




Issue Date	September 28, 2006
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Audit Report Number	2006-CH-1018
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TO: Robert E. Nelson, Director of Public Housing Hub, 5FPH  
Margarita Maisonet, Director of Departmental Enforcement Center, CV

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

SUBJECT: Saginaw Housing Commission, Saginaw, Michigan Improperly Used Public  
Housing Funds to Purchase Property

## **HIGHLIGHTS**

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

We audited the Saginaw Housing Commission's (Commission) Public Housing Operating Fund program (program). We initiated the audit based on a request from the Detroit Office of Public Housing for the U.S. Department of Housing and Urban Development (HUD). The audit was also part of the activities in our fiscal year 2006 annual audit plan. Our objective was to determine whether the Commission properly used its program funds subject to its annual contributions contract, other agreements, or federal regulations for the benefit of its program residents.

### **What We Found**

The Commission improperly acquired the Saginaw County Fairgrounds property (property), which included a harness raceway, using its program funds. Without required HUD approval, the Commission used nearly \$536,000 in program funds to pay for the property's acquisition costs. Because of the Commission's improper use of these funds, its program also lost more than \$25,000 in interest income that would have been realized if the funds had been invested. The Commission failed to file a required declaration of trust to evidence its covenant not to convey or encumber the property and to protect HUD's rights and interests.

Further, the Commission entered into eight rooftop lease agreements without required HUD approval and did not restrict more than \$12,000 in revenue to pay for program expenses. Instead, the revenue paid for inappropriate expenses such as meals and refreshments for its board meetings, appraisal services related to the purchase of the property, and contributions to the mayor of the City of Saginaw's (City) college scholarship fund and other events honoring the City's mayors.

## **What We Recommend**

We recommend that the director of HUD's Detroit Office of Public Housing require the Commission to (1) reimburse its program for the inappropriate use of funds and lost interest income cited in this report, (2) file a declaration of trust on the property if it has not been sold, (3) submit its current rooftop lease agreements to HUD for approval, and (4) implement adequate procedures and controls to address the findings contained in this report.

We also recommend that the director of HUD's Departmental Enforcement Center pursue administrative sanctions against the Commission's former executive director and its board members involved in the improper purchase of the property.

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 issued because of the audit.

## **Auditee's Response**

We provided schedules of the improper use of program funds and revenue plus lost interest income cited in this audit report to the Commission's current executive director and the director of HUD's Detroit Office of Public Housing during the audit. We also provided the discussion draft audit report to the Commission's current executive director, its board chairman, and HUD's staff during the audit. We held an exit conference with the current executive director on August 30, 2006.

We asked the Commission's current executive director to provide comments on our discussion draft audit report by September 25, 2006. The Commission provided its written response dated September 21, 2006. The Commission generally agreed with finding 1 and disagreed with finding 2. 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 OBJECTIVE

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The Saginaw Housing Commission (Commission) was established in July 1947 by the Saginaw City Council as a public corporation under the State of Michigan's Public Act 18. The Commission signed an annual contributions contract with the U.S. Department of Housing and Urban Development (HUD) to provide public housing to low-income residents of the City of Saginaw, Michigan (City). The Commission managed 628 public housing units, 1,197 Section 8 Housing Choice Voucher program units, and 51 Shelter Plus Care units as of July 2006. It receives Public Housing Operating Fund program (program) funds from HUD to operate its public housing units. A five-member board of commissioners appointed by the City's mayor governs the Commission. During our audit, the Commission's books and records were located at 1803 Norman Street, Saginaw, Michigan.

The Saginaw Urban Development, LLC (company), was established by the Commission's former executive director on December 7, 2001, to assist in housing development. The company's articles of incorporation signed by the Commission's former executive director on December 3, 2001, state that the company will be managed by one or more managers. However, the company had no federal tax identification number, operating agreement, or evidence of who should be a member or a manager and was inactive as of July 2006. The company was to consist of a group of developers/investors who would be investing funds, along with the Commission through grants, to purchase the Saginaw County Fairgrounds property (property) and be completely independent of the Commission. However, the developers/investors backed out of the company, and it did not receive any grants. The company purchased the property in December 2002. Immediately following the property's closing, all rights to the property were transferred to the Commission.

In accordance with its agency plan, a public housing agency may form and operate wholly owned or controlled subsidiaries or other affiliates. Such wholly owned or controlled subsidiaries or other affiliates may be directed, managed, or controlled by the same persons who constitute the board of directors or similar governing body of the public housing agency, or who serve as employees or staff of the public housing agency, but remain subject to other provision of law and conflict of interest requirements. Further, a public housing agency, in accordance with its agency plan, may enter into joint ventures, partnerships, or other business arrangements with or contract with any person, organization, entity, or governmental unit with respect to the administration of the programs of the public housing agency such as developing housing or providing supportive/social services subject to either Title I of the United States Housing Act of 1937, as amended, or state law.

Our objective was to determine whether the Commission properly used its program funds subject to its annual contributions contract, other agreements, or federal regulations for the benefit of its program residents.

## RESULTS OF AUDIT

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### Finding 1: The Commission Improperly Used Its Program Funds to Purchase Property without HUD Approval

The Commission improperly used nearly \$536,000 of its program funds to pay for the property's acquisition costs. Because of the Commission's improper use of these funds, its program also lost more than \$25,000 in interest income that would have been realized if the funds had been invested. The Commission also failed to file a required declaration of trust to evidence its covenant not to convey or encumber the property and to protect HUD's rights and interests. The former executive director and the board of commissioners did not exercise prudent oversight of the Commission's use of program funds to ensure that federal requirements were followed. As a result, fewer funds were available to serve the Commission's public housing residents and HUD's interest in the property was not secured.

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#### **Use of Program Funds to Purchase Property Was Inappropriate**

The Commission improperly used its program funds to pay for the property's acquisition costs. Without HUD approval, the Commission's former executive director and board of commissioners entered into a purchase agreement for the property through the company. The Commission did not file a declaration of trust protecting HUD's rights and interests as required by its annual contribution contract. After the property's closing on December 26, 2002, the company transferred its property rights to the Commission.

During the Commission's board meeting on May 21, 2001, the board president recommended authorizing negotiations and executing an agreement for the purchase of the property from the Saginaw County Agricultural Society (Society), the property's former owner. HUD's approval to purchase the property was not obtained.

In June 2002, the Commission used its program funds to make an earnest money deposit with the First American Title Insurance Company toward the purchase of the property. In July 2002, the former executive director entered into an agreement with the Society to purchase the property. On December 26, 2002, the former executive director and the board president signed a settlement statement on behalf of the company, finalizing the acquisition of the property.

Immediately after the closing, all rights to the property were transferred to the Commission as well as all lease agreements made by the Society. One of the property's lease agreements included a harness track raceway. By reviewing the Commission's general ledgers, invoices, cancelled checks, and bank statements,

we determined that nearly \$508,000 in program funds was used to purchase the property and more than \$28,000 in program funds paid for the legal expenses associated with the purchase. The use of program funds did not comply with HUD's regulations, the Commission's annual contributions contract, and Office of Management and Budget Circular A-87. As of July 2006, the Commission was attempting to sell the property at HUD's direction to reimburse its program for the improper use of funds related to the purchase.

### **Interest Income Was Not Realized**

The Commission's program lost more than \$25,000 in interest income that would have been realized had the funds been invested instead of improperly used. The Commission's annual contributions contract requires that if at any time, the funds on deposit in the general operating fund are in excess of the Commission's prudently estimated needs for the next 90 days, such excess funds shall be approved and invested in investment securities. The investing of excess program funds allows the Commission to generate additional income to pay for program expenses.

### **Former Executive Director and Board Did Not Perform Their Duties Appropriately**

The board of commissioners and the former executive director did not exercise prudent oversight of the Commission's use of program funds to ensure that federal requirements were followed. They failed to perform their duties appropriately regarding the Commission's use of program funds to purchase the property. As a result, fewer funds were available to serve the Commission's public housing residents and HUD's interest in the property was not secured.

Public housing authority commissioners have a responsibility to HUD to ensure that national housing policies are carried out, and to the Commission's management staff and employees to provide sound and manageable directives. The commissioners are accountable to their locality and best serve it by monitoring operations to be certain that housing programs are carried out in an efficient and economical manner.

The responsibility for carrying out the commissioners' policies and managing the Commission's day-to-day operations rests with the Commission's executive director. The executive director must maintain the Commission's overall compliance with its policies and procedures and federal, state, and local laws. As of July 2006, the former executive director was the chief operating officer for the Housing Authority of the City of Charlotte, North Carolina. Given the former executive director's involvement in the misuse of program funds and his current position, HUD funds may be at risk.

## Recommendations

We recommend that the director of HUD's Detroit Office of Public Housing require the Commission to

- 1A. Reimburse its program \$535,903 from nonfederal funds (\$507,860 for the property purchase plus \$28,043 for legal costs) for the improper use of program funds to pay for the property's acquisition costs.
- 1B. File a declaration of trust on the property to protect HUD's interest and rights if the property has not been sold.
- 1C. Reimburse its program \$25,132 from nonfederal funds for the lost income cited in this finding.
- 1D. Implement procedures and controls to ensure that it follows federal requirements to include HUD's approval when purchasing property in the future and the investing of excess program funds.

We also recommend that the director of HUD's Departmental Enforcement Center

- 1E. Pursue administrative sanctions against the Commission's former executive director and the board of commissioners involved with the improper purchase of the property.

## Finding 2: The Commission Failed to Obtain HUD Approval and Inappropriately Used Funds Regarding Its Rooftop Leases

The Commission entered into eight rooftop lease agreements without HUD's approval. It also improperly used more than \$12,000 in revenue from the agreements to pay for expenses not related to its program. The revenue paid for inappropriate expenses such as meals and refreshments for its board meetings, appraisal services related to the property purchase, and contributions to the mayor's college scholarship fund and other events honoring the City's mayors. The former executive director and the board of commissioners did not exercise adequate oversight of the lease agreements and related revenue to ensure that federal requirements were followed. As a result, fewer funds were available for the Commission's program operations.

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### Lease Agreements Were Not Submitted to HUD for Approval

Contrary to HUD's requirements, the Commission entered into lease agreements with eight communications companies for the installation of communication equipment on its public housing property. The former executive director recommended entering into the rooftop leases as a way to raise revenue for the Commission. Between February 1998 and July 2003, the Commission entered into eight rooftop lease agreements, of which six were signed by the former executive director, one was approved by the former executive director via electronic mail, and one was not signed. The board of commissioners' motion to enter into this type of lease agreement was recorded in the May 21, 2001, board meeting minutes. The communications equipment was located at the Commission's Davenport Manor, Maplewood Manor, and Rosin Towers public housing properties and installed without HUD approval. According to the Commission's annual contributions contract with HUD, unless otherwise approved by HUD, dwellings in the projects are solely for the purpose of housing families of low income. Without HUD approval, the Commission shall not grant any concessions, licenses, or permits to use any nondwelling space or facility for temporary public, charitable, or similar use.

### Lease Revenue Was Not Restricted

The Commission did not restrict revenue from its communication leases for program expenses or to benefit its public housing residents. The Commission used the revenue to pay \$8,000 for appraisal services for the property purchase, \$3,000 for meals and refreshments for board members during board meetings, and nearly \$1,200 for the mayor's scholarship program, a farewell reception and dinner, and an inaugural ball honoring the City's mayors. The inappropriate



expenses occurred between June 2001 and April 2005. The former executive director and the board of commissioners initiated the improper use of revenue and did not assure the revenue was used in accordance with federal requirements. The Commission violated its annual contributions contract with HUD and failed to comply with the United States Housing Act of 1937's requirements. In addition, the Commission failed to comply with federal requirements for expenditures to be necessary and reasonable for proper and efficient performance and administration of its program. As a result, fewer funds were available to benefit the Commission's program residents.

## Recommendations

We recommend that the director of HUD's Detroit Office of Public Housing require the Commission to

- 2A. Reimburse its program \$12,289 from nonfederal funds (\$8,000 for the appraisal services for the unauthorized property purchase, \$3,097 for meals and refreshments for board members, and \$1,192 for contributions) for the improper use of program revenue cited in this finding.
- 2B. Submit its current communication lease agreements to HUD for approval.
- 2C. Implement adequate procedures and controls to ensure that it follows HUD's requirements regarding the use of its program revenue and applicable lease agreements.

## SCOPE AND METHODOLOGY

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We conducted the audit at HUD's Detroit Office of Public Housing and the Commission's office from April to June 2006.

To accomplish our objective, we reviewed

- Applicable laws; regulations; and HUD program requirements at 24 CFR [*Code of Federal Regulations*] Parts 24 and 941, the United States Housing Act of 1937, Office of Management and Budget Circular A-87, and the November 1990 Program Integrity Bulletin regarding responsibilities of public housing executive directors and commissioners;
- The Commission's accounting records, annual audited financial statements for fiscal years ending 2002 through 2005, general ledgers, bank statements, cancelled checks and invoices, policies and procedures, board meeting minutes and resolutions for May 21, 2001, cost allocation plan through March 2006, annual contributions contract, general depository agreement, rooftop lease agreements, declarations of trust, and organizational chart; and
- HUD's files for the Commission.

We also interviewed the Commission's employees and board members and HUD staff.

The audit covered the period from July 1, 2002, through March 31, 2006. This period was adjusted as necessary. We performed our audit in accordance with generally accepted government auditing standards.

# 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,
- 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.

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## Relevant Internal Controls

We determined the following internal controls were relevant to our objective:

- 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 the relevant controls identified above.

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

## Significant Weakness

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

- The Commission's former executive director and board of commissioners did not exercise prudent oversight regarding the use of program funds and revenue to ensure that federal requirements were followed (see findings 1 and 2).

# APPENDIXES

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## Appendix A

### SCHEDULE OF QUESTIONED COSTS

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Recommendation number	Ineligible 1/
1A	\$535,903
1C	25,132
2A	<u>12,289</u>
Total	<u>\$573,324</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local polices or regulations.

## Appendix B

# AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments



September 21, 2006

Mr. Ronald Farrell, Assistant Regional Inspector General for Audit  
United States Department of HUD-Office of Inspector General  
200 North High Street, Room 334  
Columbus, Ohio 43215-2499

SUBJECT: Saginaw Housing Commission Audit- Audit Report Number 2006-CH-101X

Dear Mr. Farrell:

The Saginaw Housing Commission would like to submit the following comments to the findings noted in the above-cited audit.

If you have any questions or concerns in this regard, do not hesitate to contact me at (989) 755-8183 ext. 137.

Respectfully,

Duane L. Walker, PHM  
Executive Director  
Saginaw Housing Commission

enclosures

cc: Board of Commissioners

DLW/kj

1803 NORMAN STREET ■ P.O. BOX 3225 ■ SAGINAW, MICHIGAN 48605-3225  
PHONE: (989) 755-8183 ■ FAX: (989) 755-8161

Saginaw Housing Commission Audit Response - **Audit Report Number 2006-CH-101X**

**Finding 1: The Commission Improperly Used Its Program Funds to Purchase Property Without HUD Approval**

**SHC Response:** Since the employment of the current Executive Director on December 1, 2004, the Saginaw Housing Commission has worked in good faith with the HUD Detroit Field Office to resolve this issue. The Commission has kept the Field Office apprised of its efforts in this regard prior to and during the course of the OIG audit, which commenced on April 19, 2006:

- On December 10, 2004, the new Executive Director received initial correspondence from the Field Office regarding this property.
- On January 25, 2005 a meeting was held between Robert Nelson, Director of Public Housing, Detroit Field Office and the new Executive Director to further discuss this property.
- On February 25, 2005 and March 4, 2005, the SHC met with commercial realtors to discuss the best way to proceed with the sale of the property.
- On March 2, 2005, the Commission advertised RFQ# 05-04 for appraisal services to update the value of the property prior to its listing.
- The RFQ closed on March 14, 2005
- On April 25, 2005, an appraiser was duly selected.
- On August 1, 2005, the SHC received the updated appraisal.
- On November 6, 2005, issued a Request for Proposals (RFP) for qualified Commercial Realtors to list and sell the property.
- Received one response by November 18, 2005 bid opening.
- Reissued RFP for Qualified Commercial Realtors on December 11, 2005.
- Bids were to be received by December 29, 2005. No bids were received.
- Board approved negotiations of contract with sole respondent to initial solicitation at January 17, 2006 SHC Board meeting.
- Contract with selected Realtor entered on April 20, 2006.
- Property listed for sale by Realtor on April 20, 2006.
- As of September 22, 2006, the Declaration of Trust has been drafted and is in the process of being recorded.

- Property sale activities are ongoing.

The Commission has received interest from a local developer and is in discussion for possible sale and redevelopment of this site, which was the Commission's initial intent. The proposal and draft development agreement will be forwarded to the HUD Detroit Field Office for consideration at such time as deemed appropriate. The HUD Detroit Field Office has acknowledged in an August 31, 2006 correspondence to the Commission that it recognizes the progress the Commission has made to date in addressing this issue. The Housing Commission Board of Commissioners and its current Executive Director have and will continue to work diligently to resolve this matter in the best interest of its residents and to the satisfaction of HUD.

**Finding 2:** The Commission Failed to Obtain HUD Approval and Inappropriately Used Funds Regarding Its Rooftop Leases

**SHC Response:** The OIG report cites section 203 of the Annual Contributions Contract as follows:

“...a local authority shall, unless otherwise approved by the government, use the dwellings in the projects solely for the purpose of housing families of low income as provided in this contract. It shall not, **without the approval of the government**, grant any concession, licenses, or permits to use any nondwelling space or facility in any project **AT LESS THAN FAIR RENTAL VALUE...**”

The rooftop leases that the OIG contends were entered into without HUD's approval, were at fair rental value and therefore are exempt from HUD's approval per the language cited above.

The OIG contends that the Commission inappropriately used funds from these rooftop leases for, in part, the mayor's scholarship program, a farewell reception and dinner, and an inaugural ball honoring the City's mayors. The OIG report cites The Housing Act of 1937, section 9(1), which states in part:

**“...Any such nonrental amounts retained shall be used only for low-income housing or to benefit the residents assisted by the public housing agency...”**

Senior citizen residents of public housing attended these events. It was the contention of the Commissioners that participation in these charitable events were beneficial to the quality of life of the senior residents who looked forward to the opportunity to attend these activities. Other local major corporations also sponsored tables at these events for these residents. Since the funds were used to

**Comment 1**

**Comment 2**



Ref to OIG Evaluation

Auditee Comments

Comment 3

benefit the residents the Commission does not agree with the OIG finding in this regard.

The OIG contends that the Commission inappropriately used this revenue to pay for meals and refreshments for board members during board meetings. Under Michigan law, Subsection (4) of MCL 125.654:

**“(4) A member of the commission may receive compensation for actual expenses incurred by serving as a member of the commission in an amount determined by the commission...”**

The Commission has historically recognized that its Board members incur expenses for serving on the Board. Monetary compensation has not been provided, but it had been determined some time ago, that meals/refreshment would be provided during the meetings in lieu of monetary compensation. The Commission believes that its actions in this regard have been within the intent of the statute.

## **OIG Evaluation of Auditee Comments**

- Comment 1** HUD's Real Estate Assessment Center previously determined, and the Detroit Office of Public Housing agreed, that the Commission was improperly using the lease revenues.
- Comment 2** The Commission did not provide any documentation to support that the use of the lease revenues benefited its public housing residents.
- Comment 3** We agree that Michigan Complied Laws state that a member of the commission board may receive compensation for actual expenses incurred in serving as a member of the commission in an amount determined by the commission. The Laws also state that the governing body of an incorporating unit may adopt a resolution establishing limitations on the amounts of actual expenses that may be paid to a member of a commission. The Commission did not provide documentation to support that a resolution was adopted to compensate its board members for actual expenses. Additionally, the Commission's expenditures for the board's meals and refreshments are not in accordance with the Commission's annual contributions contract with HUD and Office of Management and Budget Circular A-87.

## Appendix C

### FEDERAL REQUIREMENTS

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#### Finding 1

According to 24 CFR [*Code of Federal Regulations*] 941.205(a) and (c)(1), in order to be considered as eligible expenses, all development-related contracts entered into shall provide for compliance with the provisions of the annual contributions contract. HUD approval is required for all forms of site or property acquisition contracts regardless of development method.

The consolidated annual contributions contract between the Commission and HUD requires that all funds withdrawn from the general operating fund be for payment of development costs, payment of operating expenditures (i.e., administration, maintenance, establishment of reserves, and other costs and charges which are necessary for the operation of such project), purchase of investment securities, purposes specified in the contract and other purposes specifically approved. If at any time the funds on deposit in the general operating fund are in excess of the Commission's prudently estimated needs for the next 90 days, such excess funds shall be approved and invested in investment securities. Such securities shall be purchased, held, and disposed of from time to time by the depository of the general fund under the terms of the general depository agreement. Further, upon the acquisition of the site of any project, a declaration of trust, a trust indenture, or such other document as may be approved shall be executed evidencing a covenant not to convey or encumber the project and to protect the rights and interests of the government.

In accordance with Office of Management and Budget Circular A-87, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards, be allocable to federal awards under the provisions of this circular, be authorized or not prohibited under state or local laws or regulations, and conform to any limitations or exclusions set forth in these principles, federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items.

According to 24 CFR [*Code of Federal Regulations*] 24.100, HUD can take administrative sanctions against employees or recipients under HUD assistance agreements that violate HUD's requirements. Sections 24.700, 24.800, and 24.1100 of the regulations authorize the sanctions, which include suspension, debarment, or limited denial of participation, respectively. HUD may impose administrative sanctions under the following conditions:

- Failure to honor contractual obligations or to proceed in accordance with contract specifications or HUD regulations (limited denial of participation);
- Violation of any law, regulation, or procedure relating to the application for financial assistance, insurance, or guarantee or to the performance of obligations incurred following a grant of financial assistance or a conditional or final commitment to insure or guarantee (limited denial of participation);

- Violation of the terms of a public agreement or transaction so serious that it affects the integrity of an agency program, such as a history of failure to perform or unsatisfactory performance of one or more public agreements or transactions (debarment); or
- Any other cause so serious or compelling in nature that it affects the present responsibility of a person (debarment).

## **Finding 2**

The annual contributions contract, section 203, states that a local authority shall, unless otherwise approved by the government, use the dwellings in the projects solely for the purpose of housing families of low income as provided in this contract. It shall not, without the approval of the government, grant any concessions, licenses, or permits to use any nondwelling space or facility in any project at less than fair rental value except for programs conducted by or primarily for the occupants of the project or for temporary public, charitable, or similar use. Section 401 states that all funds and investment securities received by or held for account of the local authority in connection with the projects, except such funds as are deposited with the fiscal agent or with paying agents for the payment of temporary notes pursuant to this contract, shall constitute the “general fund”; and the local Authority shall, except as otherwise provided in this contract, deposit promptly with such bank or banks, under the terms of the general depository agreement, all funds and investment securities constituting the general fund. Section 406 states with respect to each project that operating expenditures shall mean all costs incurred by the local authority for administration, maintenance, establishment of reserves, and other costs and charges (including but not limited to payments in lieu of taxes and operating improvements), which are necessary for the operation of such project in such a manner as to provide decent, safe, and sanitary dwellings within the financial reach of families of low income, and to promote serviceability, efficiency, economy, and stability provided that operating expenditures shall not include any costs incurred as a part of the development cost or the payment of principal of the bonds or note or, unless approved by the government, interest on the bonds or notes.

The United States Housing Act of 1937, section 9(1), states that public housing agency that receives income from nonrental sources (as determined by the secretary of HUD) may retain and use such amounts without any decrease in the amounts received under this section from the capital or operating fund. Any such nonrental amounts retained shall be used only for low-income housing or to benefit the residents assisted by the public housing agency.