



Issue Date	January 11, 2006
Audit Case Number	2006-AT-1002

TO: Dominique Blom, Acting Deputy Assistant Secretary for Public Housing Investments, PIU  
R. Edmond Sprayberry, Director, Office of Public Housing, 4CPH

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

SUBJECT: The Housing Authority of the City of Prichard, Alabama's Controls over the Sale of Affordable Housing Units, Use of Sales Proceeds, and Expenditure of Low-Income Funds Were Inadequate

## **HIGHLIGHTS**

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

We audited the Housing Authority of the City of Prichard's (Authority) administration of its nonprofit activities and homeownership programs. The Office of Public Housing, Alabama State Office, requested the audit. The Office of Public Housing expressed concerns regarding the nonprofit's ventures into areas other than housing, such as the purchase of a shopping center and the Authority's use of the proceeds from the sale of its public housing units.

Our audit objectives were to determine whether the Authority used low-income housing funds to pay for unauthorized nonprofit entity activities and whether the Authority used the proceeds from the sale of single-family homes in a manner consistent with its homeownership programs.

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## What We Found

Although we noted that the Authority did not use low-income housing funds to pay for unauthorized nonprofit entity activities, we noted deficiencies in the Authority's homeownership activities.

The Authority's homeownership programs to make affordable homes available to low- and moderate-income persons were inadequate. Although the Authority continually receives applications for its homeownership programs and maintains a waiting list of more than 250 potential homebuyers, as of June 1, 2005, the Authority had 139 homes available for sale. Many of the homes have been for sale for more than four years. The Authority's failure to sell these homes jeopardizes its ability to meet its and HUD's goal of promoting adequate and affordable housing. Although the Authority was not selling the homes in its inventory, it plans to seek approval to use \$3,811,668 in HUD grant funds to build additional homes. Building additional homes would not be a reasonable use of these funds.

The Authority did not include sale proceeds of \$6,619,859 and estimated sale proceeds of \$5,013,000 from its homeownership programs in its five-year public housing authority plan. As a result, HUD was not informed of the amount of funds available and the Authority's plan to use these funds. The funds have remained idle since 2002.

The Authority's controls over the expenditure of public housing funds were inadequate. As a result, the Authority inappropriately advanced \$806,502 in public housing funds to pay for other programs' expenses. Therefore, the low-income housing program was deprived of funds that could have been used to provide services to the Authority's public housing tenants.

## What We Recommend

We recommend that the director of the Office of Public Housing require the Authority to provide a revised marketing strategy. The director should require the Authority to aggressively market the Section 5(h) and HOPE 1 homes as affordable housing to assure the HUD funds provided for the construction of these homes are used as intended and the homes are not allowed to deteriorate. The director should require the Authority to review its current lease/purchase program, determine why the participants are not moving toward homeownership, and provide additional counseling or remove the participants who are not progressing. We also recommend that HUD's acting deputy assistant secretary for Public Housing Investments require the Authority to demonstrate it has the capability to

sell its remaining units before requesting the remaining \$3,811,668 in HOPE VI grant funds to build additional homes.

Further, we recommend that the director of the Office of Public Housing require the Authority to include the \$11,632,859 in sales proceeds and how it plans to use the funds in its plan. The Office of Public Housing should review the Authority's planned use to assure it meets the homeownership program requirements and that it is specific and timely or require the Authority to return the funds to HUD.

Finally, the director of the Office of Public Housing should require the Authority to establish controls to assure its public housing program funds are expended and accounted for in accordance with its HUD contract.

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

### **Auditee's Response**

We discussed our review results with Authority and HUD officials during the audit. We provided a copy of the draft report to Authority officials on December 6, 2005, for their comments and discussed the report with the officials at the exit conference on December 15, 2005. The Authority provided written comments on December 22, 2005.

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

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## BACKGROUND AND OBJECTIVES

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The Housing Authority of the City of Prichard (Authority) was organized in 1940 pursuant to the Housing Act of 1937 and the laws of the State of Alabama. Its primary objective is to provide low-income housing to the citizens of Prichard, Alabama, and surrounding areas in compliance with its annual contributions contract (contract) with the U.S. Department of Housing and Urban Development (HUD).

A five-member board of commissioners governs the authority with members appointed by the mayor of Prichard, Alabama. Each member is appointed for a five-year term. Reverend Michael Howard is the board chairman, and Charles Pharr is the executive director.

The Authority's programs include the management of 65 conventional low-income units, 2,596 Section 8 units, a HOPE VI program, and Section 5(h) and Section 32 homeownership programs. The homeownership programs are designed to assist Authority residents, Section 8, and low- and moderate-income families to become homebuyers.

The Authority formed Prichard Housing Corporation, a not-for-profit corporation, on January 19, 1979, to develop and operate a 120-unit elderly project known as Ridge Manor I and II. The Section 8 project-based development is managed by the Authority. The Authority and the Prichard Housing Corporation have the same board of directors.

The Authority formed Prichard Housing Corporation II, a not-for-profit corporation, on August 8, 1988. Prichard Housing Corporation II owns a shopping center, a 40-unit multifamily project known as Driftwood Apartments, and a 102-unit multifamily project known as St. Stephen Woods Apartments and is a general partner in a limited partnership apartment project named Chancery Square Ltd. The Authority and Prichard Housing Corporation II have separate boards of directors.

HUD's Alabama State Office of Public Housing is located in Birmingham, Alabama, and is responsible for overseeing the Authority.

Our audit objectives were to determine whether the Authority used low-income housing funds to pay for unauthorized nonprofit entity activities and whether the Authority used the proceeds from the sale of single-family homes in a manner consistent with its homeownership programs.

## RESULTS OF AUDIT

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### Finding 1: The Authority's Sale of Affordable Homes Was Inadequate

The Authority's homeownership programs to make affordable homes available to low- and moderate-income persons were inadequate. Although the Authority continually receives applications for its homeownership programs and maintains a waiting list of more than 250 potential homebuyers, as of June 1, 2005, the Authority had 139 homes available for sale. Many of the homes have been for sale for more than four years. These conditions exist because the Authority did not (1) efficiently process its homebuyer applications, (2) consider other financing options, (3) aggressively market the homes, and (4) administer its homebuyer program to assure participants were moving toward homeownership. The Authority's failure to sell these homes jeopardizes its ability to meet its and HUD's goal of promoting adequate and affordable housing. Although the Authority was not selling the homes in its inventory, it plans to seek approval to use \$3,811,668 in HUD grant funds to build additional homes. Building additional homes would not be a reasonable use of these funds.

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#### 139 Homes Available for Sale

The Authority's inventory of single-family homes included three homes remaining to sell under its HOPE 1 program, 79 homes to sell under its Section 5(h) program, and 57 homes to sell under its HOPE VI program.

Of the 79 homes under its 5(h) program, the Authority had leased 40 of the homes to potential buyers; two of the homes were being used as sales offices; and 37 homes were vacant and beginning to deteriorate.

The 57 HOPE VI homes became available for sale April 30, 2005. As of that date, there were 16 loan applications for the HOPE VI homes and one loan application for a Section 5(h) home pending with the banks. According to the homeownership director, there were no other applicants who met the minimum loan requirements.

## **Applicants Not Screened or Prioritized**

The Authority's homeownership program staff included a director and two counselors. The staff received and processed homeownership applications and provided counseling and assistance to the prospective homeowners. Currently, the staff receives 6 to 10 applications per week and has more than 250 applicants on file. As of October 1, 2005, the Authority had not screened the 250 applications to determine which applicants met the minimum program requirements and had not prioritized the list to identify the applicants who had the best chance of becoming homeowners. The affordable housing director told us she was working with all 250 applicants. By not screening and prioritizing the applications, the limited staff could not concentrate its efforts on the most viable applicants and process the applications efficiently.

The Authority maintains another waiting list of 113 applicants, who the affordable housing director said did not currently qualify for homeownership but may qualify during the next 12 to 24 months. The Authority did not prioritize the additional 113 applications.

## **Other Financing Options Not Considered**

Although the Authority provides a 25 percent soft-second mortgage and many of the homebuyers can qualify for downpayment assistance of up to \$10,000, the bank's underwriting standards made it difficult for the low-income homebuyers to qualify for a loan. Also, the Authority, which controls the submission of the loan applications to the banks, does not submit the applications until it is sure the banks will accept the loan. The Authority did not consider using other lending institutions to obtain financing for the applicants or financing the HOPE 1 and Section 5(h) homes itself, since the homes were debt free. The Authority did not consider allowing the low-income homebuyers to seek their own financing. Other financing options, especially Authority financing, could make many of these homes available to applicants who do not meet the banks' standards.

## **Section 5(h) Homes Not Aggressively Marketed**

The Authority did not aggressively market its Heritage Estates Section 5(h) affordable housing development. The development included 17 sold homes, 31 vacant homes, 34 homes that were leased, and one that was used as an office. The development was constructed in 2000 using HUD development grant funds.

Sales for Heritage Estates since 2000 only averaged 3.4 homes yearly. The vacant units were not used for rental under the low-income program; thus, the vacant units were not receiving operating subsidies and were not producing rental income. Since HUD funds were used to construct the development, the Authority did not have any project debt to amortize, and, therefore, the sale of the units was a low priority.

There was only one sign at the on-site office showing the homes were for sale by the Authority and were affordable. The office was located well into the project. The lawns were not maintained, and the homes were mildewed and beginning to deteriorate. The homes were built in an area that was isolated, were surrounded by blight, and included blighted structures on the property that did not appear to meet local codes. The Authority built a privacy fence around the property to curtail vandalism. Authority staff told us that people did not want to live in this area, much less purchase a house. There were no loans pending on the homes.

The Section 5(h) homes were not being aggressively marketed because the Authority had to sell its 57 HOPE VI homes that were recently completed. The proceeds from the sale of the HOPE VI homes were needed to pay part of the construction costs of the HOPE VI units. In contrast to the Section 5(h) development, the Authority had 16 loan applications ready when the HOPE VI units became available.

## **Applicants in the Lease/ Purchase Program Not Moving Toward Homeownership**

The Authority executed lease/purchase agreements with 32 applicants, allowing them to occupy the affordable homes for five years and to work toward qualifying for a home loan. During this period, the affordable housing staff provided counseling to the participants to help them get their debt ratios and credit scores to a point at which the banks would accept their application for a loan. The program participants paid rent based on 30 percent of their income.

We reviewed 31 of the 32 participants' files to determine their credit scores and debt ratios. The review showed that the participants had leased their units for an



average of 2.5 years and 19 of the 31 participants were in their units for three to four years. As of April 30, 2005, 15 of the participants had debt-to-income ratios of less than 43 percent (the maximum the banks will accept); however, only 1 of the 15 participants had a credit score above 600 (the minimum score most banks will accept), which would allow the applicant to apply for a loan. We also noted that 12 of the 31 applicants were late with their rent payments. Although the affordable housing staff was updating the applicants' credit reports and recomputing their credit scores, there was nothing in the file to show the Authority was taking action when the applicants were not showing progress.

### **Additional Homes to Be Built**

Although the Authority is not selling the homes it has now, it plans to build an additional 103 units of affordable housing under phases IV and V of its HOPE VI program, using \$5,827,146 in HUD grant funds. HUD allowed the Authority to contract for construction of 36 homes in phase IV, using \$2,015,478 in HUD grant funds. The Authority plans to request HUD's approval to construct the 63 homes remaining under phase V at a grant cost of \$3,811,668.

To supplement its proposal to develop phase IV, the Authority stated to HUD that a study performed by a consultant showed there was a demand for "164 additional units intended for first time homebuyers requiring some form of financial assistance." The Authority also provided a schedule showing its plans to sell the existing 57 HOPE VI homes by April 2006. The schedule showed how many houses it would sell on a monthly basis. When we requested the affordable housing staff to provide specific information about the homebuyers, they told us they did not have specific homebuyers identified and the schedule was an estimate. Based on the number of units to be sold and the Authority's current marketing process, it does not appear the Authority will sell the 57 units as stated. Construction of any additional units at this time may be unnecessary.

### **Recommendations**

We recommend that the director of the Office of Public Housing

- 1A. Require the Authority to provide a marketing strategy that will result in a more efficient system of processing the applications to identify and rank homebuyers that are most likely to qualify for a loan and provide alternate financing to make the loans more obtainable for low-income applicants.
- 1B. Require the Authority to aggressively market the Section 5(h) and HOPE 1 homes as affordable housing to assure the HUD funds provided for the

construction of these homes are used as intended and the homes built with these funds are not allowed to deteriorate.

- 1C. Require the Authority to review its current lease/purchase program and determine why the participants are not moving toward homeownership. Participants who are not progressing should receive additional counseling or be removed from the program.

We also recommend that the acting deputy assistant secretary for Public Housing Investments

- 1D. Require the Authority to demonstrate it has the capability to sell its remaining units before requesting the remaining \$3,811,668 in HOPE VI grant funds to build an additional 63 affordable homes.

## Finding 2: Proceeds from the Sale and Estimated Sale of Affordable Homes Were Not Included in the Authority's Public Housing Authority Plan

The Authority did not include sales proceeds of \$6,619,859 and estimated sale proceeds of \$5,013,000 from its homeownership programs in its five-year public housing authority plan. As a result, HUD was not informed of the amount of funds available and the Authority's plan to use these funds. The funds have remained idle since 2002.

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### Proceeds Not Included in the Authority's Plan

By June 30, 2005, the Authority had sold 145 houses under its HOPE 1 and Section 5(h) homeownership programs. Proceeds from these sales and interest earned from their investment totaled \$6,619,859. The Authority had three homes remaining to sell under the HOPE 1 program and 79 homes to sell under the Section 5(h) program. The Authority estimates the proceeds from the sale of these homes to be \$5,013,000. Although the HOPE 1 grant agreement and the Section 5(h) implementation agreements allow the Authority to use the sale proceeds for various homeownership activities that would improve its program, the Authority did not use the proceeds to fund these activities, and the funds have remained idle.

The Authority's HOPE VI plan shows the Authority plans to use \$1 million of the funds to finance later phases of the HOPE VI program, however, neither these funds nor the remaining funds have been included in the Authority's five-year public housing authority plan as required by 24 CFR [*Code of Federal Regulations*] 906.31.

The executive director stated that the Authority plans to use the funds to build more affordable housing. The executive director, however, could not provide specific details to support the plan.

The Authority has not developed specific plans to build additional units because it is having difficulty selling the units it has in its inventory. The Authority was not aware of the requirement to include the homeownership proceeds in its plan.

## Recommendations

We recommend that the director of the Office of Public Housing

- 2A. Require the Authority to include the \$11,632,859 generated from the sale of Section 5(h) and HOPE 1 homes and its planned use in its public housing authority plan.
- 2B. Review the Authority's planned use to assure it meets the homeownership program requirements.

## Finding 3: The Authority's Controls over the Expenditure of Public Housing Funds Were Inadequate

The Authority's controls over the expenditure of public housing funds were inadequate. As a result, the Authority inappropriately advanced \$806,502 in public housing funds to pay for other programs' expenses. The programs were to repay funds to the public housing accounts when they obtained the anticipated funding. However, the Authority did not properly account for the transactions, and they remain unpaid. Therefore, the low-income housing program was deprived of funds that could have been used to provide services to its public housing tenants.

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### Improperly Advanced Public Housing Funds

As of December 31, 2004, public housing advanced \$806,502 to other programs it operated in excess of the funds each program had on deposit with the low-income program. This is a violation of the Authority's contract with HUD. These advances included payments on behalf of the Authority's HOME, HOPE VI, and Public Housing Capital Fund programs. The advances were subsequently repaid.

### Inadequate Controls and Accounting for Advances

The Authority did not have controls in place to prevent the improper advances to the other programs and did not establish receivable accounts in its public housing records to control the timely repayment of the funds. Thus, the Authority's books and records as of December 31, 2004, were not complete and accurate, and the advances remained unpaid. The Authority's contract with HUD requires it to maintain complete and accurate records.

### Recommendations

We recommend that the director of the Office of Public Housing

- 3A. Require the Authority to establish controls to prevent improper advances from its public housing program and establish accounts to assure timely repayment of advances.

## SCOPE AND METHODOLOGY

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To accomplish our audit objective we reviewed the following:

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

We reviewed various documents including financial statements, general ledgers, bank statements, minutes from board meetings, check vouchers, invoices, loan documents, related guarantee agreements, management agreements, and reports from the independent public accountant. In addition, we obtained an understanding of the Authority's accounting system as it related to our review objective.

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

We performed our audit work at the Authority's offices from April through September 2005. Our audit covered the period from July 1, 2002, through December 31, 2004, but we extended the period as necessary.

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

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# 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:

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

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's controls over the sale of its affordable homes did not provide assurance that the Authority would meet its and HUD's objectives to make affordable housing available for low- and moderate-income persons (see finding 1),

- The Authority's controls over the planning and use of the proceeds from the sale of its affordable housing did not assure that the funds would be used as intended (see finding 2), and
- The Authority did not have adequate controls to assure low-income expenditures were used in accordance with its HUD contract (see finding 3).



## **FOLLOWUP ON PRIOR AUDITS**

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### **Fiscal Year 2004 Audited Financial Statements of the Authority**

Yeager & Boyd, L.L.C., completed the most recent audit of the Authority's financial statements for the 12-month period ending June 30, 2004. The financial statement report contained an unqualified opinion.

None of the findings or recommendations in the report affected our audit objectives.

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## APPENDIXES

### Appendix A

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

<u>Recommendation</u>	<u>Funds to be put to better use 1/</u>
1D	\$ 3,811,688
2A	<u>11,632,859</u>
Total	<u>\$15,444,527</u>

1/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in reduced expenditures later 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

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### Ref to OIG Evaluation

### Auditee Comments


 <p>PRICHARD HOUSING AUTHORITY 1940 PRICHARD, ALABAMA</p>	<p><i>Housing Authority</i> of THE CITY OF PRICHARD, ALABAMA P. O. Box 10307 -- Prichard, Alabama 36610 -- (251) 456-3324 Fax (251) 452-6149</p>	
<p><b>BOARD OF COMMISSIONERS</b></p> <p>Rev. Michael A. Howard - Chairman Darren L. Flott - Vice-Chairman John Langham, Jr. Minnie Levingston Rochelle D. Rankins</p>	<p>December 22, 2005</p>	<p>Charles Pharr, Executive Director Gregory L. Harris, Attorney</p>
<p>Mr. James D. McKay Regional Inspector General for Audit, 4AGA U.S. Department of Housing and Urban Development Region 4 Office of the Inspector General Office of Audit, Box 42 Richard B. Russell Federal Building 75 Spring Street, SW, Room 330 Atlanta, Georgia 30303-3388</p>		
<p>Re: Response of the Housing Authority of the City of Prichard, Alabama to the Draft Audit Report Covering Controls Over The Sale of Affordable Housing Units, Use of the Proceeds From Sale, and Expenditure of Low-Income and Section 8 Funds</p>		
<p>Dear Mr. McKay:</p> <p>Management of the Housing Authority of the City of Prichard, Alabama (the "Authority") has reviewed the above referenced report and offers the following response thereto for consideration:</p> <p><u>Response To Findings and Recommendations 1A</u></p> <p>The Authority maintains that it efficiently processes homeownership applications as outlined and set forth in its written policy. The Authority presently maintains approximately 363 homeownership applications in its HOPE I, 5h and Section 32 programs, which have been ranked and prioritized according to credit worthiness and ability to meet the minimum requirements of local lending institutions. Nevertheless, we are willing to work with the Birmingham Office to develop a strategy to increase our efficiency in processing homeownership applications. The strategy will include a stronger ranking and identification system to determine which potential homebuyers are most likely to qualify for a loan.</p>		

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**Comment 1**

Management is also exploring alternative methods of financing which will make more loans obtainable for low and moderate-income applicants.<sup>1</sup>

Response To Findings and Recommendations 1B

We are presently using 36 of the vacant 5(h) units in Heritage Estates to assist families affected by Hurricane Katrina. One of the 5(h) units in Heritage Estates was sold in September of 2005. Management has made a request to HUD Birmingham that all unsold units be placed under ACC. We have developed an aggressive marketing strategy for the Hope I, 5(h) and Section 32 homeownership units, a copy of which is attached hereto as Exhibit "A". Also, attached is exhibit "B" a chart indicating the number of homeownership sales since 2000 to 2005 - an average of 10.16 sales per year.

Response To Findings and Recommendations 1C

Management has begun a review of the current lease/purchasers to assure they are on track to becoming homeowners. We are also assessing how alternative methods of financing might increase the number of qualified buyers. At present we are scheduled to sell 10 5(h) and 1 Hope I properties within the next 12 months. Consistent with current policy, if we conclude that a person is not making an honest effort to qualify for a loan, we will take appropriate action.

Response To Findings and Recommendations 1D

We believe it is undisputed that there is a tremendous demand for low-moderate income housing in the City of Prichard, Alabama. In addition to our efforts under 1B and 1C, we remain confident that we will be able to demonstrate our ability to sell the 5 (h) and HOPE VI homes. We have already provided HUD with a timetable in which to sell the HOPE VI homes and we will continue to work with the Office of Public Housing Investments to set goals to sell the remaining homes.

**Comment 2**

Response To Findings and Recommendations 2A

The Authority has specific low income housing uses for the sales proceeds.

Response To Findings and Recommendations 2B

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<sup>1</sup> The Authority is exploring the feasibility of different methods of alternative financing including, but not limited to, the Authority acting as the lender and holding the security documents and mixed methods whereby some of the risk is shared between the Authority and traditional lending institutions.

Attached hereto as Exhibit "C" is our *Plan for the Use of Sale Proceeds*.

Response To Findings and Recommendations 3A

The Authority has acted consistent with present HUD regulations and employs the same procedures as other housing authorities do around the country. The Authority insists that no improper advancements were made from its public housing funds, nevertheless, the Authority will strengthen controls to insure that improper advances are not made from its Public Housing funds and establish receivables that will assure timely repayment of any advances that may be made.

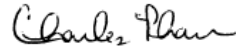
Response To Findings and Recommendations 3B

We have provided the auditors with documentation to show repayment of advances to the public housing program.

Before any final recommendations are made by your office to HUD, the Authority would like to have the opportunity to review these recommendations to ensure that all of the facts underlying the recommendations are accurate.

We look forward to hearing from you at your earliest convenience.

Sincerely,



Charles Pharr  
Executive Director

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Attachments

**Comment 3**

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# Housing Authority

of  
THE CITY OF PRICHARD, ALABAMA  
P. O. Box 10307 -- Prichard, Alabama 36610 -- (251) 456-3324  
Fax (251) 452-6149

EXHIBIT "A"

## BOARD OF COMMISSIONERS

Rev. Michael A. Howard - Chairman  
Darren L. Flott - Vice-Chairman  
John Langham, Jr.  
Minnie Levingston  
Rochelle D. Rankins

Charles Pharr, Executive Director  
Gregory L. Harris, Attorney

## HOMEOWNERSHIP MARKETING PLAN

prepared by: **The Housing Authority of the City of Prichard**

The Housing Authority of the City of Prichard has developed a strategic plan to market HOPE I, 5(h) and Section 32 homeownership units to HACP residents and other low-income residents in Mobile County. The key elements of the marketing plan include:

- Notification of the availability of homeownership opportunities to HACP residents through resident council meetings, articles in the HACP newsletter, direct mailings and individual home visits by staff members.
- In addition to the above methods of notification to HACP residents, HOPE VI residents will be contacted by staff of the HOPE VI case management entity, Mobile Works, Inc.
- Notification of the availability of homeownership opportunities to non-HACP low-income residents in Mobile County will be done by advertising in daily general publications and through the Housing Authority of the City of Prichard's network of community and supportive service providers.
- HACP is establishing a public affairs office which will write informational and public interest articles to be published in local media outlets. The public affairs officer will work with local colleges and universities to produce spot public relations announcements and documentaries.
- HACP is establishing a speakers bureau comprised of staff, commissioners, residents and community partners to speak at local churches, civic groups, schools, etc. Members of the speakers bureau will be trained on techniques of public speaking and the use of audio-visual tools, especially preparing power point presentations.
- Community fairs will be organized to inform potential buyers of the homeownership opportunities, financing options, eligibility requirements and intake procedures.
- HACP will encourage private sector firms such as banks, real estate companies, developers, etc. to provide incentives to potential buyers to encourage their participation.
- HACP is designing enhanced signage to be placed on individual sites for sale and

- signage at the entrance of subdivisions.  
• Sale activities will be promoted at the model units with evening and weekend promotions.

To further refine HACP's marketing plan and strategy, a Request for Proposals is being prepared to engage a marketing firm with a proven tract record in marketing affordable housing to refine and expand the above stated marketing plan elements.

Homeownership Sales  
2000 - 2005

EXHIBIT "B"

	2000	2001	2002	2003	2004	2005	Total
Figures Way	20	9	6	3	1		39
Heritage Estates				14	3	1	18
Ponderosa Pines					1		1
Norwood Pointe						1	1
Magnolia Trace	2						2
Total year end sales	22	9	6	17	5	2	61

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**PLAN**  
**for the**  
**USE OF SALE PROCEEDS**

prepared by:

The Housing Authority of the City of Prichard

To date, the Housing Authority of the City of Prichard has generated \$6,619,859 of sales proceeds from the sale of HOPE I and 5(h) units. Currently, the Housing Authority of the City of Prichard owns an inventory of seventy-eight (78) HOPE I and 5(h) units and fifty-seven (57) HOPE VI/Section 32 units. The Housing Authority of the City of Prichard has requested assistance from the Birmingham Field Office to place the HOPE I and 5(h) units under ACC. Thirty-six (36) of these units are designed for use in the Katrina Disaster Housing Assistance Program (KDHP). Therefore, HACP will not receive sale proceeds for these units. The sale proceeds from the fifty-seven (57) HOPE VI units are designated as HOPE VI program income for use in Phase IV and Phase V of the Revitalization Program.

In accordance with HUD requirements, the Housing Authority of the City of Prichard will use the \$6,619,859 of sale proceeds to:

- carry out approved HOPE VI program activities
- construct and finance thirty-six (36) HOPE VI replacement homeownership units
- maintain a homeownership reserve fund
- defray a prorated share of the cost of constructing an administrative and maintenance office facility
- implement management improvements

As part of the HOPE VI application, the Housing Authority of the City of Prichard executed a letter on November 12, 2002, that committed \$1,000,000 of sales proceeds to leverage HOPE VI funds. Therefore, \$1,000,000 of sale proceeds has been committed for HOPE VI program activities.

On September 14, 2005, the Birmingham Field Office approved a Standard Development Proposal for the construction of thirty-six (36) Section 32 homeownership units. This development is Phase IV of the Housing Authority of the City of Prichard's HOPE VI Revitalization Plan. The source of funds for this phase includes:

HOPE VI:	\$3,089,303
<b>PHA Sales Proceeds/PHA Loan:</b>	<b>\$2,836,855</b>
Private Funds:	\$ 141,320

See Attachment I, Exhibit F-1, Summary Budget For Specific Phase.  
See attachment II, Loan Commitment Letter.

Therefore, \$2,836,855 of sale proceeds have been committed for construction financing for Phase IV of the HOPE VI homeownership program. As sales proceeds become available to pay down the PHA loan, they will be earmarked as future loan funds to construct homeownership units in Phase V of the HOPE VI Revitalization Plan.

To carry out the long-term provisions in the various homeownership programs implemented by the Housing Authority of the City of Prichard since 1992, HACP has established a homeownership reserve account. The homeownership reserve account will allow HACP to exercise its first right of refusal to purchase homes in default, maintain homes during the marketing period, provide low-interest loans to homeownership for extraordinary maintenance expenses and continue homeownership training and counseling. The Housing Authority of the City of Prichard has designed \$583,004 of the sale proceeds for the homeownership reserve funds.

The HOPE VI Revitalization Plan included the demolition of all dwelling and nondwelling structures on the Bessemer Avenue Apartments site; this included HACP's administrative office and maintenance facilities. Since May, HACP has been renting temporary office space while predevelopment work is being completed for the construction of a new central office and maintenance buildings. The projected sources of funds to construct the central office and maintenance buildings include \$1,900,000 of sale proceeds.

The Housing Authority of the City of Prichard has designed a management improvement plan that includes the purchase of an enhanced computer system. Over the past four months, senior staff has evaluated several competitive systems and has selected the system that best meets HACP's requirements. HACP has obligated \$300,000 of sale proceeds to defray the cost of this management improvement initiative.

In summary, all available sale proceeds have been obligated:

- HOPE VI leverage commitment:	\$1,000,000
- HOPE VI construction loan:	2,836,855
- Homeownership reserve fund:	583,004
- Administrative & Maintenance Offices:	1,900,000
- Management improvements:	<u>300,000</u>
	\$ 6,619,859

Grantee: Housing Authority of the City of Prichard (Bessemer Avenue Apartments)  
 (36) Section 32 Homeownership Units  
 EXHIBIT F-1  
 SUMMARY BUDGET FOR SPECIFIC PHASE

	HOPE VI Funds	Sales Proceeds/PHA Loan	Private Funds	Total Funds
<b>A. Proposal: Development Sources</b>				
HOPE VI Funds	\$ 2,318,476			\$ 2,318,476
Capital Funds				
HOME				
COBC				
Tax Credit Equity				
Federal Home Loan Bank Aff. Hsg. Funds				
First Mortgage				
Bridge Loan				
Phase I Sales Proceeds/PHA Loan		\$ 2,836,856		\$ 2,836,856
Water & Sewer Board			\$ 78,520	\$ 78,520
Mobile Gas			\$ 62,800	\$ 62,800
Subtotal Development Sources	\$ 2,318,476	\$ 2,836,856	\$ 141,320	\$ 5,296,651
<b>B. Additional Project Sources</b>				
HOPE VI Funds	\$ 770,827			\$ 770,827
Capital Funds				
Other				
<b>TOTAL SOURCES (A &amp; B)</b>	\$ 3,089,303	\$ 2,836,856	\$ 141,320	\$ 6,067,478
<b>A. Proposal: Development Uses</b>				
Construction Costs:				
Residential Construction	\$ 850,000	\$ 1,962,911	\$ 141,320	\$ 2,954,231
Site Work	\$ 790,983			\$ 790,983
General Requirements	\$ 98,459	\$ 126,264		\$ 224,713
Builder's Overhead	\$ 32,819	\$ 42,085		\$ 74,904
Builder's Profit	\$ 98,459	\$ 126,264		\$ 224,713
Bond Premium				
Utilities from the Street				
Finish Landscaping				
Public Improvements				
Contingency	\$ 46,456	\$ 167,021		\$ 213,477
Office/Laundry Building				
Dwelling Equipment	\$ 64,800			\$ 64,800
Subtotal	\$ 1,981,676	\$ 2,424,525	\$ 141,320	\$ 4,547,821
Development Fees:				
Architects	\$ 86,900			\$ 86,900
Accounting				
PHA Legal	\$ 15,000			\$ 15,000
Developer Legal				
Permits	\$ 15,000			\$ 15,000
Tap Fees	\$ 40,000			\$ 40,000
Underground Electrical Charges	\$ 50,000			\$ 50,000
Appraisal	\$ 15,000			\$ 15,000
Engineering	\$ 40,000			\$ 40,000
Survey	\$ 10,000			\$ 10,000
Cons'r. PILOT & Taxes				
Insurance	\$ 25,000			\$ 25,000
Title & Recording Fees	\$ 15,000			\$ 15,000
Bridge Loan Interest				
Loan Fees				
Loan Legal Fees				
Equipment & Furnishings				
Tax Credit Fees				
Marketing				
Lease-Up Expenses				
Operating Subsidy Reserve				
Asset Manager Fee				
Developer's Fee		\$ 412,330		\$ 412,330
Contingency	\$ 24,800			\$ 24,800
Other				
Subtotal	\$ 336,500	\$ 412,330		\$ 748,830
<b>Total Project Development Costs (Proposal)</b>	\$ 2,368,900	\$ 2,836,856	\$ 141,320	\$ 5,296,651
<b>B. Additional Project Uses</b>				
Housing Authority Administration	\$ 101,736			\$ 101,736
Community & Supportive Services	\$ 111,429			\$ 111,429
Demolition & Remediation	\$ 208,004			\$ 208,004
Relocation	\$ 69,559			\$ 69,559
Program Management	\$ 100,099			\$ 100,099
Prorated Amount of Community Building	\$ 171,428			\$ 171,428
Prorated Amount of Non-Dwelling Equipment	\$ 8,572			\$ 8,572
Other				
<b>Total Additional Uses</b>	\$ 770,827			\$ 770,827
<b>TOTAL PROJECT USES (A &amp; B)</b>	\$ 3,089,303	\$ 2,836,856	\$ 141,320	\$ 6,067,478

**OIG Evaluation of Auditee Comments**

**Comment 1**      The Authority stated that the number of homeownership sales from 2000 to 2005 averaged 10.16 sales per year. The Authority’s average included sales from all of its homeownership programs; however, we only included sales for Heritage Estates development. According to Exhibit B provided by the Authority, 18 Heritage Estates units were sold since 2000. Our 3.4 yearly average home sales were based on the 17 Heritage Estate units, which were sold from 2000 to our audit completion date.

**Comment 2**      The Authority did not address its planned use of the estimated \$5,013,000 sale proceeds of Section 5 (h) and HOPE 1 homes. However, the Authority stated it has requested HUD to allow all unsold homes to be placed under the annual contributions contract.

**Comment 3**      The Authority provided us documentation at the exit conference to support the payment of the advances. We revised the report accordingly and eliminated recommendation 3B regarding repayment of the advances.

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