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| Issue Date June 30, 2006 |
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| Audit Report Number 2006-NY-1008 |
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TO: Mirza Negron Morales, Director, Office of Public Housing, 2APH

FROM: *Edgar Moore*
Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: The Freeport Housing Authority, Freeport, New York
Has Financial and Management Control Weaknesses

HIGHLIGHTS

What We Audited and Why

We audited the Freeport Housing Authority (Authority) because of its fiscal year 2004 Public Housing Assessment System designation as “substandard financial.”

The audit objectives were to determine whether the Authority (1) implemented admission policies that complied with U.S. Department of Housing and Urban Development (HUD) requirements, (2) ensured Section 8 program units met housing quality standards, (3) maintained a financial management system that adequately safeguarded funds, and (4) operated its not-for-profit entity in accordance with HUD regulations.

What We Found

The Authority generally implemented admissions policies in accordance with HUD requirements; however, it improperly issued housing choice vouchers to 22 tenants, and erroneously disbursed \$49,483 in housing assistance payments. In addition, the Authority was unable to use all its vouchers.

The Authority lacked a system to monitor the results of housing quality standards inspections to ensure that housing assistance payments were abated when needed,

and failed to document that it conducted quality control inspections as required by HUD regulations. In addition, three Section 8 units inspected failed to meet housing quality standards.

While the Authority's financial management system generally safeguarded funds, weaknesses in the system allowed the disbursement of \$588,166 for questionable and ineligible costs, and led to the Authority incorrectly calculating Section 8 administrative fees.

Further, although the Authority generally operated the activities of its not-for-profit entity in accordance with HUD regulations, it did not obtain a partial release of declaration of trust¹ from HUD to transfer six of seven scattered-site properties to the not-for-profit entity as required by HUD regulations.

What We Recommend

We recommend that the director, Office of Public Housing, New York Hub, reallocate the Authority's unused housing choice vouchers and require the Authority to (1) seek a HUD waiver to allow tenants who were improperly issued vouchers to retain them, (2) seek reimbursement of ineligible housing assistance payments, (3) establish a system to track housing quality inspection activities, (4) develop and implement financial controls to ensure proper allocation and disbursement of funds, and (5) obtain properly approved partial release of declaration of trust documents for property transferred for sale under the homeownership program.

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 a copy of the draft report to the auditee on June 5, 2006, and discussed its contents with the auditee during the audit and at the exit conference on June 16, 2006. The auditee provided written comments on June 22, 2006, and generally agreed with our findings and has initiated corrective actions in response to our recommendations.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

¹ A partial release of declaration of trust ensures that ownership of the properties is transferred to the not-for-profit with clear title for sale under the Section 5(h) homeownership program.

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BACKGROUND AND OBJECTIVES

The Freeport Housing Authority (Authority) is governed by a seven-member board of commissioners and was established in 1951 as a not-for-profit public corporation to provide affordable housing for low-income families. The executive director, who supervises the day-to-day program operations of the Authority, was appointed in 1998. The Authority's main office is located at 3 Buffalo Avenue, Freeport, New York.

The Authority owns and operates 354 low-rent housing units, which are contained in four scattered-site properties and three developments: (1) Moxey A. Rigby, a 100-unit family development; (2) Rev. E. Mitchell Mallette, a 100-unit senior citizen development; and (3) Rev. John J. Madden, a 150-unit senior citizen development. The Authority also administers 211 Section 8 housing choice vouchers. Total U.S. Department of Housing and Urban Development (HUD) funding in fiscal year 2005 was \$3.3 million.

In 1999, the Authority created an identity-of-interest not-for-profit entity, Nautilus Development Corporation, to acquire, rehabilitate, and sell the Authority's 11 scattered-site properties to first-time, low-income homebuyers in accordance with the Authority's Section 5(h) homeownership program.² The not-for-profit has an identity-of-interest relationship with the Authority because its governing board consists of five members, three of whom are also on the board of the Authority, and the Authority's executive director serves as the president/chief operating officer.

HUD designated the Authority "financially troubled" because its operating expenses exceeded its revenue and tenant accounts receivable were increasing. The HUD field office has actively worked to improve the Authority's financial condition, and the Authority has taken corrective actions to reduce its operating expenses and has increased its revenue due to the sale of several scattered-site properties.

The audit objectives were to determine whether the Authority (1) implemented admission policies that complied with U.S. Department of Housing and Urban Development (HUD) requirements, (2) ensured Section 8 program units met housing quality standards, (3) maintained a financial management system that adequately safeguarded funds, and (4) operated its not-for-profit entity in accordance with HUD regulations.

² The Section 5(h) homeownership program offers authorities a flexible way to sell public housing units to low-income families.

RESULTS OF AUDIT

Finding 1: The Authority Issued Housing Vouchers and Assistance Payments Contrary to HUD Regulations

While the Authority generally implemented admissions policies, in accordance with HUD requirements, it issued housing choice vouchers to 22 tenants contrary to HUD regulations and erroneously disbursed \$49,483 in housing assistance payments. In addition, the Authority was unable to use all its vouchers. These deficiencies occurred because the Authority wanted to increase its utilization rate to prevent HUD from recapturing its unused vouchers and it lacked controls to ensure that all vouchers were distributed in accordance with HUD regulations.

Vouchers Issued Improperly

The Authority issued 22 Section 8 housing choice vouchers to families that resided in a privatized development outside its jurisdiction. Voucher portability under 24 CFR (*Code of Federal Regulations*) 982.353(b) provides that a voucher holder or participant family has the right to receive tenant-based voucher assistance to lease a unit outside the initial authority's jurisdiction, but in the jurisdiction of an authority with a tenant-based program. However, the jurisdiction where these 22 vouchers were used does not manage a voucher program, and therefore the distribution of these vouchers does not comply with the regulations. Further, while these tenants met program eligibility for vouchers, there was no evidence that the Authority distributed the vouchers to tenants on its waiting list as required, or obtained a waiver from HUD to use alternative distribution procedures.

The executive director explained that in 2002 when he learned that a previous New York State development managed by another authority was privatized, he decided to issue 21 of the Authority's unused vouchers to residents of the development. An additional voucher was issued to a resident in this development in 2004. The executive director further noted that since the 1998 Quality Housing and Work Responsibility Act, which replaced federal preferences with local preferences, was intended to make it easier for authorities to lease up, he believed that HUD approval was not needed to issue these vouchers. Because the jurisdiction in which the privatized development is located does not administer a voucher program, the Authority administers the vouchers and conducts all tenant recertifications and housing quality standards inspections for these vouchers.

During the period November 1, 2002, through March 31, 2006, the Authority paid \$674,857 in housing assistance payments for these 22 vouchers. As of March 2006, the Authority provides vouchers to 16 families residing in the development, for whom \$14,115 in monthly housing assistance payments is disbursed.

Improper Payments Made

The Authority erroneously disbursed \$49,483 in housing assistance payments. In one instance, it paid \$49,020 in housing assistance payments during the period May 2002 through March 2006 for a unit that was owned by the grandparent of an assisted family member who was not disabled. 24 CFR (*Code of Federal Regulations*) 982.306(d) prohibits approving a unit when the owner is the parent, child, grandparent, grandchild, sister, or brother of any member of the assisted family, unless approving such a tenancy would provide reasonable accommodations for a disabled family member.

Authority officials advised that they were unaware of the owner-family relationship. They stated that when they inquired of the tenant, as part of the tenancy approval process, whether there was any relationship to the unit's owner, the tenant gave no indication that the owner was an in-law and her child's grandparent. Additionally, the owner certified on the housing assistance payment contract that a prohibited owner-family relationship did not exist. Terminating this ineligible unit would make available \$11,460 paid annually on behalf of the unit.

In another instance, while the housing assistance payments to the landlord had been suspended, effective January 31, 2004, the Authority incorrectly made a \$463 payment for February 2004. This occurred because the receiving authority did not notify the Authority in a timely manner of the payment suspension. However, the Authority has not yet billed to recapture the overpayment.

All Vouchers Not Used

As noted previously, the Authority has not used all of its vouchers. In 2002, the Authority averaged 57 unused vouchers and achieved a 73 percent utilization³ rate. During 2005, the Authority achieved a 92 percent utilization rate. HUD expects a standard performing authority to maintain an average utilization rate at or above 95 percent. As of March 31, 2006, the Authority had 18 unused vouchers. Based upon the average value of the Authority's vouchers, reallocation of these vouchers to ensure their use would result in approximately \$210,704 annually in cost efficiencies or funds to be put to better use. The executive director attributed the inability to use all vouchers to a shortage of available units within the Authority's jurisdiction.

Conclusion

The Authority did not distribute all vouchers in accordance with HUD regulations. In an effort to prevent the vouchers from being recaptured, the Authority improperly issued 22 vouchers. Obtaining a HUD waiver or redistributing the improperly

³ Utilization is measured by dividing the average number of units leased during the year by the number of units under contract.

issued vouchers when the recipients leave the program would ensure that these vouchers are administered in accordance with HUD regulations. The Authority also made \$49,483 in erroneous housing assistance payments, and has not used all its vouchers. Reissuance of the voucher used for an ineligible unit would result in annual cost savings of \$11,460 and redistribution of the Authority's unused vouchers would result in cost efficiencies or funds to be put to better use of \$210,704.

Recommendations

We recommend that the director, Office of Public Housing, New York Hub,

- 1A Recapture the Authority's unused vouchers so that they may be used in another voucher program, or alternatively, assist the auditee to fully utilize its vouchers, resulting in approximately \$210,704 in cost efficiencies or funds to be put to better use.

In addition, we recommend that the director, Office of Public Housing, New York Hub, instruct the Authority to

- 1B Seek a waiver from HUD for the approval of the 16 improperly distributed Section 8 vouchers currently issued to tenants residing outside of the Authority's jurisdiction and return these vouchers to the program for proper distribution as the participants leave the program.
- 1C Seek repayment of the \$49,483 in ineligible and erroneous housing assistance payments.
- 1D Terminate the housing assistance contract for the ineligible unit, after providing for opportunity for a proper hearing, resulting in \$11,460 in cost savings or funds to be put to better use annually.
- 1E Implement controls to ensure that all voucher distributions are in compliance with HUD regulations.

Finding 2: The Authority Did Not Adequately Document its Inspection Process or Ensure that All Units Met Housing Quality Standards

While the Authority ensured that its low-rent units were decent, safe, and sanitary, it lacked adequate controls to document and track inspection activities performed to ensure that Section 8 units met housing quality standards, housing assistance payments were abated for noncompliance, and quality control inspections were conducted. In addition, our inspection of 10 Section 8 units found that three failed to meet housing quality standards. These deficiencies occurred because the Authority did not implement adequate controls over the housing quality standards inspection process. Consequently, it lacked assurance that housing assistance payments were made for decent, safe, and sanitary units and housing quality standards inspections were conducted properly.

Inspections and Corrective Action Not Adequately Documented

The Authority lacked an adequate system to record and track housing quality standards inspections. Housing Choice Voucher Program Handbook 7420.10g, chapter 10, section 10.6, requires that the results of inspections be recorded on the form HUD 52580-A or 52580. Our review of 31 tenant files disclosed that the Authority documented inspections on the required form in eight cases and used an inspection letter in seven cases. In the remaining 16 cases, the Authority did not document the inspection results.

The Authority also lacked adequate controls to track the results of inspections and ensure that housing assistance payments were abated when necessary. HUD's Housing Choice Voucher Program Guidebook 7420.10g, chapter 10, sections 10.7 and 10.9, require that a system be established to monitor whether inspections occur within the required 12-month period and that deadlines for correction of housing quality standards violations, reinspection to ensure compliance, and abatements be tracked. The Authority's administrative plan requires that landlords notify the Authority that repairs have been completed and that the Authority conduct reinspections to confirm that corrections were made. While the Authority maintained a system to provide its contract inspector a list of the units requiring inspection 90 to 120 days in advance, it did not track completed inspections, reinspections, or abatements.

The files related to 22 units, which the Authority's contract inspector failed during the period January 2005 through December 2005, disclosed that in 18 cases, there was neither documentation that the deficiencies had been corrected

nor that the housing assistance payments had been abated.⁴ Further, in one case, for which the Authority had abated housing assistance payments, it resumed payments without documentation that the deficiencies had been corrected. Consequently, there is no assurance that these units were in compliance with housing quality standards. If the units were not in compliance, the housing assistance payments should continue to be abated. As a result, we question the \$343,854, pending evidence that the units passed inspection.

The Authority stated that due to heavy workload, monitoring of completed inspection reports is difficult to accomplish. In response to our audit, in January 2006, the Authority implemented a tracking system to record the dates of initial inspections, annual inspections, reinspections, inspection results, and the date of any letters sent to landlords, requesting that deficiencies be corrected. However, this system does not track landlord responses or whether abatements were made as required by the HUD guidebook.

Quality Control Inspections Not Documented

Housing Choice Voucher Program Guidebook 7420.10g, chapter 10, section 10.7, requires quality control inspections to ensure that contracted inspections are being performed adequately. The Authority did not document any quality control inspections. The executive director stated that quality control inspections are performed but not documented. As a result, we could not independently verify that the Authority performs the HUD-required quality control inspections.

Noncompliance with Housing Quality Standards

The Authority did not always ensure that Section 8 units complied with housing quality standards. Our inspection of 10 units found that three failed to meet housing quality standards. Housing Choice Voucher Program Guidebook 7420.10(G), chapter 10, section 10.3, requires, among other conditions, that the electrical system be free of hazardous conditions, including exposed and frayed wires, and that there be at least one battery-operated or hard-wired smoke detector in operating condition. Two units had electrical hazards, and one of those, as well as another unit, had inoperable smoke detectors.

These deficiencies occurred because the Authority did not have adequate controls over the housing quality standards inspection process. As a result, it lacks assurance that Section 8 tenants are residing in decent, safe, and sanitary

⁴ Authorities must abate housing assistance payments to owners who do not comply with notifications to correct deficiencies within 24 hours for life-threatening conditions and 30 days for other deficiencies.

housing. Upon learning of these conditions, the Authority inspected the three units, at which time two passed, thus ensuring that the units were decent, safe, and sanitary. The third unit failed re-inspection, and the housing assistance payments were abated on May 1, 2006. Further, because the unit still does not meet standards, it will be terminated from the program. This action ensures that the \$19,716 that would have been paid for the new contract term will result in a cost savings or funds to be put to better use.

Conclusion

The Authority did not adequately document and track the results of inspections, needed follow-up actions, and quality control inspections. In addition, the Authority did not always ensure that units were in compliance with HUD's housing quality standards. Consequently, the Authority lacked assurance that housing assistance payments were always made for units that met housing quality standards.

Recommendations

We recommend that the director, Office of Public Housing, New York Hub, require the Authority to

- 2A. Inspect the 18 units that failed to meet housing quality standards and the one unit for which housing assistance payments were resumed to verify that the landlords took appropriate action to correct deficiencies, thus ensuring that \$343,854 in housing assistance payments was properly paid. If appropriate actions were not taken, the Authority should abate the associated housing assistance payments and require that corrective action be taken.
- 2B. Establish and maintain a system to document and track housing quality standards inspections and related actions in accordance with HUD regulations.
- 2C. Establish a system to document that quality control inspections were conducted in accordance with HUD regulations.
- 2D. Provide assurance that re-inspected units meet housing quality standards and that the contract for the failed unit is terminated, thus ensuring that \$19,716 in funds is appropriately put to better use.

Finding 3: The Authority Has Control Weaknesses in its Financial Management System

The Authority implemented a financial management system that generally safeguarded funds. However, control weaknesses caused \$588,166 in disbursements for questionable and ineligible costs. Contrary to regulations, the Authority did not properly document the allocation of \$471,166 in salaries among its various programs and \$54,500 in shared services with its not-for-profit entity, settle a lawsuit for \$12,500 with HUD approval, make \$50,000 in loans with proper authorization, and calculate Section 8 administrative fees. These deficiencies occurred because the Authority did not have policies and procedures to ensure that all disbursements were allowable and that administrative fee calculations were properly supported. As a result, the Authority was deprived of funds that could have been used to pay its operating expenses and there is no assurance that earned administrative fees reported to HUD were correctly calculated.

Documentation Lacking for Salary and Other Costs

During calendar years 2004 and 2005, the Authority improperly documented the allocation of \$471,166 in salaries among its various programs. The Authority used the “operating budget schedules of all positions and salaries” submitted to HUD as the basis for the salary allocation. However, there was no reasonable basis for this allocation, since it was neither based on nor developed from actual time distribution records. Further, the payroll records did not reflect the actual time distributed to the various programs. This violates Section 9 (C) the consolidated annual contributions contract, which requires the Authority to maintain records to identify the source and use of funds allowing HUD to determine that expenditures are in accordance with program requirements. An Authority official acknowledged that the allocation of salaries is not based on a plan developed from actual time and stated that the Authority will develop such a plan and implement new payroll documentation procedures.

The Authority also did not properly allocate \$54,500 in shared services with the not-for-profit entity. The Authority executed a contract for technical management consultant services and charged the entire amount to its Public Housing Capital Fund program. However, both the request for proposal and the contract indicated that the contractor would also provide assistance to the not-for-profit entity. Consequently, the Authority should have developed a cost allocation plan to equitably prorate the cost of these shared services with the not-for-profit entity.

HUD Approval Not Obtained for a Lawsuit Settlement

The Authority settled a lawsuit for \$12,500 in May 2005 without obtaining HUD approval as required by HUD Handbook 1530.1, chapter 5, section 5-3C. According

to the handbook, HUD's written agreement is required before accepting any settlement arising out of litigation. The executive director stated that he was unaware that such approval was needed. However, since part A, section 5, of the consolidated annual contributions contract requires that the Authority comply with all applicable statutes, executive orders, and regulations issued by HUD, the Authority should have sought HUD approval.

Unauthorized Loans to the Not-For-Profit

The Authority loaned its not-for-profit entity \$50,000, consisting of \$40,000 from the Section 8 program account to finance the development of the not-for-profit entity and \$10,000 from the general fund to assist the not-for-profit in meeting its obligations. While the \$40,000 loan was approved by the board and both loans were repaid by the not-for-profit, such loans violate section 9(C), entitled "Depository Agreement and General Fund," of the Authority's consolidated annual contributions contract, which requires that HUD approval be obtained for expenditures for purposes other than to pay project development and operation costs and to purchase investment securities.

Improper Calculation of Administrative Fees

The Authority incorrectly calculated its earned Section 8 administrative fees. This occurred because in its fee calculation, the Authority erroneously included units leased to families receiving portable vouchers⁵ and units terminated from the program. During the period January 2004 through October 2005, the Authority received at least \$1,945 in unearned administrative fees.

Further, the Authority lacked documentation for the number of units under lease for a 14-month period. It could not provide 14 of the 22 monthly Section 8 "recap of housing assistance payments" reports used to determine the number of units leased during the period January 2004 through October 2005, and some of the reports provided did not accurately reflect the number of families in the Authority's program. Consequently, we could not determine whether administrative fees for the missing 14 months were calculated correctly, and there is no assurance that the Authority reported accurate leasing information to HUD through the Voucher Management System.⁶

⁵ Portable vouchers represent vouchers that the Authority administers for another authority related to tenants who rent units within the Authority's jurisdiction with vouchers issued by the other authority. The other authority receives funding from HUD for the vouchers, and the Authority bills the other authority for housing assistance payments and a share of the administrative fee.

⁶ The Voucher Management System provides a central system to monitor and manage the authorities' vouchers by collecting data, enabling HUD to fund, obligate, and disburse funding in a timely manner based on actual voucher use.

Conclusion

The Authority did not establish adequate controls over its financial management system to properly allocate costs and to obtain approval to disburse funds for lawsuit settlements and make loans to its not-for-profit. As a result, it was deprived of funds that could have been used to pay its operating expenses.

Further, the Authority did not have adequate controls to ensure that its employees maintained records in accordance with HUD requirements. Therefore, there is no assurance that information it submitted to HUD through the Voucher Management System was accurate and that earned administrative fees were correctly calculated. Consequently, incorrect data could result in the Authority receiving more voucher funding than is needed.

Recommendations

We recommend that the director, Office of Public Housing, New York Hub, require the Authority to

- 3A Develop a cost allocation plan based on actual time to support salaries charged to various HUD programs.
- 3B Develop an equitable cost allocation of shared resources with the not-for-profit entity.
- 3C Obtain approval for the \$12,500 and any future lawsuit settlements as required by HUD regulations.
- 3D Develop and implement controls to ensure that funds are only used for their intended purposes as required by consolidated annual contributions contract.
- 3E Reimburse the Section 8 program \$1,945 for excessive Section 8 administrative fees calculated due to duplicate billings for portable vouchers and the inclusion of terminated units.
- 3F Provide documentation to HUD, which demonstrates whether administrative fees were calculated correctly during the period January 1, 2004, through October 31, 2005. If additional fees are found to be unearned, the Authority should reimburse HUD.
- 3G Develop and implement procedures to ensure that monthly Section 8 “recap of housing assistance payments” reports accurately reflect the units under lease.

Finding 4: The Authority Transferred Properties to the Not-for-Profit Entity without Clear Title

The Authority generally operated the activities of the not-for-profit entity in accordance with HUD regulations. However, management control weaknesses allowed activities contrary to HUD regulations. For example, the Authority did not obtain, as required by HUD regulations, a partial release of declaration of trust when it transferred six of seven scattered-site properties to the not-for-profit. This release ensures that property is transferred with clear title.

Consequently, the not-for-profit entity did not have legal ownership of the properties when it sold five of six properties to eligible residents under the Section 5(h) homeownership program. Authority officials were unaware that a partial release of declaration of trust should have been obtained from HUD before the properties were transferred and sold. As a result, the position of the Authority and the not-for-profit could be compromised in any legal issue.

Properties Improperly Transferred to Not-For-Profit

The Authority improperly transferred six of seven scattered-site properties to the not-for-profit entity for sale under its Section 5(h) homeownership program. Section 5(h), part I, section 2.2, of the implementing agreement between the Authority and HUD provides that when property is transferred by the Authority in accordance with the homeownership plan, HUD will release the title restrictions prescribed by the annual contributions contract. Nevertheless, as shown in the chart below, the Authority transferred six properties to the not-for-profit entity by board resolution without obtaining a HUD-executed release of the title restrictions, known as a partial release of declaration of trust. Consequently, when the not-for-profit sold five of six properties to eligible residents under the Authority's homeownership program, it did not have legal title. The Authority has yet to obtain the release for two properties.

| <u>Property</u> | <u>Date transferred</u> | <u>Date sold</u> | <u>Date of release</u> |
|-----------------|-------------------------|------------------|------------------------|
| (1) | Aug. 12, 2003 | Aug. 25, 2003 | Mar. 22, 2004 |
| (2) | Nov. 18, 2003 | Jan. 12, 2004 | June 4, 2004 |
| (3) | Nov. 18, 2003 | July 29, 2004 | June 9, 2004 |
| (4) | Sept. 30, 2004 | Mar. 9, 2005 | N/A |
| (5) | Mar. 31, 2005 | Apr. 6, 2005 | N/A |
| (6) | June 20, 2005 | June 21, 2005 | Sept. 8, 2005 |

The executive director agreed that the properties were transferred without a partial release of declaration of trust and stated that the declarations of trust will be obtained before transferring the remaining four scattered-site properties to the not-for-profit entity.

Conclusion

Weaknesses in the not-for-profit's management controls that permitted properties to be sold to participants in the homeownership program without clear title could result in compromising the position of either the Authority or the not-for-profit in any legal proceedings.

Recommendations

We recommend that the director, Office of Public Housing, New York Hub, require the Authority to

- 4A Obtain executed partial releases of declaration of trust from HUD for the two properties that have been sold without such releases.
- 4B Establish procedures that will ensure that clear title is obtained through HUD's partial release of declaration of trust before transferring and selling any future properties under the homeownership program.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed applicable laws, regulations, HUD handbooks, guidebooks, notices, and directives. We interviewed HUD field office and Authority officials and reviewed board-meeting minutes to obtain an understanding of the Authority's policies, procedures, and internal controls. We obtained and analyzed HUD field office monitoring reports and independent public accountant audit reports for fiscal years 2003 and 2004 to identify reported internal control weakness and potential negative trends.

We analyzed the Authority's bank reconciliations, bank statements, cancelled checks, check registers, payment vouchers, payroll records, and general ledgers to assess internal controls and review disbursements. We also reviewed documentation relating to the not-for-profit's activities to ensure compliance with HUD requirements.

We selected a sample of 10 tenant files (five Section 8 and five low-rent housing) to assess whether the Authority accurately determined tenant eligibility and housing assistance payments and performed recertifications in a timely manner. To determine the Authority's compliance with housing quality standards, we selected a sample of 10 Section 8 and five low-rent housing units for inspection. To determine whether the Authority was monitoring inspection results and abating housing assistance payments when necessary, we analyzed the files of 28 Section 8 units that the Authority reported as not meeting housing quality standards during calendar year 2005. We also reviewed several monthly reports provided on Section 8 units leased during the period January 1, 2004, through October 31, 2005, to determine whether administrative fees were correctly earned.

The review generally covered the period January 1, 2004, through October 31, 2005, and was expanded as deemed necessary. Audit fieldwork was performed from November 2005 through May 2006. We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal controls are 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:

- Program operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.
- Validity and reliability of data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

We assessed the relevant controls identified above.

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

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- The Authority did not have controls to ensure vouchers were used only in authorized jurisdictions (see finding 1).
- The Authority did not have adequate controls to ensure that unit inspections were documented and tracked, housing assistance payments were appropriately abated for noncompliance, and housing quality control inspections complied with HUD requirements (see finding 2).
- The Authority did not have controls to ensure that all disbursements were properly documented and approved, and that monthly Section 8 “recap of housing assistance payments” reports accurately reflected the units under lease (see finding 3).
- The Authority did not ensure that properties were properly transferred to its not-for-profit entity (see finding 4).

APPENDIXES

Appendix A

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

| Recommendation number | Ineligible 1/ | Unsupported 2/ | Funds to be put to better use 3/ |
|-----------------------|---------------|----------------|----------------------------------|
| 1A | | | \$ 210,704 |
| 1C | \$ 49,483 | | |
| 1D | | | 11,460 |
| 2A | | \$ 343,854 | |
| 2D | | | 19,716 |
| 3C | | 12,500 | |
| 3E | <u>1,945</u> | | |
| Total | \$ 51,428 | \$ 356,354 | \$ 241,880 |

- 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 when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ “Funds to be put to better use” are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

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June 22, 2006

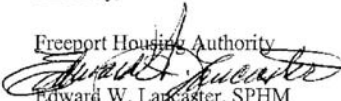
Mr. Edgar Moore
Regional Inspector General for Audit
U.S. Dept. of Housing and Urban Development
Office of Inspector General
26 Federal Plaza, Room 3430
New York, NY 10278-0068

Dear Mr. Moore:

Attached please find for your review and consideration the response to the Office of Inspector General's draft audit dated June 5, 2006. If you have any questions and/or require anything additional, please contact me at your convenience.

Sincerely,

Freeport Housing Authority



Edward W. Lancaster, SPHM
Executive Director

Enclosure
Cc: File

Appendix B

Ref to OIG Evaluation

Auditee Comments

FREEPORT HOUSING AUTHORITY
THREE BUFFALO AVENUE * FREEPORT NY 11520
(516) 623-2508 Fax (516) 623-0724

EDWARD W. LANCASTER, SPHM
EXECUTIVE DIRECTOR

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ANNETTE WRIGHT
ROSEMARY RUDOLPH
DOROTHY JACKSON
LOUISE SIMPSON

Background

The information in this report is in response to a draft report of the HUD Inspector General dated June 5, 2006. This response is provided by the Housing Authority of the Village of Freeport (FHA) for consideration by the Office of Inspector General for an exit conference occurring on June 16, 2006.

Finding 1: The Authority Issued Housing Vouchers and Assistance Payments Contrary to HUD Regulations

The Authority issued Section 8 housing choice vouchers to families that resided in a privatized development outside its jurisdiction. . . . the housing authority where these 22 vouchers were used does not manage a voucher program.

The Freeport Housing Authority issued 22 Section 8 vouchers outside of our jurisdiction and the local housing authority does not administer a Section 8 program. The Section 8 program is administered by the Village [REDACTED]. In 2002, the FHA had several communications with [REDACTED], Village Manager [REDACTED], regarding porting the vouchers to his jurisdiction. [REDACTED] determined that his Section 8 staff was insufficient to take on the administration of an additional 22 vouchers and asked the FHA continue to administer them. The development is close enough to the Freeport Housing Authority's jurisdiction that we agreed to continue administering the vouchers.

. . . The Authority erroneously disbursed \$49,483 in housing assistance payments during the period May 2002 through March 2006 for a unit that was owned by the grandparent of an assisted family member who was not disabled.

During our tenancy approval process the tenant gave no indication that the owner was a relative, and the owner certified on our documents that they were not related to the tenant. The Freeport Housing Authority will investigate and

Comment 1

Comment 2

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Comment 2

if it is determined that false statements were made, by the landlord and tenant, we will terminate the HAP contract and refer the case to the Office of Inspector General for investigation.

Finding 2: The Authority Did Not Adequately Document its Inspection Process or Ensure that All Units Met Housing Quality Standards

. . . the Authority lacked adequate controls to document and track inspection activities performed to ensure that Section 8 units met housing quality standards. . . . the Authority documented inspections on an inspection letter. . .

Comment 3

The Freeport Housing Authority has reviewed our Section 8 software for additional controls and reports to improve our tracking and documentation of inspections. We found several reports that we have begun to use that have improved both areas. In addition, our fee inspection company has re-assigned inspectors. I have also re-assigned responsibilities for monitoring Section 8 inspections to a new staff member. We are confident that all these changes will improve our controls.

Comment 4

The Freeport Housing Authority's use of a letter to record HQS inspections did not nor was it ever intended to replace HUD 5258-A or 52580, it was for inter-office use only. The letter was e-mailed by the field inspector to the Section 8 coordinator the day of the inspection as method of expediting recertifications and move-ins. However, because in some cases the letter was used as a substitute for HUD 52580 forms, the letter will no longer be used by the Authority

Finding 3: The Authority Has Control Weaknesses in its Financial Management System

. . . the Authority did not properly document the allocation of \$471,166 in salaries among its various programs and \$54,500 in shared services with its not-for-profit entity. . .

Comment 5

The Authority has developed new time sheets for employees that work in different programs and our fee accountant is developing a new cost allocation plan that will go into effect August 1, 2006. The new time cards in conjunction with the cost allocation plan will provide the necessary documentation to show proper allocation of time.

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Auditee Comments

Comment 6

The Authority will revisit the shared services provided by the technical management consultant and the not-for-profit will reimburse the FHA the \$54500 improperly paid.

The Authority settled a lawsuit for \$12,500 in May 2005 without obtaining HUD approval . . .

Comment 5

The Freeport Housing Authority apologizes for not seeking HUD approval to settle the lawsuit. We will seek approval from the HUD Office for \$12,500 paid to settle a law suit. And, if necessary, will seek approval from the HUD Office before settling any lawsuits.

The Authority loaned its not-for-profit entity \$50,000 from the Section 8 program and \$10,000 from the general fund to assist the not-for-profit . . .

Comment 5

The FHA has reviewed the "Depository Agreement and General Fund" and agrees to abide its terms and transfer any funds that are not authorized.

Finding 4: The Authority Transferred Properties to the Not-for-Profit Entity Without Clear Title

. . . the Authority did not obtain a partial release of declaration of trust when transferred six of seven scattered-site properties to its not-for-profit, consequently the not-for-profit entity did not have legal ownership of the properties when it sold five of six properties to eligible residents. . .

Comment 5

The Freeport Housing Authority did secure a partial release of declaration of trust from the HUD office, however, it was not done at the proper time. In the future, the Freeport Housing Authority shall secure a partial release of declaration of trust from the area office before any rehabilitation work is started and before we enter into a sales agreement with a new purchaser. .

OIG Evaluation of Auditee Comments

- Comment 1** The auditee agreed that it issued 22 Section 8 vouchers outside of its jurisdiction. However, the auditee should have obtained a written waiver from HUD to issue and manage these 22 vouchers because the vouchers were issued contrary to HUD portable voucher regulations since the local housing authority where the vouchers were used did not administer a Section 8 program and the local Section 8 program officials advised the auditee that it did not have the capacity to manage the 22 vouchers.
- Comment 2** The auditee agreed to investigate and terminate the HAP contract if warranted. We further recommend that the individuals involved be given an opportunity to request an informal hearing prior to deciding whether to terminate the contract.
- Comment 3** The auditee concurred that inspections and corrective action were not properly documented and advised that it has instituted new procedures to improve controls; however, HUD officials need to verify that these procedures will address the weaknesses we identified.
- Comment 4** The auditee concurred that housing quality control inspections were not always properly documented and has discontinued the use of a letter to record the results of inspections. Since we found that inspections were not always documented, HUD will need to verify that the additional controls the auditee plans to implement will ensure that inspection results are properly documented.
- Comment 5** The auditee's actions are responsive to our recommendation.
- Comment 6** The auditee agreed with our recommendations; however, HUD officials need to verify that the corrective action was taken.