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Audit Report Number 2005-PH-1009	

TO: William D. Tamburrino, Director, Baltimore Public Housing Program Hub, 3BPH

FROM: Daniel G. Temme, Regional Inspector General for Audit, Mid-Atlantic Region, 3AGA

SUBJECT: Richmond Redevelopment and Housing Authority, Richmond, VA, Did Not Always Properly Use HUD Funds

HIGHLIGHTS

What We Audited and Why

We completed an audit of the operations of the Richmond Redevelopment and Housing Authority (Authority) in response to a citizen's complaint. The complainant alleged program and accounting irregularities at the Authority.

Our audit objective was to determine if the Authority properly used HUD funds in accordance with its Annual Contributions Contract.

What We Found

The Authority did not always properly use HUD funds in accordance with its Annual Contributions Contract. Contrary to its Annual Contributions Contract, the Authority improperly used $6.1 million in Public Housing Low Rent Funds to pay the administrative expenses of other HUD programs. Additionally, the Authority improperly used $1.5 million in HUD funds to support its nonfederal entities and could not support all costs. These problems occurred because the Authority's former Executive Director and the Authority's Board of Commissioners did not ensure adequate internal controls were in place to prevent them.

What We Recommend

We recommend HUD require the Authority to reconcile funds it owes to its Public Housing Low Rent Funds by the other HUD Grants and then reduce funding to the Authority's Public Housing Low Rent Funds by $6.1 million or the amount certified during reconciliation. We further recommend that HUD require the Authority to discontinue the practice of using Public Housing Low Rent Funds to the pay administrative expenses of its other programs. We further recommend the Authority recover $1.5 million it provided its nonfederal entities or repay it from nonfederal sources. Lastly, we recommend the Authority pass a Board resolution approving procedures requiring it to maintain required supporting documentation such as cancelled checks, paid bills, payrolls, and time and attendance records.

Auditee's Response

We discussed the report with the Authority during the audit and at an exit conference on March 10, 2005. The Authority provided its written comments to our draft report on April 4, 2005. The complete text of the Auditee's response, along with our evaluation of that response, can be found in Appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Richmond Redevelopment and Housing Authority (Authority) was established in 1940 to provide safe and sanitary housing for the low-income citizens of the city of Richmond, Virginia. The Authority's mission is to provide affordable housing, promote self-sufficiency, provide homeownership for its housing residents, and revitalize Richmond neighborhoods to achieve common goals in partnership with the city. The City Council appoints a seven-member Board of Commissioners to govern the Authority. The current Board Chairman is Leonard A. Venter. The current Executive Director is Sheila Hill-Christian. The Authority is located at 901 Chamberlayne Parkway in Richmond, Virginia.

The Richmond Redevelopment and Housing Authority owns and manages 4,191 public housing units under its Consolidated Annual Contributions Contract with HUD. The Consolidated Annual Contributions Contract defines the terms and conditions under which the Authority agrees to develop and operate all projects under the agreement. HUD authorized the Authority the following financial assistance from fiscal years 2000 to 2004:

- $51 million Operating Subsidy to operate and maintain its housing developments,
- $35.6 million Capital Fund Program funding to modernize public housing units,
- $53.9 million to provide housing assistance through tenant-based Section 8 certificates and vouchers, and
- $2 million to the Public Housing Drug Elimination Program funds to eliminate or reduce drug related crime and other major crime and disorder problems.

Our audit was in response to a citizen's complaint. The complainant alleged program and accounting irregularities at the Authority. Our audit objective was to determine if the Authority properly used HUD funds in accordance with its Annual Contributions Contract.

RESULTS OF AUDIT

Finding 1: The Authority Improperly Used $6.1 Million of Low Rent Funds To Support Other HUD Programs

Contrary to its Annual Contributions Contract, the Authority used $6.1 million from its Public Housing Low Rent Funds[1] to pay administrative expenses of other HUD programs. This occurred because Authority officials erroneously believed they could use Public Housing Low Rent Funds to pay for costs exceeding amounts budgeted for other programs.

The Authority Improperly Used $6.1 Million of Low Rent Funds To Pay Administrative Expenses of Other HUD Programs

We obtained an automated download of the Authority's general ledger and used audit software to analyze the Authority's various fund transfers. Using computer assisted audit techniques we determined that as of September 30, 2003, other Authority programs owed the Authority's Public Housing Low Rent Funds $6.1 million. The Authority used a due-from/due-to accounting system to account for transactions directly between other funds and/or other entities included within its general ledger. A program or entity's due-to balance represents amounts it owes (payable) another fund or entity for disbursements and/or advances made in its behalf. Conversely, a due-from balance (receivable) represents an amount owed the entity.

Since the Authority's general ledger did not identify what specific programs are owed money to its Public Housing Low Rent Funds, we reviewed the Authority's financial statements and other documentation the Authority provided to try to determine what the other programs owed the funds. We found:

[1] Represents public housing operating subsidy and rent revenues. In fiscal year 2003 operating subsidies totaled $15.3 million and rental revenues $8.2 million.

Program	Due Low Rent Funds
New Construction	$ 41,432
Community Development Block Grant	$2,177,984
Homeownership for People Everywhere	$3,612,497
Homeownership for Public Housing Section 5H	$ 10,214
Homeownership Made Easy	$ 175,999
Resident Opportunity Self Sufficiency	$ 50,566
Capital Fund Program	$ 540,379
Drug Elimination Drug Grants	$ 253,532
Total	**$6,862,603**

As shown above, eight different Authority programs owed $6.9 million to the Public Housing Low Rent Fund. However, the Authority did not reconcile its accounts to verify the amounts owed to the fund from other programs. Authority officials informed us that most of these programs did not have enough administrative funds available to cover administrative expenses. Therefore, officials transferred Public Housing Low Rent Funds or other low rent funds to cover existing funding shortfalls**.** For example, as of September 30, 2003, the Authority's Homeownership for People Everywhere Program owed other Authority programs $3.6 million. HUD previously provided this program $2.1 million to cover the program's administrative expenses.

The aforementioned practice violates the Authority's Annual Contributions Contract. Part A, Section 9(C) of the contract states the Authority may withdraw funds from the General Fund only for the payment of the costs of development and operation of the projects under the Annual Contributions Contract with HUD; the purchase of investment securities as approved by HUD; and such purposes as may be specifically approved by HUD. It further states that program funds are not fungible and that withdrawals shall not be made for a specific program in excess of the funds available for the program.

The Authority's New Leadership Is Attempting To Address the Problems

In February 2004, the Board of Commissioners appointed a new Executive Director who inherited major challenges. The new Executive Director has attempted to address the Authority's problems. For example, during the audit, the Executive Director tasked the Internal Audit Manager and the Management

Information Systems Director to develop a Strategic Plan to address problems associated with the Authority's accounting system. In addition, the Authority needed to reconcile its accounts to verify the amounts owed to its Public Housing Low Rent Fund from other programs. Although more needs to be done, we are encouraged that the Authority has taken some initial steps to correct its problems.

Recommendations

We recommend that HUD:

1A. Require the Authority to reconcile funds owed to its Public Housing Low Rent Funds from the other HUD programs. Reduce funding to the Authority's Public Housing Low Rent Funds by $6,053,499 or the amount certified during reconciliation.

1B. Require the Authority to discontinue the practice of using Public Housing Low Rent Funds to the pay administrative expenses of its other programs.

Finding 2: The Authority Improperly Used $1.5 Million To Support Its Nonfederal Entities

The Authority improperly used $1.5 million in HUD funds to support its affiliated nonfederal entities. This occurred because Authority officials erroneously believed that the use of HUD funds to support its affiliated nonfederal entities was in line with their mission to serve public housing residents. Our audit showed the Authority improperly provided $1.3 million to its nonfederal entities and improperly paid salaries, rent and administrative expenses totaling $182,868 from federal funds from January 2001 to December 2003. We also estimated the Authority will annually put $60,956 to better use by properly accounting for and allocating work and office space of its employees supporting its nonfederal entities.

The Authority Improperly Provided Nonfederal Entities $1.3 Million

Our review showed the Authority improperly provided its nonfederal entities $1.3 million. Specifically, during fiscal year 2004 the Authority forgave a debt of $813,000 of a nonfederal entity and gave the same entity another $102,544. Authority officials informed us that it provided the $915,544 to a non-profit organization it set up to provide education and other approved programs and assistance to residents of the Authority's public housing units. They stated the entity's fundraising activities were not adequate to pay its expenses, and therefore the Authority provided it with needed financial assistance. The Authority's books also showed that it advanced $401,070 to a nonfederal housing project to cover that entity's expenses. Officials believed that using HUD funds in this way addressed its mission to serve public housing residents and therefore they believed HUD sanctioned it. However, this practice violated Part A, Section 9(C) of the Annual Contributions Contract, which states that the Authority may withdraw funds from the General Fund only for the payment of costs of development and operation of the projects under the Annual Contributions Contract with HUD.

The Authority Improperly Used $182,868 To Support Nonfederal Entities

The Authority improperly paid expenses totaling $182,868 from federal funds from January 2001 to December 2003 for work and office space of its employees supporting its nonfederal entities. Specifically, our audit showed the Authority did not properly allocate $137,062 in salaries, fringe benefits, and other administrative expenses associated with at least 30 employees who performed work for its affiliated nonfederal entities. Another $45,806 should have been allocated for the office space used by one of its nonfederal entities. The 30 employees performed a variety of duties for the nonfederal entities such as administrative, accounting, and management duties. Authority officials told us that in their opinion the time the employees spent on the nonfederal entities was insignificant and not worth the time to allocate the expenses. We disagree.

Part A, Section 9(C) of the Authority's Annual Contributions Contract with HUD requires it to maintain records identifying the source and allocation of federal funds. Further, the contract specifies that the Authority can only withdraw federal funds for the payment of costs associated with the development and operation of projects under its Annual Contributions Contract or other projects specifically approved by HUD. Thus, when employees work on multiple programs, a distribution of their salaries should be supported by personnel reports or equivalent documentation. Office of Management and Budget Circular A-87 also requires the Authority to assign costs to benefited activities on a reasonable and consistent basis. Formal accounting and other records should support all costs and other data used to distribute the costs included in its cost allocation plan, including the support needed to establish the propriety of the costs assigned to the federal awards.

We estimated the Authority will be able to use $60,956[2] more effectively on an annual basis by properly accounting for the work of its employees in accordance with the aforementioned guidance.

Recommendations

We recommend that HUD:

2A. Require the Authority to recover $1,499,482 from its nonfederal entities for funds it improperly provided the entities ($1,316,614) and expenses not properly allocated to the entities ($182,868) or repay it from nonfederal funds.

2B. Require the Authority to develop a reasonable method for allocating its future costs to its nonfederal entities, thereby putting $60,956 to better use.

[2] $182,868/36 months reviewed x 12 months = $60,956

Finding 3: The Authority Could Not Adequately Support All of Its Line of Credit Draws From HUD

The Authority could not support payments it drew down from HUD's computerized cash management system known as the Line of Credit Control System. This occurred because the Authority's former Executive Director did not ensure costs were supported and the Authority's Board of Commissioners did not ensure adequate internal controls were in place to prevent these problems from occurring. As a result, we question whether the Authority used these HUD funds properly.

The Authority Could Not Adequately Support All Line of Credit Draws

In performing our audit, we wanted to determine if the Authority could support its draw of funds from HUD's computerized cash management system known as the Line of Credit Control System. To do this we nonstatistically selected 15 of 114 draw downs, totaling $9.7 million, out of $21.3 million the Authority drew down from 2002 to 2004. We reviewed the accounting records, cancelled checks, payrolls, and time and attendance records the Authority provided us to support its draw down payments, and found the Authority could not adequately support 10 of the draws totaling $6.3[3] million of $9.7 million (64 percent). As a result, we have no assurance that the Authority used those HUD funds properly.

The Authority's Annual Contributions Contract[4] with HUD requires it to maintain complete and accurate books to facilitate timely and effective audits. Federal regulations[5] also require the Authority to maintain complete and accurate records identifying the source and application of grant funds such as cancelled checks, paid bills, payrolls, and time and attendance records. Office of Management and Budget Circular A-87[6] further requires the Authority to adequately document its costs under federal awards.

[3]Some of these costs are included in the $6.1 million questioned costs reported in Finding 1. Since the Authority lacked adequate support, we could not determine the duplicate costs reported in Finding 1 and thus could not quantify these questioned costs in Appendix A.
[4] Part A, Section 15(A)
[5] Title 24 Code of Federal Regulations 84.20
[6] Attachment A, Paragraph C, Subparagraph 1.j

Recommendation

We recommend that HUD:

3A. Require the Authority's Board of Commissioners to pass a Board resolution approving procedures requiring it to maintain required supporting documentation such as cancelled checks, paid bills, payrolls, and time and attendance records.

SCOPE AND METHODOLOGY

We performed the audit:

- From May 2004 through December 2004.

- In accordance with generally accepted government auditing standards, which included tests of management controls that we considered necessary under the circumstances.

- At the Richmond Redevelopment and Housing Authority located in Richmond, Virginia.

The audit covered transactions representative of operations current at the time of the audit and included the period January 2001 through April 2004. We expanded the scope of the audit as necessary. We reviewed applicable guidance and discussed operations with management and staff personnel at the Richmond Redevelopment and Housing Authority, and with key officials from HUD's Virginia State Office.

To determine if the Authority properly managed HUD funds in accordance with its Annual Contributions Contract we reviewed:

- The Authority's general ledger using audit software to determine funds owed to the Public Housing Low Rent Funds from other programs.

- Funds owed by related parties and the Authority's other Grant Programs and compared them to information contained in the Authority's General Ledgers, audited financial statements, and with Authority officials.

- The Authority's available Independent Auditors' Reports for fiscal years 2001, 2002, and 2003.

- HUD's and the Authority's correspondence related to the audit and results of the monitoring reviews HUD's Virginia State Office conducted.

- Documentation provided by the Authority to support its draw down of funds from HUD's computerized cash management system known as the Line of Credit Control System.

INTERNAL CONTROLS

Internal Control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit objective. Ensuring the Authority:

- Only withdrew funds from its General Fund for the payment of the costs of the projects under the Annual Contributions Contract with HUD.

- Properly allocated applicable costs to its affiliated nonfederal entities.

We assessed the relevant controls identified above.

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

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses: The Authority did not:

- Withdraw funds from its General Fund for the payment of the costs of the projects under the Annual Contributions Contract with HUD.

- Properly allocate applicable costs to its affiliated nonfederal entities.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation Number	Ineligible 1/	Funds To Be Put to Better Use 2/
1A	$6,053,499	
2A	$1,499,482	
2B		$60,956
Total	$7,552,981	$60,956

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 polices or regulations.

2/ "Funds to be put to better use" are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, de-obligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation	Auditee Comments

Richmond Redevelopment and Housing Authority
Response to the Draft Audit Report
Submitted by Daniel G. Temme,
Regional Inspector General for Audit,
Mid-Atlantic, 3AGA
dated March 16, 2005

Comment 1 The Richmond Redevelopment and Housing Authority (the "Authority") has reviewed the referenced audit report which covered the period of January 2001 to December 2003. We understand clearly the OIG's position, however, it should be noted that many of the issues identified in the report were discovered by our staff and was corrected or in the process of being corrected prior to the OIG audit. It is also important to note that all of the issues identified occurred during a previous administration at the Authority. That being the case, it is also our understanding that the previous administration relied in good faith upon information that they received from HUD and the independent auditor, which led them to a conclusion that the actions were appropriate.

" Prior to the OIG audit, the Authority directed the Internal Audit Manager and the Information Technology Director to develop a Systems Development Project to address any and all issues needing correction with respect to the Authority's accounting system.

" Likewise, prior to the audit report, the Authority on its own initiative set in place procedures which are similar to those recommended by the OIG report including but not limited to the requirement that supporting documentation such as cancelled checks, paid invoices, payroll and time and attendance records be maintained by the Authority.

Comment 2 Furthermore with respect to the issue of non-federal entities ("related parties") receiving support from the Authority, the Authority notes that this issue was known by HUD and the independent auditor, however neither indicated that it was inappropriate. Thus giving the Authority the impression that this practice was permitted. Nevertheless, current administration understands the OIG's position that this is not appropriate and indeed the practice was changed well in advance of the OIG audit. The Authority is taking steps to recover funds from the related parties. However, it is important to note that the Authority and its residents received a direct substantial benefit from the efforts of these related parties. Private money was raised by the related parties specifically designed to assist the Authority in its mission. All of the activities of the related parties are consistent with the HUD-mandated mission for the Authority and therefore served the interest of public housing residents and provided a benefit to those residents and the public at large.

" Historically, HUD officials have encouraged public housing agencies across the country to set up their own related parties and/or work with existing non-profit organizations to develop and implement projects which are consistent with the Authority's mission. The Authority was attempting to do a "good thing" in terms of providing or supporting programs designed to provide housing and related benefits to our residents. As noted above, by working jointly with these related parties, private money

Comment 2

went into projects and programs which typically would have been funded with only public funds. Indeed without the private support the housing and other benefits may not have come to fruition. One of the projects in question provides much needed elderly housing to an economically disadvantaged population. Another program provides educational opportunities to children who live in public housing.

Another issue that created problems for the Housing Authority was the fact that we agreed to implement the City of Richmond (City)y projects and activities without sufficient funding from the City to cover administrative costs. However, under the current administration, this practice has ceased. The Authority has renegotiated some of its cooperation agreements with the City to reflect this business practice.

Further, the Authority has had long term vacancies during the audit period in some key positions including budget and information technology. These positions were filled prior to the OIG audit.

Comment 2

The Authority has documentation which it believes would validate the Authority's contribution to its related non-federal entities. However, it is noteworthy that this is primarily an issue of providing staff by the Authority to support the programs. The OIG audit notes that the ACC states that "the Authority can only withdraw federal funds for the payment of costs associated with the development and operation of projects under its Annual Contributions Contract or other projects specifically approved by HUD." From the Authority's perspective the programs in question were "specifically approved" by HUD. However, we now understand the OIG's position on this matter is contrary to that conclusion. In addition, the previous administration was told by HUD that it was appropriate to pay salaries from Low Rent Funds.

Comment 1

The report states that the OIG is encouraged that the Authority has taken steps to correct its problems. The Authority is implementing several key initiatives. They include a Strategic Planning Process, as well as, a comprehensive and over haul of its financial management systems and technology. These projects were initiated prior to the OIG Audit. Their focus is to re-engineer the business of the Authority and to prepare the Authority for HUD-mandated project based management. Once this process is completed, we hope to diversify our resources.

Expected date of substantial completion for all findings will be September 30, 2006.

By: Sheila Hill-Christian
Sheila Hill-Christian, Executive Director

OIG Evaluation of Auditee Comments

Comment 1 Although the Authority had initiated some action prior to the audit to correct its accounting problems, it had not adequately addressed the majority of the problems the audit identified.

Comment 2 We are encouraged the Authority now understands it is not appropriate to use federal funds to support its nonfederal entities, and is now taking steps to recover the funds it improperly provided the entities.

However, the report does not state the Authority acted inappropriately in establishing its nonfederal entities. Rather, the report dealt solely with the Authority's use of HUD funds to support its nonfederal entities. In our exit conference with the Authority on March 10, 2005, the Authority explained that it originally created the entities to obtain private money to fund additional projects and programs, which it typically would have funded solely with public funds. The Authority stated that initially the venture was very successful. However, over time the Authority gradually replaced the private funding with HUD funds as evidenced by large account receivable balances the nonfederal entities owed the Authority.

Since the Authority's nonfederal entities are not covered by its Annual Contributions Contract with HUD, we did not audit the entities or their activities. However, the Authority's practice of providing HUD funds to its nonfederal entities clearly violated Part A, Section 9(C) of its Annual Contributions Contract, which states that the Authority may withdraw funds from the General Fund only for the payment of costs of development and operation of the projects under its Annual Contributions Contract with HUD. This longstanding provision of the Annual Contributions Contract is intended to ensure housing authorities use HUD funds only in accordance with HUD requirements.