



Issue Date	April 21, 2005
Audit Case Number	2005-AT-1009

TO: Boyce Norris, Jr., Director, Office of Public Housing, 4APH

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

SUBJECT: The Housing Authority of Fulton County
Atlanta, GA

HIGHLIGHTS

What We Audited and Why

We reviewed the Housing Authority of Fulton County's (Authority) administration of its housing development activities as part of our audit of the U.S. Department of Housing and Urban Development's (HUD) oversight of Public Housing Agency development activities with related nonprofit entities.

Our primary objective was to determine whether the Authority had advanced or diverted resources subject to an Annual Contributions Contract (Contract) or other agreements or regulation to the benefit of other entities without specific HUD approval. Our objective included determining whether the Authority's cost allocation method complied with provisions of Office of Management and Budget Circular A-87 and whether adequate records were maintained for Public Housing program (Public Housing) expenses.

What We Found

The Authority inappropriately used Public Housing funds to pay for other programs' and related entities' expenses in excess of funds the programs or entities had on deposit. As of July 31, 2004, six programs or entities owed Public Housing \$640,221. Since the Authority's programs and entities did not promptly deposit funds with Public Housing, the Authority inappropriately used funds to

pay the expenses for the programs or entities. In addition, the Authority violated its Contract with HUD by inappropriately advancing Public Housing funds for some of its activities and activities of the nonprofit entities. These actions occurred because the Authority did not have adequate controls in place to limit the amount of funds disbursed by the amount of funds on deposit. As a result, \$640,221 of Public Housing funds could be put to better use.

The Authority did not support its allocation of salary and benefit costs with activity reports or equivalent documentation as required. Thus, it did not have a record of the time spent on various activities, and some activities may have paid a disproportionate share of the costs. As of September 30, 2004, the Authority had allocated \$1,329,901 more to its federal programs than had comparable housing agencies.

The Authority did not maintain adequate records for Public Housing expenses totaling \$770,651 that were incurred during fiscal years 2001 through 2004. The Authority (1) reclassified \$552,700 in salary and benefit costs without support, (2) could not provide support for \$181,012 in reclassified expenses, and (3) could not provide any documentation for \$36,939 in expenses. This occurred because the Authority had not established internal controls to maintain adequate records. As a result, \$770,651 in Public Housing expenses is unsupported.

What We Recommend

We recommend that the Director of the Office of Public Housing require the Authority to repay the \$640,221 or current balance owed to Public Housing and ensure future transactions comply with the Contract and other HUD requirements.

We also recommend that the Director of the Office of Public Housing require the Authority to provide documentation to justify allocating \$1,329,901 more in salary and benefit costs than was allocated by comparable housing agencies, or reimburse its Public Housing program.

Further, we recommend that the Director of the Office of Public Housing require the Authority to develop internal controls to ensure that \$770,651 of Public Housing expenses are properly supported and that supporting documentation is made readily available upon request.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed our review results with the Authority and HUD officials during the audit. We provided a copy of the draft report to the Authority officials on March 28, 2005, for their comments and discussed the report with the officials at the exit conference on April 5, 2005. The Authority provided written comments on April 11, 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 Housing Authority of Fulton County (Authority) was created in 1972 by Fulton County legislation to help fill the need for decent, safe, sanitary, and affordable housing in unincorporated Fulton County. The Authority is a public body corporate and politic pursuant to the laws of the State of Georgia, which was organized to provide low rent housing for qualified individuals in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD) and other federal agencies.

A nine-member board of commissioners appointed by the Fulton County Board of Commissioners governs the Authority. The board is charged with setting policy and providing guidance to the Authority. Bettye Davis resigned as executive director on September 30, 2004. The board appointed Jonathan Jones as interim executive director effective October 1, 2004. Subsequently, he was appointed executive director effective March 24, 2005.

The Authority currently administers Public Housing program (Public Housing) properties, consisting of 100 units at Allen Road Midrise and 9 units at Belle Isle. It manages a Section 8 program consisting of 756 housing choice vouchers with a 2004 budget of \$7,434,945. The Authority received a HOPE VI Revitalization grant award of \$17,191,544 in July 2003. The revitalization plan includes the demolition and revitalization of the Authority's Red Oak Public Housing community. The revitalization plan also includes the purchase of additional land to be used as a community for the elderly and the purchase and rehabilitation of an existing apartment community. Two tax credit applications have been submitted for the revitalization plans. The Authority is currently awaiting approval for one application.

The Authority created four nonprofit subsidiaries: (1) Community Opportunity Centers, Inc., an organization created in January 30, 1987, to provide resident services to its Public Housing residents; (2) Legacy Community Partnership, Inc., an organization created in January 18, 2001, as an investment and development entity for residential housing development; (3) Azalea Apartments, Inc., created in December 4, 1997, as a result of the Authority's initial HOPE VI Revitalization plan; and (4) FULCO, an organization created in 1995 as a vehicle to assist in undertaking its housing development projects. FULCO became independent of the Authority in March 2002. Some Authority employees and board members also serve as the board of directors for the affiliated nonprofit corporations.

HUD's Georgia State Office of Public Housing in Atlanta, Georgia, is responsible for overseeing the Authority.

Our primary objective was to determine whether the Authority had advanced or inappropriately used resources subject to an Annual Contributions Contract (Contract) or other agreements or regulation to the benefit of other entities without specific HUD approval. Our objective included determining whether the Authority's cost allocation method complied with provisions of Office of Management and Budget Circular A-87 and whether adequate records were maintained for Public Housing expenses.

RESULTS OF AUDIT

Finding 1: The Authority Improperly Used and Advanced Public Housing Funds

The Authority inappropriately used Public Housing funds to pay for other programs' and related entities' expenses in excess of funds the programs or entities had on deposit. As of July 31, 2004, six programs or entities owed Public Housing \$640,221. Since the Authority's programs and entities did not promptly deposit funds with Public Housing, the Authority inappropriately used funds to pay the expenses for the programs or entities. In addition, the Authority violated its Contract with HUD by inappropriately advancing Public Housing funds for some of its activities and activities of the nonprofit entities. These actions occurred because the Authority did not have adequate controls in place to limit the amount of funds disbursed by the amount of funds on deposit. As a result, \$640,221 of Public Housing funds could be put to better use.

The Authority Inappropriately Used Public Housing Funds to Pay Other Programs' Expenses

The Authority inappropriately used Public Housing funds to pay for the expenses of its programs and nonprofit-related entities. The programs and entities were to repay funds to the Public Housing account when they obtained the anticipated funding. For example, the Authority's Section 8 housing choice voucher owed the Public Housing account \$460,505 as of July 31, 2004. The interim executive director stated that there were often delays in receiving its Section 8 funds. As a result, the Authority would use Public Housing funds to pay for Section 8 expenses and would then repay Public Housing once the Section 8 funds were received. Although there were payments made from the Section 8 program to Public Housing, the Section 8 program never paid the full amount owed.

Part C, section 10, of the Contract, Pooling of Funds, states that the Authority shall not withdraw from any of the funds or accounts authorized under this section amounts for the projects under the Contract or for the other projects or enterprise in excess of the amount then on deposit in respect thereto. Further, section 9(C) of the Contract, states the housing authority may withdraw funds from the general fund account only for (1) the payment of costs of development and operation of projects under Contract with HUD, (2) the purchase of investment securities as approved by HUD, and (3) such other purpose as may be specifically approved by HUD.

The Authority did not have adequate internal controls for monitoring its Public Housing funds. It did not limit payments from the Public Housing fund to amounts a specific program had on deposit. Therefore, the Public Housing program was deprived of approved funds that could have been used for additional Public Housing activities because it was paying for other programs' expenses. Since the Authority was using Public Housing funds to advance funds to other programs, all funds owed to Public Housing should be repaid in a timely manner.

As of July 31, 2004, the following six programs and entities owed Public Housing \$640,221.

Program/Entity	Amount Due to Public Housing
Housing Choice Voucher – Certificate (Section 8)	\$ 460,505
Enterprise Fund	\$ 103,056
Homeownership Program	\$ 53,096
Azalea Manor	\$ 13,234*
Development -- URDC	\$ 8,000
Other sources	\$ 2,330
Total owed to Public Housing	\$ 640,221
* Azalea Manor accounts receivables have been reclassified from the Public Housing general ledger to the Enterprise Fund general ledger. However, the Azalea Manor expenses were paid with Public Housing Funds.	

The above balances were not settled monthly and remained outstanding from month to month. Although some payments and reclassifications were made to reduce the balances owed, at no time were the balances reduced to zero.

Therefore, the Public Housing program was deprived of \$640,221 in HUD approved funds that could have been put to better use on additional Public Housing activities.

Recommendations

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

- 1A. Require the Authority to repay the \$640,221 or current balance owed to Public Housing.

1B. Ensure future transactions comply with the Contract and other HUD requirements. Specifically, the Authority needs to establish controls to ensure:

- Pooled funds are not withdrawn for a program/entity in excess of the amount of funds on deposit for that particular program/entity.
- HUD funds are not advanced to other programs or nonprofit entities without prior HUD approval.

Finding 2: The Authority Did Not Support Allocated Salary Costs In Excess of Those of Comparable Housing Authorities

The Authority did not support allocated salary costs in excess of the annual salary costs of other comparable housing authorities. Overall, the Authority did not support its allocation of \$2.4 million in salary and benefit costs allocated from fiscal years 2001 through 2004 with activity reports or equivalent documentation as required by Office of Management and Budget Circular A-87. The Authority's management stated they were not aware of the specific requirements of Circular A-87. As a result, \$1.3 million of excess comparable salary and benefits costs were unsupported.

The Authority Did Not Support Its Allocation of Salary Costs

The Authority did not support its allocation of salaries and benefits with activity reports or equivalent documentation as required by Office of Management and Budget Circular A-87. Thus, the Authority did not have a record of the actual time spent on the various programs, and some programs may have paid a disproportionate share of the costs. Of the \$5 million charged to its various programs for fiscal years 2001 through 2004, the Authority allocated \$2.4 million to its various federal programs. The Authority's management was not aware the allocation was to be based on activity reports.

We compared the Authority with four other housing authorities of similar unit size to determine a reasonable salary cost level for the Authority. We reviewed two housing authorities for fiscal years 2001 and 2002 and two additional housing authorities for fiscal years 2003 and 2004. Based on their salary costs levels, we established an average annual salary and wage expense for each fiscal year reviewed.

After comparing the salary costs of the other housing authorities, we determined that between fiscal years 2001 and 2004, the Authority did not support allocated costs totaling \$1,329,901. We found that each year, the Authority exceeded the average annual salary as presented in the following table.

Allocated Salary Cost Comparison			
Fiscal Year	Fulton County Allocated Salary Expenses	Average Salary and Wage Expenses	Variance
2001	\$ 681,860	\$ 413,500	\$ 268,360
2002	\$ 602,541	\$ 413,500	\$ 189,041
2003	\$ 493,664	\$ 140,500	\$ 353,164
2004	\$ 659,836	\$ 140,500	\$ 519,336
Total	\$2,437,901	\$1,108,000	\$1,329,901

Although the Authority allocated \$2.4 million in salary and benefit costs without proper support as required by Office of Management and Budget Circular A-87, we are only questioning the portion that exceeds the annual salary and benefit costs level of comparable housing authorities. Therefore, of the \$2.4 million in salary and benefit costs allocated, \$1.3 million is unsupported.

Authority Used Historical Data to Allocate Costs

The Authority operated several programs including Conventional Public Housing, Capital Grant, Section 8 and several other grant programs. The former executive director stated that budget allocations were based on historical data. She also stated that the amount of time spent on a particular program in the prior year determined the allocation budgeted for the next year. The interim financial operations manager stated that in July 2004, the Authority's financial consultant reviewed its cost allocation plan and created a revised allocation plan. The financial consultant based its allocation plan on its discussion with the Authority's program directors regarding the time Authority employees had spent on different activities in the prior year.

Circular A-87 Requires Activity Reports to Support Allocation

The requirement to use activity reports to support the allocation of costs is included in Office of Management and Budget Circular A-87, attachment B, section 8h(4). The section states, in part, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. The activity reports must reflect an after-the-fact distribution of the activity of each individual employee. Since the Authority did not support its allocation of costs, we are questioning \$1.3 million.

Recommendations

We recommend that the Director of the Office Public Housing:

- 2A. Require the Authority to develop a justifiable method of supporting the allocated costs. The method could include daily activity reports prepared by its staff to support the allocation of costs.
- 2B. Require the Authority to provide documentation to justify the \$1,329,901 of allocated salary and benefit costs in excess of comparable housing agencies and ensure appropriate adjustments are made to the various activities, or repay its Public Housing program from non-federal funds.

- 2C. Require the Authority to develop a reasonable method for allocating its future costs, to include daily activity reports for services performed by its staff.

Finding 3: The Authority Did Not Maintain Adequate Records for Public Housing Expenses

The Authority did not maintain adequate records for Public Housing expenses totaling \$770,651 that were incurred during fiscal years 2001 through 2004. The Authority (1) reclassified \$552,700 of salary and benefit costs without support, (2) could not provide support for \$181,012 in reclassified expenses, and (3) could not provide documentation for \$36,939 in expenses. This occurred because the Authority did not establish internal controls to maintain adequate records. As a result, \$770,651 in Public Housing expenses was unsupported.

The Authority Reclassified Salary and Benefit Costs without Support

The Authority inappropriately reclassified receivable amounts in order to decrease the amount of account receivables reported in its fiscal year 2003 Audited Financial Statements. Costs related to resident services were charged to expense categories of its related nonprofit entity, Community Opportunity Centers, Inc. Further, costs related to HOPE VI and other redevelopment costs, that were allowable under Public Housing, were charged to the Authority's Enterprise Fund. The Public Housing program paid these expenses by increasing a receivable account. This caused the Authority's accounts receivable-other account to reach \$1.1 million in 2002. These costs were not allocated to the proper program, Public Housing. During the 2003 audit, the Authority recognized the error, reclassified those expenses to Public Housing and reduced the receivable accounts. The expenses reclassified totaled \$739,872. However, approximately 74.7 percent of the costs reclassified, or \$552,700 was salary and benefit costs. The Authority did not support its allocation of salary and benefit costs with personnel activity reports as required by Office of Management and Budget Circular A-87. The Authority did not support that the salary and benefit costs reclassified as Public Housing costs actually supported Public Housing activities. The Authority did not have documentation to support the time charged by its business activities and related entity. As a result, \$552,700 in salary and benefits costs that were reclassified is unsupported.

The requirement to use activity reports to support the allocation of costs is included in Office of Management and Budget Circular A-87, attachment B, section 8h(4). The distribution of salaries or wages will be supported by personnel activity reports or equivalent documentation. The activity reports must reflect an after-the-fact distribution of the activity of each individual employee. Since the Authority did not support its allocation of costs, it cannot support that \$552,700 of salary and benefit costs supported Public Housing activities.

The Authority Could Not Provide Support for Reclassified Expenses

The Authority could not provide support for \$181,012 in expenses that were reclassified from September 30, 2003 through July 31, 2004. These expenses were initially paid with Public Housing funds, which created a receivable due to Public Housing from its other programs and its related nonprofit entity, Community Opportunity Centers, Inc. The reclassification of these expenses reduced the receivable owed to Public Housing without repayment of the balance. The Authority could not explain or provide documentation to support why these reclassifications occurred. This occurred because the Authority has not established internal controls to ensure that adequate records are maintained for Public Housing expenses. As a result, \$181,012 in receivables was not supported and receivable balances were decreased without repayment.

The Authority Did Not Maintain Supporting Documentation

The Authority could not provide documentation for \$36,939 in expenses incurred between May 4, 2001 and July 20, 2004. These expenses were recorded in the Public Housing general ledger; however, the Authority did not provide additional support for these expenses. Based on the records reviewed, we could not verify that the expenses were Public Housing expenses. We requested the Authority's supporting documentation during our audit. However, the financial operations specialist stated that many of the records for the 2001 expenses were maintained at the Fulton County Government offices, and the Authority was not able to obtain that information from the County during our audit. The Authority needs to establish internal controls to ensure adequate documentation is maintained to support its Public Housing expenses.

The Authority's Contract, section 15(A) states that the Authority must maintain complete and accurate books of account for the projects of the Authority in such a manner as to permit the preparation of statements and reports in accordance with HUD requirements and to permit timely and effective audit. Further, Office of Management and Budget Circular A-87 (C)(1)(j) states that all expenses must be adequately documented.

Recommendations

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

- 3A. Ensure that the Authority develops internal controls to ensure that Public Housing expenses are properly supported and that supporting documentation is made readily available upon request.
- 3B. Provide documentation to justify the \$552,700 in salary and benefit costs that were reclassified as Public Housing costs, or repay its Public Housing program from non-federal funds.
- 3C. Ensure that the Authority provides adequate support for \$181,012 in reclassified Public Housing receivables, or repay its Public Housing program from non-federal funds.
- 3D. Ensure that the Authority provides adequate support for \$36,939 of Public Housing expenses, or repay its Public Housing program from non-federal funds.

SCOPE AND METHODOLOGY

To accomplish our audit objective, we reviewed the following:

- Applicable laws, regulations, and other HUD program requirements;
- The Authority's Contracts; and
- HUD's and the Authority's program files.

We reviewed various documents including: financial statements, general ledgers, bank statements, minutes from board meetings, check vouchers, invoices, loan documents, related development agreements, management agreements, partnership agreements, and reports from the independent public accountant. We also reviewed all related nonprofit entities' bylaws and incorporation documents. In addition, we gained an understanding of the Authority's accounting system as it related to our review objective.

We also interviewed the HUD Georgia State Office of Public Housing program officials and Authority management and staff.

We reviewed all of the salary and benefit records available for fiscal years 2001 through 2004. In addition, we reviewed all of the transactions that decreased Public Housing's receivable amounts reported in its 2002 and 2003 audited financial statements. Further, we reviewed all receivables included in the Public Housing general ledger in excess of \$50,000. We also reviewed all Public Housing accounts receivable activity from October 2003 through July 31, 2004, in order to determine if receivable balances were settled on a monthly basis. We excluded any items that were not paid with Public Housing funds.

We performed our audit from July 2004 through February 2005. Our audit covered the period from October 1, 2000 through July 31, 2004, but we extended the period as necessary.

We performed our review in accordance with generally accepted government auditing standards.

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 objectives:

- Compliance with laws, regulations, policies, and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding of resources, policies, and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

A significant weakness exists if internal 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 have a system to ensure that federal funds were properly used and the funds were not put at risk (see findings 1 and 3).
- The Authority did not have a proper system to ensure that costs charged among its various programs were properly supported (see finding 2).

FOLLOWUP ON PRIOR AUDITS

Public Housing Management Operations Audit Number: 95-AT-202-1010

A prior Office of Inspector General (OIG) audit report of the Authority was completed on August 2, 1995. The four findings for this audit were (1) housing units did not meet housing quality standards; (2) contract procurement and administration need improvement; (3) Authority needs to resolve Section 8 portability balances with other Public Housing authorities; and (4) other administrative matters, specifically; budgetary controls need improvement and excess funds not collateralized. The prior OIG audit findings have been cleared.

Fiscal Year 2003 Audited Financial Statements of the Authority

Malcolm Johnson Company, Certified Public Accountants, completed the most recent audit of the Authority's financial statements for the 12-month period ending on September 30, 2003. The financial statement report contains an unqualified opinion. However, there were reportable conditions that were not considered to be material weaknesses. The report included the following five findings: (1) Use of Public Housing Resources in Non-ACC Activities, (2) Deficiency in Accounting for Section 8 Housing Choice Voucher Portability, (3) Budgetary Controls Deficiencies, (4) Internal Control Deficiencies over Accounting and Reporting, and (5) Deficiencies in Resident Files.

Deficiencies similar to findings 1, 3, and 4 in the last financial statement audit are reported in the findings section of this report. These deficiencies were reported in 2003, which was included in our audit period. These deficiencies did not affect our audit objectives because they were included in our audit scope. Since the independent public accountant's Section 8 housing choice voucher portability and resident file findings were not in the scope of this audit, we did not review these findings during our audit. The Authority has developed a corrective action plan to address all the findings contained in the 2003 financial statement audit. There were no findings contained in the 2002 financial statement audit.

APPENDIXES

Appendix A

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

<u>Recommendation Number</u>	<u>Unsupported 1/</u>	<u>Funds to Be Put to Better Use 2/</u>
1A		\$640,221
2B	\$1,329,901	
3B	552,700	
3C	181,012	
3D	36,939	
Total	<u>\$2,100,552</u>	<u>\$640,221</u>

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity where we cannot determine eligibility at the time of audit. Unsupported costs require a 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.
- 2/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation 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

Comment 1

Housing Authority of Fulton County

April 7, 2005

Ms. Sonya D. Lucas
Acting Regional Inspector
General for Audit
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Dear Ms. Lucas:

We have reviewed your draft audit report of your recently completed audit of the Housing Authority of Fulton County. We appreciate you taking the opportunity to discuss the report with us during the exit conference on April 5, 2005 and would herein offer our comments for inclusion in the published report.

Finding 1: The Authority Improperly Used and Advanced Public Housing Funds

We do concur that due to a lack of adequate internal controls in place at the time, the Authority did advance public housing funds for other Authority program expenses. Though it may simply be an issue of semantics, we would request that the word "used" be removed from the finding and verbiage of the finding. What was found was that the Authority advanced more funds than its programs could re-pay. This is not necessarily an improper "use", it is an improper advance. The phrase "improper use" gives the impression to the reader that the use of the funds may have been on ineligible items. We believe this is not the case and no wording in the report indicates that the funds were expended in an inappropriate or ineligible manner. They were simply advanced to the programs in an improper fashion since they exceeded the ability of the other programs to repay timely. We further acknowledge they were inappropriate advances because we did not get specific HUD approval prior to making such advances.

A. As is acknowledged in the report, \$460,505 of the advances were to the Section 8 Housing Choice Voucher program. Clearly it was believed that the HCV Program would be in a position to repay all funds that were advanced. We have attached documentation that shows since the period audited, the Authority has repaid \$350,000 to the public housing account from the Section 8 HCV program account. To avoid the need for any advances from public housing to cover Section 8 program costs, internal controls have been established and implemented.



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Comment 2

Another \$21,234 was for expenses related to what were eligible HOPE VI predevelopment costs. We definitely anticipated that HOPE VI funds would be made available to repay these advances and communicated the same to our HOPE VI Grants Manager.

We would also request the removal of the last sentence of the finding that states "as a result, \$640,221 of Public Housing funds could have been put to better use." With all respect, we believe this is a value judgment and recommend that the language state that the funds could be put to a more appropriate use in accord with the ACC.

It is our hope to be able to mitigate the finding with the field office and prepare a schedule of anticipated payments to be made over time. We will also prepare procedures for the establishment and repayment of inter-fund accounts as well as include language pertaining to the loaning of funds to outside entities (enterprise fund, etc.)

Finding 2: *The Authority Did Not Support Allocated Salary Costs In excess of those of Comparable Housing Authorities.*

Comment 3

First, we must acknowledge we had been made aware that we needed to provide some documentation to support allocated salary costs. However, we were surprised to learn that the basis for those considered in question were those "in excess of the annual salary costs of other comparable housing authorities. We believe there are several issues to deal with on this finding. The first is the comparison between HAFC and other "comparable" agencies. In our opinion, there are no comparable agencies because of all of the extra activities the HAFC has been involved in.

We agree that comparing our salary schedules to those of an agency solely based on specific unit size may give the conclusion that the salaries of the HAFC are too high, however we believe in this case that comparison to be irrelevant. Exact comparisons of agency operations cannot be made, only generalizations, which in our case do not provide a true picture. Many things come into play in looking at salaries. What is the tenure of the person in that job? What is the relative area of the compared agency (urban, rural)? What other activities does the compared agency participate in beyond the normal activities associated with Public Housing and Section 8? We question this methodology and would suggest that you recognize that the operation of the HAFC is much broader than those to which we may have been compared. The Housing Authority of Fulton County has several programs that it currently administers such as the HOPE VI Program, the non-profit entity of Community Opportunity Centers, Inc., Lease Purchase/Homeownership Program, Bond Programs in addition to several other program activities.

We would like to request the actual documentation and schedules as prepared to be sure that we are addressing apples to apples. Unless we see the exact salary figures and positions that were in question, we cannot be sure that we are coming up with the exact solution as required. We need to see the specific employees that were used in the sample. We need this information to better allow ourselves space in determining the remedy we see fit to recommend. We would request that this information be forwarded to the HAFC as soon as possible so that we can begin to work on assembling the documentation necessary to close the finding.

Comment 4

We have referenced the section of the OMB Circular A-87 and do not find the language quoted in the report. We find that Attachment B, section 11 deals with depreciation and use allowances, please clarify.

Section 8 b deals with Reasonableness and states: "Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit. In cases where the kinds of employees required for Federal awards are not found in other activities of the governmental unit, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness." During the period in question, we had two Organizational & Compensation Design Plans developed. Both included market surveys of what were considered comparable positions, which were not limited to public housing authority staff. We are prepared to make these available for consideration regarding "reasonableness" of the salaries and believe that in so doing, the variance could be dissolved or greatly reduced from the \$1,329,901 in the draft report.

We have also developed a Time Assessment Log and revised our Bi-weekly Time Sheets to provide an after-the-fact distribution of the activity of each individual employee. Further, we are prepared to prepare an acceptable allocation plan for handling salaries and all indirect expenses based on a "justifiable" method of supporting the allocated costs.

Finding 3: The Authority Did Not Maintain Adequate Records for Public Housing Expenses

We cannot agree or disagree or in good faith provide an adequate response to this finding without the schedules and specific check and voucher numbers used by the auditor to arrive at the figures quoted. We trust that the audit was performed in such a manner as to accurately determine a questioned amount based on the documentation provided by the agency, however, in the specifics of this finding we find ourselves unable to respond in a manner knowledgeable to the specifics of the findings without documentation from the audit team.

We will, once we have received the appropriate information, be able to assess the findings and provide additional support to the items in question. It is our belief that the expenditures made by the Housing Authority of Fulton County have been made on appropriate and eligible items, and we look forward to closing this finding after preparing files with the appropriate documentation.

Regarding the support for reclassified expenses, we have provided herein General Ledger History to support Journal Voucher #JV03/241 \$1,000; JV03/241 \$8,000; JV04/039 \$75,000 and JV04/277 \$16,214.94.

Regarding Not Maintaining Supporting Documentation, we would also like to request the specific source documents used to determine the amounts in question. We have provided as attachments a copy of the invoices for Documents #33106, #33556, #33787, #34659, #35165 and #35140. We have also provided a copy of the actual check #039099. The total amount of this check was for \$6,233.26. Of this amount, there were sub amounts of \$124.98 for Xerox Cart(ridge) Lease Purchase and \$484.96 for another Xerox Printer Cart(ridge). There was no third sub amount to Xerox. Neither of the actual amounts match the \$2,875.26; \$886.94 or \$2,992.68 in the information provided as amounts making up the \$36,939.10 in question. Additionally, we have provided the actual check #039172 which is for the amount of \$717.41. The DSL Service listed as a specific amount in question was a part of the total, but only in the amount of \$55.49. The total amount was an amount including monthly allocation for Executive Director benefits.

Comment 5

Comment 6

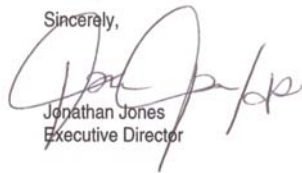
We have implemented some internal controls that should allow us to maintain proper documentation of all disbursements. However, we will take another opportunity to look at the accounts payable procedures to determine what is in place and that they are sound. We do take very serious the perceived weakness in internal controls as mentioned on page 17 of the draft report. Since completion of the FY 03 Independent Audit that identified certain weaknesses related to Internal Controls, we have addressed Accounting and Reporting and Check Disbursements procedures. We will further review these issues and make changes as appropriate. Particularly as it relates to the movement of funds and the maintenance of inter-fund accounts there will need to be procedures prepared for those areas. Procedures will be put in place and will be followed specifically to avoid future problems in this area.

Again, we would like to request the additional supporting documentation relevant to the quantification of the amounts noted in the report. If we are provide with any additional listing of checks, journal entries, and payroll reports, etc. used, we will be able to begin strategizing on how best to direct the issue toward resolution.

Finally, we accept full responsibility for addressing each finding outlined in the draft report, but do hope that the final report will not only reflect comments herein, but possibly based on the additional information provided, reduce any and all amounts in question.

Should you have any additional questions or concerns, please contact me at 404-730-5848.

Sincerely,



Jonathan Jones
Executive Director

OIG Evaluation of Auditee Comments

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| Comment 1 | We used both terms “used” and “advanced” because the Authority used funds for its related non-profit entity, Azalea Manor. This improper use of funds was also cited in the Authority’s 2003 audited financial statements. |
| Comment 2 | As noted in appendix A of the report, funds to be put to better use is a type of costs associated with quantifiable savings that are anticipated to occur if an OIG recommendation is implemented. Costs questioned as funds to be put to better use include improperly used and advanced funds. Therefore, the \$640,221 qualifies as funds to be put to better use. |
| Comment 3 | The OIG agrees with the Authority that expenses of an agency with a comparable sized inventory may not fairly represent the actual expenses being incurred. However, the Authority did not maintain accounting records as required to fairly present the results of their operation. Further, the Authority was cited in its 2003 audited financial statements as having a disproportionately high payroll for its size. To provide some perspective on the extent of the problem, OIG used comparable expenditures. We did not compare salaries by specific employees. Eventually, HUD and the Authority will have to negotiate an amount representative of the eligible expenses. |
| Comment 4 | The OIG used the version of OMB Circular A-87, Section 11(h)(4), which was in effect from May 4, 1995 through May 10, 2004, and is the majority of the time for which the costs were questioned. A new version of OMB Circular A-87 was issued on May 10, 2004. Both Sections 11(h)(4) and 8(h)(4) cite the same requirements. We will use the most recently issued version in our report. Section (8)(h)(4) requires the Authority to provide support for employees working on multiple activities with personnel activity reports or equivalent documentation. The Authority did not support salaries and benefits allocated to various federal programs as required by OMB Circular A-87. |
| Comment 5 | The OIG has provided a detailed listing of unsupported reclassifications totaling \$181,012 and unsupported expenses totaling \$36,939. The eligibility of the expenses cannot be ascertained without supporting documentation. We will provide the Authority with a listing of the unsupported salary and benefit reclassified based on the Authority’s 2003 audited financial statements. The information provided by the Authority for the reclassified expenses does not show why the reclassifications occurred; it only shows that the reclassifications were recorded in the Public Housing general ledger. The Authority will need to provide evidence to HUD showing the reason for the reclassifications. |

Comment 6

The OIG provided a detailed listing of unsupported expenses totaling \$36,939. The OIG reviewed Public Housing general ledgers and other information provided by the Authority. The six invoices provided with the comments were not provided during our review and we cannot determine the eligibility of the costs at this point. The two actual checks provided did not contain support for the amounts recorded in the Public Housing general ledger, which is why the costs were questioned as unsupported. The Authority will need to provide sufficient supporting documentation to HUD in order to resolve the unsupported expenses.