



Issue Date	October 29, 1996
Audit Case Number	97-CH-202-1002

TO: Lindsey S. Reames, Director, Public Housing Division, Grand Rapids
Area Office

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Muskegon Heights Housing Commission
Low-Income Housing Program
Muskegon Heights, Michigan

We completed an audit of the Muskegon Heights Housing Commission's Low-Income Housing Program. We selected the Commission for audit based on a program of periodic reviews of public housing authorities and input from the Grand Rapids HUD staff. The audit objectives were to determine whether the Commission effectively and efficiently administered its low-income public housing activities in compliance with HUD's requirements.

We found the Commission generally administered its Low-Income Housing Program according to HUD's requirements. The Commission maintained its occupied units in decent, safe and sanitary condition; and properly maintained its accounts receivable balances and occupancy levels. The Commission, however, could improve its operations by: (1) following the terms of its Vacancy Reduction Program agreement, (2) assuring that the tenant eviction process is economical and the provider of the services is selected using full and open competition; (3) submitting independent audits, operating budgets, and other financial information reports to HUD timely; and (4) establishing proper controls over its non-expendable assets.

Within 60 days, please provide us, for each recommendation made in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also please furnish us copies of any correspondence or directives issued because of the audit.

Should your staff have any questions, please have them contact me at (312) 353-7832.

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Executive Summary

We conducted an audit of the Muskegon Heights Housing Commission's Low-Income Housing Program. Our objectives were to determine whether the Commission effectively and efficiently administered its low-income housing activities in compliance with HUD's requirements.

We found the Commission generally administered its Low-Income Housing Program according to HUD's requirements. The Commission maintained its occupied units in decent, safe and sanitary condition; and properly maintained its accounts receivable balances and occupancy levels. However, as shown in our findings, the Commission could improve the administration of its Low-Income Housing Program by adhering to HUD's requirements for the Vacancy Reduction Program, the tenant eviction process, submission of financial information, and control of non-expendable assets.

The Commission Did Not Follow Its Vacancy Reduction Program

The Muskegon Heights Housing Commission overstated its repair fund requirements in its Vacancy Reduction Program application and did not complete all planned management improvement items or any lead based paint abatement. The Director said he did not fully understand the program. As a result, the Commission violated the terms of its agreement with HUD and the Commission has not started its required lead based paint abatement program.

The Commission's Tenant Eviction Process Was Not Economical

The Muskegon Heights Housing Commission paid unnecessary amounts to a legal firm for tenant eviction services. The Commission paid the firm to perform some services that should have been done by the Commission's staff. Additionally, the Commission did not have documentation to support its procurement of eviction legal services. As a result, the Commission was not making the best use of its resources and HUD and the Commission lack assurance full and open competition was used to select the provider of the eviction services.

The Commission Did Not Submit Financial Information Timely

The Muskegon Heights Housing Commission did not submit its independent audits, operating budgets, and other financial information reports to HUD timely. As a result, HUD did not have adequate information to assess the Commission's financial condition, and the Commission was prevented from withdrawing Federal funds to meet its obligations during the times it did not have an approved budget.

Control Over Non-Expendable Equipment Was Not Adequate

The Muskegon Heights Housing Commission did not follow its own inventory policy and HUD's requirements to protect its non-expendable equipment. The Commission did not conduct annual physical counts of its equipment and supplies and did not routinely update its property records. The Commission's Director said the Commission did not take or reconcile inventories because he did not believe inventories were important. To help detect and prevent misuse or loss of resources, it is important for the Authority to take annual inventories and maintain accurate records.

We recommend that the Director of the Public Housing Division validates the reasonableness of planned vacancy reduction work contained in applications submitted to HUD and closely monitors the Commission to ensure that it complies with HUD's lead based paint abatement requirements. We also recommend the Housing Commission implements procedures and controls to assure: the services performed by its legal firm for the tenant eviction process are economical; financial reports are prepared timely; and non-expendable equipment is properly controlled.

We provided our draft findings to the Commission's Executive Director and HUD's staff during the audit. We held an exit conference on October 18, 1996 with the Commission's Executive Director. The Housing Commission provided written comments to our findings. We considered the comments in preparing our report. The Commission's comments are included in their entirety in Appendix A.

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Introduction

We completed an audit of the Muskegon Heights Housing Commission. The Commission was established in 1964 under the laws of the State of Michigan. The Commission is a public housing agency organized to provide decent, safe and sanitary housing to low-income families.

A five-member Board of Commissioners governs the Housing Commission. The Mayor of the City of Muskegon Heights appoints the board members to staggered five-year terms. The Executive Director is responsible for the day-to-day operations of the Commission.

The Housing Commission operates and maintains 355 low-income housing units at four developments. Columbia Courts contains 90 elderly units. East Park Manor and East Side Courts contain 199 and 49 family units respectively. There are 17 scattered site family units. The Commission also manages 50 Section 8 units.

For fiscal years 1994 and 1995, the Commission received \$882,452 in operating subsidies and \$1,906,327 for its Comprehensive Grant Program. In 1994, HUD also approved a Vacancy Reduction Program Grant of \$445,800 and a Drug Elimination Grant of \$106,500.

The Commission's books and records are at 615 E. Hovey Avenue, Muskegon Heights, Michigan. Joe L. Mattox is the Executive Director.

Audit Objectives

Our audit objectives were to determine whether the Commission effectively and efficiently administered its Low-Income Housing Program according to HUD's requirements.

Our specific objectives were to determine whether the Commission:

- Maintained decent, safe and sanitary units;
- Prepared timely financial reports;
- Properly managed its non-expendable equipment;
- Properly maintained accounts receivable balances and occupancy levels;
- Efficiently managed its tenant eviction process; and
- Managed the Vacancy Reduction Program according to its agreement with HUD.

Audit Scope and Methodology

To obtain background information, we interviewed HUD's staff from the Grand Rapids Area Office's Public Housing Division. At HUD's Grand Rapids Office, we also reviewed independent audit reports, operating budgets, statements of operating receipts and expenditures, and Vacancy Reduction Program reports.

To assess the adequacy of the Commission's operations, at the Commission's Office, we interviewed the Executive Director and applicable staff. We also reviewed records related to independent audits, budgets, financial reports submitted to HUD, inventory records, the procurement process used to obtain tenant eviction legal services, accounts receivable and occupancy reports, and status reports for the Vacancy Reduction Program. We inspected five units to assess their condition.

The audit covered the period between June 1, 1994 and May 31, 1996. We extended the audit period as necessary. We did the on-site audit work between June and September 1996. The audit was conducted in accordance with generally accepted government auditing standards.

We provided a copy of the report to the Executive Director of the Muskegon Heights Housing Commission.

The Commission Did Not Follow Its Vacancy Reduction Program Agreement

The Muskegon Heights Housing Commission overstated its repair fund requirements in its Vacancy Reduction Program application and did not complete all planned management improvement items or any lead based paint abatement in its grant agreement. The Director said he did not fully understand the program. As a result, the Commission violated the terms of its agreement with HUD and the Commission has not started its required lead based paint abatement program.

HUD's Requirements

Regulation 24 CFR, Section 968.422(b) states that work items under the Vacancy Reduction Program must be completed within two years from the date of funding, unless prior approval is obtained from HUD.

Regulation 24 CFR, Section 968.110(k) requires a housing commission to test its units for lead based paint and abate the lead based paint if the tests are positive. A commission is required to prioritize the abatement program within its Comprehensive Modernization Program.

Vacancy Reduction Program Requirements Were Not Completed

The Muskegon Heights Housing Commission overstated its repair fund requirements in its Vacancy Reduction Program grant application that was approved by HUD. Further the Commission did not complete all planned work items. The Commission did not implement all of its scheduled management improvements and did not abate lead based paint in any of the scheduled 35 units as specified in its agreement.

On November 11, 1994, HUD gave the Commission \$445,800 for vacancy reduction efforts on 35 units. The funding included: \$280,000 for repairs; \$70,000 for management improvements; and \$95,800 for lead based paint abatement. The program agreement required all approved funds to be obligated and the work completed by December 31, 1996. As of August 13, 1996, the Commission had unobligated Vacancy Reduction Program funds of \$272,183. The Housing Commission had obligated funds of only \$173,617: \$132,917 for repairs and

\$40,700 for management improvements. No funds had been obligated or used for lead based paint abatement. The Commission did not have plans to obligate any more funds or complete any more work items by December 31, 1996. Under the terms of the grant, on December 31, 1996 all unobligated funds are required to be returned to HUD.

The Commission repaired 31 of the planned 35 units. The other four units were scattered site units that were beyond economical repair. The total cost of the repairs on the 31 units was \$132,917 or an average of \$4,287 per unit. The average cost was much less than the estimated average of \$8,000 the Commission used in its Vacancy Reduction Program application. The units did not require major rehabilitation work with the exception of roof replacements that cost a total of \$45,678. The other work was for routine maintenance and unit preparation items like cleaning, boarding, painting and minor repairs. Since the Commission did not have detailed documentation to backup its estimated cost of repairs, we could not determine why the actual cost of repairs was significantly less than the grant application estimate.

The Commission's Executive Director said he did not fully understand the program. He thought the money not used on vacancy reduction work could be used for other purposes like routine unit preparation of units not listed under the Vacancy Reduction Program. According to the program requirements, approved funds can only be used for the work items approved in the agreement with HUD. HUD did not allow any of the Vacancy Reduction funds to be spent on items not authorized by the agreement.

The Commission did not complete the management improvements that included an energy audit and hiring a consultant to administer the Vacancy Reduction Program. The Director said he wanted to use the energy audit funds to install individual meters, but he never requested a revision to the agreement. He said he did not hire a consultant because he believed HUD would not approve of the consultant that he planned to hire.

The Commission Did Not Include Lead Based Paint Abatement In Its Comprehensive Grant Plans

HUD's regulations require the Housing Commission to test its units for lead based paint and abate the paint in those units that test positive. The regulations also require a Commission to prioritize the abatement within its Comprehensive Modernization Program. The Commission completed its lead based paint testing in 1994. The test results indicated that 200 out of 355 units required lead based paint abatement.

The Commission estimated it would cost approximately \$4,239 to abate each of the first 42 units it had targeted for abatement. Applying this estimate to all 200 units, it will cost the Commission about \$847,800 to complete its lead based paint abatement. The Acting Director of Public Housing said HUD requires a Housing Commission to do lead based paint abatement as soon as practicable. The Code of Federal Regulations requires an abatement program to be prioritized within a commissions Comprehensive Modernization Program.

HUD approved \$781,069 for the Commission's 1996 Comprehensive Grant Program. The Commission did not prioritize lead based paint abatement in the program. Additionally, in its proposed budget submitted to HUD on July 12, 1996, the Commission did not include any amounts for lead abatement. The budget, included the following non-urgent items totalling \$413,107: a new administration building, learning center staff, replacement sewer lines, and privacy dividers. As of September 20, 1996, the budget had not been approved by HUD.

The Commission's overestimation of its requirement for vacancy reduction funds and its attempt to save the funds and use them in other areas, needlessly tied up \$272,183 that could have been used to improve the living conditions of residents at one of HUD's Public Housing Authorities or Commissions. Further, the failure to use the Vacancy Reduction Program funds allotted for lead based paint abatement and to prioritize abatement in its Comprehensive Modernization Program, put the Commission's lead based paint abatement program behind and needlessly subjected its tenants to a hazard.

Auditee Comments

Excerpts from the Executive Director's comments on our draft finding follow. Appendix A contains the complete text.

The Commission is not content with the finding pertaining to the Vacancy Reduction Program.

From November 1994 to May 1995, the Commission strongly believes that it was making progress towards reaching the goals of its Vacancy Reduction Program. From May 1995 through the present, the Commission has made little progress towards achieving the goals of the Program due to a very serious micro-management problem of the Program by the Grand Rapids HUD Area Office.

Problems with HUD pertaining to the Vacancy Reduction Program have arisen, in part, due to the HUD Grand Rapids Office not familiarizing itself with the purposes and goals of the program as proposed by the Muskegon Heights Housing Commission in its grant application.

The Commission is not content with the finding pertaining to lead based paint. In May 1995, the Commission proposed to HUD an action plan to abate lead based paint in East Park Manor. Although HUD officials did not object to the plan, they had some concern about costs for the abatement program and qualifications of vendors that would be associated with the program. In several letters to HUD officials, the Commission explained that according to state, as well as new Federal regulations pertaining to lead based paint in dwellings, the lead based paint in the apartments in East Park Manor do not pose a threat to the health and safety of residents of East Park manor.

In the letters, the Commission has stated that if HUD feels the lead based paint does pose a threat (and I have said that it doesn't) the county health department should be requested to make the determination. HUD officials have not requested that I call the health department pertaining to this matter.

**OIG Evaluation of
Auditee Comments**

We did not find that the HUD Grand Rapids Area Office managed the Commission's Vacancy Reduction Program differently from how they managed other Commissions' programs. The Executive Director said in his comments that the HUD Grand Rapids Office was not familiar with the Commission's proposed goals as presented in the grant application. Since the Commission and HUD signed a grant agreement, the goals in the application are immaterial. The purpose and goals in the grant agreement are clear and comprehensible.

According to the grant agreement, the Commission was required to abate the lead based paint in the units that were repaired. The Commission did not do any abatement of the lead based paint in the units.

The Executive Director said in his comments that in his opinion, the lead based paint does not pose a threat. The Director's opinion is not backed by any studies. It is the responsibility of the Commission to get a study done to determine whether its units need lead based paint abatement and how best to get the paint abated. The Commission has already determined that 200 of its units need lead based paint abatement. The Deputy Assistant Secretary for Public and Assisted Housing told the Commission on July 26, 1996 that the Commission was in default of its Vacancy Reduction Program agreement with HUD and was not in compliance with the lead based paint abatement requirements.

Recommendations

We recommend that the Grand Rapids Director of Public Housing:

- 1A. Requires the Commission to request an extension from the Deputy Assistant Secretary for Public Housing to use \$95,800 of its Vacancy Reduction Program agreement funds to abate lead based paint in the 31 units repaired under the agreement. If the extension is granted, ensure the Commission immediately uses the funds to abate lead based paint according to its agreement with HUD.

- 1B. Reviews the 1996 budget for the Comprehensive Grant Program and revises it to divert planned non urgent expenditures to the lead based paint abatement program to the maximum amount possible.
- 1C. Closely monitors the Commission to ensure that it complies with HUD's lead based paint abatement requirements.
- 1D. Establishes policies, procedures and controls that assure HUD's program staff validates the reasonableness of planned vacancy reduction work contained in applications submitted to HUD.

The Commission's Tenant Eviction Process Was Not Economical

The Muskegon Heights Housing Commission paid unnecessary amounts to a legal firm for tenant eviction services. The Commission paid the firm to perform some services that should have been done by the Commission's staff. Additionally, the Commission did not have documentation to support its procurement of eviction legal services. As a result, the Commission was not making the best use of its resources and HUD and the Commission lack assurance full and open competition were used to select the provider of the eviction services.

HUD's Requirements

Section 201 of the Annual Contributions Contract requires the Commission to at all times operate each project in such a manner as to promote serviceability, efficiency, economy, and stability.

Regulation 24 CFR 85.36(12)(c)(1) requires all procurement to be conducted in a manner that provides full and open competition. Section 85.36(b)(9) requires a commission to maintain records sufficient to detail the significant history of a procurement. These records will include but are not necessarily limited to the following: rationale for the method of procurement; selection of contract type; contractor selection or rejection; and the basis for the contract price.

Unnecessary Amounts Were Paid For Legal Services

The Housing Commission paid excessive amounts for tenant eviction legal services. During 1996, the Commission's legal costs for 355 units were \$24,838 or \$70 per unit. Another Commission of comparable size and location that also used a local law firm for its tenant eviction services, paid \$42 per unit. At \$42 per unit the Muskegon Commission would have paid \$14,070. Muskegon's costs were excessive because it allowed its law firm to provide and charge for services that should have been done by the Commission's staff. The law firm was copying leases, calculating the amounts owed by tenants, and preparing notices to quit. The Commission had the staff that should have been doing the work. The Commission's Director agreed the work could be done by the Commission's staff.

The Commission Did Not Have Proper Documentation

The Muskegon Heights Housing Commission did not have documentation to support that open competition was followed when procuring the services of a law firm for evictions. The Commission also did not have a written contract that detailed the cost and scope of the services provided.

The Commission's Executive Director did not know how the law firm was selected. The Director said the law firm was providing legal services when he became the Director four years ago and he kept using them.

Auditee Comments

The Commission is not content with the finding. However, the Commission is pleased to learn the approximate cost that other housing authorities are paying for legal fees pertaining to evictions is \$42 per unit.

My concern with the finding is that it includes costs for non-eviction services for such things as: legal council and opinions pertaining to personnel matters, agreements and options, and disputes and problems with contractors. The finding also includes costs for interpretation of HUD policies, rules and regulations such as: the Annual Contributions Contract, HUD's "One Strike and You're Out" Policy, rent collection policy, and grievance procedures.

The cost for legal services pertaining to non-eviction legal matters is approximately 25 percent of the total that we pay the current law firm and equals approximately \$6,210. Therefore, the cost for eviction services would be \$52 per unit versus \$42 paid by other housing authorities.

The Executive Director, along with other Commission staff, will establish internal controls and procedures to reduce the cost for legal services pertaining to evictions. On or before March 31, 1997, the Commission will solicit proposals for tenant eviction services using full and open competition. On or before December 31, 1996, the Executive Director, as well as other Commission staff, will review, with the Commission's present law firm, procedures and ways the Commission can reduce tenant eviction services costs to approximately \$42 per unit.

OIG Evaluation of
Auditee Comments

The documentation we reviewed indicated the legal fees of \$24,838 were for tenant eviction services. The Executive Director mentioned in his comments that approximately 25 percent of \$24,838 were for other legal matters. The Director based this on his Assistant Director's memorandum of October, 1996 that stated that it was the Assistant Director's belief that at least 25 percent of the \$24,838 was for other services than eviction. The Commission did not provide any documentation to substantiate the belief.

The Director plans actions that should correct the conditions reported in this finding when the actions are fully implemented.

Recommendations

We recommend that the Grand Rapids Director of Public Housing assures the Housing Commission:

- 2A. Solicits proposals for tenant eviction services using full and open competition.
- 2B. Immediately stops having the law firm perform routine tasks that can be accomplished by the Commission's staff.

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The Housing Commission Did Not Prepare Timely Financial Reports

The Muskegon Heights Housing Commission did not submit its independent audits, operating budgets, and other financial information reports to HUD timely. As a result, HUD did not have adequate information to assess the Commission's financial condition, and the Commission was prevented from withdrawing Federal funds to meet its obligations during the times it did not have an approved budget.

HUD's Requirements

The Office of Management and Budget Circular A-128, Audits of State and Local Governments, paragraph 9(f) requires a housing commission to send an audit report to HUD within 30 days after the completion of the audit, but no later than one year after the end of the audit period. The audit must be conducted by an independent auditor and be done according to generally accepted government auditing standards.

The Annual Contributions Contract, Section 407, requires a housing commission to submit a proposed operating budget not later than 90 days before the start of the next fiscal year. Section 407 also says a housing commission cannot use Federal funds to pay operating expenditures without an approved operating budget.

HUD Handbook 7510.1, Public and Indian Housing Low-Rent Technical Accounting Guide, and HUD Handbook 7475.1, The Financial Management Handbook, require a commission to submit financial reports to HUD within 45 days following the end of the period for which the report is prepared.

Independent Audits Were Not Timely

The Muskegon Heights Housing Commission did not get its annual independent audits of its operations completed and submitted to HUD in a timely manner. The audit for the year ended March 31, 1994 was required to be submitted to HUD by March 31, 1995; however, the Commission did not get the audit completed and submitted to HUD until April 16, 1996, 382 days late. The audit for the year ended March 31, 1995 was due March 31, 1996. As of August

1996, an independent auditor had not started the audit and it was already 151 days late.

The Executive Director said for the last two years he advertised in the local newspaper for auditors to submit bids, but he did not receive any bids. The Director said he then delayed before taking action to retain the auditor who performed the previous audit. As a result both audits were extremely late. To avoid future delays, the Commission needs to improve its method to obtain independent audits. For example, the Commission could sign a multi-year contract with its current auditor, as allowed by HUD. The Commission could also maintain a list of independent auditors and send each of them an invitation to submit a bid.

Budgets Were Not Submitted Timely

The Housing Commission has not submitted a yearly operating budget in a timely manner since 1992. The delays have ranged between 80 and 231 days.

For the fiscal year that started April 1, 1995, the Commission submitted its proposed budget on July 27, 1995, 207 days late. The budget should have been submitted by December 31, 1994. For the year that started April 1, 1996, the Commission submitted its final proposed budget to HUD on August 22, 1996, 231 days late. HUD has 45 days to approve or disapprove the budget. As of August 31, 1996, 240 days after the start of the fiscal year, the budget had not been approved by HUD and the Commission was operating without an approved budget. Consequently, the Commission could not withdraw any Federal funds to help meet its fiscal requirements. The Commission had to use its rental income and non-Federal funds to meet its expenditures. The Commission's Director said if he did not shortly have an approved budget he would have to lay off staff. Housing commissions need to ensure they have an approved budget so they can efficiently and effectively use available funds to provide decent, safe, and sanitary housing for low and moderate income tenants.

The Executive Director said the budgets were late because he did not start preparing them until after the end of the previous fiscal year. The end of the Fiscal Year was already 90 days late. He said he did not have adequate staff

to start the budget process any sooner. He had to rely on his fee accountant and a consultant to prepare the budget. However, in 1994, HUD had approved hiring a full time accountant for the Commission. The Director said he will hire an accountant after a new accounting system is installed by Memory Lane Systems. The Director said the new system will be fully installed and operational by January 31, 1997.

Financial Reports Were Not Timely

The Housing Commission did not submit its required financial information reports to HUD in a timely manner. Since 1991 the following reports were all submitted between 50 and 103 days late: Statement of Income and Expense and Changes in Accumulated Surplus; Statement of Operating Receipts and Expenditures; Analysis of Non-routine Expenditures; Computation of Payments in Lieu of Taxes; Report of Tenants Accounts Receivable; and Balance Sheet for Section 8 and Public Housing.

The delays were caused because the Housing Commission did not promptly send its financial information to the fee accountant for the preparation of the reports. The Director said the problem would be solved when the Commission hires a full time accountant.

Auditee Comments

Excerpts from the Executive Director's comments on our draft finding follow. Appendix A contains the complete text.

The Commission is content with the finding. The corrective action to be taken will be to follow advice and recommendations outlined in the audit findings.

The Commission will improve its policy and procedures to obtain independent audits by entering into a multi-year contract with its current auditor. It will also establish and maintain a list of independent auditors and send each of them an invitation to submit a proposal for audit services

The Executive Director will start preparing the fiscal budget so that it will be submitted to HUD by December 31 of each year. The Commission expects to hire a full-time

Finding 3

accountant to help with preparation of the budget and other accounting tasks on or before January 31, 1997.

The Executive Director, Assistant Director, as well as an accountant when hired, will establish internal procedures and controls to insure that financial reports to HUD, as well as other governmental agencies, will be submitted on a timely basis. Until an accountant is hired, the Executive Director, the Assistant Director and the Director of Housing Programs will establish internal procedures and controls so as to get reports to the fee accountant and others on a timely basis.

OIG Evaluation of Auditee Comments

The auditee plans actions that should correct the conditions reported in this finding when the actions are fully implemented.

Recommendations

We recommend that the Grand Rapids Director of Public Housing assures the Housing Commission:

- 3A. Establishes procedures and controls to accomplish independent audits on a timely basis.
- 3B. Establishes procedures and controls to ensure the budget preparation process is started in sufficient time to allow the budget for the next fiscal year to be submitted to HUD 90 days before the end of the current fiscal year.
- 3C. Immediately hires a full time accountant.

Control Over Non-Expendable Assets Was Not Adequate

The Muskegon Heights Housing Commission did not follow its own inventory policy and HUD's requirements to protect its non-expendable equipment. The Commission did not conduct annual physical counts of its equipment and supplies and did not routinely update its property records. The Commission's Director said the Commission did not take or reconcile inventories because he did not believe inventories were important. To help detect and prevent misuse or loss of resources, it is important for the Authority to take annual inventories and maintain accurate records.

HUD's Requirements

HUD Handbook 7510.1, Low-Rent Housing Accounting Handbook and the Public and Indian Housing Low-Rent Technical Accounting Guide, require a housing commission to keep equipment records that include an asset's cost and a sufficient description to identify it for an annual physical inventory.

Housing Commission's Policy

The Commission's Policy requires its staff to complete a physical inventory of all Commission property located in offices, maintenance shops, garages and dwelling units by the last day of February of each year. The policy also requires the Commission to send a completed physical inventory to the fee accountant by the second week of March for reconciliation to the property records.

Annual Inventories Were Not Taken And Proper Records Were Not Kept

The Muskegon Heights Housing Commission had not taken an annual inventory of its physical assets in over four years. The Commission took its last inventory in 1992. The Commission's fee accountant kept property ledgers; however, the ledgers were not updated routinely. The fee accountant was not always informed when equipment was purchased, disposed of, or replaced.

The Commission also maintained property records in the form of individual property cards for each item. The cards contained specific information relating to each item of equipment including description, date of purchase, cost, identification number, and physical location. However, the Commission did not routinely update the card files when

new equipment was purchased. For example, property ledgers show the Commission purchased three ranges in December 1995. The Commission did not have individual cards to show the cost of each item, its identification number and its physical location.

The Commission's general ledger showed the Commission had \$523,916 in non-expendable equipment. However, the amount was last reconciled to an inventory in 1992, and, as previously stated, was not routinely updated. An annual inventory that accurately counts and tracks non-expendable equipment helps protect against fraud, waste and abuse.

The Commission's Executive Director said the Commission did not take annual physical inventories and always keep accurate inventory records because he did not consider inventories were important and he was concentrating on areas, such as; processing grant applications and modernization work. However, the Director agreed that in the future to have proper accountability and control, all items should be identified and physical inventories taken.

Auditee Comments

Excerpts from the Executive Director's comments on our draft finding follow. Appendix A contains the complete text.

The Commission is content with the finding, but disagrees strongly with the reason stated in the report as to why annual inventories were not taken and proper records were not kept.

The Executive Director, as well as other Commission staff, will establish internal controls and procedures to insure that inventory of non-expendable assets will be completed before the end of each fiscal year. On or before January 31, 1997, an inventory of non-expendable equipment should be completed.

The reason inventory was not taken had little to do with the Executive Director processing grants. The reasons had more to do with absenteeism in the maintenance department and the continued priority of maintaining high occupancy and keeping units safe and sanitary for residents.

OIG Evaluation of
Auditee Comments

The Executive Director said the Commission will establish procedures and controls to ensure inventories are completed. However, the Commission also needs to establish and implement procedures to routinely update inventory records and to reconcile the physical inventories to inventory records and the general ledger.

We believe absenteeism in the maintenance department and a priority to maintain high occupancy and safe and sanitary units is not an adequate reason to not take an inventory for four years in a row.

Recommendations

We recommend that the Grand Rapids Director of Public Housing assures the Housing Commission:

- 4A. Establishes and implements procedures to routinely update inventory records.
- 4B. Establishes and implements controls to perform annual inventories.
- 4C. Establishes and implements policies, procedures and controls to reconcile annual physical inventories to inventory records and the general ledger.

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Internal Controls

In planning and performing our audit, we considered the internal controls of the management of the Muskegon Heights Housing Commission in order to determine our auditing procedures and not to provide assurance on internal controls. Internal controls consist of the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Relevant Internal Controls

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

- Management Policies, Procedures, and Practices
- Safeguards over assets
- Accounting system

We assessed all the relevant controls identified above.

It is a significant weakness if internal controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Significant Weaknesses

Based on our audit, the followings items are significant weaknesses:

- Management Policies, Procedures, and Practices. The Housing Commission did not follow adequate policies, procedures, and practices to assure: the Commission followed its Vacancy Reduction Program agreement (see Finding 1); the tenant eviction process was economical (see Finding 2); and independent audits, operating budgets, and other financial information reports to HUD were prepared timely (see Finding 3).
- Safeguards Over Assets. The Housing Commission did not maintain adequate controls over its non-expendable assets (see Finding 4).

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Follow Up On Prior Audits

The last OIG audit report (number 90-CH-209-1015, June 14, 1990) on the Muskegon Heights Housing Commission contained six findings. There were no open findings from that audit, and none of the findings are repeated in this report.

The Commission's last Independent Accountant's audit report was for the year ended March 31, 1994. It did not contain any findings.

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Auditee Comments

October 7, 1996

Mr. Muhammad M. Akhtar, Senior Auditor
Office of Inspector General
477 Michigan Avenue, Room 1790
Detroit, MI 48226-2592

Dear Mr. Akhtar:

SUBJECT: Notice of Audit Findings of the Office of Inspector General for Audit, HUD.

With reference to your letter to me dated September 27, 1996, please be advised that we have reviewed your four (4) findings and our response is the following:

FINDING #3 - The Housing Commission did not prepare timely financial reports.

A. Independent audits were not timely. The Commission is content with the finding. The corrective action to be taken will be to follow advice and recommendations outlined in the audit findings.

CORRECTIVE ACTION: The Commission will improve its policy and procedures to obtain independent audits by entering into a multiyear contract with its current auditor. It will also establish and maintain a list of independent auditors and send each of them an invitation to submit a proposal for audit services.

B. Budgets were not submitted timely. The Commission is content with the finding. The corrective action to be taken will be to follow the advice and recommendations outlined in the audit findings.

**Commission Response to
Notice of Audit Findings
October 7, 1996**

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FINDING #3 - The Housing Commission did not prepare timely financial reports.
(CONTINUED)

CORRECTIVE ACTION: The Executive Director will start preparing the fiscal budget so that it will be submitted to HUD by December 31st of each year.

The Commission expects to hire a full-time accountant to help with preparation of the budget and other accounting tasks on or before January 31, 1997.

C. Financial reports were not timely. The Commission is content with the finding. The corrective action to be taken will be to follow the advice and recommendations outlined in the audit findings.

CORRECTIVE ACTION: The Executive Director, Assistant Director, as well as an accountant when hired, will establish internal procedures and controls to insure that financial reports to HUD, as well as other governmental agencies, will be submitted on a timely basis.

Until an accountant is hired, the Executive Director, the Assistant Director and the Director of Housing Programs (who is responsible for Section 8 financial reports) will establish internal procedures and controls so as to get reports to the fee accountant and others on a timely basis.

FINDING #4 - Control of Non-Expendable Assets was not adequate.

The Commission is content with the finding, but disagrees strongly with the reason stated in the report as to why annual inventories were not taken and proper records were not kept.

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Page 3

FINDING #4 - Control of Non-Expendable Assets was not adequate. (CONTINUED)

The reason inventory of non-expendable assets was not taken had little to do with the Executive Director processing grants. The reasons had more to do with absenteeism in the Maintenance Department and the continued priority of maintaining high occupancy and keeping units safe and sanitary for residents.

When the present director assumed the duties of executive director in June of 1992, the Commission's Public Housing Management Assessment Program score was 30.71.

In September 1992, the Board of Commissioners and HUD directed the Executive Director to establish priorities which dealt with:

1. removing the Commission from HUD's Troubled/Distressed List through initiatives outlined in a Memorandum Of Agreement.
2. reducing vacancies and increasing occupancy.
3. reducing incidents of drug-trafficking and drug-related crimes.
4. reducing the number of residents behind with their rent.
5. reducing costs for energy/utilities.
6. obtaining HUD funds to replace roofs and modernize dwelling units.
7. improving maintenance services to residents.
8. computerizing programs and systems.
9. transferring residents to adequate-sized units.
10. reactivating the homeownership program.

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FINDING #4 - Control of Non-Expendable Assets was not adequate. (CONTINUED)

11. completing an inventory of Commission nonexpendable assets which had not been completed since 1989.
12. reducing operating expenses.

Since the last inventory of non-expendable assets was completed in 1992, the Executive Director has made much progress towards completing the aforementioned goals (also see enclosed "ACTION PLAN for a Distressed/Troubled Housing Authority Goals and Priorities").

CORRECTIVE ACTION: The Executive Director, as well as other Commission staff, will establish internal controls and procedures to insure that inventory of non-expendable assets will be completed before the end of each fiscal year (March 31st).

On or before January 31, 1997, an inventory of non-expendable assets should be completed.

FINDING #2 - The Commission's Tenant Eviction Process Was Not Economical.

The Commission is not content with the finding. However the Commission is pleased to learn the approximate cost that other housing authorities are paying for legal fees pertaining to evictions is \$42 per unit.

My concern with the finding is that it includes costs for non-eviction services for such things as legal council and opinions pertaining to:

1. personnel matters.
2. agreements and options.
3. disputes and problems with contractors.

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FINDING #2 - The Commission's Tenant Eviction Process Was Not Economical.
(CONTINUED)

4. interpretation of HUD policies, rules and regulations such as:

- a. Annual Contributions Contract.
- b. HUD's "One Strike and You're Out" Policy.
- c. rent collection policy and grievance procedures.

The cost for legal services pertaining to non-eviction legal matters is approximately 25 percent of the total that we pay the current law firm which equals approximately \$6,210. The cost for eviction services would be \$52 per unit versus \$42 paid by other housing authorities (also see Inter-Office Memo from the Assistant Director dated October 4, 1996).

CORRECTIVE ACTION: The Executive Director, along with other Commission staff, will establish internal controls and procedures to reduce the cost for legal services pertaining to evictions.

On or before March 31, 1997, the Commission will solicit proposals for tenant eviction services using full and open competition.

On or before December 31, 1996, the Executive Director, as well as other Commission staff, will review, with the Commission's present law firm, procedures and ways the Commission can reduce tenant eviction services costs to approximately \$42 per unit.

FINDING #1 - The Commission did not follow its Vacancy Reduction Program (VRP) Agreement.

A. The Commission is not content with the finding pertaining to the **Vacancy Reduction Program.**

**Commission Response to
Notice of Audit Findings
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FINDING #1 - The Commission did not follow its Vacancy Reduction Program (VRP) Agreement. (CONTINUED)

A. Vacancy Reduction Program. (CONTINUED)

From November 1994 to May 1995, the Commission strongly believes that it was making progress towards reaching the goals of its Vacancy Reduction Program.

From May 1995 through the present, the Commission has made little progress towards achieving the goals of the Vacancy Reduction Program due to a very serious micro-management problem of the program by the Grand Rapids HUD Area Office.

In letters to Area HUD Office directors and to staff at HUD Headquarters, the Commission has outlined the problem it feels obstructs administration of the Vacancy Reduction Program.

The Commission feels so strongly about its poor working relationship with HUD and the Vacancy Reduction Program that it:

1. nearly requested that the program be terminated.
2. has requested, on three separate occasions, that the monitoring process of the program be transferred from the Grand Rapids Office to the Detroit Office.

Problems with HUD pertaining to the Vacancy Reduction Program have arisen, in part, due to the HUD Grand Rapids Office not familiarizing itself with the purposes and goals of the program as proposed by the Muskegon Heights Housing Commission in its grant application.

The Commission would welcome, moreover it hereby requests, that HUD staff in the Grand Rapids Office, Detroit Office and the Washington Office review every letter and correspondence sent by the Executive Director to HUD pertaining to problems with the Vacancy Reduction Program.

**Commission Response to
Notice of Audit Findings
October 7, 1996**

Page 7

FINDING #1 - The Commission did not follow its Vacancy Reduction Program (VRP) Agreement. (CONTINUED)

A. Vacancy Reduction Program. (CONTINUED)

The Commission believes that if all correspondence pertaining to the Vacancy Reduction Program is carefully read, HUD will reach the conclusion that most of the problems and delays pertaining to the Vacancy Reduction Program are not the fault of the Muskegon Heights Housing Commission.

B. The Commission is not content with the finding pertaining to **Lead Based Paint.**

In May 1995, the commission proposed to HUD an action plan to abate lead-based paint in East Park Manor.

Although HUD officials did not object to the plan, they had some concern about costs for the abatement program and qualifications of vendors that would be associated with the program.

In a series of letters, the Commission has explained why it did not implement a lead-based paint program during 1995 and early 1996. I hope you will review correspondence pertaining to why the Commission did not implement a lead-based paint program at East Park Manor.

In several letters to HUD officials, the Commission has presented an action plan to start a lead-based paint abatement program in East Park Manor before the end of 1996. I hope you will read letters pertaining to the action plan.

In several letters to HUD officials, the Commission has explained that according to state, as well as new Federal regulations pertaining to lead-based paint in dwellings, the lead-based paint in the apartments in East Park Manor do not pose a threat to the health and safety of residents of East Park manor.

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FINDING #1 - The Commission did not follow its Vacancy Reduction Program (VRP) Agreement. (CONTINUED)

B. Lead Based Paint. (CONTINUED)

In the letters, the Commission has stated that if HUD feels the lead-based paint does pose a threat (and I have said that it doesn't), the county health department should be requested to make the determination. HUD officials have not requested that I call the health department pertaining to this matter.

CORRECTIVE ACTION: The Commission has requested an extension to spend the remainder of its vacancy reduction funds to meet goals and priorities of the program. As of this date, the Commission has not heard from HUD on this matter.

The Commission will request HUD program staff to review the goals and objectives of the Vacancy Reduction Program and validate the reasonableness of planned vacancy reduction work contained in the application submitted to HUD and a subsequent budget revision.

I understand that once you receive the responses to the findings submitted herewith, you would like to meet with Commission staff on October 18, 1996. The date is satisfactory and I would like to recommend 2:00 p.m.

I wish to thank you and Mrs. Judith Storrs for the suggestions and recommendations you made while on site to help improve the operation and efficiency of the Muskegon Heights Housing Commission, as well as where we should seek help to overcome the problems that we have with HUD.

Sincerely,

Joe L. Mattox
Executive Director

C: Joyce E. Thomas, Assistant Director
Lindsey Reames, Director, Grand Rapids HUD Area Office

INTER-OFFICE MEMO

MUSKEGON HEIGHTS HOUSING COMMISSION
615 East Hovey Avenue
Muskegon Heights, Mi 49444

DATE: October 4, 1996

TO: Joe L. Mattox, Executive Director

FROM: Joyce E. Thomas, Assistant Director

SUBJECT: OIG Finding No.2/Commission's Tenant Eviction Process Was Not
Economical

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In reference to the above mentioned subject the amount billed for legal services was not limited to tenant evictions only.

\$24,838.00 is not an excessive amount for legal services based on the number of evictions and personal services that was rendered on behalf of the Housing Commission. It is my belief that at least 25 percent of the \$24,838 was for other services than evictions.

Sure, a staff person could do the paperwork for the evictions, but this is very time consuming considering the staff person has a multitude of other responsibilities that must be addressed.

Since I have been employed with the Muskegon Heights Housing Commission, it is not known to me that we ever used a competitive process in the selection of any law firm.

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