
AUDIT REPORT



YOUNGSTOWN METROPOLITAN HOUSING AUTHORITY PUBLIC HOUSING PROGRAM

YOUNGSTOWN, OHIO

The Authority Did Not Use Public Housing Operating Funds
Effectively and Efficiently

2006-CH-1009

APRIL 18, 2006

OFFICE OF AUDIT, REGION V
CHICAGO, ILLINOIS



Issue Date	April 18, 2006
Audit Report Number:	2006-CH-1009

TO: Thomas S. Marshall, Director of Public Housing Hub, 5DPH


FROM: Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: The Youngstown Metropolitan Housing Authority in Youngstown, Ohio, Did Not Use Public Housing Operating Funds Effectively and Efficiently

HIGHLIGHTS

What We Audited and Why

We audited the Youngstown Metropolitan Housing Authority's (Authority) public housing program. We initiated the audit based on a citizen's complaint to our hotline. The complainant alleged that the Authority's executive director (1) ordered Authority personnel to purchase her a new sport utility vehicle for her personal use, (2) failed to follow the U.S. Department of Housing and Urban Development's (HUD) and the Authority's procurement policies, (3) used the Authority's employees for personal services during duty hours, (4) used the Authority's equipment for her own and others' personal use, and (5) tampered with the Authority's records. Our objectives were to determine whether the complainant's allegations were substantiated and whether the Authority used HUD funds in accordance with applicable requirements.

What We Found

The Authority did not follow HUD's requirements for full and open competition and its procurement procedures manual regarding the procurement of legal and housing maintenance training services totaling \$99,673 from July 2004 through January 2006. In addition, it did not follow federal requirements regarding its use of \$3,632 in public housing operating funds (operating funds) from May 2004

through September 2005. It used \$2,080 to pay entertainment expenses for its employees and residents, \$1,399 to pay travel expenses, and \$153 to pay bereavement expenses.

Based on our review, we did not substantiate the complainant's allegations that the Authority's executive director: ordered Authority personnel to purchase her a new sport utility vehicle for her personal use; used the Authority's employees to perform personal items during duty hours; used the Authority's equipment for her own and others' personal use; and tampered with the Authority's records.

We informed the Authority's executive director and the director of HUD's Cleveland Public Housing Hub of minor deficiencies through a memorandum, dated April 14, 2006.

What We Recommend

We recommend that the director of HUD's Cleveland Public Housing Hub require the Authority to (1) support that the use of operating funds for legal services was reasonable or reimburse its operating fund from non-federal funds for the applicable amount, (2) implement procedures and controls to ensure it follows HUD's requirements and/or the Authority's procurement procedures manual when procuring services and using operating funds, (3) submit its legal services contracts to HUD for review and approval before disbursing additional HUD funds for legal services, and (4) review its use of operating funds to ensure that funds were used for allowable expenses. If operating funds were used to pay inappropriate expenses, the Authority should reimburse its operating fund from nonfederal funds as appropriate.

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 the discussion draft audit report to the Authority's executive director and HUD's staff during the audit. We held an exit conference with the executive director on March 31, 2006.

We asked the Authority's executive director to provide comments on our discussion draft audit report by April 7, 2006. The executive director provided written comments dated April 6, 2006. The executive director generally agreed with our findings, and agreed to implement policies and procedures to address our findings. The complete text of the written response, except for a one-page

document that was not necessary to understand the Authority's comments, along with our evaluation of that response, can be found in appendix B of this report. We provided HUD's director of the Cleveland Public Housing Hub with a complete copy of the Authority's written comments plus the one-page document.

TABLE OF CONTENTS

Background and Objectives	5
Results of Audit	
Finding 1: The Authority's Procurement Process Was Inadequate	6
Finding 2: The Authority Inappropriately Used Operating Funds to Pay Expenses	8
Scope and Methodology	10
Internal Controls	11
Appendixes	
A. Schedule of Questioned Costs	13
B. Auditee Comments and OIG's Evaluation	14
C. Federal and Authority Requirements	18

BACKGROUND AND OBJECTIVES

The Youngstown Metropolitan Housing Authority (Authority) was established under Section 3735.27 of the Ohio Revised Code. The Authority contracts with the U.S. Department of Housing and Urban Development (HUD) to provide low- and moderate-income persons with decent, safe, and sanitary housing under the United States Housing Act of 1937.

The Authority is governed by a five-member board of commissioners (board) with staggered five-year terms. Board members are appointed by the Mahoning County Probate Court (one member), the Mahoning County Court of Common Pleas (one member), the Mahoning County Board of Commissioners (one member), and the City of Youngstown's mayor (two members). The board's responsibilities include overseeing the Authority's operations, as well as reviewing and approving the Authority's policies as recommended by the executive director. The Authority's executive director serves as the secretary for the board. The executive director has the overall responsibility for fulfilling the goals and objectives established by the board.

As of January 2006, the authority operated seven programs (1) public housing consisting of 1,577 units, (2) Housing Choice Voucher consisting of 2,213 units, (3) capital fund, (4) public housing development, (5) Resident Opportunity and Self-sufficiency; (6) Youth Build; and (7) HOPE VI Demolition and Revitalization of Severely Distressed Public Housing.

The Authority's records are located at 131 West Boardman Street, Youngstown, Ohio. HUD's Cleveland, Ohio, Office of Public Housing Hub oversees the Authority.

We initiated the audit based on a citizen's complaint to our hotline. Our objectives were to determine whether the complainant's allegations were substantiated and whether the Authority used HUD funds in accordance with applicable requirements.

RESULTS OF AUDIT

Finding 1: The Authority's Procurement Process Was Inadequate

The Authority did not follow HUD's requirements for full and open competition and its procurement procedures manual regarding the procurement of legal and housing maintenance training services totaling \$99,673 from July 2004 through January 2006. The problems occurred because the Authority lacked adequate procedures and controls over its procurement process. As a result, HUD lacks assurance the Authority used public housing operating funds (operating funds) effectively and efficiently.

The Authority Paid for Legal Services and Training without Full and Open Competition

Contrary to HUD's procurement requirements and the Authority's procurement procedures manual, the Authority disbursed \$99,673 in operating funds for legal and housing maintenance training services without procuring the services through full and open competition.

The Authority awarded Hammond and Hammond, Attorneys at Law (Hammond), an open ended contract in July 1984 to provide all legal services involving the Authority. Based on this contract, the Authority paid a former Hammond attorney \$64,968 in operating funds from July 2004 through October 2005 for a monthly retainer and legal services associated with evictions. The Authority did not receive HUD's approval for the term of the contract to exceed two years. Further, the Authority did not procure the former Hammond attorney's services or enter into a contract with the former Hammond attorney for his services. The Authority's executive director said she thought the contract was with the former Hammond attorney since he was the Authority's counsel before she became the executive director. In addition, she was not aware that a legal services contract needed HUD's approval for the term of the contract to exceed two years.

The Authority awarded Sabre Facilities Management (Sabre) a \$24,500 contract to provide housing maintenance training to the Authority's staff. It awarded the contract to Sabre in June 2005 without competition. The Authority paid Sabre \$24,235 in operating funds from July 2005 through January 2006. Its executive director stated the Authority did not competitively award the contract to Sabre because it had already contracted with Sabre to evaluate its maintenance operations. However, the Authority's files did not contain documentation to support that a noncompetitive award was justified. In addition, the Authority did not obtain HUD's approval to noncompetitively award the contract to Sabre.

The Authority paid Roth, Blair, Roberts, Strasfeld, and Lodge (Roth) \$10,470 in operating funds from August 2004 through June 2005 for legal services regarding labor and employment law. It did not competitively procure the legal services or enter into a contract with Roth for the legal services. The Authority's executive director said the Authority used Roth based on its reputation regarding human resources.

The Executive Director Agreed the Authority Did Not Follow Proper Procurement and Contracting Procedures

The Authority's executive director agreed that the Authority disbursed operating funds for legal services and housing maintenance training without procuring the services through full and open competition. As a result, HUD lacks assurance that the Authority used operating funds effectively and efficiently. The executive director said the Authority will implement procedures and controls to ensure that it follows HUD's requirements and the Authority's procurement procedures manual when procuring services.

As of February 28, 2006, the Authority's general ledger showed \$98,374 in non-federal funds.

Recommendations

We recommend that the director of HUD's Cleveland Public Housing Hub require the Authority to

- 1A. Support that the use of \$99,673 (\$64,968 to the former Hammond attorney, \$24,235 to Sabre, and \$10,470 to Roth) in operating funds for legal services and housing maintenance training was reasonable or reimburse its operating funds from nonfederal funds for the applicable amount.
- 1B. Implement procedures and controls to ensure that it follows HUD's requirements and the Authority's procurement procedures manual when procuring professional services.
- 1C. Submit future legal services contracts to HUD for review and approval before disbursing additional HUD funds for the services.

Finding 2: The Authority Inappropriately Used Operating Funds to Pay Expenses

The Authority did not follow federal requirements regarding its use of \$3,632 in operating funds from May 2004 through September 2005. It improperly used \$2,080 to pay entertainment expenses for its employees and residents, \$1,399 to pay travel expenses, and \$153 to pay bereavement expenses. The problems occurred because the Authority lacked adequate procedures and controls over its use of operating funds. As a result, HUD funds were not used efficiently and effectively. The Authority's executive director and the Authority reimbursed its operating funds as of April 6, 2006, for the \$3,632 of inappropriate expenses.

The Authority Improperly Paid Expenses with Operating Funds

Contrary to federal requirements, the Authority inappropriately paid \$3,632 in expenses with operating funds from May 2004 through September 2005. It did not obtain approval from HUD for the expenses. It used \$2,080 to pay entertainment expenses for its employees and residents from November 2004 through September 2005. The entertainment expenses included an annual award sponsorship dinner, a registration fee to sponsor the Authority's employees and their spouses in a community athletic competition, banquet tickets to a fund-raising dinner, and an annual community organization dinner.

The Authority also inappropriately used \$1,399 from May 2004 through May 2005 to pay travel expenses. The travel expenses included an airline ticket and the registration fee for the chairman of the board's spouse to attend a conference for the Authority, a duplicate payment to the executive director, an airline ticket for the executive director's spouse to attend a conference for the Authority, hotel costs for its HOPE VI coordinator to attend HOPE VI training, and mileage for a Section 8 inspection.

In addition, the Authority used \$153 to pay bereavement expenses from July 2004 through March 2005. The bereavement expenses included flowers and food for the Authority's employees.

The Executive Director Agreed the Authority Inappropriately Used Operating Funds

The executive director agreed the Authority inappropriately used operating funds to pay the expenses. The executive director reimbursed the Authority's operating fund \$557. Further, the Authority reimbursed its operating fund \$2,649 from

nonfederal funds; \$227 from HOPE VI grant funds; and \$199 from Section 8 program funds.

The Authority's executive director said the finance director erred in allocating operating funds to pay the expenses. In addition, the Authority did not review the finance director's allocation of operating funds. As a result, HUD funds were not used efficiently and effectively. The executive director said the Authority will implement procedures and controls to ensure it follows federal requirements regarding the use of operating funds.

Recommendations

We recommend that the director of HUD's Cleveland Public Housing Hub require the Authority to

- 2A. Review its use of operating funds to ensure that funds were used to pay allowable expenses. If operating funds were used for inappropriate expenses, the Authority should reimburse its operating fund as appropriate.
- 2B. Implement adequate procedures and controls to ensure its use of operating funds is appropriate.

SCOPE AND METHODOLOGY

We performed the audit at HUD's Cleveland Office of Public Housing Hub, located at 1350 Euclid Avenue, Cleveland, Ohio, and the Authority from November 2005 through February 2006. To accomplish our objectives, we interviewed HUD's staff, the Authority's board members and employees, and the complainant.

To determine whether the complainant's allegations were substantiated and whether the Authority used HUD funds in accordance with applicable requirements, we reviewed: 24 CFR [*Code of Federal Regulations*] 85 and 941; Office of Management and Budget Circulars A-87 and A-133; HUD Handbook 7460.8 REV-1; and HUD's Cleveland Office of Public Housing Hub's files and reports for the Authority's public housing program. We also reviewed the Authority's consolidated annual contributions contract and annual contributions contract with HUD, procurement procedures manual, financial data, by-laws, audited financial statements for the fiscal year ending June 30, 2004, and board meeting minutes.

We used a non-representative sample selection to choose specific disbursements from the Authority's operating fund and capital fund from July 1, 2004, through October 31, 2005. The Authority made 7,751 (7,409 from operating fund and 342 from capital fund) disbursements totaling \$11,145,792 (\$9,123,047 from operating fund and \$2,022,745 from capital fund) during this period. The non-representative selection allowed us to choose disbursements relating to the complainant's allegations.

We selected 138 disbursements totaling \$44,935 from operating funds with an emphasis on large, small, and unusual expenses for emergency items; items under \$200; dues and subscriptions; donations; filing fees; eviction fees; summons fees; travel advance and expense reimbursements; training and seminar registrations; and telephone expenses. The Authority's procurement procedures manual stated that these expenses could be authorized with a check request.

In addition, we selected 34 (31 from operating fund and 3 from capital fund) disbursements totaling \$267,582 (\$26,685 from operating fund and \$240,897 from capital fund) for equipment, materials, services, staff training, and sundry items costing more than \$200. The Authority's procurement procedures manual stated that these expenses required a purchase order.

The audit covered the period from July 1, 2004, through October 31, 2005. This period was adjusted as determined necessary. We performed our audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

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.
- 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.
- 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.

We assessed all of the relevant controls identified above.

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

Significant Weakness

Based on our audit, we believe the following item is a significant weakness:

- The Authority lacked adequate procedures and controls to ensure it followed HUD's requirements and/or its procurement procedures manual when procuring professional services and using operating funds (see findings 1 and 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported 1/
1A	<u>\$99,673</u>
Totals	<u>\$99,673</u>


- 1/ 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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments


YOUNGSTOWN
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April 6, 2006

Mr. Brent Bowen
Assistant Regional Inspector General for Audit
U. S. Department of HUD – Office of Inspector General
77 West Jackson Boulevard – Suite 2646
Chicago, IL 60604

Board of Commissioners:
Robert E. Bush, Jr.
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CHICAGO, ILLINOIS

Eugenia C. Atkinson
Executive Director
Secretary Ex-Officio

Youngstown Metropolitan Housing Authority
OIG Draft Audit Report

Dear Mr. Bowen:

I am writing this letter to provide management comments to the Office of Inspector General discussion draft audit report of the Youngstown Metropolitan Housing Authority (YMHA). YMHA is certainly pleased the audit did not substantiate a majority of the allegations raised against the Authority. We do, however, recognize the items that were discovered emphasize the need for YMHA to continue striving for improvements in its overall operation.

Procurement of Legal Services and Training
Atty. Robert Christian has served as legal counsel to YMHA for several years. He is the remaining partner of the law firm Hammond, Hammond and Christian, who have served as general counsel to the Authority since its inception. The payment arrangements for a monthly retainer, along with court costs and filing fees was established prior to my becoming Executive Director; and YMHA continued that arrangement subsequent to my appointment.

Atty. Christian's legal fees have remained the same. He receives a monthly retainer of \$2,000. In addition to the legal retainer, Atty. Christian is reimbursed for court costs and filing fees associated with eviction proceedings. Therefore, \$24,000 of the cited expenses were for legal services, and the balance was paid to Atty. Christian to cover the referenced court costs. Receipts for eviction proceedings are filed with the individual case records to document charges and not with the accounting disbursement records reviewed by the auditor.

(Continued Page 2)

An Affirmative Action/Equal Opportunity Housing Organization

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Mr. Brent Bowen
Assistant Regional Inspector General for Audit
April 6, 2006 – Page 2

Following receipt of the audit draft, I discussed the current arrangement with Atty. Christian, and we have agreed that any future documentation for court costs reimbursement will be filed with accounting records as well as individual client case records. I have also advised our accounting staff any future requests for court cost reimbursement must be accompanied by the appropriate receipts and documentation.

After my appointment as Executive Director, I also recommended the Roth, Blair and Roberts law firm be utilized to handle labor and employment law related legal matters for the Authority. At that time, I was not aware of all HUD requirements for procuring legal services--particularly in light of the agency's long term arrangement with the firm of Hammond Hammond & Christian.

As I have discussed with you and Ms. Nikita Irons, however, YMHA is currently preparing solicitations for legal services in compliance with the HUD guidelines. We will submit results of the solicitation to HUD's Office of Public Housing in Cleveland for their approval. Additionally, as advised, we will also seek guidance from the Cleveland Office of Public Housing for direction in handling pending and ongoing labor and employment related, as well as general legal issues for the Authority during this interim period.

YMHA will also ensure that all future procurement of professional services are conducted with full and open competition.

Inappropriate Expenses Paid from Operating Subsidies

The expenses charged to federal operating subsidy which the auditor identified as unallowable had inadvertently been charged to incorrect budget line items. YMHA has transferred those costs to the appropriate non-federal fund budget line item, and our Finance Department staff did provide the auditor with the necessary documentation.

We also provided documentation of reimbursement to YMHA for a duplicate travel reimbursement to me, as well as for travel expense approved by the Board of Commissioners for Councilman Atkinson to attend a revitalization conference on behalf of YMHA.

An additional item determined unallowable was travel related costs in the amount of \$416 for an airline ticket and registration fee for the Board Chairman's spouse to attend the revitalization conference. Atty. Bush believes he had previously made a payment to YMHA for this amount and is researching his records for the necessary documentation. He has also requested the Authority to research its records as well for this payment.
(Continued Page 3)

Comment 1

Ref to OIG Evaluation

Auditee Comments

Comment 1

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Mr. Brent Bowen
Assistant Regional Inspector General for Audit
April 6, 2006 – Page 3

If we are unable to verify receipt/payment, Atty. Bush has indicated he will reimburse the Authority. In the meantime, YMHA has reimbursed its operating subsidy account an amount of \$416 from non-federal funds—pending the necessary research and resolution of this matter. I have attached documentation of the transfer transaction for your records.

YMHA has already implemented policies and procedures to address items identified by your audit; and in a continuing effort to prevent the potential misuse of federal funds, we will also develop an internal audit and quality control procedures which should enhance ongoing administrative efforts.

Again, on behalf of the Authority's Board of Commissioners and management, I appreciate the opportunity to respond to your audit findings. Should you have questions or need additional information, please contact me at (330) 744-2161, extension 240 or eatkinson@ymhaonline.com.

Respectfully submitted,



Eugenia C. Atkinson
Executive Director

Enclosure

OIG Evaluation of Auditee Comments

Comment 1 We revised our report by stating the Authority reimbursed its operating fund \$2,649 from nonfederal funds. We removed the statement that the Authority had not reimbursed its operating fund \$416 for the airline ticket and registration fee for the chairman of the board's spouse to attend the conference and as of March 9, 2006, the Authority is reviewing the expense for possible repayment. We also deleted the recommendation for the Authority to reimburse its operating fund \$416 from nonfederal funds for the expenses associated with the chairman of the board's spouse attending a conference for the Authority and the applicable cost in appendix A of this report.

Appendix C

FEDERAL AND AUTHORITY REQUIREMENTS

Regulations at 24 CFR [*Code of Federal Regulations*] 85.20(b)(3) require grantees to maintain effective control and accountability to adequately safeguard cash and real and personal property to assure that assets are used solely for authorized purposes.

Regulations at 24 CFR [*Code of Federal Regulations*] 85.36(b)(9) require grantees to maintain records sufficient to detail the significant history of procurement, such as the rationale for the method of procurement and the basis for the contract price. Section 85.36(c)(1) requires that all procurement transactions be conducted in a manner providing full and open competition. Section 85.36(d)(1) states that price or rate quotations shall be obtained from an adequate number of sources when using small purchase procedures. Section 85.36(d)(4) states that procurement by noncompetitive proposals may be used only when the award of a contract is not feasible under small purchase procedures, sealed bids, or competitive proposals. Further, noncompetitive proposals may only be used after solicitation of a number of sources and competition is determined to be insufficient.

Section 9(C) of the Authority's consolidated annual contributions contract with HUD states that the Authority may withdraw funds from its general fund only for (1) the payment of the costs of development and operation of the projects under an annual contributions contract with HUD, (2) the purchase of investment securities as approved by HUD, and (3) such other purposes as may be specifically approved by HUD.

HUD Handbook 7460.8, REV-1, "Procurement Handbook for Public and Indian Housing Authorities," chapter 2, section 1, states that a housing authority is required to promote full and open competition for all procurement contracts. Section 3 states that a housing authority should use the simplified small purchase procedures for needed items under the housing authority's applicable dollar ceiling. Chapter 4, section 27(B)(2) requires housing authorities to obtain HUD approval for any agreement or contract for legal services with any person or firm when the term of the agreement or contract exceeds two years.

Office of Management and Budget Circular A-87, attachment A, paragraph C(3)(a), states that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. Attachment B, paragraph 12, states that contributions and donations, including cash, property, and services, by governmental units to others, regardless of the recipient, are not allowable. Paragraph 17 states that costs of organized fund raising are not allowable. Paragraph 18 states that costs of entertainment, including meals associated with social activities, are not allowable.

Office of Management and Budget Circular A-87, attachment A, paragraph C(1)(j), states that to be allowable under federal awards, costs must be adequately documented.

The March 2004 Compliance Supplement to Office of Management and Budget Circular A-133 states that control activities, including an adequate segregation of duties in review and authorization of costs, are the policies and procedures that help ensure that management's directives are carried out.

Section 10 of the Authority's procurement procedures manual requires that noncompetitive proposals may only be used when the item is available only from a single source, there is an emergency, competition is determined inadequate, or HUD authorizes the noncompetitive proposal.