



Issue Date

March 9, 2005

Audit Report Number

2005-DE-1002

TO: Linda J. Camblin, Director, Denver Office of Public Housing, 8APH

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 8AGA

SUBJECT: Boulder County Housing Authority, Boulder, CO, Did Not Properly Manage or Account for HUD Public Housing and Multifamily Program Funds

HIGHLIGHTS

What We Audited and Why

We audited Boulder County Housing Authority (Boulder County Housing) and Louisville Housing Authority, which Boulder County Housing managed and operated. We audited Boulder County Housing because their cash and investments declined from \$907,211 in 1999 to \$46,301 in 2001 and to negative \$6,850 in 2002. Our audit objectives were: to determine the effectiveness of the controls over and accounting for the receipt and use of U. S. Department of Housing and Urban Development (HUD) funds; to evaluate the effectiveness of the controls over HUD-funded personnel functions; and, to determine the effectiveness of HUD-funded tenant eligibility and certification procedures and to evaluate controls over tenant rent subsidies.

What We Found

Boulder County Housing did not properly use HUD funds, which resulted in at least \$433,139 of ineligible and \$123,784 of unsupported costs. Required documentation was not submitted to HUD, which resulted in the suspension of \$165,570 of HUD funds. The internal controls over and procedures for accounting functions were inadequate and utilized inappropriate accounting practices. The provided accounting records did not clearly and/or consistently identify the receipt and use of HUD funds. Boulder County Housing accounting staff inappropriately changed accounting records and 2002 year-end balances,

without adequately disclosing the changes and without any direct knowledge of the accounting activities for 2002 and most of 2003.

We also determined, based on the scope of our audit, that the Boulder County Government provided most of the personnel functions for the Authorities and appeared to have effective controls in place. The personnel functions performed by Authority staff were effectively completed and documented. Boulder County Housing had implemented effective controls over the tenant eligibility, certification procedures, and tenant rent subsidy functions. The Occupancy department had complete, well-maintained tenant files and rent subsidy documentation.

What We Recommend

We recommended HUD require Boulder County Housing to repay to its appropriate HUD programs the ineligible costs and any of the unsupported costs for which adequate supporting documentation could not be provided; prepare and submit required documentation to release the suspended funds; establish controls and procedures to ensure compliance with HUD's requirements; and, provide full explanations for all changes to the 2002 balances involving HUD funds and to take the necessary corrective actions for any changes that resulted in inappropriate use or misstatement of HUD funds.

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 provided Boulder County Housing officials a copy of the draft report on December 6, 2004 and requested they provide a response to the audit report. At their request, we held a subsequent meeting with them. They provided a written response on January 14, 2005. They generally concurred with the audit report and 10 of the 12 recommendations. They did not provide evidence that warranted changing the other two recommendations.

The complete text of the Boulder County Housing officials' response, along with our evaluation of that response can be found in Appendix B of this report.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding: Boulder County Housing Authority's Internal Controls Did Not Ensure the Proper Use of HUD Funds or the Use of Appropriate Accounting Principles	6
Scope and Methodology	13
Internal Controls	15
Appendices	
A. Schedule of Questioned Costs	17
B. Auditee Comments and OIG's Evaluation	18
C. Accounting Procedures Deficiencies Detailed Summary	38
D. Other Matters Related to the Audit	49

BACKGROUND AND OBJECTIVES

The Housing Authority of the County of Boulder, Colorado, commonly referred to as Boulder County Housing Authority, was established in 1975 for “the purpose of promoting and providing quality, affordable housing for lower-income families, the elderly, and disabled people.” In 2003, the three Boulder County Commissioners made Boulder County Housing a “blended component unit and enterprise fund” of the County and assumed the responsibility of Board of Directors. The original seven-member Boulder County Housing Board of Commissioners became an advisory committee. Boulder County Housing executed a Section 8 Vouchers Annual Contributions Contract with HUD in 1980. This Contract was replaced with a Consolidated Annual Contributions Contract on May 18, 1998, and covered 641 Section 8 Housing Choice Vouchers. Boulder County Housing also executed a Public Housing Annual Contributions Contract in 1980. This Contract was replaced with a Consolidated Annual Contributions Contract on December 1, 1995, that covered 56 Public Housing Low Rent units.

Boulder County Housing administered and operated Louisville Housing Authority. A five-member Board of Commissioners governed Louisville Housing Authority. The original Section 8 Vouchers Annual Contributions Contract was executed in 1982 and was replaced with a Consolidated Annual Contributions Contract on April 27, 1998. This Contract covered 27 Section 8 Housing Choice Vouchers. The Public Housing Annual Contributions Contract was executed in 1982. This Contract was replaced with a Consolidated Annual Contributions Contract on January 9, 1996, that covered 13 Public Housing Low Rent units.

Boulder County Housing also owned two properties (20 units total) that were not HUD-insured but received HUD funding for project-based Section 8 units. Louisville Housing Authority also owned a similar property with 30 units. HUD executed Multifamily Housing Assistance Payments Contracts for these three properties in 1978 and 1979. These Contracts were updated in 2000.

Both Housing Authorities owned and operated several other properties that did not receive any HUD funding. Boulder County Housing maintained a separate master bank account for each Authority for disbursement of HUD and non-HUD funds for each Authority’s various properties. Boulder County Housing maintained consolidated accounting records for each Authority’s properties.

The Executive Director for both Housing Authorities at the start of our audit period was James Liles. He retired in June 2002 and Michael Reis was appointed Interim Executive Director. Kevin Marchman was hired as Executive Director in June 2003. He resigned in April 2004. Frank Alexander was appointed Executive Director in May 2004.

As shown in the finding and Appendix C, during and subsequent to our on-site work we made repeated requests for documentation needed to effectively complete our audit work. Mr. Alexander was hired as Executive Director just as we were completing our on-site work. He was not informed of the problems we had discussed with existing Boulder County Housing staff and indicated he was not aware of these issues until we contacted him about the draft audit report on September 2, 2004. We met with him and other representatives on September 10, September 21, October 1, and October 12, 2004. Mr. Alexander and the Boulder County Housing Accountant

provided additional information to address issues discussed in the preliminary draft report and were very responsive to our requests for other information.

The accounting and administrative records for the Authorities were maintained at 3482 North Broadway in Boulder, Colorado. The Authorities' tenant files and other occupancy records were maintained at 400 East Simpson, Suite 202, in Lafayette, Colorado. Boulder County provided most of the human resources functions for both Authorities and maintained the official personnel records at the main Boulder County office.

Our audit work addressed three objectives:

- To determine the effectiveness of the controls over and accounting for the receipt and use of HUD funds.
- To evaluate the effectiveness of the controls over HUD-funded personnel functions.
- To determine the effectiveness of HUD-funded tenant eligibility and certification procedures and to evaluate controls over tenant rent subsidies.

RESULTS OF AUDIT

Finding: Boulder County Housing Authority's Internal Controls Did Not Ensure the Proper Use of HUD Funds or the Use of Appropriate Accounting Principles

Boulder County Housing had not implemented internal controls and procedures that ensured the proper use of HUD funds or the use of appropriate accounting principles. As a result, HUD programs incurred at least \$433,139 of ineligible costs and \$123,784 of unsupported costs. Boulder County Housing did not submit required HUD documentation, which resulted in the suspension of \$165,570 of HUD funds. These occurred because neither the accounting staff nor other Boulder County Housing officials had adequate knowledge of HUD requirements to ensure proper compliance. Moreover, Boulder County Housing management and staff implemented inappropriate accounting procedures, which resulted in inaccurate accounting records.

Boulder County Housing's HUD Programs Incurred Ineligible Costs of at Least \$433,139

Boulder County Housing incurred ineligible costs of at least \$433,139, because adequate controls had not been established to ensure the proper use of HUD funds. The Consolidated Annual Contributions Contracts required that program funds be used only to pay allowable program expenditures. The Public Housing Consolidated Annual Contributions Contracts also required that the Authorities shall not in any way encumber the Public Housing projects. Boulder County Housing's procedures were to transfer HUD funds to other programs. This practice resulted in loans that needed to be repaid to the HUD-funded programs. The totals as of December 31, 2003, were the ineligible transfer balances:

Program	Due From Other Funds	
	December 31, 2001	December 31, 2003
Section 8 Vouchers	\$1,184,835	\$250,616
Public Housing	194,583	168,999
Family Self Sufficiency	0	13,524
Totals	\$1,379,418	\$433,139

Boulder County Housing did not provide documentation to show the use of the funds represented by the balances in the "Due From Other Funds" accounts. We determined the transfers to be ineligible uses of HUD funds, since we could not determine that the transferred funds were used for expenses allowable under the HUD requirements. These balances needed to be repaid to the HUD programs. See Appendix C, Section 1, for detailed information on the accounting procedures.

**Boulder County Housing's HUD
Programs Incurred Unsupported
Expenses of at Least \$123,784**

Boulder County Housing inappropriately charged management fees that resulted in at least \$123,784 of HUD funds being transferred to the master account to cover administrative expenses. Adequate controls had not been established to ensure that HUD funds were properly used and fully supported. The Consolidated Annual Contributions Contracts required that program funds be used only for program expenses. The Section 8 Contracts required that complete and accurate books of account and records be maintained. The Public Housing Contracts required the maintenance of records that identified the application of funds in such a manner as to allow HUD to determine that all funds had been properly expended. Boulder County Housing did not provide support to show that the amounts charged to the programs as management fees were used for allowable program expenses.

The following management fees, totaling \$123,784, were inappropriately charged to HUD-funded programs in 2002 and 2003:

Program or Property	Management Fees
Section 8 Vouchers	\$92,560
Public Housing	\$9,960
Bloomfield Place (Multifamily Section 8)	\$7,320
Catamaran Court (Multifamily Section 8)	\$13,897
Family Self-Sufficiency	\$47

See Appendix C, Section 2, for additional information.

The Director of Finance indicated the management fees were for administrative costs recovery; however, this practice did not comply with HUD requirements. The Section 8 Vouchers Consolidated Annual Contributions Contract required the Authority to establish and maintain an administrative fee reserve fund as a control tool for administrative expenses. The accounting records we were provided did not contain evidence of the administrative fee reserve fund. Boulder County Housing was also required to maintain records for the Public Housing programs in such a manner as to allow HUD to determine that all funds were expended in accordance with program requirements. According to the Director of Finance and the records provided, the Authorities did not meet these requirements.

Boulder County Housing operated Louisville Housing Authority and executed Management Agreements for the Louisville Housing Authority HUD programs. The fees paid by Louisville Housing Authority to Boulder County Housing were within the terms of the Agreements. However, the Management Agreements provided showed that they had not been updated since 1987 for Section 8 Vouchers, 1990 for the Multifamily Housing property, and 1992 for Public Housing. The Agreements were outdated, especially the Public Housing Agreement with a 12-year-old set fee amount. In addition, other terms in the Agreements did not

correspond with current procedures. These Agreements should be updated to represent the current circumstances.

HUD Suspended \$165,570 of Funding Because Required Reports Were Not Submitted

During the audit, Boulder County Housing did not establish adequate controls to ensure that all required accounting and other reports were prepared and submitted to HUD. As a result, Boulder County Housing lost access to \$165,570 of Public Housing Capital Funds Program monies. The Consolidated Annual Contributions Contracts required that the Authorities prepare and submit all financial and program reports and records required by HUD. In October 2003, HUD suspended Boulder County Housing's Capital Funds Program, because the required reports and environmental review had not been submitted to HUD. As a result, Boulder County Housing did not have access to these funds. Therefore, the ability to provide Program benefits to its Public Housing residents was limited.

In May 2004, the HUD Denver Office of Public Housing staff conducted a site visit and obtained the information needed to release the 2002 portion of the funds. The 2003 funds had also been released by the time of this report.

Boulder County Housing Did Not Consistently Record the Receipt of HUD Funds in the Year-End Financial Records

Boulder County Housing did not establish controls to ensure that the financial records consistently showed the funds received from HUD. As part of the year-end financial records, we were provided a HUD Dollars Received Summary and an Operating Statement by Property. Boulder County Housing did not have procedures in place to ensure that the funds received from HUD agreed in these two records. Therefore, HUD had no assurance that the required books of account were complete and accurate. The Boulder County Housing Director of Finance was asked to explain differences in receipt amounts in the two financial reports. The explanations we were provided did not resolve the discrepancies. See Appendix C, Section 3, for further information.

The Accounting Records Did Not Clearly Show the Use of HUD Funds

Boulder County Housing did not establish adequate controls to ensure that the accounting staff prepared accounting records that clearly showed the use of HUD funds for either Authority. Boulder County Housing made all disbursements from a master bank account for each Authority. Funds from HUD-funded and non-

HUD programs were moved from individual program bank accounts to the master bank account to pay expenses. The financial records we were provided did not consistently record these fund transfers or show the use of all HUD funds. The practice was especially ineffective since some of the transfers were done in the computer accounting system and others were done outside the system. This practice resulted in partial sets of accounting records and created an unnecessary risk of error and/or misstatement of the books of account. See Appendix C, Section 4, for further information.

Boulder County Housing Director of Finance Stated They “Manipulated” the 2003 Trial Balances

The Boulder County Housing Director of Finance stated the current accounting staff “manipulated” the accounting records. Therefore, HUD had no assurance of the accuracy of the accounting for the HUD funds. Boulder County Housing provided an Excel spreadsheet that contained the Balance Sheets by Property. This spreadsheet included two workbooks containing trial balances labeled “03TB” and “03TB (2).” Trial Balance 03TB showed that it was out of balance by \$(11,862.00). Trial Balance 03TB (2) showed it was out of balance by \$(24,527.41). The Director of Finance was asked to explain how the balance sheets balanced if neither of the trial balances were in balance. Her written response was, “The trial balance in this workbook was manipulated for Accounting’s purpose and should not be used to tie the BS by Property. This ultimately should not have been included in this workbook. If a Trial Balance is needed, we can provide one.” The accounting practice of “manipulating” the books to the extent that two versions of the trial balance were significantly out of balance, put into question the reliability and accuracy of the final books of account.

Boulder County Housing’s Internal Controls Did Not Ensure the Use of Appropriate Accounting Procedures

Boulder County Housing did not have adequate internal controls to ensure that the accounting procedures resulted in accurate financial records and books of account. The internal controls also did not ensure compliance with HUD requirements or accounting principles. The accounting records did not provide sufficient information to show the receipt and use of HUD funds. Deficiencies in the accounting controls and procedures included the following:

- Boulder County Housing did not have adequate controls to ensure that the accounting procedures resulted in the consistent presentation of the year-end account balances for 2002. See Appendix C, Section 5, for further information.

- Boulder County Housing did not have adequate controls to ensure the proper preparation of the required Management's Discussion and Analysis for the 2003 Audited Financial Statements. See Appendix C, Section 6, for further information.
- Boulder County Housing did not have adequate controls or accounting procedures to ensure the proper representation of assets and liabilities. See Appendix C, Section 7, for further information.
- Boulder County Housing had not implemented effective controls over other accounting functions including: Accounts Payable; Accounts Receivable; transaction recording functions; segregation of duties; use of the computer accounting software; journal entries; and bank reconciliations. See Appendix C, Section 8, for further information.
- Boulder County Housing did not have controls and procedures in place to ensure compliance with HUD requirements. See Appendix C, Section 9, for further information.
- Boulder County Housing Officials were not consistent in their representation of the financial status and reports. See Appendix C, Section 10, for further information.

Conclusion

Boulder County Housing's accounting staff had not implemented adequate controls over the accounting functions to ensure the proper use of HUD funds and to clearly represent those funds in the accounting records. Accounting staff adjusted the accounting records, booked transactions that did not comply with HUD requirements, and completed transactions without supporting documentation. Account balances for 2002 and account structures were changed without disclosure or explanation. Additionally, the accounting staff did not provide accounting records that properly disclosed the status of HUD funds. These problems occurred because the accounting staff and other Boulder County Housing officials did not have adequate knowledge of HUD requirements to ensure proper compliance. As such, the accounting staff did not establish effective procedures for use of the computer accounting system and other accounting activities.

These actions resulted in non-compliance with HUD requirements and in HUD not having assurance that funds were adequately controlled or properly used.

HUD's Management Decision

We provided HUD with a preliminary copy of the report and asked if they could provide management decisions for the recommendations. HUD provided us with management decisions for six of the recommendations (Recommendations 1D, 1E, 1F, 1G, 1I and 1L). We concurred with all six management decisions.

Recommendations

We recommend that the Denver Office of Public Housing take the following actions:

- 1A. Require Boulder County Housing to repay from non-Federal funds the ineligible costs of \$433,139 to appropriate HUD-funded programs.
- 1B. Require Boulder County Housing to provide documentation supporting the \$123,784 of unsupported costs for Boulder County Housing Authority. Based on the provided documentation, determine the amounts of questioned costs to be repaid to the various HUD-funded programs.
- 1C. Require Boulder County Housing to repay from non-Federal funds the amounts determined in Recommendation 1B and ensure repayment is made to the appropriate HUD-funded programs.
- 1D. Require Boulder County Housing to establish and maintain the required Administrative Fees Reserve accounts for Boulder County Housing Authority and Louisville Housing Authority.
- 1E. Require Boulder County Housing to establish and implement policies and procedures to ensure the proper maintenance of the Reserve accounts.
- 1F. Require Boulder County Housing to implement procedures for determining a reasonable, supportable method of allocating indirect costs to the HUD-funded programs.
- 1G. Require Boulder County Housing to execute the appropriate updated Management Agreements for the management of Louisville Housing Authority's Public Housing, Section 8 Vouchers, and Multifamily project-based programs.
- 1H. Require Boulder County Housing to establish and implement policies and procedures that ensure compliance with the Consolidated Annual Contributions Contracts, Multifamily Housing Assistance Payments Contracts, and other applicable HUD and Federal requirements.

- 1I. Require Boulder County Housing to prepare and submit the documentation required for the release of the suspended Capital Funds Program awards.
- 1J. Require Boulder County Housing to establish and implement policies and procedures that will ensure the proper control over and accurate recording of the receipts and disbursements of HUD funds in accordance with HUD requirements and accounting principles.
- 1K. Require Boulder County Housing to provide full explanations for all changes to the 2002 HUD funds balances. For any changes that resulted in inappropriate use or misstatement of HUD funds, require Boulder County Housing to take the necessary corrective actions.
- 1L. Provide the necessary technical assistance to ensure the establishment of controls over the receipt and use of HUD funds and the preparation of accurate accounting records in compliance with HUD requirements.

SCOPE AND METHODOLOGY

The audit covered procedures and transactions representative of operations at the time of the audit and included the period January 2002 to December 2003. We expanded the scope of the audit as necessary to obtain an understanding of the procedures. We performed the audit from January through July 2004. We performed additional audit work on documentation provided by Boulder County Housing representatives in September and October 2004.

The scope of our audit of the accounting functions was restricted because Boulder County Housing did not provide full and complete accounting records that clearly showed the receipt and use of HUD funds. We also were not provided the final 2003 books of account for Louisville Housing Authority. However, we were able to obtain enough documentation and a sufficient understanding of the procedures and practices to support our finding. We were provided comprehensive records for the occupancy and personnel functions.

Completion of our audit was further delayed because the current Boulder County Housing Officials requested the opportunity to provide additional information when they were informed of the contents of the preliminary draft audit report. We held several meetings with them and evaluated the additional documentation they provided. We made changes to the draft report to incorporate the pertinent additional information and to focus more fully on accounting procedures.

To determine whether Boulder County Housing properly accomplished the accounting, occupancy, and personnel functions we:

- Reviewed the applicable criteria, including the HUD Contracts for both Housing Authorities;
- Reviewed the documentation provided by Boulder County Housing for the accounting, occupancy, and personnel functions, including: policies and procedures manuals, reports generated from the computer accounting software and from other computer software, disbursements records, income records, tenant files, HUD subsidies reports, and personnel records and reports;
- Reviewed the Audited Financial Statements Reports for 2002 for both Housing Authorities and the 2003 Report for Boulder County Housing Authority (the 2003 audit for Louisville Housing Authority had not been conducted by the time we completed our site work);
- Interviewed management and staff responsible for the accounting, occupancy, and personnel functions and obtained an understanding of the actual procedures; and
- Reviewed HUD's Denver Offices of Public Housing and Multifamily Housing records relating to and interviewed HUD officials and staff involved with the Housing Authorities.

We used the following sampling techniques during the completion of our audit:

- For the Public Housing and Multifamily Housing tenant files, we used a combination of a non-representative sample and a representative nonstatistical sample. We used the non-representative sample to select a sample of tenants with negative rents. We used the representative nonstatistical sample to randomly select tenant files from the various properties.
- For the Section 8 Vouchers tenant files, we used a representative nonstatistical sample to randomly select tenant files using the Section 8 Vouchers rent roll.
- For the Multifamily Housing Section 8 Voucher Requests and the Section 8 Housing Choice Voucher subsidies documentation, a 100 percent review was done.
- For the disbursements review, we used a combination of a non-representative sample and a representative nonstatistical sample. From the available disbursements reports for the HUD properties and programs, we selected the largest disbursements. We also randomly selected vendor files for 2002 and 2003 for each Authority to test the disbursements procedures.
- For the income review, we reviewed 100 percent of the receipts of HUD funds by both Authorities for 2002 and 2003.

We performed our audit 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:

- Establishing effective accounting procedures and maintaining complete and accurate accounting records that clearly and accurately show the receipt and use of HUD funds and compliance with HUD requirements;
- Establishing effective occupancy procedures and maintaining accurate records in compliance with HUD requirements;
- Establishing effective personnel procedures and maintaining accurate records for HUD-funded employees; and
- Maintaining complete and accurate accounting records to facilitate timely and effective audits in accordance with the Authorities' Consolidated Annual Contributions Contracts with HUD.

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 determined the following items were significant weaknesses (see Finding):

- Boulder County Housing's accounting procedures allowed for the incurrence of at least \$556,923 of ineligible and unsupported costs;

- Boulder County Housing's accounting procedures were not sufficient to provide complete and accurate books of account and supporting accounting documentation and records;
- Boulder County Housing's procedures did not ensure all required documentation was prepared and submitted to HUD; and
- Boulder County Housing's procedures did not produce complete and accurate books to facilitate timely and effective audits in accordance with the Consolidated Annual Contributions Contracts with HUD.

APPENDICES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation Number	Ineligible 1/	Unsupported 2/
1A	\$433,139	
1B		\$123,784

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 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 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.


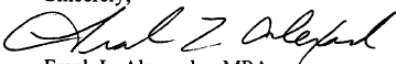

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

	<p>Post Office Box 471 • Boulder, Colorado 80306</p> <h2>Housing Authority</h2> <p>Housing Authority Office • 3482 N. Broadway • Boulder, Colorado 80304 • (303) 441-3929 Housing Management Office • 400 E. Simpson Street, Suite 202 • Lafayette, Colorado 80026 • (303) 665-9244 TDD Colorado Relay 1-800-659-2656 http://www.co.boulder.co.us/cs/ho</p>
	<p>Audit Response Dated: January 14, 2005</p> <p>Robert C. Gwin, Regional Inspector General for Audit U.S. Department of Housing and Urban Development Office of Inspector General, Region 8 UMB Plaza, 1670 Broadway, 24th Floor Denver, CO 80202-4801 Ph: (303) 672-5006, Fx: (303) 672-5006</p> <p>Attention: Frank Rokosz, Assistant Regional Inspector General for Audit</p> <p>Re: Responses to HUD-OIG Draft Audit Report: Boulder County Housing Authority, Boulder, CO, Did Not Properly Manage or Account For HUD Public Housing and Multifamily Programs Funds</p> <p>Dear Mr. Gwin:</p> <p>Attached you will find Boulder County Housing Authority's responses to the Draft Audit report issued by the HUD Office of Inspector General, Region 8. We have very much appreciated the professionalism of the audit team from your office. Please extend our sincere appreciation to Mr. Frank Rokosz, Assistant Regional Inspector General for Audit, and Beth Archibald, Senior Auditor, for their work with our Housing Authority over the last several months as they finalized their audit report for Boulder County Housing Authority for the years 2002-2003.</p> <p>Boulder County Housing Authority is confident that the improvements we have made in our management operations and accounting department since the audit team was onsite in our offices will establish a firm foundation for the long-term success of the Boulder County Housing Authority. We are grateful to the HUD-OIG audit team for the contributions they have made to our organization's recovery through this report and through their suggestions to staff. We hope that our responses to the Draft Audit Report will demonstrate to both the Region 8 HUD office and the HUD-OIG the dedication and commitment of Boulder County Housing Authority staff to resolving any outstanding issues. Thank you for your time and consideration of our comments. Please do not hesitate to contact me if you have any questions about our responses to this draft report.</p> <p>Sincerely,  Frank L. Alexander, MPA Executive Director, Boulder County Housing Authority</p> <p> EQUAL HOUSING OPPORTUNITY</p>

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 2

Boulder County Housing Authority Responses—HUD-OIG Draft Audit
January 2004

Page 1

Boulder County Housing Authority Historical Overview:

The Boulder County Housing Authority (BCHA) was established in March of 1975 and has been serving the broad needs of the Boulder County community in Colorado for the last 30 years. The mission of the Boulder County Housing Authority is to foster the availability of quality, affordable housing and related services for the residents of Boulder County through community collaboration, effective services and programs, professional organization, efficient resource management, and the expansion of funding sources. BCHA operates a wide breadth of affordable housing and related services, including an Assisted Housing Program for Families; an Assisted Living Program for the Elderly called Project HOPE; a Project Self-Sufficiency Program; an Agricultural Worker Housing Program; a Section 8 Housing Choice Voucher Program; a HUD-certified Housing Counseling Program; a Public Housing Program, a Multifamily Housing Program, a Rehabilitation and Weatherization Program; an Elder Services Program; and a Youth Building Program. The Authority presently owns, manages, or administers subsidies for a total of approximately 1,130 affordable housing units for low-income families and individuals, older adults, and individuals with disabilities. This includes the administration and maintenance of 69 units of public housing, 50 HUD multifamily units, and 668 Housing Choice Vouchers.

BCHA provides housing for individuals and families in the 334 units of affordable rental housing units it owns and operates. BCHA also manages 116 units of affordable rental housing units owned by the Housing Authority of the City of Louisville, Colorado and 12 units of affordable rental housing owned by the Housing Authority of the Town of Erie, Colorado.

The Authority is governed by the Boulder County Housing Authority Board (the "Authority Board"), which is comprised of the members of the Board of County Commissioners of Boulder County (the "County Board"), who serve as the ex-officio commissioners of the Housing Authority. On January 14, 2003, the Board of the County Commissioners constituted itself as the Commissioners of the Boulder County Housing Authority and became the governing body of the Authority pursuant to the authorizing statute, C.R.S. 29-4-504. The County Commissioners also created a new board to provide advice and recommendations on public housing policy for Boulder County, known as the Boulder County Housing Commission (the "Housing Commission"). The Housing Commission provides recommendations as to policy and promotes housing and related programs. The County Board serves for four-year terms and the Housing Commission serves five-year terms.

The commissioners assumed control over BCHA in order to provide budgetary oversight and accountability to the taxpayers of Boulder County. The problems faced by BCHA were not discovered until more than six months after the Board of County Commissioners assumed control of BCHA. In the summer of 2003, BCHA began to self-identify problems within its own operations and began an aggressive recovery strategy to correct these issues that has been carried forward to date. Shortly thereafter, BCHA met with HUD Region 8 staff to inform HUD about its management and accounting concerns at the Authority. BCHA staff has been working diligently with our independent auditors, the U.S. Department of Housing and Urban Development, and its office of Inspector General to remedy identified concerns of our past accounting and management systems.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 3

Boulder County Housing Authority Responses—HUD-OIG Draft Audit
January 2004

Page 2

The net effect of our agency's response to the difficulties BCHA has faced has resulted in a much stronger, more streamlined housing authority that will be prepared to respond to the growing need for affordable housing throughout Boulder County in the coming decade. BCHA has no intention of letting recent financial difficulties compromise the vital service we provide to our clients throughout the community.

All of BCHA operations are included within its incorporating housing authority charter. BCHA has not developed any not-for-profit corporations or limited-liability corporations for the acquisition or development of affordable housing within Boulder County. To meet its broad public mission, BCHA has expanded its stock of affordable housing over the last several years. Between 2000 and 2002, BCHA increased the number of affordable housing units within its portfolio by 100 units.

BCHA is mid-stream in a comprehensive recovery process. Many of the concerns expressed by the HUD Office of Inspector General have been remedied since the audit team completed its onsite work in May of 2004. BCHA will highlight these accomplishments in the body of this response to the HUD-OIG audit report.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 4

Boulder County Housing Authority Responses—HUD-OIG Draft Audit
January 2004

Page 3

BCHA Responses to HUD-OIG Draft Report by Finding and by Subpart:

In its draft audit report, the HUD-OIG determined the following:

Finding #1: Boulder County Housing Authority's Internal Controls Did Not Ensure the Proper Use of HUD Funds or the Use of Appropriate Accounting Principles

BCHA will respond to this finding in detail by addressing each individual subpart highlighted within this finding.

Subpart 1) Boulder County Housing's HUD Programs Incurred Ineligible Costs of at Least \$433,139

In this subpart, the HUD-OIG found that "Boulder County Housing did not provide documentation to show the use of funds represented by the balances in the 'Due From Other Funds' accounts. We determined the transfers to be ineligible uses of HUD funds, since we could not determine that the transferred funds were used for expenses allowable under the HUD requirements."

The \$433,139 figure in the "Due From Other Funds" accounts that HUD-OIG references is the "Due From Other Departments" balances listed in BCHA's annual financial statement for the audit period ending December 31, 2003. BCHA acknowledges that the accounting system was not sufficient to allow HUD-OIG to determine that the transfers from these funds were adequately tracked to HUD-funded programs or HUD-approved activities. However, BCHA does not agree that the expensing of these dollars was an "ineligible use" of these funds for two critical reasons: 1) BCHA has spent all HUD funds it has received on eligible housing purposes permitted by HUD regulations and State and local law and 2) BCHA has never had an appropriate indirect cost allocation plan to adequately and fairly distribute actual costs to HUD-funded programs.

1) There is no evidence presented in the report by HUD-OIG that these "transferred funds" were not used for permitted purposes. Prior to 2004, BCHA did not adequately track the expenditure of HUD funds or to establish an Administrative Fee Reserve account as required under the Consolidated Annual Contributions Contracts and the Multifamily Housing Assistance Payments Contracts. This represents a failure to implement appropriate accounting tracking mechanisms. However, BCHA does not believe that BCHA spent these dollars on "ineligible uses." The expenditures in BCHA's payment registers from prior years demonstrate that the expensing of HUD funds was allowable under the regulations or for "other housing purposes permitted by State and local law." BCHA contracted with its independent auditor to review the accounts payable transactions that were generated in 2003 for any evidence of misappropriation or misuse of federal funds and all the transactions had been used for housing purposes permitted by State and local law.

Before April 2004, the HUD dollars BCHA received were transferred into the master account and the administrative fees spent from that account. This included the dollars

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 5

Comment 6

Boulder County Housing Authority Responses—HUD-OIG Draft Audit
January 2004

Page 4

that should have been designated for the Section 8 Administrative Fee Reserve account. Prior the release of PIH notice 2004-7 on April 22, 2004, PHAs were permitted under 24 CFR 982.155(b)(1) to use the administrative fee reserve for "other housing purposes permitted by State and local law." The previous language of 24 CFR 982.155(b)(1) stated that "if funds in the administrative fee reserve are not needed to cover PHA administrative expenses, the PHA may use these funds for other housing purposes permitted by State and local law." BCHA's Section 8 Administrative Fees were used for "other housing purposes as permitted by state law." The annual and five-year plans submitted by BCHA consistently represented that it would "*spend money from its Section 8 Administrative Fee Reserve to meet unseen or extraordinary expenditures or for its other housing related purposes consistent with State law.*" (BCHA Five-Year Agency Plan 2000-2004, Section 18.0) These plans were approved by the HUD Region 8 office annually. PHAs have commonly used a master account in the administration of their operations. In response to HUD-OIG's report issued in January of 2004, entitled *Public Housing Agency Development Activities*, Deputy Assistant Secretary for Public Housing and Voucher Programs William O. Russell stated that,

"the ACC allows for PHAs to use the Low Rent Program as a general fund. A general fund under this definition allows PHAs to deposit money from various programs (like the Capital Fund Program) into a single account. Therefore it is a common practice to see amounts reported under the due to and due from accounts, as this reflects cash and investments balances of other programs being held under the low rent program. Also PHAs can use their reserve balances to fund public housing related projects. Therefore, PHAs will use their reserves as working capital to be later reimbursed..." (HUD-OIG 2004-AT-0001)

Additionally, HUD has encouraged PHAs, like BCHA, to meet their larger community mission to address the broader need for affordable housing by expanding their housing assistance programs beyond Public Housing and Housing Choice Voucher programs. BCHA has attempted to meet its broader mission in just this manner. As stated in the overview, between 2000 and 2002, BCHA increased the number of affordable housing units within its portfolio by 100 units from 234 to 334 units, a 43% increase. BCHA's accounting and management systems did not develop as rapidly as its affordable acquisition strategy. However, BCHA's clients throughout the community, whether they are Housing Choice Voucher clients, Public Housing residents, or residents in BCHA's affordable units have been better served through BCHA's expansion. In response to HUD-OIG's report issued in January of 2004, entitled *Public Housing Agency Development Activities*, Deputy Assistant Secretary for Public Housing and Voucher Programs William O. Russell stated, "the Department does not want to discourage entrepreneurial PHAs and their non-profit affiliates from using non-public housing resources to the benefit of the public housing program." (HUD-OIG 2004-AT-0001)

Current HUD regulation, as issued in PIH notice 2004-7 states,

"any administrative fees from FFY 2004 funding that are subsequently moved into the administrative fee reserve account at year end may not be

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 7

Boulder County Housing Authority Responses—HUD-OIG Draft Audit
January 2004

Page 5

used for 'other housing purposes permitted by state and local law', and must only be used for the provision of Section 8 rental assistance, including related development activity."

BCHA has followed this regulation in the implementation of its affordable housing program throughout 2004. BCHA accounting staff established reserve accounts for the Section 8 program in 2004. Additionally, BCHA has contributed \$15,000 a month to internal operating reserves that serves as the reserve for BCHA's affordable and Public Housing units.

2) BCHA has not had an appropriate indirect cost allocation plan to ensure the proper allocation of costs to each of the HUD programs or to each property for which BCHA is responsible. The lack of an indirect cost allocation plan contributed directly to an increase in the "Due From Other Funds" lines described in the HUD-OIG report because costs were not distributed adequately to HUD programs. By not adequately allocating costs, BCHA has, in effect, subsidized HUD programs from its general operating revenues.

In December 2004, BCHA submitted an overhead cost allocation plan to HUD in accordance with OMB Circular A-87 to assign appropriate administrative costs to all programs and projects within the Louisville Housing Authority, Erie Housing Authority, and BCHA. (For more information on the indirect cost allocation plan, please refer to Subpart 2.)

If BCHA had adequately tracked expenses recorded in the payment register to the appropriate funds and had instituted an approved indirect cost allocation plan, HUD-OIG would have been able to see that all of BCHA expenses were allowable under HUD regulations. In 2004, BCHA instituted the appropriate accounting controls to ensure that all costs are fairly and adequately allocated and that expenditures from the HUD-funded programs are readily available for tracking by HUD and HUD-OIG. In 2004, BCHA's accounting system has been improved to meet the demands of its complex operations.

Subpart 2) Boulder County Housing's HUD Programs Incurred Unsupported Expenses of At Least \$123,784:

In this subpart, the HUD-OIG found that "Boulder County Housing did not provide support to show that the amounts charged to the programs as management fees were used for allowable program expenses."

As a result of past BCHA accounting practices, HUD-OIG stated that they could not determine whether all the funds had been properly expended. The majority of the "unsupported expenses" detailed in the HUD-OIG report were incurred in 2002. However, the practice of charging management fees using these allocation methods predates this audit period and has been ongoing at BCHA for many years. BCHA acknowledges that there has not been an appropriate indirect cost allocation plan established within the agency to adequately and proportionately distribute costs to all HUD programs and housing sites. In addition, the management fee structure for its sites and funds was not appropriate and the management agreements with the Louisville

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 8

Boulder County Housing Authority Responses—HUD-OIG Draft Audit
January 2004

Page 6

Housing Authority were extremely outdated. As noted by HUD-OIG, the Management Agreements have not been updated since 1987 for Section 8 Vouchers, 1990 for the Multifamily Housing property, and 1992 for Public Housing. The lack of an indirect cost plan and the outdated management fee agreements has been detrimental to the overall management of BCHA operations. The amounts BCHA has historically charged to HUD-funded programs have been inadequate to meet program costs. In reviewing a cost allocation based on managing units and direct labor salaries, BCHA has determined that the costs allocated should be significantly higher than the management fee allocation used in 2002 and 2003.¹

The independent auditors from prior years never raised any concerns to management staff about the methods implemented by BCHA in the allocation of costs. Current staff agree that the submission and approval by HUD of an appropriate indirect cost allocation plan is an essential component of ensuring BCHA's and LHA's compliance with the Consolidated Annual Contributions Contracts and the Multifamily Housing Assistance Payments Contracts. BCHA submitted an indirect cost allocation plan to HUD in December 2004 for HUD approval. Staff evaluation of the past management fee demonstrates that BCHA has significantly undercharged the HUD programs for central services. **Therefore, had a fair and reasonable indirect cost allocation plan been established and followed for prior years, the BCHA and LHA HUD-funded programs would have incurred additional costs such that the \$123,784 would not have been designated "unsupported expenses" by HUD-OIG.**

Subpart 3) HUD Suspended \$165,570 of Funding Because Required Reports Were Not Submitted

In this subpart, the HUD-OIG found that "Boulder County Housing did not establish adequate controls to ensure that all required accounting and other reports were prepared and submitted to HUD. As a result, Boulder County Housing lost access to \$165,570 of Public Housing Capital Funds Program monies."

Comment 9

In this subpart, the HUD-OIG found that BCHA's untimely submission of paperwork delayed access to \$165,570 of Public Housing Capital Funds (CFP). In May 2004, all the required documentation was submitted to the HUD regional office to obtain the release of the 2002 CFP funds of which \$75,145 had already been obligated and expensed from BCHA's non-HUD operating accounts on the CFP projects. In November

¹ In the past, BCHA's administrative costs were divided by total units to come up with the percentage of rental income to charge to each project or property. In addition, Public Housing units were charged a total flat amount of \$415.00 per month for all 56 units for BCHA and \$415.00 for all 13 Public Housing units for LHA because previous staff believed that these properties could not sustain a higher allocation of costs. The total amount charged to BCHA's Public Housing for the audit period was \$9,960.00. ***This is a total of \$88.93 per unit per year or a total of \$7.41 per unit per month.*** Louisville Housing Authority was charged \$4,908.00 per year for its 13 units of Public Housing. ***This is a total of \$383.08 per unit per year or a total of \$31.92 per unit per month.*** This amount has been charged since 1992. Thus, in the last 22 years, there has only been one minor increase in charges to the public housing management fee agreements.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Boulder County Housing Authority Responses—HUD-OIG Draft Audit
January 2004

Page 7

2004, BCHA completed and submitted the required environmental reviews and all 2003 CFP funds have been released. Therefore, the entire \$165,570 has been released for use.

BCHA has instituted the appropriate policies and procedures to ensure that the timelines for the submission of future CFP fund documentation are met. By example, BCHA ensured the timely submission of the most recent completed HUD 5-year plans for the Louisville Housing Authority (LHA) and BCHA. This included completing 5-years plans for the use of CFP funds within the HUD templates. The HUD regional office approved both plans in early December 2004. In addition, recent updates within HUD's Line of Credit Control System (LOCCS) updating Obligations and Expenditures for CFP have been submitted monthly.

In this subpart, HUD-OIG also stated that because of the delay in submitting the required paperwork BCHA's *"ability to provide program benefits to its Public Housing residents was limited."* The Authority disagrees with this statement. The Capital Funds Program monies are primarily used to ensure that the physical conditions of BCHA's public housing sites meet UPCS standards and enable residents to enjoy the highest possible quality of life. During BCHA's physical inspections conducted by a HUD-approved inspector in November 2004, BCHA scored the following:

Project Number	Project Name(s)	Number of Units	2004 Physical Score
CO06P061001	Lafayette Villa West and Mountain Gate	34 units	95c
CO06P061002	Rodeo Court and Dover Court	14 units	99c
CO06P061004	Scattered Sites	8 units	89b

This composite score ranks BCHA as a "high performer" within this indicator in the Public Housing Assessment System (PHAS) system. BCHA believes that the composite physical score reflects that BCHA's continued provision of services to Public Housing residents was not negatively impacted by the delay in submitting the required paperwork to HUD.

Subpart 4) Boulder County Housing Did Not Consistently Record the Receipt of HUD Funds in the Year-End Financial Books

In this subpart, the HUD-OIG found that *"Boulder County Housing did not establish controls to ensure that the financial records consistently showed the funds received from HUD...Therefore, HUD had no assurance that the required books of account were complete and accurate."*

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 10

Boulder County Housing Authority Responses—HUD-OIG Draft Audit
January 2004

Page 8

BCHA acknowledges that it did not clearly show the receipt of HUD funds on the Statements of Revenues, Expenses, and Changes in Net Assets in the 2003 audit. However, the Schedule of Expenditures and Federal Awards clearly shows the receipt of all dollars received. Though such monies could not be easily tracked to the audited financial statements, the underlying books of account were complete and accurate in recording HUD revenue.

In the 2004 audited financial statements, all subsidies for Section 8 Housing Choice Voucher Program, Public Housing, Multifamily Housing, and Family Self-Sufficiency will be shown on the face of the financial statements so that the HUD funds can be easily tracked to the Schedule of Expenditures and Federal Awards.

Subpart 5) The Accounting Records Did Not Clearly Show the Use of HUD Funds

In this subpart, the HUD-OIG found that "Boulder County Housing did not establish adequate controls to ensure that the accounting staff prepared accounting records that clearly showed the use of HUD funds for either Authority."

BCHA acknowledges that adequate accounting controls did not exist to allow HUD-OIG to clearly track the use of HUD funds. However, the payment register for the master account that BCHA used to pay all accounts payable has been audited every year by an independent auditor. No evidence of misuse or misappropriation of federal funds has ever been identified and all the transactions to date have been found to have been used for housing purposes permitted by State and local law. In addition, internal accounts payable procedures such as check authorization forms were in place to control expenditures.

During the course of 2004, BCHA has taken a number of steps to remedy these accounting control deficiencies. BCHA has implemented the following control measures regarding the internal transfer of funds:

- 1) A fund-based general ledger structure was developed that allows for all revenue and expenditures to be tracked by fund source. These funds include: Section 8, Public Housing, Rural Development, and PSS.
- 2) All funding received by HUD has a designated cash general ledger account and as balances are drawn down, the appropriate general ledger cash code is credited. This gives a true picture of what the true cash balance for each program is.
- 3) Expenses are tracked in each program and funds are not drawn down from the designated program until they are expended. This allows for the proper tracking of HUD funds.
- 4) A separate checking account is now used to receive Section 8 funds and HAP payments are made directly out of this account instead of out of BCHA's master account, as was done in prior years. Administrative fees are transferred to the Master account after the appropriate expenses have been recorded. Any administrative fees that are earned, but not expended, are recorded within the Section 8 Administrative fee reserve.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 11

Boulder County Housing Authority Responses—HUD-OIG Draft Audit
January 2004

Page 9

The entire accounting records and all financial transactions are now recorded within HMS. Beginning in 2004, all transfers between funds were recorded in the HMS accounting system with appropriate back-up documentation being kept for all transfers.

BCHA regrets that HUD-OIG had such difficulty obtaining the information necessary for the completion of a timely audit as detailed in Section C-4 of the Appendix. However, BCHA can assure HUD that such problems will not occur in the future. BCHA will continue to work with HUD in the coming months to ensure that the controls implemented in 2004 and 2005 by staff are adequate to address the concerns found by HUD-OIG.

Subpart 6) Boulder County Housing Director of Finance Stated They “Manipulated” the 2003 Trial Balances

The former Finance Director used the term “manipulation” in e-mail communication during the HUD-OIG audit process. This was an unfortunate choice of words. Further, her submission of differing trial balances was a misunderstanding of the HUD-OIG audit process. BCHA has not, in any way, manipulated the financial books for audit or accounting purposes. Instead, BCHA accounting staff provided an Excel workbook to the audit team that contained the Balance Sheets by Property. That workbook included two working spreadsheets that were used by accounting staff to reconcile these Balance Sheets. These sheets were sorted and line items were deleted as part of the reconciliation process. The accounting records in HMS were not “manipulated” by accounting staff. BCHA again respectfully requests that HUD-OIG remove the statement that BCHA “manipulated the accounting records” from its final audit report because staff believes that this is a misrepresentation of the facts within BCHA. BCHA has made every effort to ensure the reliability and accuracy of the final books of account for 2003 and future years.

Comment 12

Subpart 7) Boulder County Housing’s Internal Controls Did Not Ensure the Use of Appropriate Accounting Procedures

- a) Boulder County Housing did not have adequate controls to ensure that the accounting procedures resulted in the consistent presentation of the year-end account balances for 2002.**

BCHA disagrees with HUD-OIG’s analysis of the 2002 figures within the 2003 audit financials. BCHA did have adequate controls to ensure the proper presentation of the 2002 year-end account balances. The 2002 column in the 2003 financial statements clearly states that the column is for “comparative purposes only” as these are re-grouping of general ledger account balances and not “changes to account balances.” The general ledger balances and accounting records were not changed after the audit was conducted in 2002.

HUD-OIG references that the changes were made “without having first hand knowledge of the activities in 2002.” BCHA accounting staff requested a mapping of

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Boulder County Housing Authority Responses—HUD-OIG Draft Audit
January 2004

Page 10

general ledger codes to the 2002 audit in early 2004 and were not provided that from the 2002 auditor. BCHA staff did have knowledge of what was required by GASB 34, which BCHA implemented for the first time in 2004. While BCHA acknowledges that more disclosure of these re-groupings would have been helpful in the notes or the MD&A, the re-grouping of account balances was made to comply with GASB 34 and to provide comparative data against 2003.

HUD-OIG states that, "GASB 34 did not change the classifications for accounts such as cash." However, the difference between the (\$6,850) in the 2002 audit statement and the \$246,596 in the 2003 audit is due to the definition of Restricted Assets in GASB 34 paragraph 34. BCHA's Operating Reserve and Public Housing Operating do not meet the definition of restricted in the following paragraph. The 1998 Bond surplus fund and Housing Choice Voucher Operating do meet the Restricted Assets definition.

GASB 34, paragraph 34, states:

"Net assets should be reported as restricted when constraints placed on net asset use are either:

- 1) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments.
- 2) Imposed by law through constitutional provisions or enabling legislation."

See table below for comparative analysis of unrestricted cash.

2002 Unrestricted Cash Comparison		
2002 Audit	2003 Audit	Account Description
(44,460)	(44,460)	Master Account
36,473		-98 Bond Surplus Fund
350	350	Petty Cash
787		-Vouchers Operating
-	4,111	Public Housing Operating
-	286,595	BCHA Operating Reserves
(6,850)	246,596	Total Unrestricted Cash Balance

In reference Appendix C-5, third paragraph of HUD-OIG's report, BCHA recognizes the difference in the four identified account groupings between the 2002 and 2003 audits regarding Restricted Cash-Others and Restricted Cash-Security Deposits. The 2003 audited column correctly shows these balances as Security Deposits. BCHA does not believe this error to be material to the 2003 audit since they are both in the "Restricted Cash" category.

In Appendix C-5, paragraph 4, HUD-OIG references changes in the 2002 unrestricted cash balances for HUD-funded programs. The 2002 audit included "Due from Other Departments" in the "Cash and Investments" line item. The 2003 audit distinguishes between cash and transfers classifying them as "Cash" and "Due from Other Departments" respectively because the "Due Froms" are not cash and cannot be tied to any bank reconciliation. See the following table.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Boulder County Housing Authority Responses—HUD-OIG Draft Audit
January 2004

Page 11

2002 Audited Cash and Investments Analysis		
Program	GL Description	2002 Audit
Section 8 Vouchers	Transfer to/from master	213,460.08
Section 8 Vouchers	Cash-Operating	787.12
Public Housing	Transfer to/from master	243,347.46
Bloomfield Place	Transfer to/from master	(3,237.18)
Catamaran Court	Transfer to/from master	(96,720.73)

BCHA acknowledges that further discussion with more disclosure of these re-groupings would have been helpful in the notes to the financials or within the Management's Discussion & Analysis in the 2003 audited financials. However, all re-groupings were adequately explained and mappings were provided to the HUD-OIG and independent auditors. BCHA will cooperate with HUD and provide any materials necessary to ensure that all re-groupings in BCHA's 2003 audit are fully explained to HUD's satisfaction.

b) Boulder County Housing did not have adequate controls to ensure the proper preparation of the required Management's Discussion and Analysis for the 2003 Audited Financial Statements.

BCHA is a "blended component unit and enterprise fund" within Boulder County government. Paragraph 138 of GASB 34 states that financial statements and Required Supplemental Information (RSI) for enterprise funds should include

- 1) Management's Discussion & Analysis.
- 2) Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows.
- 3) Notes to the financial statements (paragraphs 113-123).
- 4) Required Supplemental Information (RSI) other than MD&A, if applicable (paragraphs 132-133).

Additionally, paragraphs 130 and 131 of GASB 34 relate to the General Fund and Major Special Revenue Funds of each government. The Boulder County Housing component of the County general fund shows the budgetary comparison by GASB 34 in the 2003 CAFR for Boulder County as part of the Community Services Department.

BCHA did meet all the requirements required by GASB 34, paragraphs 8-11. BCHA will have a more narrative financial analysis in the Management's Discussion and Analysis in the 2004 audit. BCHA acknowledges that a more thorough financial analysis in the MD&A for the 2003 audit would have been helpful.

c) Boulder County Housing did not have adequate controls or accounting procedures to ensure the proper representation of assets and liabilities.

Under the Governmental Accounting Standards Board Statement 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Boulder County Housing Authority Responses—HUD-OIG Draft Audit
January 2004

Page 12

Governments, the Housing Authority is required to eliminate all internal balances in the total primary government column. BCHA was required to implement the requirements of GASB 34 by year-end December 31, 2003 because 2003 was the first year that BCHA was a "blended component unit and enterprise fund" of Boulder County.

Eliminations should be made to minimize the "grossing up" effect on assets and liabilities within the Business-Type activities column. (GASB 34, Paragraph 58) Because the Authority is a single enterprise fund with multiple departments, these eliminations are reflected in the Statement of Net Assets.

To properly comply with GASB 34 at December 31, 2003, the Housing Authority eliminated the "Due From Other Funds" and "Due To Other Funds" account balances in the 2002 comparative column of the 2003 audit. BCHA did not understate these amounts. Therefore, BCHA believes that the 2003 financial statements are fairly stated in accordance with GAAP.

- d) Boulder County Housing had not implemented effective controls over other accounting functions including: Accounts Payable; Accounts Receivable; transaction recording functions; segregation of duties; use of the accounting computer software; journal entries; and bank reconciliations.**

BCHA acknowledges the fact that there were not adequate implemented controls over many of its accounting functions. Since the both the BCHA 2003 audit and the HUD-OIG 2002-2003 audit, BCHA has implemented many new accounting controls. Some of the changes already implemented by BCHA include, but are not limited to:

- 1) The Housing Management System (HMS) is now being used to record all transactions. All balances on the financial statements are now tied to general ledger balances in the HMS system.
- 2) All journal entries are prepared and printed out of HMS with appropriate back up attached before they are posted to the general ledger.
- 3) Bank reconciliations are prepared monthly so that any reconciling items can be researched in a timely fashion.
- 4) BCHA is currently working with HMS to break out projects in the AR module to match our general ledger. BCHA will then be able to automatically interface AR transactions into the general ledger. BCHA anticipates this system to be fully functional by March of 2005.
- 5) The Housing Accountant no longer has access to the keys to the check-signing machine. BCHA has ordered a locked metal file cabinet to store the check stock that is currently stored in a locked office.

The reconciliation of the Master Account referenced in Appendix C-8 of the HUD-OIG report was not the final reconciliation. HUD-OIG started their fieldwork on February 17th, 2004; BCHA final books of account were not complete until May 2004. In the interim, BCHA provided several versions of bank reconciliations to HUD-OIG as BCHA accounting staff continued to make journal entries towards its final 2003 reconciliation.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 13

Boulder County Housing Authority Responses—HUD-OIG Draft Audit
January 2004

Page 13

e) Boulder County Housing did not have adequate controls and procedures in place to ensure compliance with HUD requirements.

Current BCHA staff is working to institute adequate controls and procedures throughout its operations to ensure full compliance with all HUD regulations and requirements. In 2004, BCHA has begun to establish and implement policies and procedures to ensure compliance with the CACC, MHAPC, and other applicable HUD and federal requirements. In the coming months, BCHA will continue to work with the HUD Region 8 office to ensure that all the concerns within the HUD-OIG audit report are addressed to HUD's satisfaction.

f) Boulder County Housing Officials were not consistent in their representation of the financial status and reports.

BCHA has confidence in the 2002 year-end audited figures and the 2003 books of account and annual audited financial statement. Both 2002 and 2003 were audited by independent auditors and were submitted to REAC. BCHA staff has confidence in the 2002 books because staff has traced total revenues, expenses, assets, liabilities, and equity to the final 2002 trial balances within the HMS accounting system. BCHA has confidence in the 2003 financial records, transactions, and audit because accounting staff completed all general ledger reconciliations prior to completing the final books of account and audit.

It is anticipated that BCHA's final books of account for 2004 will be closed by the end of February 2005 and available for inspection by the independent auditor at that time. BCHA's unaudited submission to the REAC system will be completed by the required deadline of February 28, 2005.

Subpart 8) Recommendations

1A. Require Boulder County Housing to repay from non-Federal funds the ineligible costs of \$433,139 to appropriate HUD-funded programs.

BCHA acknowledges that the past accounting procedures and practices were inadequate to meet the complex accounting needs of the Authority. However, BCHA does not agree with the recommendation of HUD-OIG that it repay "ineligible costs" of \$433,139 to HUD-funded programs within its operations. As detailed in BCHA's response to Subpart 1, it is clearly evident that HUD programs within BCHA were insufficiently charged because of the lack of an approved indirect cost allocation plan over the last several decades. Moreover, BCHA's past expense records detail the appropriate expenditure of HUD funds on allowable expenses permitted by HUD regulations and State and local law. As detailed in BCHA's responses to Subparts 1 and 2, BCHA asserts that this was a materially weak accounting process but not an inappropriate use of funds. The critical issue at this time for BCHA is the full implementation of adequate accounting procedural controls, the complete implementation of a site and project-based accounting system, and the implementation of a HUD-

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 14

Comment 15

Boulder County Housing Authority Responses—HUD-OIG Draft Audit
January 2004

Page 14

approved indirect cost allocation plan. BCHA will work with the Region 8 HUD office to ensure that the concerns of the HUD-OIG are addressed in its operations.

1B. Require Boulder County Housing to provide documentation supporting the \$123,784 of unsupported costs for both Boulder County Housing Authority and Louisville Housing Authority. Based on the provided documentation, determine the amounts of questioned costs to be repaid to the various HUD-funded programs.

HUD-OIG did not find any “unsupported costs” for the Louisville Housing Authority. The “unsupported costs” delineated in the HUD-OIG report pertain to BCHA.

BCHA agrees that it had outdated management agreements and lacked an indirect cost allocation plan, as required under OMB A-87. BCHA submitted an indirect cost allocation plan to HUD in December 2004. It is the Authority’s position that the lack of a HUD-approved indirect cost allocation plan resulted in charges to both Boulder County Housing Authority and the Louisville Housing Authority HUD-funded programs that were significantly below what should have been charged for these programs in past years. HUD can determine by reviewing past BCHA’s expense registers and by reviewing the effect of implementing an approved indirect cost allocation plan that the “ineligible costs” and “unsupported expenses” have been spent on eligible program expenses.

BCHA acknowledges that the implementation accounting controls was long overdue. BCHA’s progress in implementing new accounting controls is delineated in its response to this report. However, BCHA believes that any Memorandum of Agreement with HUD should require completion of the development of an accounting and reporting system sufficient to ensure accurate submission of information and a necessary level of control from 2004 forward.

1C. Require the appropriate Authority to repay from non-Federal funds the amounts determined in Recommendation 1B and ensure repayment is made to the appropriate HUD-funded programs.

BCHA does not agree with the requirement to repay these funds. BCHA believes that repayment of these funds should not be required because an approved indirect cost allocation plan would have shown that the \$123,784 would indeed have been appropriately charged to the HUD-funded programs.

1D. Require Boulder County Housing to establish and maintain the required Administrative Fees Reserve accounts for Boulder County Housing Authority and Louisville Housing Authority.

BCHA agrees and has made significant progress in this area. BCHA has established and currently maintains the required Administrative Fees Reserve accounts for the Boulder County Housing Authority and the Louisville Housing Authority.

1E. Require Boulder County Housing to establish and implement policies and procedures to ensure the proper maintenance of the Reserve accounts.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Boulder County Housing Authority Responses—HUD-OIG Draft Audit
January 2004

Page 15

BCHA agrees and has made significant progress in this area. BCHA has established and implemented policies and procedures to ensure the proper maintenance of the Reserve accounts.

1F. Require Boulder County Housing to implement procedures for determining a reasonable, supportable method of allocating indirect costs to the HUD-funded programs.

BCHA agrees and has made significant progress in this area. In December 2004, BCHA submitted to the Region 8 HUD office for HUD approval an indirect cost allocation method to be used in the allocation of costs to both HUD-funded and non-HUD funded projects and programs.

1G. Require Boulder County Housing to execute the appropriate Management Agreements for the management of Louisville Housing Authority's Public Housing, Section 8 Vouchers, and Multifamily project-based programs.

BCHA agrees and has made significant progress in this area. BCHA has begun discussions with the Louisville Housing Authority prior to execution of the appropriate Management agreements for the management of LHA's projects and programs. Such agreements will be based upon the indirect cost allocation plan submitted to HUD for approval.

1H. Require Boulder County Housing to establish and implement policies and procedures that ensure compliance with the Consolidated Annual Contributions Contracts, and Multifamily Housing Assistance Payments Contracts, and other applicable HUD and Federal requirements.

BCHA agrees and has made significant progress in this area. In 2004, BCHA began to establish and implement policies and procedures to ensure compliance with the CACC, MHAPC, and other applicable HUD and federal requirements. In the coming months, BCHA will work with the HUD Region 8 office to ensure that all the concerns within the HUD-OIG audit report are addressed to HUD's satisfaction.

1I. Require Boulder County Housing to prepare and submit the documentation required for the release of the suspended Capital Funds Program awards.

BCHA agrees. Prior to this response to HUD-OIG, BCHA submitted the documentation required for the release of all suspended Capital Funds Program awards for 2002 and 2003. All funds awarded to date have been released.

1J. Require Boulder County Housing to establish and implement policies and procedures that will ensure the proper control over and accurate recording of the receipts and disbursements of HUD funds in accordance with HUD requirements and accounting principles.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Boulder County Housing Authority Responses—HUD-OIG Draft Audit
January 2004

Page 16

BCHA agrees and has made significant progress in this area. BCHA has established and implemented policies and procedures that will ensure the proper control over and accurate recording of the receipts and disbursements of HUD funds in accordance with HUD requirements and accounting principles. Please reference BCHA's response to Subpart 7d. BCHA will continue to work with the Region 8 HUD office in the coming months to ensure that all requirements are met.

1K. Require Boulder County Housing to provide full explanations for all changes to the 2002 HUD funds balances. For any changes that resulted in inappropriate use or misstatement of HUD funds, require Boulder County Housing to take the necessary corrective actions.

In BCHA's response to Subpart 7 above, BCHA responded to the re-grouping of 2002 account balances contained in the 2003 audited financial statements. BCHA re-grouped the 2002 account balances in the 2003 audit to comply with GASB 34 requirements. HUD-OIG has been provided a mapping of the general ledger accounts to the 2002 "comparative" column in the 2003 audited financials. BCHA would again reassert that there have been no prior period adjustments to the 2002 audit in the preparation of BCHA's 2003 audit. BCHA will cooperate with the Region 8 HUD office and provide any materials necessary to ensure that all re-groupings in BCHA's 2003 audit are fully explained to HUD's satisfaction.

1L. Provide the necessary technical assistance to ensure the establishment of controls over the receipt and use of HUD funds and the preparation of accurate accounting records in compliance with HUD requirements.

BCHA agrees and has made significant progress in this area. BCHA has been working closely with the regional HUD office to ensure that all HUD program requirements and procedural controls are fully developed in a manner that will lead to BCHA performing its PHA operations in the most efficient and effective means possible. All HUD-required documentation has been submitted in a timely manner over the course of the last seven months and BCHA is committed to a timely completion of all required documentation.

OIG Evaluation of Auditee Comments

Boulder County Housing officials generally agreed with most of the report and with 10 of the 12 recommendations. We reviewed their written comments and determined that they did not provide additional evidence that warranted changing the other two recommendations.

Comment 1 Pages 13 through 16 of the Boulder County Housing officials' response show that they generally concurred with 10 of the 12 recommendations. Statements of concurrence with the audit report also appeared throughout the responses to the finding "subparts." For the two recommendations with which they did not fully concur, the Housing Authority officials did not provide evidence to show the recommendations or supporting evidence were inaccurate.

Comment 2 Pages 1 and 2 of the response contain a historical overview, which repeats, but does not correct, some information in the audit report Background and Objectives section.

Comment 3 Boulder County Housing has started implementing corrective actions that should help resolve the issues in this report.

Comment 4 Boulder County Housing acknowledges that the accounting system was not sufficient to allow HUD-OIG to determine that the transfers from these funds were adequately tracked to HUD-funded programs or HUD-approved activities, but then states that HUD-OIG did not present evidence that the funds were used for inappropriate purposes. Boulder County Housing officials believe that the funds were used for permitted purposes, but did not provide additional evidence to support that belief. Therefore, we did not change our conclusion.

Comment 5 Boulder County Housing did not provide any additional evidence that the funds used should have been in its Section 8 reserve account, or that the funds were used for purposes that would have qualified as allowable uses of reserve funds. Therefore, we did not change our conclusions.

Comment 6 Our audit report didn't question the use of a master account nor recommend discontinuation of the account. The report concludes that the accounting records did not provide a clear determination of the use of the funds transferred into the master bank account. We did not change our conclusions.

Comment 7 Boulder County Housing states that if they had adequately tracked expenses recorded in the payment register and had instituted an approved cost allocation plan, HUD-OIG would have been able to see that all expenses were allowable. Since, Boulder County Housing did not implement these accounting functions/controls, OIG must stand by their conclusion that these ineligible funds represent loans from the HUD programs.

Comment 8 The situation during the audit period was that all HUD funds were transferred to the master bank account and were available for use in paying all expenses including indirect costs. Therefore, the management fees were additional

expenses incurred by the HUD-funded programs, not funds used to help cover indirect costs incurred by Boulder County Housing. There is no evidence to show that HUD funds in the master bank account were not used to pay indirect costs. In addition, Boulder County Housing provided us a copy of an indirect cost allocation. The schedule included not only indirect cost items, but also direct cost and capital expenditure items. The indirect cost plan identified that the Section 8 program would be charged depreciation for fixed assets. However, HUD provides the Housing Authority an administrative fee for operating the Section 8 program. As such, the Housing Authority may not charge Section 8 Program for any indirect costs.

Comment 9 Boulder County Housing correctly states that all funds have now been released. However, we still maintain that Boulder County Housing cannot operate its programs as effectively if it experiences significant delays in funding. We have revised the finding to recognize that all funds have now been released.

Comment 10 Boulder County Housing acknowledges that it did not clearly show the receipt of HUD funds on the statements of Revenue, Expenses and Changes in Net Assets. Since the records lump all dollars together, HUD-OIG cannot make a determination that all HUD funds were correctly recorded or that the HUD funds were used for allowable activities.

Comment 11 OIG agrees that the use of the word “manipulated” may have been a poor choice by the prior Director of Finance. However, the current Executive Director was aware of prior Director’s description and did not attempt to retract or correct the statement until we issued the draft report. We believe the finding accurately describes the two different trial balances and supporting documents provided to us.

Comment 12 Boulder County Housing disagrees that the Housing Authority’s internal controls did not ensure the use of appropriate accounting procedures. However, throughout their response they also acknowledge that accounting controls did not exist for us to clearly track the use of HUD funds. These are contradictory assertions. The Housing Authority did not provide any additional evidence that would change our conclusion that the accounting records and the internal controls used to produce the accounting records were not adequate.

The Housing Authority states that GASB 34 allowed for many of the differences in account balances in the financial statements. This assurance is supported by the Housing Authority’s Independent Public Accountant. However, we believe they have misinterpreted GASB 34 and have referred the Independent Public Account and this issue to the Real Estate Assessment Center for further review (see Appendix D).

Comment 13 Boulder County Housing states that they have confidence in the 2002 year-end audited figures and the 2003 books of account and annual audited financial statements. However, this conflicts with many other statements in the response acknowledging that the accounting procedures: did not adequately track the

expenditures, did not ensure the proper allocation of costs, did not clearly show the receipt of funds, and did not clearly track the use of funds.

Comment 14 The preliminary draft audit report did contain unsupported costs for Louisville Housing Authority. Boulder County Housing subsequently provided documentation that was sufficient to resolve the unsupported costs for Louisville Housing Authority. Therefore, we removed the references from Recommendations 1B and 1C.

Comment 15 Boulder County Housing acknowledges that implementation of accounting controls and outdated management agreements were long overdue. Moreover, these changes should provide HUD sufficient documentation to support the expenditure of HUD funds from 2004 forward. Since many of these changes took place after our site work, we cannot comment on their effectiveness or the reliability of the accounting records produced.

Appendix C

ACCOUNTING PROCEDURES DEFICIENCIES DETAILED SUMMARY

During the audit, we identified significant deficiencies in the accounting procedures and practices used by Boulder County Housing to prepare the financial records. These deficiencies were mentioned in the finding. Detailed descriptions of these deficiencies were prepared to provide additional information about the situations.

1. Boulder County Housing Incurred Ineligible Costs

Boulder County Housing incurred ineligible costs of at least \$433,139, because adequate controls had not been established to ensure the proper use of HUD funds. Boulder County Housing's procedure was to routinely transfer money from HUD programs to other programs, including an "Administrative Department," and these transactions were recorded in "Due From Other Funds" accounts. Boulder County Housing had separate bank accounts for most of the HUD and non-HUD programs. The funds from these accounts were consistently transferred to the Master Bank Account, from which all disbursements for all programs and projects were made. Boulder County Housing provided documentation that showed the balances in the HUD programs' "Due From Other Funds" accounts carried forward and were continuous from before the 2002 start of the audit period. They did not provide documentation to show that the balances in the HUD programs' "Due From Other Funds" accounts were used for allowable HUD expenses. Therefore, these transfer balances were loans that needed to be repaid to HUD programs.

We made several verbal and written requests to the prior Boulder County Housing Management for detailed accounting records that clearly itemized the use of HUD funds. However, we were not provided complete, detailed records. During a meeting on September 21, 2004, the current Boulder County Housing Management provided information that resolved the amounts showed for the two Multifamily Housing properties, which we had initially included. The documentation also showed that account balances had not cleared for years. The documentation showed the balance as of December 31, 2001, the transfer activity for 2002 and for 2003 and the ending balance for each year for each HUD program. As shown by the 2001 balance, extensive transfers of Section 8 Voucher funds had occurred prior to the start of the audit period, and transfers to and from the program continued throughout the next 2 years. The same type of consistent transfers occurred for the Public Housing program.

2. Boulder County Housing Incurred Unsupported Costs

Boulder County Housing inappropriately charged management fees that resulted in at least \$123,784 of HUD funds being transferred to the Master Bank Account to cover administrative expenses. The table in the finding showed the amount for each HUD-funded program. Boulder County Housing recorded management fees income for all programs totaling \$302,858 in 2002 and \$230,912 in 2003.

Boulder County Housing used different methods to determine the amount of fees charged to each program, without support for any of the methods. Some of the fees were set at monthly amounts,

such as \$415 per month charged to the Public Housing Program. The Section 8 Vouchers fees varied each month, with no explanation, through May 2003. From June through December 2003, the Fee was a monthly amount of \$3,316.50. The fees for other programs were calculated as percentages of total monthly rental incomes.

The Director of Finance's written explanation, in part, stated, "The Boulder County Housing Authority (BCHA) has assessed a management fee to all properties it owns, as a mechanism for administrative cost recovery for property management..." The explanation listed most of the percentages and set amounts, but did not include any explanation for the Section 8 Vouchers fees. The explanation also stated that "even though no formal documentation was found to support these percentages and set amounts, management determined that it was appropriate to continue assessing these amounts in 2003."

Administrative costs consisted of direct and indirect costs. Direct costs were expenses that applied to a specific program. Indirect costs were expenses, such as office utilities or telephones, which were shared by all programs. To comply with HUD requirements, Boulder County Housing needed to establish a reasonable, supportable method for allocating indirect costs among the programs and properly represent in the financial records the expenses for which each program was being charged.

3. Boulder County Housing Did Not Consistently Record the Receipt of HUD Funds

Boulder County Housing did not establish controls to ensure that the financial records consistently showed the funds received from HUD. For example, the HUD Section 8 Vouchers funds total for 2003 in the HUD Dollars Received Summary showed \$5,825,760; however, the Operating Statement by Property showed \$5,793,824 for a difference of \$31,936.

The Director of Finance was asked to explain the \$31,936 difference in the HUD Section 8 Vouchers amounts in the two financial records. She provided a schedule that she called a reconciliation. However, the calculation included \$68,236 of funds that she indicated were from programs other than HUD Section 8 Vouchers and was still out of balance by \$34.28.

Boulder County Housing Management provided further explanation on October 4, 2004, stating that the \$68,236 consisted of two amounts. The first was an accounts payable of \$18,133 for Section 8 Vouchers funds due back to HUD at 2003 year-end. The second was \$50,103 of Family Self-Sufficiency money that was deposited in the Section 8 Vouchers bank account and included in the Section 8 Vouchers year-end settlement report, but was recorded in Grants and Donations in the "PSS" program in the financial records. Therefore, the procedures used to maintain the accounting records did not ensure the records consistently showed the actual amount of HUD funds provided by program.

Neither the HUD Dollars Received Summary nor the Operating Statement by Property showed any HUD project-based Section 8 income for the two Multifamily Housing properties. Subsidy reports obtained from HUD agreed with the Schedule of Expenditures and Federal Awards in the 2003 Audited Financial Statements Report, which showed HUD funding of \$34,594 for Bloomfield Place and \$93,165 for Catamaran Court. However, the Combining Statements of Revenue, Expenses, and Changes in Net Assets showed no HUD funding for either property. The Director of Finance's written explanation stated, "These were booked in Rental Subsidy and roll-up to Rental Income on Statement of Revenue, Expenses and Changes in Net Assets." Therefore, the accounting staff used procedures to prepare the accounting records that did not

accurately identify the HUD funding. These procedures did not comply with the Multifamily Housing Assistance Payments Contracts, which required accounting records that allow for the verification of information pertinent to the housing assistance payments.

4. The Accounting Records Did Not Clearly Show the Use of HUD Funds

Boulder County Housing did not establish adequate controls to ensure that the accounting staff prepared accounting records that clearly showed the use of HUD funds for either Authority. Funds from HUD-funded and non-HUD programs were moved from individual program bank accounts to the master bank account to pay expenses. Both an Administration line item (number 800) and a “Master A/P” line item (number 900) were used to record these transfers in the accounting records.

We made several verbal and written requests to Boulder County Housing’s accounting staff for detailed disbursements registers for all HUD-funded programs, but we were not provided complete records. The detailed records we were provided did not show the transfers. The only records we were provided that showed transfer information were trial balances, which did not balance, and which showed only year-end cumulative totals. Therefore, we were not able to determine the actual flow of transfers from HUD-funded programs or the actual use of HUD funds.

The Director of Finance provided the following written explanation:

The Due to-from totals...along with object account 9117 (Transfers) are included in the Due from Other Governments line item on the individual balance sheets. We have separated them out for clarity on the latest version of the combining balance sheets as due to/from other departments. Because the former general ledger did not utilize true fund accounting, we had to calculate the amount that should have been included in the transfers between “departments” in order for the trial balance and balance sheets to balance.

The due to/from balances represent transfers to/from the admin department. However, the transfer account on the general ledger was not set up to automatically post between departments, so they are not reflected on the trial balance. Transfers that were manually entered are reflected in the 9117 account.

The accounting practice of transferring funds between individual “departments” and two general accounts did not result in accounting records that clearly showed the disbursements of funds by “department.” The practice was especially ineffective since some of the transfers were done in the computer accounting system and others were done outside the system. This practice resulted in partial sets of accounting records and created an unnecessary risk of error and/or misstatement of the books of account.

We made several verbal and written requests for detailed accounting records for Louisville Housing Authority for 2002 and 2003, but Boulder County Housing’s accounting staff provided only portions of the detailed records. We also requested the 2003 final books of account for Louisville Housing Authority and the 2003 Audited Financial Statements Report. Boulder County Housing accounting staff provided the Report on September 21, 2004, but did not provide the final books. Therefore, we were not provided the information needed to fully

complete our audit of Louisville Housing Authority.¹ However, the Director of Finance wrote the following statement, concerning the books and procedures for Louisville Housing Authority:²

The entire state of the BCHA records, including all trends the lack of process and procedures, directly applied to these entities as well. All financial records for these entities had not been closed since May of 2003, and the HUD reporting requirements were behind. They were in the exact same state as BCHA.

5. Boulder County Housing Did Not Consistently Present the 2002 Year-End Cash Account Balances

Boulder County Housing did not have adequate controls to ensure that the accounting procedures resulted in the consistent presentation of the year-end cash accounts balances for 2002. We asked for the justifications, with applicable criteria, for the changes to the 2002 balances. The Director of Finance wrote, “The justification for re-classification of amounts for 2002 was to be able to present the financials in a format required by GASB 34 and to have comparative data against 2003.” The Governmental Accounting Standards Board Statement 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments (Statement 34), did not change the classifications for accounts such as cash.

During our on-site work, we were not provided information to support this. In September 2004, the Boulder County Housing Accountant provided spreadsheets that showed the line items included in each account in the financial statements plus cash reconciliation schedules for 2002 and 2003. These schedules contained year-end totals by property for Cash and Cash Equivalents, Restricted Cash – Security Deposits, and Restricted Cash – Other.

A comparison of the 2002 cash reconciliation schedules to the cash balances by department in the 2002 Audited Financial Statements Report showed that several of the department amounts and the account totals were changed. These schedules did not support the explanation provided. For example, a comparison of the 2002 cash reconciliation totals by department to the corresponding information in the Report showed that the security deposit amounts for four departments, including Public Housing, were moved to Restricted Cash – Others in the reconciliations. However, in the 2003 reconciliations, those same departments were in the Restricted Cash – Security Deposits account. Therefore, moving those four department amounts changed the 2002 balances from being comparable to not being comparable to the 2003 restricted cash accounts composition. Additionally, the Public Housing security deposit balance was changed from \$20,488 to \$16,377.

The year-end unrestricted cash balance was \$(6,850) in the 2002 Audited Financial Statements Report and \$246,596 in the 2002 Cash and Cash Equivalents Reconciliation Schedule. A comparison of the two documents showed the following changes in the 2002 unrestricted cash balances for HUD-funded programs:

Program	Financial Report	Reconciliation
Section 8 Vouchers	\$214,247	\$0

¹ See scope limitation in the Scope and Methodology section.

² The quote referred to two entities: Louisville Housing Authority and another Authority administered by Boulder County Housing, which did not receive HUD funding.

Public Housing	\$243,348	\$4,111
Bloomfield Place	\$(3,237)	\$0
Catamaran Court	\$(96,721)	\$0

The 2002 individual program balances for the unrestricted cash account differed between the Cash and Cash Equivalents Reconciliation Schedule and the Audited Financial Statements Report even though the individual programs remained the same in 2002 and 2003. Similar changes to account balance composition were made to most other accounts that remained constant between 2002 and 2003.

Additionally, Boulder County Housing added and/or changed some accounting line items without explanation, including the following examples:

- The original amount for Accounts Payable was \$441,858. The adjusted amount of this line item was \$3,776, with the addition of a new line item-Other Accrued Liabilities-with a total of \$438,082.
- The original line item named “Tenant Prepaid Rent” was renamed “Deferred Revenue.”
- On the Statement of Cash Flows, Grant Proceeds originally showed a total of \$1,077,100. This was changed to Capital Funds Grants with a total of \$1,007,216 and a new Grants and Donations line item was added with a total of \$253,373.

All of the changes to the 2002 balances were made without either of the key accounting staff members having first hand knowledge of the activities in 2002. The Director of Finance did not start employment with Boulder County Housing until October 2003 and the Accountant started in December 2003. The person who was the equivalent of the current Director of Finance resigned on August 6, 2003, and the prior Accountant resigned about 1 week after the current Director of Finance was hired. Consequently, the current Director of Finance and Accountant made extensive changes to the accounting records without having access to direct knowledge of the activities of 2002 and with very limited direct knowledge of the 2003 accounting activities. Therefore, neither Boulder County Housing nor HUD had assurance that the HUD funds were accurately and correctly accounted for in the financial records.

6. Boulder County Housing Did Not Properly Complete the Management’s Discussion and Analysis

Boulder County Housing did not have adequate controls to ensure the proper preparation of the required Management’s Discussion and Analysis for the 2003 Audited Financial Statements. Statement 34, paragraphs 8 through 11, contained the requirements for the Management’s Discussion and Analysis, which included the following:

- Financial information from the financial statements, comparing the current year to the prior year, needed to support the analysis of financial position and results of operations.
- An analysis of the financial position and results of operations to assist users in assessing whether financial position improved or deteriorated as a result of the year’s operations. This should include reasons for significant changes from the prior year, not simply the amounts or percentages of change.

- An analysis of balances and transactions of individual funds, including reasons for significant changes in fund balances.
- An analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund.
- A description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets).

The Management's Discussion and Analysis contained financial information showing the change between the 2002 and 2003 balances for general account groupings, but there was limited narrative analysis of changes and the resulting financial position. The narrative information that was provided did not clearly develop whether the financial position improved or deteriorated in 2003. There were no analysis of balances and transactions of individual funds or departments; therefore, there was not an analysis of HUD-funded programs. The only description of currently known facts was, "There are no currently existing conditions that are expected to have a negative impact on Boulder County Housing's future obligations."

The \$983,089 payroll obligation to Boulder County was not mentioned anywhere in the Management's Discussion and Analysis. Therefore, the fact that Boulder County Housing was not able to meet a significant amount of financial obligations in 2003 was not discussed, the impact on operations in 2004 was not analyzed, and the amount of HUD funds involved in this obligation was not specified. We were told by the prior Executive Director that Boulder County Housing had committed to repay this obligation in full by the end of 2004, which would have a significant impact on the operations during the year. Boulder County Housing Management stated that as of September 2004, the balance was \$722,861 and that Boulder County Housing was working with the County on payment options. Boulder County had allocated \$200,000 to Boulder County Housing in 2004 for development and that amount was instead applied to the payroll obligation. Consequently, Boulder County Housing's ability to do development activities was negatively impacted. Boulder County committed to further assist Boulder County Housing by allocating an additional \$400,000 to be applied to the debt in 2004.

The Management's Discussion and Analysis did not contain any information on or analysis of the original and final organizational budget or the HUD program budgets. Additionally, paragraphs 130 and 131 of Statement 34 contained the requirements for the Required Supplementary Budgetary Comparison Schedules. These required schedules were not included in the Audited Financial Statements Report. Therefore, Boulder County Housing did not have procedures to ensure full compliance with the Statement 34 requirements. Boulder County Housing did not designate between HUD-funded and non-HUD programs in the Management's Discussion and Analysis; therefore, HUD did not have the intended benefit of an analysis of the status of the HUD-funded programs.

7. Boulder County Housing Did Not Properly Record Assets and Liabilities

Boulder County Housing did not have adequate controls or accounting procedures to ensure the proper representation of assets and liabilities. Under generally accepted accounting principles, money owed to an Authority program, called a receivable, was an asset. Money owed to another

entity, called a payable, was a liability. Instead of following this principle, Boulder County Housing's accounting records showed negative balances in receivables accounts for some departments. This accounting practice did not comply with the Consolidated Annual Contributions Contracts requirement that complete and accurate books of account and records must be maintained.

The following, which totaled \$2,837,342, were the negative balances shown in receivables accounts:

- Due From Other Departments \$1,855,475
- Accounts Receivable – Other \$979,620
- Accounts Receivable – Tenants \$2,247

When asked to explain the negative balances in the receivables, the Director of Finance wrote, "These are really Due To Other Governments on the Balance Sheets, but we did not classify as such on the combining balance sheets since the total of all entities totals the 72,000 receivable on the Balance Sheet."

The books of account we were provided did not support this explanation. Boulder County Housing's balance sheet showed the \$72,000 total in Due From Other Governments. The Audited Financial Statements Report Note stated that this \$72,000 receivable was "for Management and Maintenance fees due from other local government entities." The individual program receivables and negative receivables were in Due from Other Departments, which showed a cumulative total of zero. The explanation did not address the negative amounts in Accounts Receivable – Other or Accounts Receivable – Tenants.

During a meeting with Boulder County Housing representatives on September 21, 2004, we were told that the decision had been made to pool all of Boulder County Housing's departments into one entity. Therefore, they combined the Due To and Due From Other Departments in the Due From Other Departments line. They cited paragraph 58 of Statement 34 as support. Paragraph 58 stated that eliminations should be made in the statement of net assets to minimize the "grossing-up" effect of assets and liabilities within the governmental and business-type columns of the primary government.

This decision did not comply with HUD requirements. The Consolidated Annual Contributions Contracts state that program funds will be used only for program expenses. Therefore, transfers to the primary government or other departments were not appropriate transactions and constituted loans that must be repaid to the lending HUD programs. Paragraph 112 of Statement 34 stated, "Interfund loans-amounts provided with a requirement for repayment. Interfund loans should be reported as interfund receivables in lender funds and interfund payables in borrower funds." The paragraph also stated that interfund transfers were flow of funds without the requirement of repayment. Therefore, Boulder County Housing did not follow procedures that ensured the inappropriate loans of HUD funds were properly recorded.

Boulder County Housing Management provided information in September 2004 that showed the majority of the Accounts Receivable – Other balances was comprised of required reserve account balances for the properties included in the 1998 Bond funding. The books of account

would be more accurate if these were shown as restricted reserve accounts. Explanations of the negative Accounts Receivable – Tenants were not provided. Consequently, neither Boulder County Housing nor HUD had access to records that provided a clear representation of the accounts receivables and accounts payables for the HUD-funded programs.

8. Boulder County Housing Had Other Weak Accounting Procedures

Boulder County Housing had not implemented effective controls over other accounting functions including Accounts Payable, Accounts Receivable, and transaction recording functions. The Consolidated Annual Contributions Contracts requirement that complete and accurate books of accounts and records be maintained was not met. Because of these weaknesses, HUD funds were vulnerable to misuse and the accounting records were subject to error or inaccuracy.

The Authorities bank accounts' sets of check stock were individual, standard-size sheets of paper on which were preprinted and numbered check blanks. The check stock was stored in a locked cabinet in the Accounts Payable Clerk's workstation. The printer used to complete the checks was also in that workstation. There was a check-signing machine attached to the printer, which was key activated. The Boulder County Housing Accountant and Accounts Payable Clerk had the only keys to both the cabinet in which the check stock was stored and to the check-signing machine. The Accountant also had full authority over disbursements approval and financial recording functions. Therefore, one employee had full access to and authority over the check issuance and recording procedures. Boulder County Housing had sufficient staff to allow for segregation of duties for the custodians of the keys and the check issuance and disbursements recording functions.

The computer accounting system was either not being properly used or was insufficient for the accounting needs of both Authorities. Posting of transactions and preparation of the accounting records were done partially in the computer accounting system and partially with other computer software, usually Excel. For the transactions recorded initially outside the accounting system, journal entries were used to enter the data into the computer accounting system. For example, parts of the Accounts Receivable functions were done in the computer accounting system and the Accounts Receivable Clerk recorded other parts in Excel spreadsheets. The Accountant prepared journal entries for the data recorded in the spreadsheets. The double entry of data in two different softwares was not an effective use of staff resources and increased the probability of entry errors.

Extensive amounts of the data in the computer accounting system were generated through journal entries. The system allowed for long journal entries involving numerous accounts; therefore, it was not easy to determine what was being recorded. As stated above, the final books of account were prepared in Excel rather than being generated from the computer accounting system. As stated by the Director of Finance, these procedures allowed for "manipulation" of accounting information. The procedures also did not result in books of account and accounting records that permitted a speedy and effective audit, as required by the Consolidated Annual Contributions Contracts.

The accounting staff provided a July through December 2003 consolidated bank reconciliation for Boulder County Housing's Master Bank Account, which we were told was the final reconciliation. This reconciliation contained a long list of outstanding checks, which included \$144,460.20 of outstanding checks, dated January or February 2004. When we asked about this

on March 12, 2004, an accounting staff member explained that these checks were for purchases which occurred and were booked in December 2003, but for which the statements were received and the disbursements made in January or February 2004. This procedure was a mixture of cash and accrual accounting, which was not an appropriate accounting practice. During a meeting on March 22, 2004, accounting staff members informed us that they had prepared a journal entry that changed these checks from cash to accrued liabilities. We were subsequently provided a copy of the journal entry and the revised bank reconciliation.

9. Authority Procedures Did Not Comply with the Consolidated Annual Contributions Contracts

Boulder County Housing did not have controls and procedures in place to ensure compliance with HUD requirements. Key staff did not have knowledge of or ensure compliance with the terms of the Consolidated Annual Contributions Contracts. We started our site work with an entrance conference on February 17, 2004. During that conference and on several subsequent occasions, we requested copies of the Consolidated Annual Contributions Contracts. Six weeks after our initial request, Boulder County Housing officials finally provided a copy of their Consolidated Annual Contributions Contract. Boulder County Housing had to obtain the Contract for Louisville Housing Authority from HUD. Since responsible Authority staff members did not have ready access to copies of the Contracts, they could not have knowledge of or ensure compliance with the terms and conditions of the Contracts.

The Consolidated Annual Contributions Contracts required that complete and accurate books of account and records be maintained in compliance with HUD requirements and must permit a speedy and effective audit. Boulder County Housing was not maintaining complete and accurate accounting records that complied with HUD requirements. The delays we experienced in obtaining records and the condition of the records we were provided did not permit a speedy and effective audit.

As shown above, we submitted numerous verbal and written requests for various accounting records and books of account between February and July 2004. We made verbal requests for documentation during the first part of our site work. When several of the requested items were not provided after repeated verbal requests, we prepared a written list of requested documents. This was presented to and discussed with the prior Executive Director and then the accounting staff on March 22, 2004. We submitted to and discussed with the Director of Finance a second written request list on March 25, 2004. On April 12, 2004, we submitted to and discussed with the Director of Finance a third written request list, which included items from the other lists that had not been provided.

We had not received all requested documentation before we left the site on May 18, 2004. On May 21, 2004, we sent an e-mail with another request for the outstanding documentation and a list of additional questions. No response was received so a second e-mail request, with a request for the Audited Financial Statements Report, was sent on May 27, 2004. Later that day, we received an e-mail with most of the requested information. We received a second e-mail on June 2, 2004, with the remaining information. However, neither e-mail mentioned the Audited Financial Statements Report. We called the Director of Finance on June 15, 2004, and were told it was at the printers and would be sent to us by the end of that week or the first of the next week. We received the Report on July 1, 2004.

On May 18, 2004, we met with the Director of Finance and verbally requested the 2003 Management Representation Letter. She said she had it and would provide a copy. We did not receive it then or with the Audited Financial Statement Report on July 1, 2004. On July 9, 2004, we sent an e-mail to the Director of Finance repeating the request. She sent an e-mail the evening of July 19, 2004, stating that the Management Representation Letter had been faxed. However, the fax contained the Audit Engagement Letter. We sent an e-mail the morning of July 20, 2004, explaining the situation and repeating the request. The Management Representation Letter was finally faxed that afternoon.

Throughout the audit we made specific requests, including repeated requests for detailed accounting records that clearly showed the receipt and expenditure of HUD funds for both Authorities. Boulder County Housing accounting staff provided some documentation, but it was not complete. The final books of account for Boulder County Housing did not clearly identify the receipt and expenditure of HUD funds, mainly because of the transfers to and from other programs. Additionally, as shown above, we identified significant deficiencies and inaccuracies in the final books of account.

We contacted the current Executive Director on September 2, 2004, to set up the exit conference. During that telephone conversation, we discussed the content of the preliminary draft audit report. The Executive Director was concerned about the statements regarding the lack of responsiveness to our requests for documentation. We met with the Executive Director and other representatives on September 10, September 21, October 1, and October 12, 2004. We also had telephone, written, and e-mail communications during this period. We considered all the additional documentation they provided. We received very timely responses to the requests for information made during this time. However, as shown throughout this appendix, the additional documentation further supported rather than resolved issues addressed in the draft audit report.

10. Boulder County Housing Officials Were Not Consistent in Their Actions and Representations of the Financial Status

Boulder County Housing Officials were not consistent in their representation of the financial status and reports. The individual who was Executive Director during most of our site work requested a meeting with the OIG Audit team, two members of the Independent Auditor team, and the two key Boulder County Housing Accounting staff members. During this meeting, the Executive Director instructed the Accounting staff to provide to both Audit teams copies of any documentation requested by either Audit team. However, we were not provided documentation that fully agreed with the data contained in the Audited Financial Statements Report.

During this March 31, 2004, meeting, the Executive Director also stated that he and the Accounting staff could not certify to the reliability or accuracy of the 2002 and 2003 accounting records. In a meeting with OIG on March 29, 2004, he said that he and his immediate supervisor had no assurance of the accuracy of the 2002 accounting records and only about an 85 percent certainty about the 2003 records. Yet on April 2, 2004, the Executive Director and Director of Finance signed the Management Representation Letter which included the following statements:

We confirm to the best of our knowledge and belief, as of April 2, 2004, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
5. The following have been properly recorded and/or disclosed in the financial statements:
 - a. Related party transactions and related amounts receivable or payable including sales, purchases loans, transfers, leasing arrangements and guarantees, all of which have been recorded in accordance with the economic substance of the transactions.

However, on May 14, 2004, we received an e-mail from the Accountant containing copies of revised financial statements. The e-mail stated, "We also made a last minute journal entry yesterday and a copy of that is attached." However, the journal entry was not attached. We also received an e-mail on May 17, 2004, which was also sent to the Independent Auditor, containing a copy of the Schedule of Federal Awards. Therefore, it appeared that the Management Representation Letter was dated before the books of account were finalized.

Appendix D

OTHER MATTERS RELATED TO THE AUDIT

Independent Auditors Are Being Referred to the Real Estate Assessment Center

One Independent Auditor prepared the 2002 Audited Financial Statements Reports for Boulder County Housing Authority and Louisville Housing Authority. This Independent Auditor was scheduled to perform the 2003 audit for Louisville Housing Authority after we completed our site work. A different Independent Auditor prepared the 2003 Audited Financial Statements Report for Boulder County Housing Authority.

The three Audited Financial Statements Reports we reviewed did not identify any control weaknesses or deficiencies with the financial reports. Even though Boulder County Housing Authority had very extensive mortgage debt for the non-HUD properties and was not able to meet almost \$1 million of current financial obligations in 2003, neither Independent Auditor questioned Boulder County Housing's ability to continue as a going concern. The Independent Auditor for the 2003 Boulder County Housing Authority audit did not identify the inappropriate changes to the 2002 balances or the liabilities booked as assets.

Because of these deficiencies in the audits, we are referring both Independent Auditors to HUD's Real Estate Assessment Center.