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TO: Andrew Boeddeker, Director, Office of Public Housing,
Kansas City HUB, 7APH

/signed/
FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: The Housing Authority of St. Louis County, MO, Has Not Used Restricted
Assets To Inappropriately Benefit Other Entities' Development Activities

HIGHLIGHTS

What We Audited and Why

During the last few years, the Office of Inspector General has determined that many public housing authorities inappropriately encumbered assets to support Housing Development Corporation activities without U.S. Department of Housing and Urban Development (HUD) approval. Our analysis of risk factors identified the Housing Authority of St. Louis County (Authority) as a housing authority with indicators of potential unauthorized development activity.

Our objective was to determine whether the Authority encumbered resources subject to an Annual Contributions Contract or other agreement or regulation to the benefit of other entities' financing or development activities without specific HUD approval.

What We Found

While the Authority has entered into many and varied agreements such as guaranties, lines of credit and loans to the benefit of other entities and activities, it has provided assurances that they have avoided encumbering ACC assets during the development of housing units for projects reviewed. This report contains no findings. No further action on your part is necessary.

Auditee's Response

We discussed the results of our review with Authority management on October 14, 2004. The Authority agreed with the content of the report and declined the opportunity to provide written comments. The Authority also declined an exit conference.

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BACKGROUND AND OBJECTIVES

In October of 1952, the St. Louis County Council created the Housing Authority of St. Louis County (Authority). Under Missouri law, the Authority is a municipal corporation empowered to enter into contracts, lease or rent properties, invest funds, issue revenue bonds, cooperate with and receive funds from the Federal Government, and exercise the power of eminent domain. The Authority develops, owns, manages and maintains a variety of units and provides rental assistance to low- and moderate-income people throughout the St. Louis County area. The mission of the Authority is to assist low-income families and individuals in obtaining safe, affordable housing and to become self-sufficient. From the early 1990's through today, the Authority has been engaged in developing partnerships with the private sector and other public agencies for redeveloping and upgrading existing housing, using both private and public funds.

Our objective was to determine whether the Authority encumbered resources subject to an Annual Contributions Contract or other agreement or regulation to the benefit of other entities' financing or development activities without specific HUD approval.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed applicable laws, regulations, and contracts. We interviewed HUD management and staff to obtain a general understanding of the Housing Authority of St. Louis County, its programs, and any known problem areas. We reviewed various HUD documents and data, including prior reviews. We interviewed Authority management and reviewed audited financial statements management letters, and various documents provided by the Authority. Additionally, we requested technical guidance relating to the absence of language specifically excluding Annual Contributions Contract assets in the Authority's guaranties and whether this constituted a violation of the Annual Contributions Contract.

Our audit period initially covered January 1, 1999, through December 31, 2003. Based on the results of our survey work, we reduced the audit period to January 1, 2003, to the present and focused on reviewing the Authority's lines of credit, loans, and due to/due from accounting transactions.

Fieldwork for this review was conducted from July through October 2004 at the Authority, located in St. Louis, MO. We conducted this 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 objective:

- Controls to prevent Annual Contributions Contract assets from being encumbered or risked without prior HUD approval.

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

We did not identify any significant weaknesses in the relevant controls identified above.