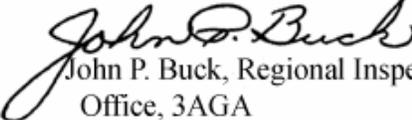




Issue Date October 4, 2005
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Audit Report Number 2006-PH-1001
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TO: William D. Tamburrino, Director, Baltimore Public Housing Program Hub, 3BPH  
Lee A. Palman, Director, Office of Public Housing, Washington, DC, Field Office, 3GPH

FROM:   
John P. Buck, Regional Inspector General for Audit, Philadelphia Regional Office, 3AGA

SUBJECT: The Alexandria Redevelopment and Housing Authority, Alexandria, VA, Improperly Used Section 8 Funds to Support Its Other Programs

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Alexandria Redevelopment and Housing Authority's (Authority) use of Section 8 funds. The audit was conducted as part of our fiscal year 2005 annual audit plan. Our objective was to determine whether the Authority improperly used Section 8 funds to support its other programs.

### **What We Found**

Contrary to its consolidated annual contributions contracts, the Authority improperly used Section 8 funds to support its other programs. This occurred because the Authority did not have internal controls in place to track its Section 8 administrative and housing assistance funds during the year, monitor and periodically settle the Section 8 programs' due-to/due-from account, and prevent it from using Section 8 funds to support its other programs. As a result, the

Authority improperly used \$462,214 of Section 8 funds to support its other programs.

### **What We Recommend**

We recommend that the Authority repay its Section 8 programs \$462,214 it improperly used to support its other programs. The Authority took action to repay that amount during the audit, therefore, no further action on this specific recommendation is required. We further recommend that HUD require the Authority to create and implement internal controls to track its Section 8 administrative and housing assistance funds during the year, reconcile and settle its Section 8 due-to/due-from account monthly, and prevent it from improperly using Section 8 funds to support its other programs, thereby putting \$462,214 to better use over a one-year period.

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

### **Auditee's Response**

We discussed the report with the Authority during the audit and at an exit conference on September 12, 2005. The Authority provided written comments to our draft report on September 27, 2005. To its credit, the Authority was proactive and began implementing corrective actions to improve controls over its Section 8 funds during the audit. The complete text of the Authority's response, along with our evaluation of that response, can be found in appendix B of this report.

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## BACKGROUND AND OBJECTIVES

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The Alexandria Redevelopment and Housing Authority (Authority) was organized under the laws of the Commonwealth of Virginia to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the U.S. Department of Housing and Urban Development (HUD) and other federal agencies. The Authority is responsible for operating a low-rent housing program that provides housing for eligible families, operating redevelopment and conservation programs, and the delivery of services to citizens of low-rent housing and urban renewal areas through the encouragement and development of social and economic opportunities. A nine-member board of commissioners governs the Authority. The Alexandria City Council appoints the commissioners to four-year terms. The current executive director is William M. Dearman. The Authority's main administrative office is located at 600 North Fairfax Street, Alexandria, Virginia.

The Authority owns and manages 886 public housing units and administers 1,833 housing vouchers under consolidated annual contributions contracts with HUD. The contracts define the terms and conditions under which the Authority agrees to develop and operate all projects under the agreements.

For fiscal years 2002 to 2004, HUD authorized the Authority the following financial assistance:

- An \$8.4 million operating subsidy to operate and maintain its public housing developments.
- \$4.5 million in Public Housing Capital Fund Program funding to modernize public housing units.
- \$45.3 million to provide housing assistance through Section 8 Housing Choice Voucher and Section 8 Moderate Rehabilitation programs.

Under the Section 8 programs, the Authority makes rental assistance payments primarily to landlords on behalf of eligible families. HUD compensates the Authority for the cost of administering the programs through administrative fees. The Authority also holds an interest in two limited partnerships organized under the laws of the Commonwealth of Virginia to provide low-rent housing for qualified individuals.

The Authority uses a due-to/due-from accounting system to account for transactions between funds and/or entities included within its general ledger. The Authority makes payments for all its administrative expenses from a general fund account and allocates costs to its various programs at that time.

The overall objective of our audit was to determine whether the Authority improperly used Section 8 funds to support its other programs.

## RESULTS OF AUDIT

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### Finding 1: The Authority Improperly Used Section 8 Funds to Support Its Other Programs

Contrary to its consolidated annual contributions contracts, the Authority did not sufficiently manage Section 8 funds HUD provided. This occurred because the Authority did not have policies and procedures in place to track its Section 8 administrative and housing assistance funds during the year, monitor and periodically settle the Section 8 programs' due-to/due-from account, and prevent it from using Section 8 funds to support its other programs. As a result, the Authority improperly used \$462,214 to pay expenses of its other programs. By creating and implementing internal controls to adequately manage its Section 8 funds, the Authority will put \$462,214 to better use over a one-year period.

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#### The Authority Used Section 8 Funds to Support Other Programs

Contrary to its Section 8 consolidated annual contributions contracts<sup>1</sup> the Authority did not sufficiently manage its Section 8 funds and improperly used \$462,214 in 2004 to pay expenses of its other programs. We analyzed the Authority's Section 8 bank statements and Section 8 Year-End Settlement Statements as of December 31, 2004 and found the following:

Description	Amount
Balance in the Authority's Section 8 bank account	\$1,532,082
Amount that should be in the Authority's Section 8 bank account <sup>2</sup>	\$1,994,296
Difference	(\$ 462,214)

The Authority's Section 8 consolidated annual contributions contract required it to use funds HUD provided for its Section 8 programs to pay Section 8 program expenditures. However, our audit showed the Authority did not have policies, procedures, or other controls in place to track the various types of funds deposited into its Section 8 bank account and, therefore, could not identify what funds

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<sup>1</sup> Sections 11.a, 13.c, and 14.a.

<sup>2</sup> The Authority's 2004 Section 8 Year-End Settlement Statements showed it owed HUD \$977,403, and its reserve balance was \$1,016,893. Therefore, the Authority's Section 8 bank account should contain \$1,994,296.

comprised the balance in the account. As a result, when the Authority withdrew funds from this account, it had no assurance that it was using program funds properly.

The Authority maintained a single bank account for its Section 8 Housing Choice Voucher program and its Section 8 Moderate Rehabilitation program funds.<sup>3</sup> It also commingled funds from its other programs into this account. However, it did not maintain documentation to show why the other funds were deposited or when the funds were to be repaid, if at all. The Authority needed to track its funds by program category because HUD regulations restrict the Authority's use of its various program funds. For example, although HUD pays the Authority an administrative fee as compensation for administering the Section 8 programs, HUD policy restricts the use of earned administrative fees and administrative fee reserves, depending on when the funds were appropriated. Also, the consolidated annual contributions contract required the Authority to maintain complete and accurate books of account and records for its programs, including records identifying the source and application of its funds, and to demonstrate effective control and accountability for program cash.

To resolve this issue, the Authority needed to repay its Section 8 account \$462,214 from nonfederal funds. It also needed to establish policies and procedures to track its Section 8 funds during the year and prevent it from using Section 8 funds improperly.

### **The Authority Did Not Monitor and Settle Its Section 8 Due-to/Due-from Account**

In addition to not tracking Section 8 funds, the Authority did not have policies and procedures in place to monitor and periodically settle the Section 8 programs' due-to/due-from account. As part of its routine operations, the Authority paid all of its administrative expenses, including those of its Section 8 programs, from a general fund account and allocated costs to its various programs. The Authority used a due-to/due-from accounting system to record expenses and account for transactions between funds and/or entities included within its general ledger. A program or entity's due-to balance represents amounts it owes another program or entity (payables) for disbursements and/or advances made on its behalf. Conversely, a due-from balance (receivable) represents an amount owed to the program or entity.

Instead of monitoring the balance in its due-to/due-from account and settling it periodically however, the Authority allowed the balance to fluctuate. The

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<sup>3</sup> Includes funds provided by HUD for housing assistance payments, administrative fees, and the Authority's administrative fee reserves accumulated from prior years.

Authority's routine operations included reimbursing itself for amounts it advanced on behalf of the Section 8 programs by withdrawing funds from the Section 8 programs' bank account and posting an accounting transaction reducing the Section 8 programs' payables. According to the Authority's finance director, the decision to withdraw and transfer funds, in terms of timing and amount, was based upon the need for funds by other programs and/or entities included in the Authority's general ledger. The finance director did not consider the amount of the Section 8 programs' payable when determining the amount of funds to be transferred. As a result, the lack of monitoring and settling the account contributed to the Authority's eventual improper use of Section 8 funds.

To more effectively manage its operations, the Authority should create and implement policies and procedures whereby it reconciles and settles its Section 8 due-to/due-from account monthly.

### **The Authority Began Taking Corrective Action**

During the audit, the Authority began taking immediate action to correct the deficiencies we noted. In this regard, in May 2005, the Authority deposited funds from nonfederal sources into its Section 8 bank account to repay the \$462,214 it improperly used to support its other programs. The finance director also told us the Authority was preparing policies and procedures to track its Section 8 funds, periodically settle the Section 8 programs' payables, and prevent it from improperly using Section 8 funds to support its other programs in the future. By implementing these controls to prevent further improper use of Section 8 funds, the Authority will put \$462,214 to better use over a one-year period.

### **Recommendations**

We recommend that HUD direct the Authority to

- 1A. Repay its Section 8 programs \$462,214 of housing assistance funds from nonfederal sources.
- 1B. Create and implement policies and procedures to track Section 8 administrative and housing assistance funds during the year, reconcile and settle the Section 8 due-to/due-from account monthly, and prevent the Authority from improperly using Section 8 funds to support its other programs, thereby putting \$462,214 to better use over a one-year period.

## SCOPE AND METHODOLOGY

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We performed the audit at the Authority in Alexandria, Virginia, from January through September 2005. The audit was done in accordance with generally accepted government auditing standards and included tests of internal controls that we considered necessary under the circumstances.

The audit covered transactions representative of operations current at the time of the audit and included the period January 2002 through December 2004. We expanded the scope of the audit as necessary. We reviewed the Authority's Section 8 consolidated annual contributions contracts with HUD and other applicable program guidance. We discussed operations with management and staff personnel at the Authority and key officials from HUD's Washington, DC, field office.

To determine that the Authority improperly used HUD funds to support its other programs, we

- Reviewed deposit and withdrawal transactions recorded on the Authority's Section 8 bank account statements for the period January 2002 through December 2004, the Authority's associated accounting transactions, general ledger accounts, and available supporting documentation.
- Reviewed the Authority's Section 8 year-end settlement statements for years 2002 through 2004.
- Interviewed Authority personnel.
- Reviewed the Authority's independent auditor's reports for fiscal years 2001 through 2003.

# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Policies, procedures, and other management tools implemented to track Section 8 funds during the year.
- Policies, procedures, and controls implemented to periodically settle the Section 8 programs' due-to/due-from account.
- Policies, procedures, and controls implemented to prevent Section 8 funds from being used improperly.

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

- Track its Section 8 funds during the year.

- Periodically settle the Section 8 programs' due-to/due-from account.
- Prevent Section 8 funds from being used improperly.

# APPENDIXES

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## Appendix A

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

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Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A	\$462,214 *	
1B		\$462,214
Total	\$462,214	\$462,214

\* The Authority took action to repay this amount. No further action concerning this recommendation is required.

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local polices or regulations.
- 2/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments



600 North Fairfax Street  
Alexandria, Virginia 22314

### Alexandria Redevelopment and Housing Authority

#### Commissioners

A. Melvin Miller, Chairperson  
Caryle C. Ring, Jr., Vice Chairperson  
Ruby J. Tucker

Carter D. Flemming  
Fletcher S. Johnston  
Leslie B. Hagan

Linda D. Cheatham  
Richard J. Blake  
Peter H. Lawson

William M. Dearman, Chief Executive Officer

**TELEPHONE: (703) 549-7913**  
**FAX: (703) 549-8709**  
**TDD: (703) 836-6425**

September 26, 2005

#### Via Federal Express

Mr. John P. Buck  
Regional Inspector General for Audit  
U.S. Department for Housing and Urban Development  
100 Penn Square East, Suite 1005  
Philadelphia, PA 19107

Dear Mr. Buck:

We want to thank you and your staff for the time and effort that has been taken to identify the problems and concerns in our internal control structure concerning the proper use and monitoring of our Section 8 funds. As I mentioned when we first met during the entrance interview early in January 2005, the Authority would assist you and your staff in every way possible and welcome any comments or recommendations to improve our program.

During the audit your staff provided beneficial information that allowed the Authority to take immediate action to correct the deficiencies noted. This type of communication will make our program stronger and the audit more efficient and allows us to better serve our residents. In the end, we expect the administration of our Section 8 Program to be significantly improved as a result of all our collective efforts.

We are providing you with our comments and corrective action plan, so you may consider it fully in developing your final report on your audit. Please see attachment. Again, we would like to express our appreciation to you and your staff for your professionalism, communication, recommendations, and your patience during this process.

If you have any questions or need additional information, please call Derek McDaniel, Director of Finance or me at 703-549-7913.

Sincerely,

  
William M. Dearman  
Chief Executive Officer

Attachment

Cc: ARHA Board of Commissioners



**Alexandria Redevelopment & Housing Authority  
Comments**

To improve the Authority's internal controls and effectively manage its operations the Authority has implemented or is in the process of implementing the following policies and procedures to better track Section 8 administrative fee and housing assistance funds during the year and prevent Section 8 funds from being used improperly.

- The Authority has implemented a procedure to account for and track the monthly administrative fee and the housing assistance payments through its existing general ledger system. Each month the Finance Department reconciles the funds deposited into the Section 8 bank account and prepares a journal entry to record the administrative fee and housing assistance funds separately. As a result of communication during the audit between the OIG and the Authority this procedure was implemented in June 2005 and the Finance Department added this procedure to its list of monthly tasks. In addition, the Section 8 funds received between January 2005 and June 2005 were reconciled and an adjusting journal entry was made to the general ledger to record the administrative fee and housing assistance payments separately.
- To avoid the possibility of commingling funds each month the Finance Director will transfer the administrative fee earned into a separate and independent bank account solely for the purpose of monitoring the administrative fees earned.

Beginning in FY03, the use of Section 8 administrative fees was restricted for the use of Section 8 program purposes only. Prior to FY03 there was no similar restriction on the use of administrative fee reserves. The Authority could use administrative fee reserves for any purpose previously authorized - either for the Section 8 program, or for other housing related purposes. As a result of the restrictions state above it is necessary to track the administrative fees earned prior to FY03 separate from those earned during and subsequent to FY03. To determine the administrative fee reserve balance prior to FY03 the Finance Department will reconcile the prior year audit reports and Section 8 year-end settlement statements. The reconciliation will be updated annually to monitor any increase or decrease to the reserve account balances. The Authority plans to complete this reconciliation in November 2005.

In accordance with the Authority's Section 8 Administrative Plan for administrative fee earned prior to FY03 the Authority requires Board approval for use of those funds for other housing related purposes. The threshold for the amount of expenditures, which may be made from the administrative fee reserves without prior approval from the Board, is set at \$ 25,000.

- To settle the Section 8 programs' due-to/due from account the Finance Department will reconcile the due-to/due from account at the end of each month. Each month a transfer of cash will be made to settle any amounts due-to/due from other programs. In a case when the Section 8 program owes money to another fund a transfer will be made from the administrative fee bank account. This will prevent Section 8 housing assistance funds from being used improperly. As stated above, after the Section 8 administrative fee bank account is set up in October 2005 the authority will also be able to begin this procedure.

**Supplemental Comments**  
**Carlyle C. Ring, Jr., Vice Chair**  
**ARHA Board of Commissioners**

I appreciate the opportunity of sitting on the exit interview for the fiscal year 2005 annual audit plan.

While the Report finds "...the Authority improperly used \$462,214 of Section 8 funds to support its other programs," it should be noted that the expenditures on the other programs were all proper expenditures; however, the funding came from an inappropriate pocket. As noted, the balance to the Section 8 funding has been restored. All of the accounts of ARHA are subject every year to an independent audit which audits have found the expenditures on all programs through FY04 to be proper. In the exit interview with you, it was confirmed that you had no evidence of any improper expenditures in the other programs.

Since FY03 new restrictions were place on the use of Section 8 administrative fees earned by ARHA that foreclosed the previous permitted use of such funds for other housing and service programs. In FY 04, the previous existing ARHA procedures did not reflect this change to assure that the right sources of funding were employed for other housing and service programs. As a result of your audit advice, the correct funding sources for other programs will be identified and employed for those programs. As stated and among other changes the due-to/due-from account will be settled and balanced at the end of each month so Section 8 funding is not allocated for use in other programs.

**Comment 1**

133389

## **OIG Evaluation of Auditee Comments**

**Comment 1** Our audit objective was to determine whether the Authority improperly used Section 8 funds to support its other programs. As such, our audit objective did not require us to audit the expenditures of the Authority's other programs. However, as discussed in the audit report, the Authority violated its annual contributions contracts with HUD by improperly using Section 8 funds to pay expenses of its other programs.