampton Port Section 8 Project. The Authority officials told us they use the Low Rent General Fund to pay payroll costs for all the programs. At a later date, when money is available, the programs reimburse the Low Rent General Fund for past payroll costs incurred.

On April 30, 2003, the Authority's Section 8 Voucher Program owed $309,699 to the Low Rent Program for funds used to pay the salaries and benefits of the Section 8 Voucher Program. The Hampton Port Section 8 Project owed $166,389 to the Low Rent Program for funds used to pay the salaries and benefits for employees that work on the Hampton Port Section 8 Project.

The Section 8 Voucher Program, on September 30, 2002, owed the Low Rent Program $977,752. During the next 3 months, the Section 8 Program was only able to reimburse $990,000 to the Low Rent Program for part of the payroll costs that had accumulated through December 2002. However, the Low Rent General Fund has continued to pay monthly Section 8 Voucher Program payroll costs ranging form $37,345 to $65,495.

The Authority used Low Rent funds to pay common costs for the Section 8 Programs and the nonprofits.

Until July 2003, the Authority charged all common administrative costs to the Low Rent Program. Authority officials did not properly allocate common administrative costs because they had not developed an acceptable cost allocation. The Independent Public Auditors have had repeat findings on the Authority's allocation of costs from fiscal year 1999 through 2002. The auditors either could not test the rationale of the cost allocation schedules or reported that costs were not being allocated to the nonprofits or the Section 8 Programs.

In May and July 2003, the Finance Director prepared cost allocation plans for the Section 8 Voucher Program and for the nonprofits. The costs allocation plans, for monthly expenses, are generally based on estimates and include estimates for common administrative costs such as postage, communications, computer, copier, printing, utilities, pest control, protective services, janitorial services, and general liability and auto insurance. A cost allocation plan for the Hampton Port Section 8 Project was not prepared. The Finance Director stated that the administrative management fee the Authority receives covers all common costs incurred for any supervisory or administrative salaries, and other costs. HUD approved the fee when approving the management certification on August 16, 2002. She also stated that the monthly management fee is a good estimate of common administrative costs incurred for the operation of the Hampton Port Section 8 Project, such as those allocated to the Section 8 Voucher Program. However, HUD will need to review and approve the rationale behind the allocation plans.

Although the Authority based the allocation on estimates, it has reimbursed the Low Rent Program for some of the costs. The Authority allocated 8 months of common costs to the Corpus Christi Finance Corporation because it was not very active until October 2002. They allocated 6 months of common costs to the Thanksgiving Homes Corporation because it was not created until December 2002. After we brought the issue to the Authority's attention, the Corpus Christi Finance Corporation reimbursed the Low Rent Program for common costs from October 2002 through July 2003. However, the Thanksgiving Homes Corporation has not reimbursed the Low Rent Program for any common costs allocated or recorded from December 2002 through July 2003. According to the Finance Director, the Thanksgiving Homes Corporation will reimburse the Low Rent Program after all the homes are built and sold and the construction loan is paid back. She said the Low Rent Program would continue to incur the common costs associated with the Thanksgiving Homes Project until the last house has been sold. We do not believe the Low Rent Program should be used to finance the nonprofits.

The Low Rent Program has been paying the monthly common costs for the Hampton Port Section 8 Project without getting reimbursed since 1991. For the 11 years between August 1991 and July 2002, the Authority did not collect a management fee from the Hampton Port Section 8 Project to cover any administrative costs associated with the management of the project.

Based on the Authority's estimates, during the 20 months between October 2001 and May 2003, the Low Rent Program has incurred $110,920 in common costs for the administration of the Section 8 Programs and for nonprofit projects. The table below shows the Authority's estimated common monthly cost allocation, the amount that should be collected for the audit period if HUD accepts the method of allocation, the amount that has been reimbursed or recorded, and the remaining allocations due as of April 30, 2003.

Programs	Monthly Common Costs	Months In Audit Period	Allocations In Audit Period	Reimbursed Or Recorded	Remaining Allocations For Period
Section 8 Voucher	$2,100	20	$ 42,000	$16,920	$25,080
Hampton Port Section 8	2,970	20	59,400	28,167	31,233
Corpus Christi Finance Corporation	680	8	5,440	5,440	0
Thanksgiving Homes Corporation	680	6	4,080	4,080	0
Total Common Costs			**$110,920**	**$54,607**	**$56,313**

HUD will need to review the cost allocation plans to decide whether they provide an acceptable basis for charging common costs to the various HUD programs, and ensure the Low Rent Program is credited and repaid for the costs paid from Low Rent.

The Authority cannot support $32,381 it charged to the Drug Elimination Grants.

The Authority management cannot support the propriety of $32,381 it charged to the Drug Elimination Grants. The Authority's Drug Elimination Grant Program files were missing accounting records to support the charges, missing documents to show that the costs were for eligible activities, or missing both accounting and eligibility documentation. For example, the Authority had expenditures for holiday activities for Easter, Thanksgiving, Christmas, Halloween, Valentine's Day, and St. Patrick's Day. The Authority also gave funds directly to the Resident Associations for the Thanksgiving and Christmas activities. We asked the Authority to provide justification for the unsupported costs; however, the Authority did not provide adequate support for the eligibility of these costs. For many of the charges, including the Christmas and Thanksgiving activities, the justification given by the Authority was that the activity was included in the HUD approved Drug Elimination Grant Budget and Plan. However, although HUD approves budgets, the grant agreement still requires the Authority to abide by all applicable laws and OMB Circulars. The Authority could not show how holiday activities met the eligibility requirements and did not provide any invoices, receipts, or other documentation to show how the Resident Association used the money. Without any supporting documentation, these charges appear to be for entertainment costs related to holiday celebrations. These costs will remain unsupported until the Authority can provide documentation that shows:

1. What eligible activity was undertaken, i.e., youth sports, drug or crime prevention activities, etc.
2. When the activity was undertaken.
3. Where the activity was undertaken.
4. Who attended, who was assisted, or who benefited from the activity.

Without the proper documentation, the Authority can provide no assurance these funds were used for their intended purposes. The table below shows a summary of expenditures missing invoices, expenditures missing documentation to show how the expenditure should be considered necessary and reasonable for program accomplishment, and expenditures that were missing both invoices and proper documentation. We have provided HUD and the Authority the detailed listing of the unsupported expenditures.

DEP Grant Year	Missing Invoices & Receipts	Missing Eligibility Documents	Missing Both	Totals
2000	$1,756	$11,005	$5,530	$18,291
2001	7,563	4,269	2,258	14,090
Totals	**$9,319**	**$15,274**	**$7,788**	**$32,381**

The Authority cannot support $2.9 million in salary and benefit costs for the period.

The Authority cannot support the eligibility of $2,988,049 of salaries and benefits costs it charged to HUD programs. In addition, the Authority paid an estimated $177,050 for indirect salaries and benefits charged to the Drug Elimination Program for salaries of non-project employees and unallocated salaries associated with nonprofit activities. The Authority used arbitrary allocation percentages to allocate the salaries and benefits for 45 employees who worked on multiple programs instead of keeping detailed time activity reports that show the actual time spent on each program.

The Authority used a computerized system to record and allocate salary and benefit expenses of about $6,141,259 for 202 employees during the review period from October 1, 2001, through April 30, 2003. We used computerized payroll records to compare the gross wages paid by employee assignments, job descriptions, and assigned activities. We also conducted interviews with employees to evaluate and determine if the salaries were supported.

The Finance Director and staff described the Authority's computerized payroll system and provided electronic payroll data. The payroll system generates employee paychecks drawing funds from a Low Rent clearing account. The system keeps track of how much each program owes the Low Rent account and Finance personnel periodically reimburse the Low Rent account as Program funds become available. The system allocates individual payroll costs to Program accounts using an allocation code. The Executive Director and Finance Director, using their "best estimate" of time spent on programs by employees, assigned the allocation codes and percentages for each position or employee. Adjustments to the allocation percentages and codes are made when there are changes in staff or employee responsibilities. The Authority did not provide supporting data to support their estimates for the allocation codes. The following table shows the unsupported payroll and ineligible payroll costs paid by programs during the review period.

Program/Activity	Unsupported Payroll A	Indirect Salary Costs B	Non-Project Employees C	Thanks Giving Homes Development Team D	Ineligible Payroll B, C, &D
Low Rent	$2,190,306			$11,958	$11,958
Section 8 Voucher Program	501,375			7,319	7,319
Hampton Port	55,019		$5,088	251	5,339
Capital Fund 1999-2001	186,278			8,014	8,014
ROSS 2002-2003	3,402				
DEP 1999-2001	51,669	$141,703		2,717	144,420
Totals	**$2,988,049**	**$141,703**	**$5,088**	**$30,259**	**$177,050**

The Authority's payroll and accounting records were incomplete. The records show how the Authority allocated gross wages by employee and program; however, they did not provide this level of detail for all the employer-paid benefits and taxes by employee. The Authority was only able to provide, by employee, the allocation for employer-paid premiums for the Humana Health and Life Insurance for the period from October 1, 2001, through April 30, 2003. The employer-paid benefits and taxes included: FICA, Short-Term Disability Insurance, Retirement Benefits, Health and Dental Insurance, Life Insurance, Worker's Compensation Insurance, and State Unemployment Insurance.

The Authority arbitrarily allocated $2,988,049 in salaries and employer-paid benefits and taxes. We identified $1,667,917 in unsupported salaries for 45 employees who worked on multiple programs. In addition, $1,320,132 in employer-paid benefits and taxes, including Humana Health benefits, is unsupported because they could only be identified by program.

The $177,050 in ineligible salaries and benefits charged to the programs was specifically used for the following ineligible activities: (a) $141,703 ineligible indirect salary costs was charged to the Drug Elimination Programs; (b) $5,088 in salaries were charged to the Hampton Port Section 8 Project for non-project employees; and (c) $30,259 in salaries for authority staff that worked on a nonprofit's housing project.

The Authority charged the Drug Elimination Programs $141,703 for unallowable indirect salary costs.

The Authority allocated $141,703 in salaries and benefits for 25 employees from the executive, finance, purchasing, warehouse, personnel, information technology, and other support departments to the Drug Elimination Program using arbitrary or predetermined payroll allocations. The Authority cannot show the costs related to authorized direct time spent on the program. Therefore the $141,703 is unallowable because the Drug Elimination Grant does not allow indirect costs to be charged to the program.

The Authority charged $5,088 in salaries to the Hampton Port Project for employees not assigned to the project.

The Authority also allocated $5,088 salaries and benefits to the Hampton Port Section 8 Project for eight employees that were not assigned to the project. The employees are from various departments and are not involved in the day-to-day operations of the project. Thus, the Authority cannot show that the payroll allocations to the Hampton Port Section 8 Project were for project expenses. In addition, the Hampton Port Section 8 Project already pays the Authority a monthly administrative fee to cover the salaries and benefits of department staff and other administrative costs needed to administer their program. The salary and benefit allocations of $5,088 are not project costs and should not have been charged to the project.

The Authority did not allocate development team salaries to the Thanksgiving Homes Project.

The Authority did not allocate an estimated $30,259 in salaries, for 16 employees, from various departments that worked on the Thanksgiving Homes Project. These employees are development team members of the Authority's affiliated nonprofit, The Thanksgiving Homes Corporation. The team members did not keep detailed time records showing how much time they spent on the nonprofit’s project. We requested each team member to provide their “best estimate” of time spent doing development activities for the nonprofit. We then estimated salary expenses by multiplying each team member's estimate of time spent on development activities by their salary rate. Then we allocated estimated salary costs among program accounts using the Authority's payroll allocation ratios. Based on this estimate, we calculated the Authority used HUD program funds of about $30,259 to pay salary expenses for individuals working on Thanksgiving Homes’ development activities. Because of incomplete payroll records, we were not able to estimate the benefits and taxes that should have been allocated for the 16 employees.

Authority managers are not familiar with HUD requirements.

Authority management stated they were not familiar with the HUD requirements and cost principles that restrict the use of funds in the Low Rent, Section 8, and Drug Elimination Programs; and require that salaries, benefits and common costs be properly allocated and supported. Authority managers told us they believed all HUD program funds could be used for the purpose of providing any affordable housing for people throughout the city. They also did not see a problem with using HUD funds for nonprofit development activities.

During the audit, Authority managers generally agreed with our findings and conclusions. The Authority officials indicated they reimbursed $488,810 to the HUD programs or recorded liabilities for unauthorized costs identified during the audit. See Table below.

Finding - Condition	Totals Questioned Costs	Reimbursed or Recorded	Remaining Questioned Costs
Thanksgiving Homes Project Cash Outlays	$ 267,814	$267,814	$ 0
Section 8 Program Salaries and Benefits	476,088	166,389	309,699
Common Administrative Costs	110,920	54,607	56,313
Unsupported Drug Elimination Costs	32,381	0	32,381
Ineligible Salaries and Benefits	177,050	0	177,050
Unsupported Salaries and Benefits	2,988,049	0	2,988,049
Total Questioned Costs	**$4,052,302**	**$488,810**	**$3,563,492**

The Authority indicated they specifically:

1. Reimbursed the HUD programs for $267,814 for the ineligible costs used to develop the Thanksgiving Homes Project;
2. Reimbursed the Low Rent Program $166,389 for the salaries and benefits paid on behalf of the Hampton Port Section 8 Project;
3. Developed and implemented common cost allocation plans for the Section 8 Voucher Program and the nonprofits;
4. Reimbursed, or recorded an Interfund Payable, for at least $54,607 to the Low Rent Program for common cost paid on behalf of the Section 8 Programs and the nonprofit corporations;

5. Began to implement new payroll procedures to support future payroll allocations for employees that work on multiple programs; and
6. Required Thanksgiving Homes Development Team members maintain detailed time sheets and record the amount of time spent on each program activity, including any nonprofit activities.

Auditee Comments

Authority officials indicated they are committed to partnering with HUD and specifically stated: "In the spirit of cooperation and compliance the CCHA has already taken steps to resolve all audit recommendations, as is detailed in the attached Response to Audit Recommendations." They said a common cost allocation policy has been developed and approved by the Executive Director. The Authority has paid back some money identified by the finding and has initiated payback plans for some other money to be repaid. They also said they are in the process of reviewing certain expenditures in an effort to provide adequate support to HUD. Regarding the amounts Thanksgiving Homes owes to HUD programs, the Authority officials said they would repay the HUD programs with a bank loan.

OIG Evaluation of Auditee Comments

The Corpus Christi Housing Authority appears to be responsive to our report and recommendations.

Recommendations

We recommend HUD:

1A. Require the Authority to implement procedures, including acceptable cost allocation plans, to ensure they only charge eligible and supported costs to the HUD programs.

1B. Ensure the Authority properly pays back the HUD programs from nonfederal funds the $267,814 for cash outlays associated with the nonprofit's Thanksgiving Homes Project.

1C. Ensure the Authority pays back the Low Rent Program $476,088 ($166,389 from Hampton Port and $309,699 from the Section 8 Voucher Program) for salaries and other costs paid for the Section 8 Programs.

1D. Require the Authority to repay the Low Rent Program for any additional costs that have accumulated in all the Section 8 and nonprofit Interfund Payable accounts subsequent to May 31, 2003.

1E. Require the Authority to cease using the Low Rent program to cover the salaries, benefits, common costs, and other costs for other programs.

1F. Ensure the Authority's Cost Allocation Plans for the Section 8 Voucher Program and the nonprofits are acceptable and if appropriate require the Authority to pay back the $110,920 to the Low Rent Program for common costs paid for the Section 8 Programs and the nonprofits and any additional common cost allocations subsequent to May 2003.

1G. Require the Authority to adequately support or reimburse the Drug Elimination Programs any of the $32,381in program costs they cannot support.

1H. Ensure the Authority develops and implements a formal timekeeping policy that complies with HUD regulations and cost principles to support employee salaries and benefits costs allocated to the programs.

1I. Ensure the Authority pays back the HUD programs, $177,050 paid for ineligible salary costs and any other undetermined benefits and taxes paid by HUD programs.

1J. Require the Authority to provide support for the $2,988,049 in unsupported salaries and employer-paid benefits and taxes or repay any amounts that remain unsupported.

1K. If the Authority refuses to take adequate corrective action, consider taking action to declare a substantial breach or default of the Annual Contribution Contracts.

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.

Relevant Management Controls

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

- Management's adherence to federal contract provisions and regulations;
- Management's assurance that expenditures are eligible;
- Management's assurance that expenditures are adequately supported and properly recorded; and
- Management's adherence to procurement policies and procedures.

We assessed the relevant controls identified above.

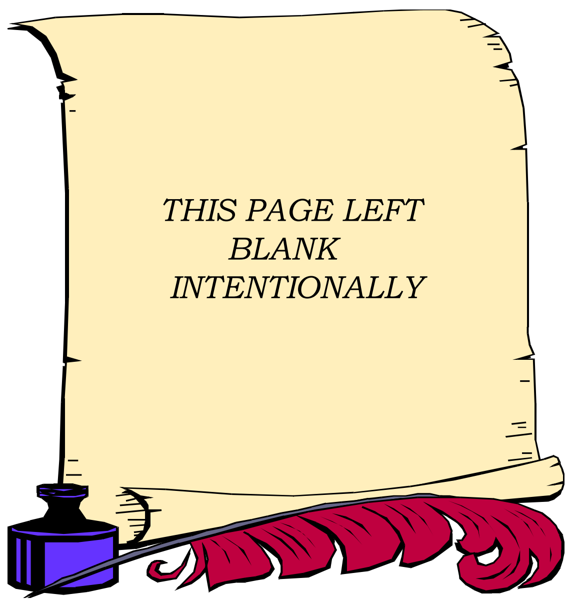
It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weaknesses

Based on our review, we believe the Authority lacks controls to ensure:

- Adherence to federal contract provisions and regulations;
- Expenditures are eligible; and
- Expenditures are adequately supported and properly recorded.

These weaknesses are more fully described in the finding section of this report.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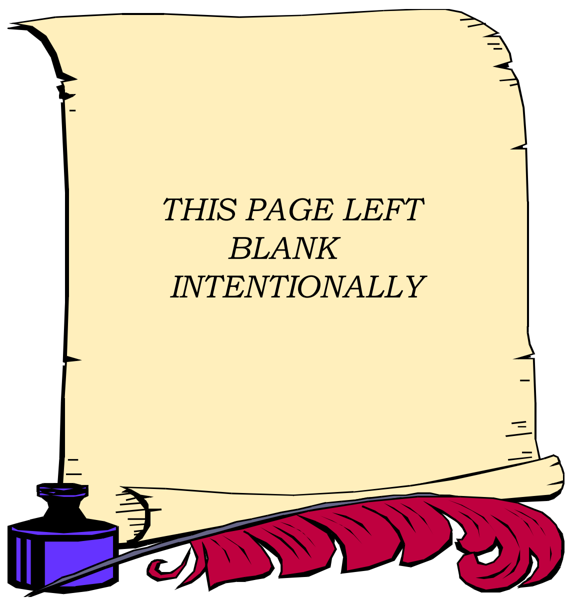
Issues Needing Further Consideration

The Authority may not be properly accounting for program assets or equitably allocating related employee health, life, and dental benefits costs to the programs. It appears, the Authority is not keeping track of contributions and program balances in its self-funded health benefits plan. Federal cost principles require that costs be allocated to the extent of benefits received and not be charged to other programs to overcome fund deficiencies. In addition, employee benefit costs must be allocated in a manner consistent with employee wage allocations and based on documented payroll records. The detail must be adequate to support allocations for employees working on more than one federal award.

The Authority began a self-funded insurance program on July 1, 2002, called the Employee Benefit Plan Trust. This insurance program provides health benefits for Authority employees. The Authority is the Plan Administrator and has control of the Trust Account. The Authority has an administrative services agreement contract with Entrust, Inc., for a fee. The program generally works like this:

1. The Authority uses program funds to pay the employer's portion of the health and dental premiums and its share of the fees. The employees’ premiums also include their share of Entrust Inc. fees.
2. The Authority deposits the employer and employee premium contributions into the Low Rent General Fund;
3. Authority managers write a Low Rent check to transfer employer and employee contributions to the Employee Benefit Plan Trust; and
4. Entrust Inc. processes and pays health and dental claims using the trust funds; and provides monthly reports detailing plan activity and recommended plan funding.

The Authority's current system for employee health and dental benefits does not appear to meet federal cost principles. The Authority does not track contribution balances in the Employee Benefit Plan Trust account by program or match claim payments with program contributions. For example if an employee from the Drug Elimination Program has a claim, the Authority would not be able to show that only Drug Elimination Fund contributions would be used from the trust to pay the claim. The Authority could not track employee claims from the Section 8 Voucher Program that were in excess of that program’s contributions in the trust. In the latter example, other program funds would be used to overcome the fund deficiency. Authority managers said the trust balance was about $148,884 as of September 30, 2003. They do not know what programs contributed, or make up this balance because they are not maintaining records to support their allocation of employer benefits and payroll costs (see Finding on unsupported payroll costs).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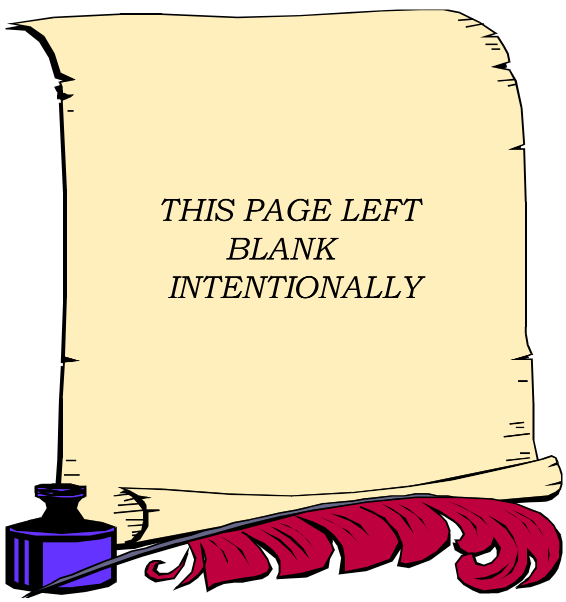
Schedule of Questioned Costs

Recommendation Number	Type of Questioned Cost Ineligible [1]	Unsupported [2]
1B	$ 267,814	
1C	476,088	
1F	110,920	
1G		$ 32,381
1I	177,050	
1J		2,988,049
TOTALS	$1,031,872	$3,020,430

[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

Corpus Christi Housing Authority

HOUSING AUTHORITY OF
THE CITY OF CORPUS CHRISTI
Executive Offices
3701 Ayers Street
Corpus Christi, Texas 78415

RICHARD J. FRANCO, Executive Director

Office: 361-889-3349
Fax: 361-889-3326

March 2, 2004

Mr. D. Michael Beard
Regional Inspector General
U.S. Department of Housing
And Urban Development
Regional Office of Inspector
General for Audit
819 Taylor Street, Room 13A09
Fort Worth, Texas 76102

Dear Mr. Beard:

As indicated during the exit conference of February 3, 2004 and pursuant to your letter dated February 5, 2004, enclosed please find our written responses to the audit final draft report.

If you have any questions, please call me at the number listed above.

Sincerely,

Richard J. Franco
Executive Director

RJF:es

Enclosure

AUDIT RESPONSE COVER LETTER

The City of Corpus Christi Housing Authority (CCHA) is committed to partnering with the Department of Housing and Urban Development (HUD) in fulfilling its mission of:

Building and maintaining affordable housing for the low to mixed income residents of our community, without discrimination. We seek to promote safe neighborhoods by partnering with individuals and organizations to provide housing, employment opportunities, and education benefits for eligible individuals to improve their quality of life.

HACC's mission will be accomplished via fiscally responsible entrepreneurial organization committed to the highest level of professionalism and excellence in public service.

During the period of October 1, 2003 to April 30, 2003 the Regional Office of Inspector General (IG) conducted an audit of the CCHA at the request of the Director of Public Housing of the San Antonio Office of HUD. In the opinion of the CCHA, the findings of this audit can be succinctly summarized as:

1. The HA allocation methodology for common and indirect costs does not meet the requirements of OMB A-87.
2. The HA movement of funds between program to cover shortfalls and the use of documented loans to move funds between HUD programs and an HA affiliated nonprofit organization is unacceptable under the Low Rent Annual Contribution Contract and OMB A-87.
3. A total of $32,382 (out of a $755,832 disbursed) of Drug Elimination funds were not properly documented.

In the spirit of cooperation and compliance the CCHA has already taken steps to resolve all audit recommendations, as is detailed in the attached Response to Audit Recommendations.

As is stated above, the CCHA is committed to partnering with HUD and specifically the HUD San Antonio Office. We recognize that good communication and openness are essential components of such a partnership, and we believe that we demonstrated such in our full and open support of the audit process. We fully expect that HUD and its San Antonio office will work with us in the same manner. In that vein, there are some concerns that the CCHA would like to have resolved.

1. The IG audit involved 3 full time IG personnel and considerable HA personnel time for 6 months. This was not an insignificant cost and ultimately takes resources and energies from the people we are here to serve. Given that the audit recommendations fall into only three categories (one of which is relatively insignificant) and given their quick resolution:

- ❖ Why was the City of Corpus Christi Housing Authority selected for audit by HUD San Antonio?

- ❖ Why did the HUD San Antonio Office not first try to work with the CCHA to determine if such a cost intensive measure was warranted?

2. It is the understanding of the CCHA that the allocation of common and indirect costs is a problem for many Housing Authorities (HA). That the requirements of OMB A-87 are not fully understood and therefore many HA are not in full compliance.

- ❖ Why has HUD not taken a more proactive role in helping HA to resolve this issue before it becomes an audit finding and puts HA in a very costly and inefficient position re: resolution?

- ❖ Specifically if this was a concern and part of the rationale for requesting an audit of the CCHA, why did the HUD San Antonio Office not first offer assistance in resolving the issue?

We feel that the resolution of the above issues is important to our continued partnering and look forward to your response.

City of Corpus Christi Housing Authority
Responses to the Recommendations of the Inspector General Audit
Period Oct 1, 2001 through Apr 30, 2003

Recommendation 1A. Require the Authority to implement procedures, including acceptable cost allocation plans, to insure they only charge eligible and supported costs to the HUD programs.

Response:
Corrective Action Taken:
A **Common Costs Allocation Policy** has been developed by the Finance Department, and reviewed and approved by the Executive Director. The Common Cost Allocation Policy was based on estimates of space used by each program, the number of phone lines in use by each program, and other rational measures.

Salaries and Benefits Allocation: A time tracking procedure has been implemented and Salaries and benefits are being allocated accordingly. Time tracking sheets are kept on a bi-weekly basis by the employees of the Housing Authority. The employees consist of three different groups based upon the type of work they perform.

1. Employees that spend part of their time on a specific not-for-profit project are required to complete time tracking sheets on a continuous basis. The sheets are submitted to Finance bi-weekly and the allocations are changed in payroll bi-weekly reflecting the previous two week period.

2. Employees that spend 100% of their time on one program are allocated 100% to that specific program. These employees are required to sign a semi-annual certification, one in April for the October to March period and one in October for April to September. In addition, the form must be signed by the employee's Supervisor or Director

3. Employees that are allocated among several programs are required to complete time tracking sheets every six months for a two month period. The allocations are changed every 6 months based upon the results from the two month period. For example, employees would track their time for the months of July and August and the percentages would be changed in the payroll system. Then those percentages would remain until the next time tracking was done in February and March (six months).

Corrective Action Planned:
The Housing Authority proposes that a Cost Allocation Plan that meets all the requirements of OMB A-87 be developed, approved by HUD, and implemented. The plans discussed above for the allocation of common costs, and salaries and benefits have been implemented to mitigate against building variances and may or may not be the final solutions implemented.

Recommendation 1B. Insure that the Authority properly pays back the HUD programs from nonfederal funds the $267,814 for cash outlays associated with the nonprofit's Thanksgiving Homes Project.

Response:
Corrective Action Taken:
The $267, 814 has been repaid. Payments back to the Low Rent, Hampton Port/New Construction and Housing Choice/Section 8 program have been made as follows:

1. 4/03/03 - $100,000.00 was transferred from Hampton Port/New Construction to Corpus Christi Finance Corporation (CCFC) for Thanksgiving Homes expenses.

2. 4/28/03 -Aluma-Struts was paid $142,814.00 from Low Rent for Thanksgiving Homes.

3. 5/23/03 -IG auditors expressed a concern about Low Rent paying this bill so it was decided to repay Low Rent with a cash transfer of $142,814.00 from Hampton Port to Low Rent. Journal entries were done to transfer the interfund balances as a due to Hampton Port and a due from CCFC (expenses for Thanksgiving Homes.)

4. 6/27/03 -The first Frost Bank Loan proceeds were deposited into the Thanksgiving Homes Bank account. ($394,547.68)

5. 6/30/03 -At June 30, 2003, Hampton Port owed Low Rent $194,599.90 for accumulated salaries, benefits administrative fees and other costs paid by Low Rent.

6. 6/30/03 -$242,814.00 was the total amount owed to Hampton Port by Thanksgiving Homes. $194,599.90 was transferred from Thanksgiving Homes account to Low Rent to pay Low Rent back for the interfund balance due. The remainder balance owed to Hampton Port by Thanksgiving Homes was transferred from Thanksgiving Homes account to Hampton Port ($48,214.10).

These transactions cleared the interfund balance due to Low Rent and the interfund balance due to Hampton Port by Thanksgiving Homes. There are no balances currently due to Hampton Port by either CCFC or Thanksgiving Homes. The only balance due to Low Rent from CCFC at December 31, 2003 is the salary and benefit costs for December expenses and the Common Costs allocation for December. This balance was paid back to Low Rent in January 2004. The balance due to Low Rent from Thanksgiving Homes on December 31, 2003 was $55,731.14 and included charges for salaries, benefits, common cost allocations, and other miscellaneous charges paid by Low Rent throughout the time that Thanksgiving Homes has been in existence. The balance due to Low Rent from Thanksgiving Homes will be repaid from the proceeds of a Bank loan advance to Thanksgiving Homes secured by the Executive Director.

Since the Housing Authority was informed by the IG Auditors that interfund transfers as loans were not acceptable activities, no additional transfers have been made except for the monthly payment and common cost transfers involving payments to Low Rent for expenses paid by Low Rent.

Recommendation 1C. Insure the Authority pays back the Low Rent Program $476,088 ($166,389 from Hampton Port and $309,699 from the Section 8 Voucher Program) for salaries and other costs paid for the Section 8 Programs.

Response:
Corrective Action Taken:
The $166,389 due to Low Rent from Hampton Port for accumulated salaries and benefits has been repaid as detailed in our response to Recommendation 1B.

Corrective Action Planned:
The CCHA has initiated a six-year payback plan of monthly installments and an initial lump sum payment. This will be made possible by the following actions by the Section 8 Program:

1. The current advertised vacant position for Section 8 Program Manager (estimated salary/benefits of $65,000 will be withdrawn and replaced with a more "hands on" working supervisory role (estimated salary/benefits $41,000).
2. The program will maintain a staff of five (5) full time employees consisting of four (4) administrative personnel (Section 8 Supervisor and three Housing Specialists) and one HQS Inspector. The staff will report to the Deputy Director and/or Director of Housing Management.
3. The program will utilize a HUD certified methodology to accurately determine payroll allocations for the percentage of time spent by other CCHA personnel performing tasks for the Section 8 Program. This will reduce cost and produce a substantial savings of administrative funds directed towards the payback strategy.
4. Communication and travel costs will be closely monitored and strict adherence to budgetary constraints will be required.

The payback plan is contingent upon receipt of the amount due from HUD for the 2003 year-end settlement statement and an increase in subsidy effective March 2004.

Recommendation 1D. Require the Authority to repay the Low Rent Program for any additional costs that have accumulated in all the Section 8 and Nonprofit Interfund Payable accounts subsequent to May 31, 2003.

Response: The repayment to Low Rent from Section 8 for accumulated salaries, benefits, and other costs was addressed in Response 1C.
Corrective Action Taken:
CCFC is repaying Low Rent on a monthly basis for the expenses paid by Low Rent. A check is written each month to cover the costs of the expenses of the previous month and deposited into the Low Rent account. Interfund account balances are reduced through the month end cash receipt journal entries.

Corrective Action Planned:
The balance due to Low Rent from Thanksgiving Homes at December 31, 2003 was $55,731.14 and included charges for salaries, benefits, common cost allocations, and other miscellaneous charges paid by Low Rent throughout the time that Thanksgiving Homes has been in existence. As stated in Response 1B, the balance due to Low Rent from Thanksgiving Homes will be repaid with a bank loan advance.

Recommendation 1E. Require the Authority to cease using the Low Rent Program to cover the salaries, benefits, common costs, and other costs for other programs.

Response:
It is the Housing Authority's contention that the current payroll system is adequately configured to track all salaries and benefits, by fund, in a detailed manner. Although the Low Rent program does initially cover all payroll expenses, the month end reimbursement process does reimburse the Low Rent program on a monthly basis for all costs paid by Low Rent.

1F. Insure the Authority's Cost Allocation Plans for the Section 8 Voucher Program and the nonprofits are acceptable and if appropriate require the Authority to pay back $110,000 to the Low Rent Program for common costs paid for the Section 8 Programs and the nonprofits and any additional common cost allocations subsequent to May 2003.

Response:
Corrective Action Taken:
The corrective action taken and planned relative to Cost Allocation was addressed in the response to recommendation 1A. Additional detail on action taken is as follows:

1. Section 8 - A formal Common Cost Allocation methodology has been developed and has been in place since July 2003. Adjustments were made to the months prior to July to the beginning of the fiscal year to charge the Section 8 program for Common Costs. A retroactive adjustment was made to fiscal year ended 2002 and funds were transferred from the Section 8 program to the Low Rent program for FYE02 Common Costs. This amount was $27,180.

   Payment for the current fiscal year is included in the repayment plan described in the response to recommendation 1C. The amount currently charged to the Section 8 program for common costs is $2,100. The allocation amount is adjusted annually based on actual common costs expenses as recorded at year end.

2. Corpus Christi Finance Corporation - A formal Common Cost allocation methodology has been developed and has been in place since July 2003. Adjustments were made to the months prior to July to record the new common cost allocations. A retroactive adjustment was made for the period October 1, 2002 to June 30, 2003 and was for $6,120. This amount was reimbursed to Low Rent on August 5, 2003 and the amount was (including some miscellaneous charges) $6,206.79. Low Rent is now reimbursed on a monthly basis for common costs allocations, salaries, benefits and any other expenses paid by Low Rent for the previous month's expenses.

Thanksgiving Homes – as was detailed in the response to recommendation 1B, all balances due from Thanksgiving Homes will be repaid with a bank loan advance

Recommendation 1G. Require the Authority to adequately support or reimburse the Drug Elimination Program any of the $32,382 they cannot support.

Response:
Corrective Action Planned:
The Housing Authority is in the process of reviewing the expenditures listing provided by the Inspector General's Office for the Drug Elimination Program costs in question, totaling $32,382. We are currently researching the source documents in order to determine whether the items can be supported. The Authority will utilize Low Rent Public Housing funds to reimburse any expenditures that cannot be supported.

Recommendation 1H. Insure that the Authority develops and implements a formal time-keeping policy that complies with HUD regulations and cost principles to support employee salaries and benefits allocated to the programs.

Response: We believe that our response to recommendation 1A addresses this recommendation as well. To summarize: an allocation procedure based upon quantifiable measures has been developed and implemented for common costs and an allocation procedure based upon employee time tracking has been developed and implemented for the allocation of salaries and benefits. As was discussed in response to recommendation 1A, The Housing Authority proposes that a Cost Allocation Plan, that meets all the requirements of OMB A-87 be developed, approved by HUD, and implemented.

Recommendation 1I. Insure the Authority pays back the HUD programs, $177,050 paid for ineligible salary costs and any other undetermined benefits and taxes paid by HUD programs.

Response:
Corrective Action Planned:

1. $141,703 for ineligible Indirect Costs for PHDEP 1999-2001. The Housing Authority will refund the monies owed to HUD through wire transfer and the funds will come from the Low Rent General Fund.

2. $5,088 for ineligible salary and benefit costs for non-project employees for the Hampton Port Project. The Low Rent program will pay back to Hampton Port $5,088. Funds used will be the administrative fees earned to date by Low Rent for FYE 2004.

3. An entry will be recorded on Thanksgiving Homes books to indicate that Thanksgiving Homes owes the following amounts to the indicated funds, which will be repaid with a bank loan advance.

   A. $11,958 will be shown as a Due To on Low Rents books.
   B. $7,319 will be shown as a Due To on Housing Choice/Section 8 books.
   C. $251 will be shown as a Due To on Hampton Port books.
   D. $8,014 will be shown as a Due To on CFP 2002 books. (CFP 1999 & 2000 are closed and CFP 2001 is nearing completion.)
   E. $2,717 will be paid back to HUD through a wire transfer since the DEP programs are closed.

Recommendation 1J. Require the Authority to provide support for the $2,988,049 in unsupported salaries.

Response:
It is the opinion of the Housing Authority that there is no question as to the $2,988,049 in salaries and benefits being paid to employees for work performed, in other words it is not the payment of the salaries and benefits that is in question but rather the proper allocation of those costs. As was discussed in response to Recommendation 1A, action has already been taken to mitigate future allocation variances, and action proposed to develop and implement a HUD approved Cost Allocation Plan that meets all requirements of OMB A-87.

Corrective Action Planned:
The Housing Authority is not prepared, at this time, to propose an action plan for the resolution of this issue; we do propose that the Authority and HUD work together to define a solution that meets all HUD requirements without imposing undue hardship upon the Housing Authority and ultimately the people that it serves.

Issues Needing Further Consideration: The Authority's current system for health and dental benefits does not appear to meet federal cost principles. The Authority does not track contribution balances in the Employee Benefit Plan Trust account by program or match claim payments with program contributions.

The Housing Authority is committed in providing the best possible health care to our employees at the lowest cost available. The Housing Authority has changed to the current plan from the previous Humana plan (see below comparison) due to the significant cost savings available. Indeed, savings of approximately $134,000 have been realized in the one year of operation under the current plan.

While we are not entirely clear on the meaning of this issue, it appears to say that payments and claims must be kept separate for each program and that the payments out cannot exceed the payments in for any given program. It is our opinion that if those requirements are indeed mandated, that the current plan becomes untenable and the cost reductions will be lost. At no time will the Housing Authority have a balance of over $150,000-$200,000 in the Health Benefit Trust bank account.

Medical Premiums Paid in 2000	(Humana)	$434,866.50
Medical Premiums Paid in 2001	(Humana)	$512,467.08
Medical Premiums Paid in 2002 (01-06 2002)	(Humana)	$273,814.82
Medical Premiums Paid in 2002 (07-12 2002)	Entrust	$61,646.89
Medical Premiums Paid in 2003 (01-06 2003)	Entrust	$56,735.68

Note:	Average 1 year total to Entrust	$440,000.00
	1 year total paid to Entrust	+ $118,000.00
		$558,000.00
	Trust balance	- 180,000.00
		$378,000.00

Difference $512,467,08 (Humana) - $378,000.00 (Entrust) = $134,467

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Consideration should be made that under both plans premiums are based on enrollment. Under our previous health care program (Humana), the HA paid a monthly fee of between $45,000 and $50,000 a month for all funds. If claims were under this amount, there would not be a carry-over to the next month and so forth. Additionally, unless we have separate accounts for each fund, it will be impossible to monitor or tract those claims made to those respective programs. A burden will be placed on those programs and employees that have less than five (5) people and have a major medical need. The plan costs are now based on a total employee pool of approximately 100 employees and their family members. A smaller pool would mean significantly higher costs for the employee and the federal grant supporting the program.