AUDIT REPORT

COSHOCTON METROPOLITAN HOUSING AUTHORITY
PUBLIC HOUSING PROGRAM

COSHOCTON, OHIO

2003-CH-1014

MARCH 28, 2003

OFFICE OF AUDIT, REGION V
CHICAGO, ILLINOIS

audit report

Issue Date
March 28, 2003
Audit Case Number
2003-CH-1014

TO: Patricia Knight, Acting Director of Troubled Agency Recovery Center, Cleveland Field Office

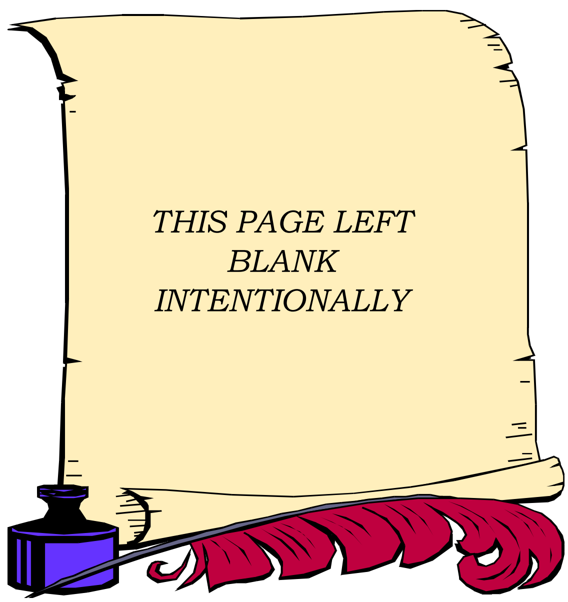
FROM: Heath Wolfe, Regional Inspector General for Audit, Region V

SUBJECT: Coshocton Metropolitan Housing Authority
Public Housing Program
Coshocton, Ohio

We completed an audit of the Coshocton Metropolitan Housing Authority's Public Housing Program. The review of the Housing Authority's Public Housing Program was conducted as part of a comprehensive review of the Authority. The comprehensive review was performed based upon a request from HUD's Columbus Field Office Coordinator of Public Housing Program Center. The objectives of the audit were to: (1) determine whether the Housing Authority had adequate management controls for safeguarding cash, other monetary assets, and inventory; (2) review for indicators of possible waste, loss, and misuse of cash, other monetary assets, and inventory; and (3) assess the appropriateness of the Housing Authority's procurement process. The audit resulted in nine findings.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, 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. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Ronald Farrell, Senior Auditor, at (614) 469-5737 extension 8279 or me at (312) 353-7832.



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Executive Summary

We completed an audit of the Coshocton Metropolitan Housing Authority's Public Housing Program. The review of the Housing Authority's Public Housing Program was conducted as part of a comprehensive review of the Authority. The comprehensive review was performed based upon a request from HUD's Columbus Field Office Coordinator of Public Housing Program Center. The objectives of the audit were to: (1) determine whether the Housing Authority had adequate management controls for safeguarding cash, other monetary assets, and inventory; (2) review for indicators of possible waste, loss, and misuse of cash, other monetary assets, and inventory; and (3) assess the appropriateness of the Housing Authority's procurement process.

The Housing Authority's management controls over cash, other monetary assets, and inventory were very weak. Specifically, the Authority: used $76,166 of its HUD funds for ineligible expenses; lacked documentation to support $165,972 in expenditures; and failed to implement adequate procedures and controls to safeguard its cash and other monetary assets against possible waste, loss, and misuse. The following items lacked adequate procedures and controls: personnel; Public Housing physical condition standards; cash receipts and disbursements; equipment; procurement; and financial and administrative processes.

The Authority Was Not Operated According To Program Requirements

The Housing Authority's Board of Commissioners failed to adequately exercise their responsibility to effectively manage the Authority. The Authority did not follow HUD's requirements, Office of Management and Budget Circular A-87, State law, and its own policies. The Board also did not adequately oversee the administration of the Authority.

Personnel Policies Were Not Followed

The Housing Authority did not: (1) have documentation to support $72,329 in payroll expenditures and $22,500 for contracted personnel services; (2) use $71,463 of its housing program funds in accordance with Federal requirements; (3) have documentation to support $2,985 in travel reimbursements; (4) follow Federal and State requirements to avoid conflicts of interest; (5) keep complete personnel files; (6) prepare job performance evaluations; (7) follow its Personnel Policy when hiring employees; and (8) maintain complete and accurate payroll records.

Public Housing Utility Allowances Were Not Adjusted

The Housing Authority did not review or adjust its Public Housing utility allowances for over 42 months. The Authority also lacked documentation to support how its Public Housing utility allowances were determined. Federal regulations required the Authority to document how its utility allowances were determined and to review the allowances annually to determine whether adjustments were needed.

Public Housing Units Had Health And Safety Violations

The Housing Authority's Public Housing units contained health and safety violations. A HUD Construction Analyst inspected a sample of 36 Public Housing units. A total of 339 health and safety violations were found in all of the 36 Public Housing units.

The Authority Used $37,987 Of Its Public Housing Program Funds For Ineligible And Unsupported Expenditures

The Housing Authority did not follow HUD's regulations, Office of Management and Budget Circular A-87, and the State of Ohio's requirement regarding expenditures. Between January 1999 and November 2001, the Authority used $37,987 of its Public Housing Program funds for unsupported ($33,284) and ineligible expenditures ($4,703).

The Authority Needs To Improve Its Contracting Process

The Housing Authority did not maintain an effective system of controls over its contracting process. The Authority failed to follow HUD's regulations for full and open competition regarding the procurement of goods and services.

Occupancy Policies Were Not Followed

The Housing Authority did not: (1) correctly compute tenants' income and rent; (2) appropriately verify tenants' income; (3) establish a Lease and Occupancy Policy according to HUD's regulations; (4) maintain and select applicants from its waiting list in accordance with the Authority's requirement; (5) evaluate applicants' eligibility for residency according to its Admissions Policy; (6) conduct interim reexaminations of tenants' household composition and income when notified by its tenants; and (7) assign housing units in accordance with its Policy.

The Authority Lacked Effective Cash Management Controls

The Housing Authority did not maintain effective controls over cash management. The Authority did not sufficiently segregate the duties of its employees responsible for tenant rent payments, safeguarding cash funds, and laundry collections and deposits.

The Authority Needs To Improve Its Controls Over Equipment, Materials, And Supplies

The Housing Authority lacked adequate controls over equipment, materials, and supplies. Contrary to Federal requirements and the Authority's policy, the Authority did not: (1) dispose of used appliances in accordance with Federal regulations; (2) maintain complete and accurate books of account regarding its equipment; (3) conduct a

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complete and accurate inventory of non-expendable equipment; and (4) safeguard equipment, materials, and supplies.

Recommendations

We recommend that HUD's Acting Director of Troubled Agency Recovery Center, Cleveland Field Office, assure that the Authority implements procedures and controls to correct the weaknesses cited in this report.

We presented our draft audit report to the Housing Authority's Executive Director and HUD's staff during the audit. We held an exit conference with the Authority's Executive Director on February 20, 2003. The Housing Authority disagreed with the audit report's findings.

We included paraphrased excerpts of the Housing Authority's comments with each finding (see Findings 1, 2, 3, 4, 5, 6, 7, 8, and 9). The complete text of the Authority's comments is in Appendix C.


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Introduction

The Coshocton Metropolitan Housing Authority was established under Section 3735.27 of the Ohio Revised Code. The Authority contracts with HUD to provide low and moderate-income persons with safe and sanitary housing through rent subsidies. A five member Board of Commissioners governs the Authority. The Chairman of the Board is R. Dale Smith. During the audit, the Authority's former Executive Director Edward Ross resigned effective June 1, 2001. The Authority's current Executive Director is Gregory Darr. The Authority's books and records are located at 823 Magnolia Street, Coshocton, Ohio.

As of November 2002, the Authority's Public Housing Program consisted of 131 units.

Audit Objective

The audit objectives were to: (1) determine whether the Housing Authority had adequate management controls for safeguarding cash, other monetary assets, and inventory; (2) review for indicators of possible waste, loss, and misuse of cash, other monetary assets, and inventory; and (3) assess the appropriateness of the Housing Authority's procurement process.

Audit Scope And Methodology

We conducted the audit at HUD's Columbus and Cleveland Field Offices, and the Authority's Office. We performed our on-site work between March 2001 and May 2002.

To accomplish our audit objectives, we interviewed: HUD's staff; the Authority's staff and tenants; Authority vendors; and utility companies' customer service representatives.

We analyzed the following items: tenant files and contracts; cash disbursements and invoices; vendor files and contracts; Board meeting minutes; payroll records and personnel files; tenant accounts receivable ledgers; cost allocation plans; audited financial statements; waiting list; rent rolls; and the Authority's policies and procedures. We also reviewed the following documents: HUD's files for the Authority; Sections 3, 4, 8, 9, and 15 of the Annual Contributions Contract between HUD and the Authority; Parts 5, 24, 85, 960, and 966 of Title 24 of the Code of Federal Regulations; Office of Management and Budget Circulars A-87; HUD Handbooks 7511 and 7420.7; Sections 508 and 512 of the Quality Housing and Work Responsibility Act of 1998; the General Accounting Office's Operating

Procedures Report Number 4.1.4; and Sections 2921 and 3735.37 of the Ohio Revised Code.

We used Computer Assisted Audit Techniques, including ACL computer application, during our audit to analyze the Housing Authority's cash disbursements, payroll records, and Public Housing unit information obtained from the Authority's automated accounting system. A HUD Construction Analyst performed housing inspections of 36 Public Housing units.

The audit covered the period January 1, 1999 to April 20, 2002. This period was adjusted as necessary. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

We provided a copy of this report to the Authority's Executive Director and its Chairman of the Board of Commissioners.

The Authority Was Not Operated According To Program Requirements

The Coshocton Metropolitan Housing Authority's Board of Commissioners did not adequately exercise their responsibility to effectively manage the Authority. The Authority's former and/or current Executive Directors did not implement adequate controls over expenditures or ensure that Public Housing and Section 8 units were free of health and safety violations. Further, the Authority lacked adequate controls over its operations. The Authority's Board and its Executive Directors did not follow Federal requirements, State of Ohio law, or the Authority's own policies. As a result, HUD lacks assurance that the Authority's resources were used to the maximum extent to benefit low and moderate-income tenants. This finding incorporates the conditions and causes reported in the following OIG audit report of the Authority's: Section 8 Housing Program (Audit Report # 2003-CH-1010 issued on March 21, 2003); Comprehensive Improvement Assistance Program (Audit Memorandum Report # 2003-CH-1011 issued on March 24, 2003), administration of its Resident Council's Tenant Opportunities Program (Audit Memorandum Report # 2003-CH-1012 issued on March 25, 2003); Public Housing Drug Elimination Program (Audit Memorandum Report # 2003-CH-1013 issued on March 26, 2003); and Public Housing Program include in this report.

Federal Requirements

24 CFR Part 24.110 permits HUD to take administrative sanctions against employees or recipients under HUD assistance agreements that violate HUD's requirements. The sanctions include debarment, suspension, or limited denial of participation that are authorized by 24 CFR Parts 300, 400, or 700, respectively. HUD may impose administrative sanctions based upon the following conditions:

- Failure to honor contractual obligations or to proceed in accordance with contract specifications or HUD regulations (limited denial of participation);

- Deficiencies in ongoing construction projects (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 pursuant to a grant of financial assistance or pursuant to 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 as to affect 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);

- Any other cause so serious or compelling in nature that it affects the present responsibility of a person (debarment); or

- Material violation of a statutory or regulatory provision or program requirements applicable to a public agreement or transaction including applications for grants, financial assistance, insurance or guarantees, or to the performance of requirements under a grant, assistance award, or conditional or final commitment to insure or guarantee (debarment).

The Authority's By-Laws

The Authority's By-Laws requires its Executive Director to keep regular books of accounts showing receipts and expenditures and render to the Authority, at each regular meeting (or more often when requested), an account of his transactions and the financial condition of the Authority.

Responsibilities Of Board Of Commissioners And Executive Director

Public Housing Authority Commissioners have a responsibility to HUD to ensure national housing policies are carried out, and to the Authority's management staff and employees to provide sound and manageable directives. The Board of Commissioners is accountable to their locality and best serve it by monitoring operations to be certain that housing programs are carried out efficiently and effectively.

The responsibility for carrying out the Board of Commissioners' policies and managing the Housing Authority's day-to-day operations rests with the Authority's Executive Director. In particular, the Director must maintain the Housing Authority's overall compliance with its policies and procedures and Federal, State, and local laws.

Board Of Commissioners Did Not Perform All Of Its Administrative Responsibilities

Resolution 4 of the Housing Authority's Board meeting minutes dated March 23, 1970 states regular meetings of the Authority's Board will be held on the second Thursday of each month at 7:30 p.m. The Authority's Board meeting minutes for January 1999 to March 2002 showed there were 28 meetings. However, the Authority should have held 39 meetings per its Resolution. Therefore, the Authority's Board of Commissioners did not perform its responsibilities according to the Authority's March 1970 Resolution.

The Authority's Board did not always follow the requirements of the Ohio Revised Code. Our review of the Board meeting minutes showed only eight of the 28 Board meetings were announced to the public.

The Authority's Chairman did not always sign or document approval of resolutions and Board meeting minutes. Sixty-five of 78 resolutions since January 1999 were not signed or documented as approved by the Chairman of the Board. Twenty-seven of the 28 Board meetings lacked supporting documentation for disbursements approved. As a result, HUD and the Authority lacked assurance that resolutions discussed and approved by the Board were implemented.

The Authority's Management Did Not Protect HUD's Interest

The Authority's Board of Commissioners did not adequately exercise its responsibility to effectively manage the Authority. The Authority did not follow HUD's requirements, Office of Management and Budget Circular A-87, State of Ohio law, or its own policies. The Board also did not adequately oversee the administration of the Authority.

The Authority's management did not ensure that $287,224 of Comprehensive Improvement Assistance Program funds were used to improve living conditions for its tenants. The Authority used $72,329 of its Program funds without ensuring that the funds benefited its Public Housing residents. Additionally, the Authority inappropriately used $36,408 in Program funds for the salary of its former Executive Director to oversee the Program's repairs. No documentation was maintained to support the use of these funds (see Comprehensive Improvement Assistance Program Audit Memorandum Report # 2003-CH-1011).

The Authority used $37,987 of its Public Housing Program funds for unsupported ($33,284) and ineligible expenditures ($4,703) between January 1999 and November 2001. The Authority's former Executive Director and its Board of Commissioners failed to diligently exercise their duties and the Authority lacked procedures and controls to follow. The Board not only failed to request and review documentation for disbursements made with the Authority's funds, but they also did not approve the disbursements before payments were made (see Finding 5 of this report).

The Authority did not follow its occupancy policies. The Authority did not correctly compute tenants' income and rent, or assign housing units in accordance with its policy. As a result, the Authority lost $16,708 in rental income and overcharged its Public Housing tenants $5,069 for rent (see Finding 7 of this report).

Public Housing And Section 8 Units Had Health And Safety Violations

The Housing Authority's Public Housing and Section 8 units contained health and safety violations. A total of 339 health and safety violations were found in all 36 Public Housing units inspected. Thirty-three of the 34 (97 percent) Section 8 units inspected had 521 Housing Quality Standards violations. The violations existed because: (1) the Authority's Housing Inspector lacked adequate training; (2) the Authority did not conduct Public Housing unit inspections in a timely manner; (3) quality control reviews of Section 8 units were untimely or not performed; and (4) the Authority's former Executive Director did not exercise supervision and oversight over unit inspections. As a result, tenants were subjected to conditions that were hazardous to their health and safety (see Finding 5 of this report and the Section 8 Program Audit Report Number #2003-CH-1010).

The Authority Lacked Adequate Controls For Operations

The Authority did not follow its personnel practices. Job performance evaluations were not conducted between January 1999 and November 2001. In May 1998 and December 1999, the Authority paid a total of approximately $13,320 in cash bonuses to all of its employees. The Authority's former Director received over $20,000 in salary increases and a truck valued at $2,000 between September 1999 and May 2001. The Board did not have any documented basis for approving the pay increases or providing the truck. The Authority's Chairman said he relied on the former Director to recommend pay raises and bonuses for management and employees (see Finding 2 of this report).

The Authority did not review or adjust its Public Housing or Section 8 utility allowances for over 42 months. The

Authority also lacked documentation to support how its utility allowances were determined. Federal regulations require housing authorities to document how utility allowances are determined and to review the allowances annually to determine whether adjustments are needed. The Authority's Public Housing Manager said she was aware that utility allowances were not updated and she could not remember when the utility allowances were last updated. As a result, HUD and the Housing Authority lack assurance that the utility allowances are appropriate (see Finding 3 of this report). Further, HUD and the Housing Authority lack assurance the utility allowances are appropriate for Section 8 tenants (see Section 8 Housing Program Audit Report # 2003-CH-1010).

The Authority did not follow its Memorandum of Understanding with the Authority's Resident Council and the Grant Agreement regarding the financial administration of the Council's Tenant Opportunities Program Grant. Specifically, the Authority requested $41,827 in Grant funds without supporting documentation to show the funds were for reasonable and necessary Program expenses and drew down $4,796 of Grant funds in excess of actual Program expenses (see Tenant Opportunities Program Audit Memorandum Report # 2003-CH-1012).

The Authority did not follow Federal requirements regarding its Public Housing Drug Elimination Program. Specifically, the Housing Authority: (1) drew down $15,284 of Public Housing Drug Elimination Program funds in excess of actual Program expenses; (2) used $5,760 in Drug Elimination Program funds to pay two resident security guards who had criminal histories, had no previous experience providing security services, and did not receive any security services training; and (3) failed to monitor and evaluate the Program's activities to ensure that they achieved their intended objectives (see Public Housing Drug Elimination Audit Memorandum Report # 2003-CH-1013).

The Authority did not maintain an effective system of controls over its contracting process. The Authority failed to follow Federal requirements for full and open competition regarding the procurement of goods and services. The Authority's Board of Commissioners and management did not exercise their responsibilities to implement effective contracting controls (see Finding 6 of this report).

An employee of the Authority was allowed to collect rental payments and maintain the tenants accounts receivable records. Another employee collected and deposited laundry receipts. Involving more than one person in the rental payment collections and laundry receipts process provides a check on the appropriateness of each other's actions (see Finding 8 of this report).

Since the Housing Authority's current Director was hired in August 2001, only he is signing the Authority's checks. Two signatures should always be required to ensure the safeguarding of the Authority's monetary assets. The Board has ultimate responsibility for ensuring that the Authority is acting legally and with integrity in its daily operations (see Finding 8 of this report).

The Authority failed to safeguard property from loss, theft, or misuse. The Authority's maintenance employees said two riding lawn mowers were taken to the former Executive Director's residence by the Authority's maintenance staff and never returned to the Authority. The Authority had documentation of the disposition of one of the two mowers. The Authority's Chairman was not aware the former Director requested to take the mowers or had the mowers. The Authority's Maintenance Supervisor said he delivered a mower to the repair shop and returned it to the former Director's residence. The Board did not authorize the transfer of the mowers to the former Director or the subsequent repairs made to one of the two mowers after the former Director had possession (see Finding 9 of this report).

Auditee Comments

[Excerpts paraphrased from the comments provided by the Housing Authority's Executive Director on our draft audit report follows. Appendix B, page 92, contains the complete text of the comments for this finding.]

The Housing Authority's Board of Commissioners did exercise their rights and responsibilities to the Authority based upon information provided by the former Executive Director, former Finance Director, and other partnering entities. On October 17, 2001, the Board eliminated the Finance Director position. The former Finance Director refused to provide adequate financial records for the regular scheduled Board meetings.

The Authority's current Executive Director has scheduled regular monthly meetings as well as emergency meetings to address issues for Board resolution. While not offering an excuse, the Board relied heavily upon the former Executive Director's leadership due to his long tenure with HUD. The Board was never informed by the former Executive Director or any oversight agency of any wrong doing until this audit by HUD's Office of Inspector General.

The Authority followed the State of Ohio law when scheduling its Board meetings. HUD's Troubled Agency Recovery Center advised that the Board must sign all resolutions. The Authority's process will require the person making the motion and the person seconding the motion, sign the resolution effective with the March 2003 Board meeting. The Authority's current Executive Director provides monthly check registers for the Board's review and resolutions for payment at each Board meeting. In addition, at least one Board member must sign all checks.

HUD's Troubled Agency Recovery Center is providing additional training and expertise to the Board so they may manage the Authority better.

OIG Evaluation Of Auditee Comments

Public Housing Authority Commissioners have a responsibility to HUD to ensure national housing policies are carried out, and to the Authority's management staff and employees to provide sound and manageable directives. The Board of Commissioners is accountable to their locality and best serve it by monitoring operations to be certain that housing programs are carried out efficiently and effectively.

The actions taken by the Authority, if fully implemented, may improve its operations. However, the Authority needs to implement procedures and controls to ensure its Board meetings comply with the Ohio Revised Code. Additionally, the Authority must adopt controls to ensure that a quorum of members is present before conducting Board meetings.

The actions taken by the Troubled Agency Recovery Center, if fully implemented, may assure that the Authority's Board of Commissioners administers the Authority according to Federal, State, and its own requirements.

Recommendations

We recommend that HUD's Acting Director of Troubled Agency Recovery Center, Cleveland Field Office, assure that Coshocton Metropolitan Housing Authority:

1A. Adopts controls that will ensure that a quorum of members is present before conducting Board meetings.

1B. Implements procedures and controls to ensure Board meetings comply with the Ohio Revised Code.

We also recommend that HUD's Acting Director of the Troubled Agency Recovery Center, Cleveland Field Office:

1C. Takes administrative action against the Housing Authority's former Executive Director, current Director, and its Board of Commissioners for failing to administer the Authority according to Federal, State, and its own requirements. If HUD does not pursue administrative action, then HUD should provide training and technical assistance to the Authority's Executive Director and/or the Board of Commissioners regarding their duties and responsibilities.

1D. Takes the appropriate action against the Housing Authority for its default of Section 17(b)(3) of the Annual Contributions Contract.

1E. Conducts an election to determine whether the Public Housing residents want a transfer of the management to another entity as permitted by Section 25 of the Housing Act of 1937.

1F. Determines the feasibility of the Housing Authority being combined with another Public Housing

Authority as permitted by Section 13 of the Housing Act of 1937.


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Personnel Policies Were Not Followed

The Coshocton Metropolitan Housing Authority did not: (1) have documentation to support $72,329 in payroll expenditures and $22,500 for contracted personnel services; (2) use $71,463 of its Public Housing Program funds in accordance with Federal requirements; (3) have documentation to support $2,985 in travel reimbursements; (4) follow Federal and State requirements to avoid conflicts of interest; (5) keep complete personnel files; (6) prepare job performance evaluations; (7) follow its Personnel Policy when hiring employees; and (8) maintain complete and accurate payroll records. These problems existed because the Authority did not follow Federal requirements, State of Ohio law, its personnel policies, and the Collective Bargaining Agreement. In addition, the Authority's Board of Commissioners and top management did not follow sound management practices in administrating its Public Housing Program. As a result, HUD and the Authority had no assurance that funds used for salaries and benefits actually benefited the Authority's Program or whether promotions and pay increases were based on merit. Also, complete personnel files would help ensure that employees are treated equitably.

Federal Requirements

The Annual Contributions Contract, C-5081, Section 9, Part C, states the Housing Authority may withdraw funds from its general fund only for payment of operation costs for the housing authority. Section 15, Books of Account, Records, and Government Access, Part A, requires the Authority to maintain complete and accurate books of accounts and records.

24 CFR Part 85.22(b) requires that State, local, and Indian tribal governments follow Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments. 24 CFR Part 85.3 defines a local government to include any public housing agency.

Office of Management and Budget Circular A-87, Attachment B, Part (11)(h)(4) and (5), states where employees work on multiple activities, an allocation of their salaries or wages will be supported by personnel activity reports. The activity reports must include an after the fact allocation of the actual activity of each employee, the employee's signature, and be prepared at least monthly.

The Authority's General Personnel Policy

The Authority's General Personnel Policy, dated November 21, 1994, page 5, required the Authority to maintain confidential personnel records for each employee. In addition, the Authority's Policy requires the Executive Director to evaluate all employees annually. The Authority's Board will evaluate the Executive Director. Evaluations are to be considered in all personnel changes.

Collective Bargaining Agreement

The Collective Bargaining Agreement, between the Housing Authority and Ohio Council 8 and Local 343 of the American Federation of State, County, and Municipal Employees, effective April 1, 1997, addresses conditions of employment for six of the Authority's employees. The employees include the Authority's Administrative Assistant, Section 8 Coordinator, Program Assistant, Public Housing Coordinator, and two Maintenance Laborers. The Agreement was renegotiated in July 2001.

The Authority Could Not Support $72,329 In Payroll Costs

Office of Management and Budget Circular A-87, Attachment A, Part (C)(1)(j), states in order for costs to be allowable they must be adequately documented. Attachment B, Section 11(h)(1) of the Circular states charges to Federal awards for salaries and wages will be based on payroll records documented in accordance with the practice of the governmental unit and approved by a responsible official. Furthermore, the Annual Contributions Contract requires the Authority to maintain complete and accurate books of account and records.

The Authority lacked payroll records to support $72,329 paid for salaries and wages between January 1999 and April 2002. We reviewed all 86 pay periods between January 1999 and April 2002. The Authority's payroll records did not include timesheets for all employees for each pay period.

The following table shows the number of pay periods with missing timesheets and the amount of unsupported wages for each employee.

Employee	*Pay Periods With Missing Timesheets*	*Unsupported Wages*
Former Finance Director	64	$64,226
Former Public Housing Coordinators	3	2,616
Attorney	3	2,475
Public Housing Manager	2	1,445
Section 8 Coordinator	1	814
Former Maintenance Supervisor	1	753
Total		$72,329

The Authority's Chairman of the Board of Commissioners said he did not know employees were required to submit timesheets. For example, the Authority's former Finance Director was employed for 74 of the 86 pay periods reviewed. Timesheets for 64 of the 74 pay periods were not in the Authority's payroll records.

The Housing Authority lacked payroll records to support all wages paid to its employees. The Authority did not have adequate controls and procedures to ensure that timesheets were received from all employees and the responsible officials reviewed and approved them. As a result, HUD and the Authority had no assurance that $72,329 paid for salaries and wages actually benefited the Authority's Public Housing Program, and the Authority had no assurance that the unsupported salaries and wages were accurate.

The Authority Could Not Support $22,500 Paid To A Consulting Company

The Authority could not support $22,500 paid to SBI Corporation for consulting services between November 2001 and April 2002. In November 2001, the Authority contracted with SBI to provide 37.5 hours of support staff per week at a cost of $4,500 a month. The contracted services included Section 8 unit housing inspections, training for the Authority's personnel for the set up of Public Housing and Section 8 tenant files, and implementation of standard operating procedures.

The Housing Authority had documentation that showed SBI Corporation performed 131 Housing Quality Standards inspections of the Authority's Public Housing and Section 8 Housing units. However, the Authority did not have documentation to identify the support staff and the amount of time spent providing services to the Authority. In addition, the Authority was unable to provide documentation that SBI provided training to the Authority's personnel and drafted standard procedures.

Without documentation, HUD and the Authority had no assurance that $22,500 paid for the consulting services was used to benefit its housing programs, and the Authority had no assurance that payments for contracted services were accurate.

The Authority Spent $71,463 For Work Unrelated To Its Operations

Office of Management and Budget Circular A-87, Attachment B, Part (11)(h)(4) and (5), require that if employees work on multiple activities, an allocation of their salaries or wages will be supported by personnel activity reports. The activity reports must include an after the fact allocation of the actual activity of each employee, the employee's signature, and be prepared at least monthly.

The Authority acquired management of the Orchards Apartments, a multifamily housing project, in June 2000. Between June 2000 and May 2001, five of the Authority's employees performed duties related to the project. The Authority's employees included its former Executive Director, former Public Housing Coordinator, former Maintenance Laborer, former Maintenance Supervisor, and the Administrative Assistant. Duties performed at the project included assisting and supervising the rehabilitation of housing units, conducting administrative, occupancy and admissions, and rent collections.

The Authority's allocated costs for its employees' salaries did not accurately reflect the actual time that employees worked at the project. Further, the Authority did not provide documentation to support its allocation.

For example, the Authority's records indicated that the former Executive Director spent 23 percent of his time performing duties related to the project between June and September 2000. The Authority's former Executive Director said he spent 99 percent of his time at the project during this time period. However, the former Director estimated that he only spent 23 percent of his time working on the project's activities. The Authority's Administrative Assistant said the former Executive Director spent at least four days per week or 80 percent of his time, at the project between June and December 2000, and two days per week or 40 percent of his time, between January and April 2001. The Authority did not have documentation to support the former Executive Director's time.

The Authority allocated 69 percent of its former Public Housing Coordinator's salary between June and September 2000 to the project. However, the former Coordinator said she spent 80 percent of her time working on duties related to the project during this period. The Authority's former

Maintenance Supervisor said he spent 100 percent of his time working on duties related to the project from June to December 2000, not the 73 percent as shown in the Authority's records. Furthermore, the Authority paid 100 percent of its Administrative Assistant's salary but she said she spent 60 percent of her time at the project. The Authority did not maintain records to support the time that its employees spent related to the project.

The Housing Authority's former Executive Director said the Authority's allocation of salary costs for work at the project was accurate. He said the actual time may have differed slightly, but any difference was not significant. Office of Management and Budget Circular A-87, Attachment B, requires that salary allocations be supported with personnel activity reports. The Authority's calculations were based on the former Executive Director's personal observations during the initial 60 days the Authority began managing the project.

The Authority could not provide any documentation to support its allocation of employees' time spent working at the project. According to the Authority's former Executive Director, without a time clock he had no other way to determine the exact time employees spent working on duties related to the project. The former Director did not allocate any of the Administrative Assistant's salary cost to the project. As previously mentioned, the Authority's Administrative Assistant said she spent 60 percent of her time at the project. The Authority's former Executive Director said the Administrative Assistant provided only periodic assistance on project duties. However, he agreed that the Authority's Public Housing Program was not permitted to pay for time spent performing duties related to the project.

We interviewed employees to determine an estimate of the amount of time they spent working at the project. The following table includes: the Authority's employees who performed work for the project; salary costs allocated per the Authority's records; salary costs allocated per employee estimates; and the project's costs paid with Authority funds.

Employees Assigned To The Project	Salary Costs Allocated Per Authority's Records	Salary Costs Allocated Per Employee Estimates	Project Costs Paid With Authority Funds
Former Executive Director	$14,381	$55,102	$40,722
Public Housing Coordinator	17,079	19,802	2,723
Former Maintenance Laborer	11,773	20,303	8,530
Maintenance Supervisor	19,940	25,190	5,250
Administrative Assistant	0	14,238	14,238
Totals	$63,173	$134,635	$71,463

The total amount for ineligible salary costs ($71,463) represents the actual salary and fringe benefit costs for time spent at the project between June 2000 and May 2001 ($134,635) less the amount previously allocated to the project ($63,173).

The Authority Paid $21,523 For Unauthorized Overtime

The Authority's Personnel Policy for Administrative, Management, and Confidential Employees requires the Executive Director to determine whether employees will receive compensatory time or overtime. The Authority's payroll records were reviewed for January 1999 through April 2002 to determine whether its employees' overtime hours was authorized. Overtime requests included the date and number of hours the Authority's employees requested to work. The requests also included the type of work to be performed during the overtime hours. However, the Authority's former Executive Director failed to ensure that employees' overtime requests were reviewed and approved as required by the Authority's Personnel Policy.

The following table shows by year: the number of overtime hours; the number of authorized overtime hours; the number of unauthorized overtime hours; total overtime paid; and the amount of unauthorized overtime paid.

Year	Overtime Hours	Authorized Overtime Hours	Unauthorized Overtime Hours	Overtime Paid	Unauthorized Overtime Paid
1999	626	84	542	$9,521	$8,263
2000	1,293	213	1,080	20,087	11,204
2001	441	335	106	7,367	1,810
2002	177	163	14	3,104	246
Totals	**2,537**	**795**	**1,742**	**$40,079**	**$21,523**

The Authority paid $21,523 for 1,742 hours of unauthorized overtime. The Authority did not have sufficient controls to ensure overtime was authorized and approved in accordance with its policies. As a result, the Authority paid $21,523 for unauthorized overtime.

Travel Was Not Supported, Authorized, Or Approved

The Authority's Personnel Policy for Administrative, Management, and Confidential Employees dated November 21, 1994 states employees or Commissioners may perform travel upon authorization by the Authority's Board or its Executive Director. The Executive Director must approve reimbursement of travel expenses. In addition, expenses must be supported with receipts. According to the Authority's Collective Bargaining Agreement, the employer must authorize travel in order for expenses to be eligible for reimbursement. The employer or designee must approve all travel related expenses for reimbursement. The Authority did not process travel reimbursements in accordance with its travel requirements.

To determine whether the Housing Authority followed its Travel Policy, we reviewed 37 travel reimbursements paid between January 1999 and June 2001. The Authority's former Executive Director or former Assistant Executive Director did not authorize 34 of the 37 (92 percent) travel reimbursements. The Authority lacked supporting documentation for $2,985 of the $3,196 it paid for travel reimbursement. Thirty-three of the 37 (89 percent) travel reimbursements lacked documentation to support the purpose of travel. HUD and the Authority cannot ensure that the travel reimbursements were correct or that funds paid for travel benefited the Authority's Public Housing Program. The Authority did not follow its procedures for the approval and payment of travel expenses. The

Authority's former Executive Director said he was unaware of the travel provisions in the Authority's Collective Bargaining Agreement and its Personnel Policy. As a result, the Authority paid $2,985 for unsupported travel expenses.

The Authority's Executive Director Had A Conflict Of Interest With A Contractor

Chapter 2921.42 of the Ohio Revised Code states a public official may not authorize or use their authority to secure a public contract for themselves, family members, or business associates. The Code defines a public official as any elected or appointed officer, employee, or agent of the State or any political subdivision. The Code states a housing authority is a political subdivision. The Annual Contributions Contract, Section 19, states neither the Housing Authority nor any of its contractors may enter into any contract, subcontract, or arrangement in connection with a project under the Contract with anyone who has an interest, direct or indirect, during his or her tenure. Such individuals include any employee of the Authority who formulates policy or who influences decisions with respect to the Authority.

In November 2001, the Authority's Board entered into an agreement with SBI Corporation to provide personnel services. The Authority's current Executive Director was also an employee of Broad Street Management Company, a wholly owned subsidiary of SBI Corporation, and signed the agreement for SBI. The Housing Authority's Chairman said the current Executive Director suggested the Authority contract with his company to provide the personnel services. The Authority's Board was aware the current Executive Director continued his employment with Broad Street Management while employed as the Authority's Executive Director. The Authority's Board did not consider the current Executive Director's dual employment with the Authority's contractor a conflict of interest. The Authority's Chairman said he was not familiar with the Federal and State requirements regarding conflicts of interest. As a result, HUD lacks assurance that the Authority's agreement was subject to free and open competition.

The Authority's Leave Records Did Not Reconcile

Leave balances shown on the Authority's Balance Sheet for Fiscal Years 2000 and 2001 did not agree with its payroll records. The Annual Contributions Contract requires the

Authority to maintain complete and accurate records. The following table shows the difference between the sick leave liability shown in the Authority's records and the sick leave recorded on the Authority's Balance Sheet for the Authority's Fiscal Years ending June 2000 and 2001.

Fiscal Year Ending	Sick Leave Balance Per Authority Records	Sick Leave Liability Per Balance Sheet	Difference
June 2000	$49,676	$48,119	($1,557)
June 2001	$51,389	$48,550	($2,839)

Our comparison indicates the liability for sick leave on the Authority's Fiscal Year 2000 Balance Sheet was understated by $1,557. The sick leave liability was understated by $2,839 on the Authority's 2001 Balance Sheet. Similarly, the liability for vacation leave does not reconcile. The following table shows the difference between the vacation leave liability shown in the Authority's records and the vacation leave recorded on the Authority's Balance Sheet for the Authority's Fiscal Years ending June 2000 and 2001.

Fiscal Year Ending	*Vacation Leave Balance Per Authority Records*	*Vacation Leave Liability Per Balance Sheet*	*Difference*
June 2000	$23,624	$24,176	$552
June 2001	$14,637	$14,892	$255

The Authority's Fiscal Year 2000 Balance Sheet overstated its liability for vacation leave by $552, while the vacation leave for Fiscal Year 2001 was overstated by $255. The Annual Contributions Contract states the Authority must maintain complete and accurate books of accounts and records. The Authority's former Finance Director was responsible for employees' leave records. He said the errors might have occurred when recording the leave for one or more employees. As a result, the Authority had no assurance its leave balances were correct.

The Authority Did Not Maintain Complete Personnel Files

The Authority's General Personnel Policy requires each employee's personnel file to include a resume and/or application, a job description, salary changes, annual performance evaluations, any personnel actions, and a withholding statement. However, the Authority did not maintain complete personnel files. We reviewed all of the Authority's personnel files to determine whether the Housing Authority maintained personnel files according to its Policy.

Of the 15 personnel files reviewed: (1) three did not contain an application or resume; (2) three did not contain job descriptions; (3) four lacked records of salary changes; (4) nine did not include performance evaluations; and (5) three did not contain withholding statements. Furthermore, the Authority did not maintain a personnel file for its former Executive Director. The Authority's former Executive Director said a routine file review was not conducted to ensure the Authority's personnel files were complete and accurate. Without complete personnel files, the Authority and HUD lack assurance that employees are qualified and treated equitably.

The Authority Did Not Conduct Performance Evaluations

The Authority's General Personnel Policy requires its Executive Director to prepare an annual performance rating for each employee. The Authority did not conduct annual performance evaluations of employees between January 1999 and November 2001. As previously mentioned, nine of the 15 personnel files reviewed did not include performance evaluations. The dates of evaluations for four employees ranged from May 1990 to July 1991. The Authority did not maintain a file for its former Executive Director. The Authority's Board is responsible for evaluating the Executive Director. However, no performance evaluations were conducted.

Despite not having performance evaluations, all employees received salary increases and bonuses. In May 1998 and December 1999, the Authority paid a total of $7,585 and $5,735, respectively, to its employees as bonuses. In June 2000, the Authority's Board approved a $27,000 annual pay raise for its former Executive Director. In addition, the Authority's Board authorized a bonus to the former Executive Director of a truck with a fair market value of $2,000. The Authority's personnel files lacked any basis for approving employees' pay increases and bonuses. The Authority's Chairman said he was not aware the Personnel Policy required the Authority's Board to evaluate the Executive Director.

The Authority's former Executive Director said he revised all job descriptions in an effort to begin to conduct performance evaluations. He also said evaluations for employees covered by the Authority's Collective Bargaining Agreement would be for training purposes only because the Agreement did not include a provision for performance evaluations. However, the Authority's Union Representative said the Agreement did not prohibit the Executive Director from preparing an evaluation during an employee's probationary period. Furthermore, the Agreement only applied to bargaining unit employees and did not prohibit the evaluation of the Authority's management staff.

In December 2001, the Authority's current Executive Director conducted performance evaluations of all employees. Additionally, two of the Authority's Board members completed evaluations of the current Executive Director's performance in March 2002.

Vacant Positions Were Not Filled Appropriately

The Authority's General Personnel Policy and its Collective Bargaining Agreement require positions to be posted internally or publicly advertised. Advertisements were to include job qualifications. However, the Authority did not fill positions in accordance with its Policy or Bargaining Agreement.

In July 2000, the Authority promoted employees to the positions of Finance Director, Assistant Director/Public Housing Coordinator, and Maintenance Supervisor. The Authority also hired a Maintenance Laborer and a Public Housing Coordinator. In October 2001 and January 2002, the Authority hired another Maintenance Supervisor and an Attorney, respectively. The Authority lacked documentation to support the positions were advertised in accordance with its General Personnel Policy or Bargaining

Agreement. As a result, the Authority cannot be assured that promotions and selections were equitable, and that qualified employees were selected.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Housing Authority's Executive Director on our draft audit report follows. Appendix B, pages 92 to 94, contains the complete text of the comments for this finding.]

Due to the limited amount of time to gather documentation, the Housing Authority cannot comment on the $72,329 of unsupported salaries and wages. The information contained in the finding is not sufficient to understand the intent of the finding. The Authority would like additional supporting documentation from HUD's Office of Inspector General.

The $22,500 for contract personnel services has been documented with a timeline and services rendered which are attached to each check written to the vendor.

The Housing Authority does not understand the use of $71,463 of Authority funds was not in accordance with Federal requirements. The Authority does not believe this finding is substantiated. Subordinate staff providing their personal allocation of time spent on various activities may not reflect the intent of the Authority's former Executive Director and its former Finance Director. The staff's input should not be as heavily weighted to the correct allocation as the allocations made by the former Executive Director.

Travel expenses were not reviewed under the former Executive Director. The Authority is in the process of reviewing non-bargaining employees' policies and procedures.

The Authority's current Executive Director created an alleged conflict of interest by signing the personnel services contract on behalf of SBI Corporation due to its President being out of town. The contract was a short-term solution so that additional personnel could be brought in to address crucial financial issues left by the Authority's former Executive Director.

OIG Evaluation Of Auditee Comments

The Authority did not maintain complete and accurate records in accordance with its Annual Contributions Contract and Office of Management and Budget Circular A-87. For example, the Authority's payroll records lacked timesheets for all employees for each pay period. We provided the Authority's Executive Director a schedule listing the pay periods for which timesheets were available based upon the Authority's records.

The Authority did not provide supporting documentation for the consulting services provided by SBI Corporation. Therefore, the Authority should provide documentation to support the services provided by SBI or reimburse its Public Housing Program from non-Federal funds for the appropriate amount.

The Authority's former Executive Director acknowledged that the Authority's staff did indeed perform duties related to the operations of the Orchards Apartments, a multifamily project that the Authority formerly managed. The Authority created a receivable on its books for repayment of the salary allocations based upon the former Executive Director's estimates. We interviewed the Authority's staff that worked at the multifamily project to determine whether the estimates were correct. Based upon information provided by the Authority's staff, we determined that the Authority used $71,463 of its funds for the salaries unrelated to its Public Housing operations in violation of the Annual Contributions Contract.

While the Authority's interim travel procedures may improve its operations, the Authority needs to establish procedures and controls to ensure that travel is authorized and that travel reimbursement requests are reviewed and approved.

A conflict of interest was created when the Authority entered into a contract with SBI Corporation. The Ohio Revised Code states a public official may not authorize or use their authority to secure a public contract for themselves or business associates. Additionally, the Annual Contributions Contract between HUD and the Authority prohibits any Authority employee who formulates policy or influences decisions with respect to the Authority entering into a contract with anyone who has an interest, direct or indirect, during his tenure. Therefore, the Authority's payments to SBI were inappropriate.

The Authority needs to review its existing contracts to determine whether conflicts of interest exist as defined by the Annual Contributions Contract and the Ohio Revised Code. The Authority's Board should discontinue the existing contracts if it determines that any conflict of interest exists. Furthermore, the Authority should establish procedures and controls to prevent any future conflicts of interest involving Authority employees and officials.

Recommendations

We recommend that HUD's Acting Director of Troubled Agency Recovery Center, Cleveland Field Office, assure that the Coshocton Metropolitan Housing Authority:

2A. Provides documentation to support the $72,329 of unsupported salaries and wages cited in this finding. If documentation cannot be provided, the Authority should reimburse its Public Housing Program the appropriate amount from non-Federal funds.

2B. Provides documentation to support the $22,500 of unsupported contract personnel services. If documentation cannot be provided, the Authority should reimburse its Public Housing Program the appropriate amount from non-Federal funds.

2C. Reimburses $71,463 to its Public Housing Program from non-Federal funds for work performed at the Orchards Apartments project.

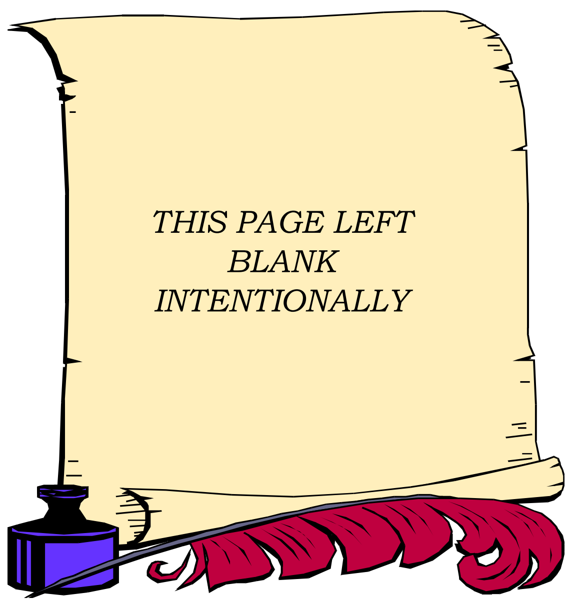
2D. Provides documentation to support the $2,985 of unsupported travel reimbursements. If documentation cannot be provided, the Authority should reimburse its Public Housing Program the appropriate amount from non-Federal funds.

2E. Implements procedures and controls to ensure that travel is authorized and travel reimbursement requests are reviewed and approved.

2F. Reviews existing contracts to determine whether conflicts of interest exist as defined by its Annual Contributions Contract and the Ohio Revised Code. The Authority's Board should discontinue any existing contracts if it determines that any conflict of interest exists.

2G. Implements procedures and controls to prevent conflicts of interest as defined its Annual Contributions Contract and the Ohio Revised Code.

2H. Establishes procedures and controls to ensure that its payroll records are complete and accurate.



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Public Housing Utility Allowances Were Not Adjusted

The Coshocton Metropolitan Housing Authority did not periodically review its Public Housing utility allowances as required. The Authority lacked documentation to support how its current utility allowances were determined. HUD's regulations require housing authorities to document how utility allowances are determined and annually determine whether adjustments are needed. The Authority's Public Housing Manager said she was aware that utility allowances were not updated; however, she could not remember when the utility allowances were last updated. As a result, HUD and the Housing Authority lack assurance that the utility allowances are appropriate.

HUD's Regulations

24 CFR Part 965.502(a) requires public housing authorities to establish allowances for resident-purchased utilities. Part 965.502(b) states public housing authorities are to maintain records that document the basis as to how the allowances were determined. 24 CFR Part 965.507(a) requires public housing authorities to review utility allowances at least annually.

Sample Selection Of Utility Allowances Reviewed

We selected a statistical sample of the Authority's Public Housing units using Computer Assisted Audit Tools, including ACL computer software application. A statistical sample of 32 Public Housing units was selected from the Authority's 131 units. We selected an additional four Public Housing units based upon tenant complaints. All 36 tenant files were reviewed to determine whether the current utility allowances were sufficient.

Utility Allowances Were Not Analyzed For Over 42 Months

The Authority's current utility allowances were not reviewed or revised for over 42 months. The only documentation the Authority could provide was a utility allowance schedule dated September 21, 1998. However, the Authority's Public Housing Manager said she could not remember when the utility allowances were last updated.

To determine whether the Authority's current utility allowances were adequate, we contacted American Electric Power and Columbia Gas of Ohio companies to obtain the average utility costs of the Authority's units for a 12-month period. Columbia Gas provided the average monthly natural gas costs for each of the 36 Public Housing units in our sample selection. American Electric Power provided actual monthly utility costs for two one-bedroom units, 23 two-bedroom units, six three-bedroom units, and five four-bedroom units. From this information, we calculated a monthly average electric utility cost for the Authority's one, two, three, and four-bedroom units. We added the average gas utility cost to the average electric utility cost to determine the average utility cost for each of the Authority's bedroom size units. The Authority's Public Housing utility allowances include the combined electric and gas utility cost for each bedroom size.

We determined that utility costs increased and the Housing Authority should conduct a utility cost allowance review. The following table shows the Authority's utility allowances and our calculated average utility costs per unit based upon actual costs. The dollar amounts in the table are on a per month basis.

Unit Size	Authority's Utility Allowance Per Unit	Average Utility Costs Per Unit
One Bedroom	$32	$41.52
Two Bedroom	41	66.18
Three Bedroom	49	70.37
Four Bedroom	61	98.30

The Authority Lacked Documentation To Support Its Utility Allowances

The Authority lacked documentation to support how its Public Housing tenant utility allowances were determined. The Authority's Public Housing Manager said she did not know how or when the utility allowances were established. However, a utility allowance schedule dated September 21, 1998 was presented to us. Based on the schedule, the Authority's Public Housing Manager assumed the utility allowances were last reviewed and updated in 1998. The Authority's schedule contained a dollar amount representing the combined utility allowances for the gas and electric utility costs. The Authority lacked documentation to support how it calculated the Public Housing utility allowances.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Housing Authority's Executive Director on our draft audit report follows. Appendix B, page 94, contains the complete text of the comments for this finding.]

The Authority's records do reflect that utility allowances were not reviewed or adjusted timely. However, the Authority implemented preventative measures.

OIG Evaluation Of Auditee Comments

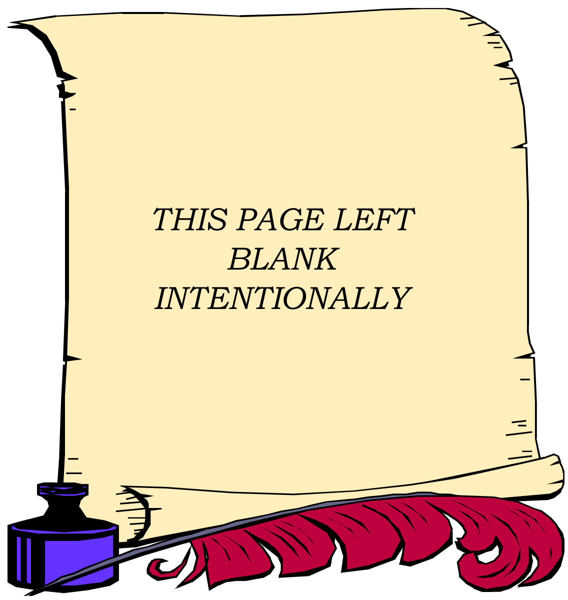
The actions taken by the Authority, if fully implemented, should correct the problems identified in this finding provided that the Authority implements procedures and controls to ensure tenant's utility allowances meet HUD's regulations.

Recommendations

We recommend that HUD's Acting Director of Troubled Agency Recovery Center, Cleveland Field Office, assure that the Coshocton Metropolitan Housing Authority:

3A. Implements procedures and controls to ensure tenant's utility allowances, as applicable, are reviewed annually and maintain documentation to support how the allowances are calculated as required by HUD's regulations.

3B. Conducts utility allowance reviews to cover the period between October 1998 and May 2002.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Public Housing Units Had Health And Safety Violations

The Coshocton Metropolitan Housing Authority's Public Housing units contained health and safety violations. A HUD Construction Analyst inspected a sample of 36 Public Housing units that were selected using ACL computer software application. A total of 339 Housing Quality Standards' violations were found in the 36 Public Housing units. The violations existed because: (1) the Authority's Housing Inspector lacked adequate training; (2) the Authority failed to conduct Public Housing unit inspections in a timely manner; and (3) the Authority's management failed to exercise supervision and oversight over their inspections. As a result, tenants were subjected to conditions that were hazardous to their health and safety, and HUD funds were not used efficiently and effectively.

HUD's Requirements

Section 3 of the Annual Contributions Contract, between HUD and the Housing Authority, requires the Authority to administer its Public Housing Program for the purpose of providing decent, safe, and sanitary housing to eligible families in accordance with the Contract and applicable statutes, executive orders, and regulations.

Section 4 of the Annual Contributions Contract requires the Housing Authority to at all times develop and operate each project solely for the purpose of providing decent, safe, and sanitary housing for eligible families in a manner that promotes serviceability, economy, efficiency, and stability of the projects, and the economic and social well-being of the tenants.

Sample Selection And Inspection Reports

We selected a statistical sample of the Authority's Public Housing units using Computer Assisted Audit Tools, including ACL computer software application. A statistical sample of 32 Public Housing units was selected from the Authority's 131 units. We selected four additional Public Housing units based upon tenant complaints. The units were selected to determine whether the Housing Authority assured its units were maintained according to HUD's Housing Quality Standards.

During August and September 2001, a HUD Construction Analyst inspected the Authority's 36 Public Housing units. HUD's Construction Analyst has a bachelor's degree in industrial engineering technology and 23 years experience inspecting properties for HUD.

We provided the inspection results to HUD's Director of the Cleveland Field Office of Public Housing Hub and the Authority's Executive Director. The inspection results were subsequently provided to HUD's Cleveland Field Office of the Troubled Agency Recovery Center when the Authority was designated as a troubled housing agency in January 2003.

Public Housing Units Contained Health And Safety Violations

The Housing Authority's 36 Public Housing units inspected had 339 Housing Quality Standards violations. We determined through the HUD Construction Analyst's inspections and our interviews with tenants that violations existed in 32 of the 36 Public Housing units at the time of the Authority's last inspection in May 2000. The following table shows the violations by category:

Category of Violations	Number of Violations
Windows	**48**
Electrical Hazards	**46**
Security	**37**
Safety of Heating Equipment	**24**
Tub/Shower	**23**
Exterior Surface	**20**
Wall	**17**
Ceiling	**16**
Adequacy of Heating Equipment	**15**
Smoke Detector	**13**
Electricity	**10**
Water Heater	**10**
Other Potentially Hazardous Features	**8**
Sink	**8**
Interior Stairs/Common Halls	**6**
Flush Toilet In Enclosed Room	**6**
Roof/Gutters	**5**
Floor	**5**
Plumbing	**4**
Ventilation	**4**
Other Interior Hazards	**3**
Lighting	**2**
Space For Food Storage/Preparation/Serving	**2**
Water Supply	**1**
Sewer Connection	**1**
Interior Air Quality	**1**
Range/Stove With Oven	**1**
Site/Neighborhood	**1**
Refrigerator	**1**
Fixed Wash Basin or Lavatory In Unit	**1**
Total	**339**

Windows

Forty-eight window related violations were identified in 23 of the Authority's Public Housing units inspected. The violations included: cracked windows; missing trim; and missing window seals. The following pictures are examples of window condition violations.

The Public Housing unit located at 909 Magnolia Street had broken and severely fogged glass.

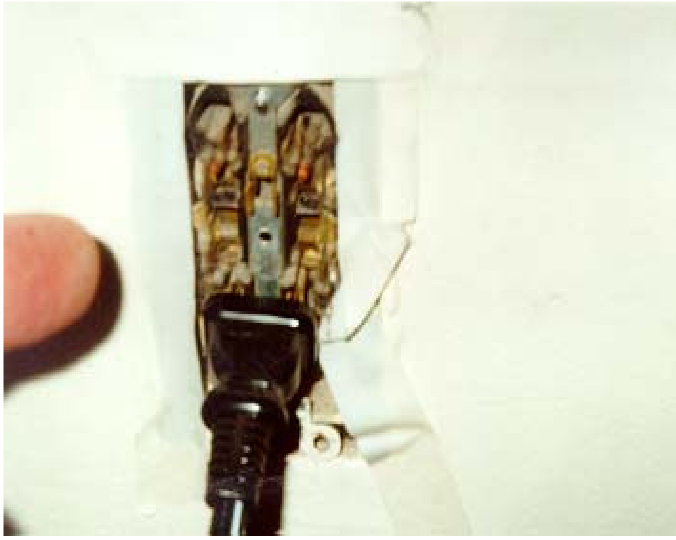
The Public Housing unit located at 911 Magnolia Street had a missing window seal which allowed air infiltration into the unit.

Electrical Hazards

Forty-six electrical hazard violations were identified in 23 of the Authority's Public Housing units inspected. The violations identified included: outlets not protected by ground fault circuit interrupters; missing cover plates on switches and outlets; cracked outlets; and exposed wires. The following pictures are examples of the electrical hazards violations.

A 220-volt electrical outlet box was pulled from the wall at the Public Housing unit located at 851 Magnolia Street.

An electrical outlet had exposed wires because the cover plate was missing in the Public Housing unit located at 761 Magnolia Street.



Security

Thirty-seven security hazard violations were identified in 27 of the Authority's Public Housing units inspected. The violations included such items as: front entry door dead bolt not working correctly; damaged storm doors; broken bedroom doors; and severely damaged doorframes. The following pictures are examples of the security violations.

The door on the Public Housing unit at 893 Magnolia Street had a severely damaged frame, which did not allow the dead bolt to work properly.

The entry door trim was split for the Public Housing unit at 318 ½ North Second Street.

HUD Funds Were Not Used Efficiently And Effectively

The Authority received $4,032 in Public Housing Operating Subsidy funding for July 2001 for the 36 Public Housing units that did not meet HUD's Housing Quality Standards. The estimated cost to repair the violations identified in the 36 units is approximately $14,650. The Authority receives Operating Subsidy from HUD to maintain its Public Housing units. It is evident from the violations that existed in the 36 units that the Authority was not using its Operating Subsidy for property maintenance. The Authority was required to develop and operate each project solely for the purpose of providing decent, safe, and sanitary housing for eligible families in a manner that promotes serviceability, economy, efficiency, and stability of the projects and the social well being of the tenants. However, this was not done.

Causes For Deficiencies

The numerous Housing Quality Standards violations existed due to weaknesses in the Authority's Public Housing inspection process. The violations existed because: (1) the Housing Inspector was not provided adequate training; (2) the Authority did not conduct unit inspections in a timely manner; and (3) the Authority's management did not exercise supervision and oversight over their Housing Inspector.

The Authority's Housing Inspector had not received adequate and updated training on HUD's Housing Quality Standards. The Housing Inspector for the Public Housing units attended a basic Housing Quality Standard training course approximately seven years ago. He said he had not received any additional extended training or been provided any updated training by the Authority. Without adequate training, the Housing Inspector could not ensure that tenants lived in units that met HUD and the Authority's requirements.

As of December 2001, the Authority had not performed inspections of its Public Housing units since May 2000. We determined through the HUD Construction Analyst's inspections and our interviews with tenants that violations existed in 32 of the Authority's 36 Public Housing units at the time of the Housing Inspector's last inspection in May 2000.

The Authority's management did not review or implement a system to ensure its housing inspections were performed for its Public Housing units. The Authority's Public Housing Manager said the former Public Housing Coordinator was responsible for scheduling all Public Housing units for inspections. However, she had resigned in July 2000 and no annual Public Housing unit inspections were scheduled since her departure. Furthermore, the Authority's Public Housing Manager had no information or

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documentation showing when any quality control reviews were performed for the Authority's Public Housing units.

As a result of the problems previously mentioned, the Authority's tenants were subjected to conditions hazardous to their health and safety. HUD also lacks assurance that the Housing Authority is using its funds efficiently and effectively.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Housing Authority's Executive Director on our draft audit report follows. Appendix B, page 94, contains the complete text of the comments for this finding.]

The Public Housing units inspected were reviewed and work orders completed to correct the 339 violations noted. The Authority's former Maintenance Supervisor was terminated on October 15, 2001 and a new Maintenance Engineer was hired effective October 17, 2001. In addition, a scattered-site Maintenance Supervisor/Technician was hired in March 2002. These staff changes improved maintenance of the Authority's Public Housing units.

OIG Evaluation Of Auditee Comments

The actions taken by the Authority, if fully implemented, should correct the problems identified in this finding. The Authority must implement supervisory procedures and controls to ensure its management monitors the quality of its Public Housing Program's inspections.

Recommendations

We recommend that HUD's Acting Director of Troubled Agency Recovery Center, Cleveland Field Office, assure that the Coshocton Metropolitan Housing Authority:

4A. Corrects the housing violations in the 36 Public Housing units.

4B. Ensures that its Housing Inspector(s) receives the necessary training to perform inspections of the

Authority's Public Housing units in accordance with HUD's requirements.

4C. Conducts annual inspections of its Public Housing units as required by HUD's requirements.

4D. Implements supervisory procedures and controls to ensure its management monitor the quality of its housing inspection program.


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The Authority Used $37,987 Of Its Public Housing Program Funds For Ineligible And Unsupported Expenditures

The Coshocton Metropolitan Housing Authority did not follow HUD's requirements, Office of Management and Budget Circular A-87, and the State of Ohio's requirement regarding expenditures. Between January 1999 and November 2001, the Authority used $37,987 of its Public Housing Program funds for unsupported ($33,284) and ineligible expenditures ($4,703). The problems occurred because the Authority's former Executive Director and its Board of Commissioners failed to diligently exercise their duties. As a result, the Authority's Public Housing Program funds were not available for additional low-income housing. HUD also has no assurance the Authority used its funds only for reasonable and necessary operating expenses.

Federal Requirements

24 CFR Part 85.20 requires the Housing Authority to maintain accounting records that adequately identify the application of funds as well as expenditures. 24 CFR Part 85.22(b) requires that State, local, and Indian tribal governments follow Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments. 24 CFR Part 85.3 defines a local government to include any public housing agency.

Office of Management and Budget Circular A-87, Attachment A, paragraph C(1)(a), requires that all costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards. In addition, paragraph C(1)(j) requires that all costs must be adequately documented.

State's Requirement

Section 3735.37 of the Ohio Revised Code requires metropolitan housing authorities to keep an accurate account of activities, receipts, and expenditures.

Responsibilities Of Board Of Commissioners

Public Housing Authority Commissioners have a responsibility to HUD to ensure national housing policies are carried out, and to the Authority'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.

Executive Director's Responsibilities

The responsibility for carrying out the Commissioner's policies and managing the Housing Authority's day-to-day operations rests with the Executive Director. In particular, the Executive Director must supervise the cash management and bank reconciliation functions and maintain the Authority's overall compliance with Federal, State, and local laws.

Disbursements Reviewed And Schedules Provided

Using Computer Assisted Audit Tools to assist in analyzing the data, we selected a sample of the Authority's cash disbursements to review. We reviewed the disbursements from the Authority's Management Computer Services accounting software system provided by the Authority's former Finance Director along with a hard copy of the disbursements. Disbursements were reviewed for the period between January 1999 and November 2001. We focused our audit efforts on multiple disbursements to vendors, large disbursements, multiple purchases of the same items, and items purchased by contractors. We reviewed the disbursements to determine whether the costs were reasonable and necessary for the Authority's operations.

During our review, we determined that the Authority paid unsupported and ineligible costs from its Public Housing Program funds. We prepared and provided our schedules of the unsupported and ineligible expenditures to the Authority's Executive Director and HUD's Acting Director of the Cleveland Field Office of Troubled Agency Recovery Center.

The Authority Lacked Documentation To Support $33,284 In Payments

Contrary to Office of Management and Budget Circular A-87, the Authority did not maintain adequate documentation to support its use of $33,284 of Public Housing Program funds. The funds were used between January 1999 and November 2001. Federal regulations and State of Ohio law require housing authorities to maintain records that adequately identify their use of funds. Housing authorities must ensure funds are expended for costs that are reasonable and necessary to their operations.

In order to determine whether the Authority used its Public Housing Program funds for reasonable and necessary

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expenses, we reviewed such items as: canceled checks; invoices; and the Authority's disbursement and general ledgers. The Authority disbursed $33,284 without maintaining supporting documentation such as invoices, receipts, and itemizations. The disbursements included medical and travel reimbursements to the Authority's former Executive Director, employee purchases made using petty cash funds and credit cards, and contract employee purchases made using revolving charge accounts. The Authority lacked documentation to show that its Public Housing Program funds were used for reasonable and necessary expenses.

The Authority's former Executive Director said he entrusted the former Finance Director and Fee Accountant to make decisions regarding payments. He said he did not review every invoice. The former Executive Director said the Authority's Fee Accountant was supposed to verify every invoice paid. However, the Authority's Fee Accountant said it was the responsibility of the former Finance Director. The Authority's Chairman of the Board of Commissioners said he relied on the Authority's staff to ensure funds were used appropriately. He also said the Board relied on the Authority's staff to maintain documentation to support disbursements. The Authority's former Executive Director and its Board of Commissioners were the Authority's principal management staff. They were responsible for ensuring that the Authority complied with its policies and procedures and Federal, State, and local laws. However, this was not done.

The Authority's Board was provided a listing of the payments at its monthly meetings. However, the Board was not provided invoices, receipts, or documentation for their review during the meetings. In addition, the Authority's Board approved the payments after the former Finance Director had made them. The following table shows the amount of unsupported payments per year.

Year	***Unsupported Payments***
1999	$ 9,987
2000	14,455
2001	8,842
Total	$33,284

As a result, HUD had no assurance that the Authority paid only reasonable and necessary operating costs.

The Authority Used $4,703 Of Its Public Housing Program Funds For Ineligible Expenses

Contrary to Office of Management and Budget Circular A-87, the Authority inappropriately used $4,703 of its Public Housing Program funds for ineligible expenses. The Authority used the funds for employee meals at local restaurants while its employees were not on official travel status. The meal expenses violated Federal requirements and the Authority's own Travel Policy. Office of Management and Budget Circular A-87, Section 18, states costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable. Meals are allowable if the employee is under official travel. However, as previously mentioned, the expenses incurred were not related to official travel. The Authority's former Executive Director said he was unaware that the Authority had a Travel Policy. He said he did not know that taking employees out to eat was an ineligible expense.

Office of Management and Budget Circular A-87 states in order for costs to be allowable under Federal awards, the costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards. As a result of the Authority's improper use of the previously mentioned amounts, Public Housing Program funds were not available for additional low-income housing. HUD also has no assurance that the Housing Authority paid only reasonable and necessary operating costs.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Housing Authority's Executive Director on our draft audit report follows. Appendix B, page 94, contains the complete text of the comments for this finding.]

The Housing Authority was unable to provide a response given the short period of time allotted to respond. The supporting workpapers provided by HUD's Office of

Inspector General do not give enough information to formulate an opinion.

OIG Evaluation Of Auditee Comments

HUD's Office of Inspector General provided schedules of the Authority's ineligible and unsupported expenses for this finding on February 25, 2003. Therefore, the Authority had sufficient time to review the expenses.

Recommendations

We recommend that HUD's Acting Director of Troubled Agency Recovery Center, Cleveland Field Office, assure that the Coshocton Metropolitan Housing Authority:

5A. Provides documentation to support the $33,284 of unsupported payments cited in this finding. If documentation cannot be provided, then the Authority should reimburse its Public Housing Program the amount that cannot be supported from non-Federal funds.

5B. Reimburses its Public Housing Program $4,703 from non-Federal funds for ineligible payments cited in this finding.

5C. Implements procedures and controls to ensure disbursements from the Authority's Public Housing Program meet Federal requirements, the State of Ohio's Revised Code, and the Authority's own policies.

5D. Implements procedures and controls to ensure that all disbursements have supporting documentation prior to payment. The procedures and controls should include, but not limited to, a review of the supporting documentation by the Authority's management or its Board of Commissioners prior to the approval of payment.


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The Authority Needs To Improve Its Contracting Process

The Coshocton Metropolitan Housing Authority did not maintain an effective system of controls over its contracting process. The Authority failed to follow Federal requirements and its policies for full and open competition regarding the procurement of goods and services. The problems occurred because the Authority's Board of Commissioners and top management did not exercise their responsibilities to implement effective contracting controls. As a result, HUD lacks assurance that its funds were used efficiently and effectively, and the Authority's procurement transactions were not subject to full and open competition.

HUD's Regulation

24 CFR Part 85.36(b)(9) requires that grantees and subgrantees to maintain records sufficient to detail the significant history of a procurement, such as the rationale for the method of procurement and the basis for the contract price. Part 85.36(c)(1) requires that all procurement transactions be conducted in a manner providing full and open competition. One of the situations considered to be restrictive of competition is an organizational conflict of interest.

The Authority's Requirements

The Authority's Procurement Policy dated October 15, 1990, Section 1-103.E., requires the Authority to maintain records sufficient to detail the significant history of procurement.

The Authority's Purchases Of Goods And Services Was Not Subject To Full And Open Competition

The Authority did not follow HUD's regulation or its Procurement Policy regarding the purchase of goods and services. To determine whether the Authority improved its procurement process since the Authority's former Executive Director retired in May 2001, we reviewed the Authority's purchases of goods and services for the period August 2001 to April 2002. During this time, the Authority spent $34,874 for major purchases of services.

The Authority's purchases were for roof repair work ($8,260), consulting services ($4,114), and personnel services ($22,500). Contrary to 24 CFR Part 85.36(b)(9), the Authority lacked any records to sufficiently detail the significant history of the procurements, such as the rationale for the method of procurement and the basis for the contract price. Part 85.36(c)(1) requires that all procurement transactions will be conducted in a manner providing full and open competition.

For example, the Authority's Board of Commissioners executed a contract for personnel services with SBI Corporation in November 2001. As stated in Finding 2, the Authority's current Executive Director was also employed as the Property Manager for Broad Street Management Company, a subsidiary of SBI, and signed the agreement for SBI Corporation. HUD's regulation states that an organizational conflict of interest is considered to be restrictive of competition. Since the services were not subject to full and open competition, HUD lacks assurance that the Authority's contracting process was conducted in an effective, efficient, and ethical manner.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Housing Authority's Executive Director on our draft audit report follows. Appendix B, page 95, contains the complete text of the comments for this finding.]

The Authority's Board of Commissioners implemented a Procurement Plan.

OIG Evaluation Of Auditee Comments

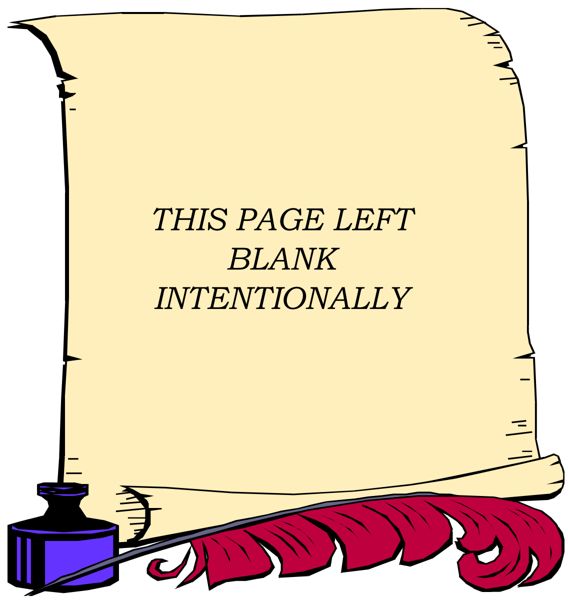
The actions taken by the Authority, if fully implemented, should improve its procurement procedures.

Recommendations

We recommend that HUD's Acting Director of Troubled Agency Recovery Center, Cleveland Field Office, assure that the Coshocton Metropolitan Housing Authority:

6A. Provides documentation to support the reasonableness of the $34,874 of goods and services cited in this finding. If documentation cannot be provided, the Authority should reimburse its Public Housing Program the appropriate amount from non-Federal funds.

6B. Implements procedures and controls to ensure that its contracts are awarded in a manner providing full and open competition as required by HUD's regulations and its Procurement Policy.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Occupancy Policies Were Not Followed

The Coshocton Metropolitan Housing Authority did not: (1) correctly compute tenants' income and rent; (2) appropriately verify tenant income; (3) establish a lease and occupancy policy according to HUD's regulations; (4) maintain and select applicants from its waiting list in accordance with the Authority's requirement; (5) evaluate applicants' eligibility for residency according to its requirement; and (6) assign housing units in accordance with its Plan. These problems occurred because the Authority did not follow HUD's regulations and its Occupancy and Admissions Plan. In addition, the Authority's top management and its Board of Commissioners did not follow sound management practices in administering its Public Housing Program. As a result, the Authority lost $16,708 in rental income and overcharged tenants $5,069 in rent who participated in its Public Housing Program. HUD and the Authority also lacked assurance that all family income was accurately reported, applicants were treated fairly to housing benefits, and eligible applicants were offered housing units in a timely manner.

HUD's Regulations

24 CFR Part 5.405(c) states a single person who is not an elderly or displaced person, may not be provided a housing unit with two or more bedrooms.

24 CFR Part 960.206(a) requires housing authorities to verify information related to each applicant. Part 960.209 requires the verification of any change of income or family status that results in an adjustment to a tenant's rent. Effective April 1, 2000, Part 960.259 requires housing authorities to obtain third party verification of family income, deductions, and other factors that effect the determination of a tenant's rent.

24 CFR Part 966.4(o) requires tenants and housing authorities to execute leases. Leases may be modified at any time by written agreement of the tenant and the authority.

The Authority's Requirement

The Authority's Admissions and Occupancy Plan, adopted on September 21, 1998, established non-economic factors as conditions of eligibility. The evaluation of applicants included past performance in meeting financial obligations, record of serious disturbances of neighbors, and any history of illegal activity.

Paragraph (4) of an amendment to the Authority's Plan, adopted September 30, 1999, states the Authority cannot increase a tenant's rent if the increase in income results from the earnings of a previously unemployed family member or the earnings of a family member that received welfare in the previous six months.

Sample Selection Of Tenant Files Reviewed

We selected a statistical sample of the Authority's Public Housing units using Computer Assisted Audit Tools, including ACL computer software application. We reviewed the tenant files for 40 Public Housing units. A statistical sample of 32 Public Housing units was selected from the Authority's 131 Public Housing units. We selected an additional four Public Housing units based upon tenant complaints and five Public Housing units occupied by the Authority's employees. Five units from the statistical sample were vacant. The tenant file for one of the vacant units did not pertain to our audit period of February 1999 to April 2002 and was not reviewed. The files were selected to determine whether the Authority followed HUD's and its requirements regarding occupancy and admissions.

The Authority Did Not Correctly Compute Tenant Rent Payments

The Authority did not correctly compute tenant rent payments. To determine whether the Authority correctly calculated tenants' rents, we reviewed 157 initial, annual, and interim income reexaminations conducted between January 1999 and December 2001 for the 40 units. The Authority's Admissions and Occupancy Plan requires the reexamination of family income and composition at least annually to determine a tenant's rent and eligibility. We determined the Authority incorrectly calculated tenant rent payments for 34 of the 40 tenant files reviewed. The errors occurred because the Authority did not update its procedures, train its staff, and review tenant files for completeness and accuracy.

The following table shows the reexaminations with rent computation errors made when determining tenants' adjusted income. The table includes the Public Housing unit addresses, the number of reexaminations with income calculation errors, and the lost rental income and/or overcharge to tenants.

Rent Computation Errors Due To The Miscalculation Of Adjusted Income			
Public Housing Unit Address	***Reexaminations***	***Lost Rental Income***	***Overcharge to Tenant***
1031 Main Street	1	$252	
215 Sycamore Street	1	732	
342 North Second Street	1	28	
703 Magnolia Street	1	225	
727 Magnolia Street	2	965	
735 Magnolia Street	2	2,439	
759 Magnolia Street	1	369	
761 Magnolia Street	3	497	
769 Magnolia Street	1	1,029	
813 Magnolia Street	1	92	
827 Magnolia Street	1	206	
835 Magnolia Street	1	643	
861 Magnolia Street	2	356	
869 Magnolia Street	1	665	
877 Magnolia Street	1	115	
885 Magnolia Street	1	0	$294
907 Magnolia Street	1	2,220	0
911 Magnolia Street	1	0	67
915 Magnolia Street	1	740	___
Totals		$11,573	$361

The adjusted income is the gross family income less allowable deductions. The tenant rent payment is 30 percent of the adjusted income less the applicable utility allowance.

The following are examples of the Authority's incorrect computation of tenant rent payments.

- The tenant at 769 Magnolia Street notified the Authority of a change, an increase, in income in April 2000. The Authority's Admissions and Occupancy Plan states income must be reviewed anytime there is a change in income. The Authority did not review the tenant's income in order to adjust the tenant's rent. The Authority reported the tenant's adjusted income as $0. The correct adjusted income was $6,144. As a result, the tenant's rent payment was incorrect and the Authority lost $1,029 in rental income between June 2000 and January 2001.

- The Authority incorrectly calculated adjusted income for the tenant at 835 Magnolia Street because the Authority did not include all of the tenant's verified income. The Authority miscalculated the tenant's adjusted income as $1,932. The correct adjusted income was $5,592. As a result, the tenant's rent payment was incorrect and the Authority lost $643 in rental income between November 2000 and May 2001.

- The Authority incorrectly calculated income for the tenant at 869 Magnolia Street. The Authority did not include all verified income. The Authority listed the tenant's adjusted income as $5,492. The correct adjusted income was $12,132. As a result, the tenant rent payment was incorrect and the Authority lost $665 in rental income between January 2002 and April 2002.

The Authority's Public Housing Manager was responsible for reviewing tenant files for accuracy. She said she did not conduct reviews of tenant files. As a result, the Authority lost $11,573 in rental income and overcharged tenants $361 for rent.

The Authority also made additional rent computation errors because it did not correctly apply the 10 percent earned income exclusion and the disability deduction when it determined tenant adjusted income and calculated the tenant rent payment.

The Authority's Occupancy and Admissions Plan allowed for the exclusion of 10 percent of earned income for applicants and current tenants when adjusted income was determined and the tenant's rent payment was calculated. The Plan states the exclusion automatically expires at the end of each Federal Fiscal Year unless the Authority's Board of Commissioners authorizes an extension. The exclusion was not authorized between October 1999 and April 2000, and between October 2000 and December 2001. However, the Authority applied the exclusion. The Authority's Public Housing Manager was responsible to review and update tenant rent procedures. She said she was unaware that the exclusion expired.

The following table shows the rent computation errors on reexaminations and the lost rental income due to errors in applying the 10 percent earned income exclusion and the disability deduction. The table includes Public Housing unit addresses, the number of reexaminations with errors, and the Authority's lost rental income.

Rent Computation Errors due to the Erroneous Application of the 10% (percent) Earned Income Exclusions and Disability Deduction		
Address	**Reexaminations**	**Lost Rental Income**
1 Main Street	2	$113
215 Sycamore Street	1	441
256 North Second Street	3	357
348 North Second Street	3	291
719 Magnolia Street	1	75
735 Magnolia Street	2	176
743 Magnolia Street	2	244
753 Magnolia Street	2	81
759 Magnolia Street	1	26
761 Magnolia Street	3	305
769 Magnolia Street	1	38
777 Magnolia Street	4	345
801 Magnolia Street	1	170
805 Magnolia Street	1	132
829 Magnolia Street	3	743
861 Magnolia Street	1	54
869 Magnolia Street	1	51
877 Magnolia Street	2	234
893 Magnolia Street	1	141
901 Magnolia Street	2	964
909 Magnolia Street	1	154
Total		**$5,135**

The following are examples of the Authority's erroneous application of the 10 percent earned income exclusion and disability deduction.

- The Authority incorrectly applied the disability deduction for the tenant at 256 North Second Street. The Authority's Admissions and Occupancy Plan

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required the Authority to obtain third party verification of a tenant's disability. The Authority did not request documentation of the tenant's disability. As a result, the Authority improperly calculated the tenant's adjusted income that resulted in $357 of lost rental income between March 1999 and February 2002.

- The Authority applied the 10 percent earned income exclusion when the rent was calculated for the tenant at 215 Sycamore Street. However, the exclusion had expired and the Authority's Board of Commissioners did not extend the exclusion. As a result, the Authority lost $441 in rental income between August 2001 and April 2002 because the tenant's adjusted income was improperly calculated.

The Authority's Public Housing Manager was responsible to review and update tenant rent procedures. She said she was unaware the 10 percent income exclusion expired. She also was not aware that the Authority's Plan required the Authority to obtain third party verification of a tenant's disability. As a result, the Authority lost $5,135 in rental income.

Additional rent computation errors were made when the Authority did not implement an additional income exclusion adopted as an amendment to its Admission and Occupancy Plan in September 1999. The Plan stated the Authority cannot increase a family's rent for a period of 12 months if the increase in income is due to the earnings of a previously unemployed family member or a family member that received welfare in the previous six months. The Authority's management never implemented the changes.

The following table shows the amount of rent overcharged to tenants because the Authority did not implement additional earned income exclusions. The table includes the Public Housing unit addresses, the number of reexaminations, and the amount of rent overcharged to tenants.

Rent Computation Errors due to the Housing Authority's Failure to Implement Additional Earned Income Exclusion		
Public Housing Unit Address	Reexaminations	Tenant Rent Overcharged
1 Main Street	2	$1,156
727 Magnolia Street	1	194
817 Magnolia Street	1	3,159
861 Magnolia Street	1	98
877 Magnolia Street	1	101
Total		**$4,708**

For example, an interim reexamination for the tenant at 817 Magnolia Street, effective August 2001, included wage income. The tenant's file shows the tenant was previously unemployed and received welfare benefits. The tenant was entitled to have the employment income excluded. The error resulted in $3,159 in excess rent charged to the tenant between August 2001 and April 2002.

The Authority's Public Housing Manager is required to continually review and update policies and procedures and be the chief technical assistance person for all public housing programs. The Public Housing Manager did not implement all of the earned income exclusions adopted by the Board of Commissioners. She said she was not aware of the changes to the Plan regarding the additional earned income exclusion. As a result, the Authority overcharged tenants $4,708 for rent.

The Authority Did Not Obtain Verification Of Family Income

Between January 1999 and March 2000, 24 CFR Parts 960.206(a) and 960.209 required the Authority to develop procedures to verify information related to each applicant for public housing. As of April 2000, 24 CFR Part 960.259 required the Authority to obtain third party verification of family income and other factors that affect the determination of income based rent. Twenty-four of the Authority's 40 tenant files reviewed did not contain verification or third party verification of family income for each reexamination. The Authority's Public Housing Manager was not aware that some files did not include verification of family income. She did not conduct reviews to ensure tenant files were complete and accurate. As a result, HUD and the Authority lack assurance the income used to compute the tenant total payment was accurate.

The Authority's Occupancy Policy And Lease Did Not Conform To Federal Requirements

The Authority's Plan was not in compliance with Federal requirements. Contrary to 24 CFR Part 966.4, Part IV of the Authority's Plan states the Authority need only execute notices of rent adjustments that are issued to amend the lease. However, Federal regulation required modifications to the lease to be executed by the tenant and the Authority.

Lease amendments did not always contain tenant signatures for interim and annual reexaminations. According to the Authority's Public Housing Manager, the Authority prepared lease amendments to document changes to rent and family composition. The Authority's Plan states reexaminations resulting in rent changes are amendments to the lease. Of the 157 reexaminations reviewed between January 1999 and December 2001, we determined that 86 reexaminations resulted in changes to the tenant rent. Seventy-five of the 86 reexaminations contained lease amendments. Lease amendments were not available for the remaining 11 reexaminations. Contrary to Federal regulation, 36 (48 percent) of the 75 lease amendments did not contain tenants' signatures.

Lease amendments were not signed because the Housing Authority's staff did not follow Federal regulation. The Public Housing Manager said the Authority did not always require tenants to sign reexamination forms or lease amendments. As a result, HUD and the Authority lack assurance that rent changes were communicated to tenants.

The Authority's Plan requires the lease to have a term of 12 months. The lease must be renewable for the same term. The Authority's lease signed by tenants between February 1999 and April 2002 was for a term of one month. The Authority did not implement the changes because its Public Housing Manager did not know the Authority's Plan was changed to require the Authority's lease to have a term of 12 months.

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Applicants Were Not Placed On Or Selected From The Waiting List In Accordance With Its Policy

The Authority's Public Housing application included a section for tenants to select local preferences. Examples of local preferences adopted by the Authority include local residency, displaced person, working family, and disabled veteran. Page 15 of the Authority's Plan states an applicant receives 10 points for each preference. An applicant's position on the waiting list was based on the time and date of application and the aggregate total of preference points. We determined the Authority did not provide points for local preferences. According to the Authority's Public Housing Manager, HUD eliminated the Federal preference for disability and age in April 2000 and the Authority did not use preferences to determine how applicants were placed on its waiting list. However, the Authority did not change its Plan to reflect the elimination of local preferences.

The Plan requires vacant units to be offered to the first qualified applicant on the waiting list based on family composition. If the applicant rejects the unit, the applicant is placed at the bottom of the waiting list. The Authority did not properly select applicants from the waiting list. Contrary to its Plan, the Authority offered vacant units to all tenants on the waiting list that requested the unit size that matched the vacant unit. The unit was assigned to the first applicant to respond to the notice.

In addition, the Authority removed applicants from the waiting list for reasons other than housing or ineligibility. The Authority issued letters to tenants who were on the list for several months to determine their continued interest in public housing. Applicants who failed to respond were removed from the waiting list. The Plan does not address retention on and removal from the waiting list for reasons other than ineligibility or available housing.

We were unable to determine which applicants were not selected in accordance with the Authority's Plan because the Authority did not maintain sufficient documentation of its selection of applicants from the waiting list. As of March 29, 2000, HUD's regulation required housing authorities to have a clear documentation of its selection of tenants from the public housing waiting list.

The Public Housing Manager did not follow the Authority's Plan for maintaining the waiting list and selecting applicants for housing even though she was aware of the Plan's requirements. She selected applicants in accordance with the training she received from the former Public Housing Coordinator. As a result, HUD and the Authority lack assurance that applicants for public housing were treated equitably.

Public Housing Applicants Were Not Evaluated Properly

Public housing applicants were not evaluated in accordance with the Authority's Plan. Nine of the 40 tenant files reviewed were missing the results of criminal or credit checks and/or mitigating documentation for tenants who had criminal records. The Authority's Public Housing Manager was responsible for the review of criminal records, credit reports, and character references in order to evaluate an applicant's suitability for tenancy. She was not aware that the tenant files did not include this information. Without this information, HUD and the Authority lack assurance that tenants meet the residency qualifications for its Public Housing Program.

Tenants Were Over Housed

The Authority did not assign units in accordance with HUD's regulation and its Plan. We determined by reviewing 40 tenant files that 13 tenants were assigned units in excess of bedroom requirements for their family size. The Authority's Plan includes the following table for its occupancy standards. The table includes the number of bedrooms, minimum occupancy, and maximum occupancy as recommended by HUD.

Number of Bedrooms	Minimum Number of Occupants	Maximum Number of Occupants
1	1	2
2	2	4
3	3	6
4	4	8

In accordance with its Plan, the Authority transferred a family of two to a three-bedroom unit in November 1999. The transfer was requested because the tenant planned to receive custody of twin sons. If custody of the twins did not take place by November 2000, the family was required to relocate to an appropriate size unit. A review of the annual reexamination for December 2001 indicates the family composition remained unchanged and the family still occupied the three-bedroom unit. The Authority's Plan stated the under utilization of space is inconsistent with efficient and economical operation and a waste of scarce resources.

Eight of the 13 tenants were single and assigned to two-bedroom units. Federal regulations do not allow the placement of a single person who is not elderly, displaced, or a disabled person in a unit with two or more bedrooms. None of the eight tenants met the exceptions.

The Authority's Public Housing Manager was aware of the family of two that transferred to the three-bedroom unit. She could not explain why the tenant was not required to move to an appropriate sized unit. She also said the Authority assigned single applicants to two-bedroom units to increase its occupancy rate. However, the Authority did not follow through with transfers when appropriate sized units became available. The Authority's Public Housing Manager admitted applicants might have waited longer for housing as a result.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Housing Authority's Executive Director on our draft audit report follows. Appendix B, page 95, contains the complete text of the comments for this finding.]

The Authority's staff was provided training regarding the calculation of rent during 2002. Ongoing education will be provided as long as the Authority has the necessary funds.

A new Occupancy Specialist was encouraged to rejoin the Authority's staff as of June 2002. A cycle of reexaminations is nearly completed successfully.

An audit of each current tenant's file was completed. Proper documentation of the screening process is in the files.

The Authority's Occupancy Plan does indicate the maximum number of occupants per unit. However, the Authority's understanding is that a tenant may be placed in a unit one bedroom size over their qualification as long as written documentation indicates that the tenant may have to relocate to the appropriate sized unit upon one becoming available. The Authority is working to reestablish the proper bedroom size for all tenants.

OIG Evaluation Of Auditee Comments

The actions taken by the Authority, if fully implemented, should improve its occupancy procedures. However, the Authority needs to revise its lease to meet HUD's regulation and implement procedures and controls to ensure that applicants are placed on and selected from its Public Housing waiting list in accordance with its Plan.

Recommendations

We recommend that HUD's Acting Director of Troubled Agency Recovery Center, Cleveland Area Office, assure that the Coshocton Metropolitan Housing Authority:

7A. Refunds excess rent of $5,069 collected from tenants cited in this finding.

7B. Implements controls to ensure that tenant income and rent computations are complete and accurate, and third party documentation of income and deductions is maintained in tenants' files.

7C. Revises its lease to meet HUD's regulation.

7D. Implements procedures and controls to ensure that applicants are placed on and selected from its public housing waiting list in accordance with the Authority's Plan.

The Authority Lacked Effective Controls Over Its Disbursements And Receipts

The Coshocton Metropolitan Housing Authority did not maintain effective controls over cash management. The Authority did not sufficiently segregate the duties of its employees responsible for tenant rent payments, safeguarding cash funds, and laundry collections and deposits. The weaknesses existed because the Authority's Board of Commissioners and its former Executive Director did not exercise their responsibilities to implement effective cash management controls, and their failure to do so increased the risk of loss or misuse of funds.

Management Control Requirements

Management controls require the management's plan of organization, methods, and procedures to ensure safeguarding of the entity's resources against waste, loss, and misuse. The important features of an adequate management control system are:

- Control should be established early in a transaction and carried through to completion;
- No person should have complete control over all phases of any significant transaction;
- Work should flow from one employee to another without ever returning to an employee; and
- Record keeping should be separate from the operations of handling and custody of assets. For example, the bookkeeping function should be separate from the collection and issuance of receipts. An employee who collects and issues receipts for rental payments should not be responsible for recording payments and adjustments to tenant accounts.

Responsibilities Of Board Of Commissioners And Executive Director

Public Housing Authority Commissioners have a responsibility to HUD to ensure national housing policies are carried out, and to the Authority's Executive Director 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 Housing Authority's day-to-day operations rests with the Authority's Executive Director. In particular, the Executive Director must maintain the Housing Authority's overall compliance with its policies and procedures, and Federal, State, and local laws and regulations.

Duties Were Not Adequately Segregated

The Authority did not properly segregate duties over tenant rental payments and cash collections. The Authority's former Program Assistant and former Finance Director performed these activities without adequate internal checks and balances.

The Authority's former Program Assistant said the process for tenant rental payments was: tenants deposit their rental payments in the Authority's drop box; the Authority's Public Housing Manager collects the payments from the drop box and fills out a deposit slip; the deposit slip was forwarded to the Authority's former Program Assistant for posting to the Authority's tenant accounting system; the former Program Assistant printed a tenant receipt for each payment; and the rental payments were then sent to the Authority's former Finance Director for deposit. The Authority's former Program Assistant also had access to the Authority's drop box and collected rental payments on several occasions.

Between December 2000 and May 2001, the Authority's former Program Assistant collected rental payments from the Authority's drop box on at least 14 occasions. The Authority's former Program Assistant said there were other instances when she collected rental payments from the drop box. However, the Authority lacked adequate records of these instances. The Authority's Public Housing Manager and its former Program Assistant also deposited the tenant rental payments when the former Finance Director was unavailable. Therefore, the former Program Assistant had control over all phases of the tenants' rental payments.

Although there was no indication that the Authority's former Program Assistant or its Public Housing Manager took advantage of the opportunity to divert rent collections, they could have diverted funds without detection by controlling the tenant rental payments. Proper accounting procedures require the adequate segregation of duties in order to provide control and assign accountability over the rent collection function. As of June 2001, the Authority had 12 employees. Therefore, the Authority had an adequate number of employees to segregate duties so that no one individual had complete control over the rental payment process.

As of December 2001, the Authority had a staff of nine employees and had still not segregated the duties for collection, recording, and depositing of the tenants' rent. The Authority's Public Housing Manager had control over all phases of the tenants' rental payments. The Public Housing Manager collects the payments at the drop box, receives the payments from walk-in tenants as needed, prepares deposit slips for payments, and deposits the payments.

The Authority did not properly segregate the collection of laundry receipts. The Authority's former Finance Director had sole responsibility for the collection and deposit of laundry receipts. The lack of segregation of duties represented a weakness in controls to protect the Authority's funds from diversion. The duties assigned to the Authority's former Finance Director provided him with an opportunity to divert the Authority's funds. We did not find evidence that the former Finance Director took advantage of the opportunity to divert the Authority's funds.

The Authority lacked adequate procedures or controls over the collection and deposit of laundry receipts. According to the Authority's former Finance Director, there were no guidelines for the collection and deposit of laundry receipts.

As of December 2001, the Authority had not segregated the collection of laundry receipts or established procedures or controls over the collection and deposit of the laundry receipts. The Authority's Maintenance Supervisor is collecting laundry money while the Public Housing Manager is depositing the laundry receipts.

The Authority Did Not Safeguard Cash Funds

The Authority did not safeguard its cash funds. The Authority did not maintain current bank signature cards. Bank signature cards help protect funds against unauthorized withdrawals. We reviewed 10 signature cards for the Authority's accounts. In all cases, the cards included personnel who were no longer employed or associated with the Authority. Bank One provided copies of the Authority's signature cards for nine accounts in May 2001. One account was closed in March 2001. The nine signature cards included an authorized signer who was also a Board member whose term expired on March 23, 2000. Additionally, two board members resigned from their appointment, but they were still on various signature cards. One board member resigned on January 31, 2000, and the other resigned on September 1, 2000. In addition, the Authority's former Executive Director resigned effective May 31, 2001 and still appeared on all nine signature cards as of June 12, 2001. Although we found no indication that the Authority's former officers or employees took advantage of the opportunity to divert funds, the outdated signature cards posed a risk that funds could be diverted.

The Authority's former Executive Director said he was aware the signature cards were outdated. He said he intended to correct the outdated signature cards. However, Board member appointments kept changing and he thought it would be best to wait until the appointments were finalized. The signature cards were updated in June 2001 when HUD's Office of Inspector General brought it to the attention of the Authority.

According to the Authority's current Executive Director, new signature cards were ordered for the Authority's bank accounts in October 2001. The new signature cards were updated approximately two months after the Executive Director was appointed and are on file with the bank.

Outstanding Checks Were Not Written Off Timely

The Authority did not write off outstanding checks in a timely manner. We reviewed outstanding checks for the period December 1998 through May 2001. During this period, there were a total of 38 checks that had not cleared the Authority's bank. The 38 checks amounted to $645.

Part A of Section 15 of the Annual Contributions Contract states the Housing Authority must maintain complete and accurate books of account of the Authority in such a manner as to permit the preparation of statements and reports in accordance with HUD's requirements and to permit timely and effective audit.

The Fee Accountant for the Authority questioned the outstanding checks and submitted them to the Public Housing Manager in December 2000. The outstanding checks covered the period December 1998 to September 2000. As of December 2001, the Authority's Fee Accountant did not know the status of the questioned checks.

The Authority's former Executive Director said the outstanding checks should be researched and presented to the Board of Commissioners for review. He said a reasonable time period for a check to be outstanding would be approximately 60 days from the date of issuance. If a check is not cleared in that time frame, the Authority's Board of Commissioners should determine whether the check needs to be written off.

The Authority lacked adequate procedures and controls regarding its outstanding checks. The Board of Commissioners must approve the write-offs of the outstanding checks. The Authority should also periodically review the outstanding checks and determine whether they are accurately recorded and accounted for.

The Authority Did Not Deposit Laundry Receipts Timely

The Authority did not deposit laundry receipts on a consistent and timely basis. We reviewed 21 deposits for the Authority's two laundry facilities. For the first laundry facility, the Authority made 12 laundry deposits for the period June 16, 1999 to February 14, 2001. The average period for the Authority's deposit was 54 days. For the second laundry facility, the Authority made nine deposits between June 18, 1999 and April 24, 2001. The average deposit period for one deposit to the next one was 83 days. We could not determine the timeliness of the coin collections, because the former Finance Director did not maintain the collection records. As a result, the Authority could not ensure that the coin collections were not diverted.

The Authority Did Not Issue Receipts For Tenant Rental Payments

The Authority did not issue receipts for tenant rental payments. Tenants were instructed to drop their rent payment in the drop box.

Section 2, Chapter 11 in Public Housing Accounting Guide 7511.1 states a cash receipt must be issued for each collection received from tenants and the original receipts will be provided to the tenant.

We reviewed the Authority's tenant rent collections for the period September 2000 to May 2001. The Authority did not maintain accurate records for the rent collections. The Authority's former Program Assistant said tenants were instructed to submit their rent payments using the drop box.

Since October 2000, the Authority's former Program Assistant issued hand-written rent receipts 14 times contrary to the Authority's Policy. Without maintaining and issuing computer-generated receipts to tenants, the Authority could not ensure that rent collections were properly accounted for.

The Authority's former Executive Director implemented the drop box in September 1999. He said the drop box was implemented to reduce time and paperwork. The Authority's former Executive Director said if tenants did not receive a delinquent letter, then their accounts were not delinquent.

The Authority's former Executive Director said he was not aware of the Authority's Policy to issue receipts for all payments received from tenants at the time the payment is received. The issuance of tenant receipts provides an additional control to ensure that collections are not diverted.

As of December 2001, the Authority had not issued rent receipts. The Authority's Public Housing Manager said she would issue a receipt upon the tenant's request. Otherwise, the tenant must use the Authority's drop box.

Investment Policy Did Not Comply With HUD's Requirements

The Authority did not establish or maintain its Investment Register according to HUD's requirements. An investment policy and an investment register are essential to maintain proper control of resources.

Page 4 of HUD's Public and Indian Housing Notice 96-33 states a housing authority or its agent must maintain an investment register or other record. The register must be maintained in such a manner that a determination can be made as to the amount of investment securities purchased from each fund and at a minimum provide for recording a

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complete description of the investment instrument, date of purchase, purchase price, interest rate, and applicable date of sale or maturity.

The Authority did not maintain an Investment Register in accordance with HUD's requirements. The Authority's former Finance Director was not able to provide an Investment Register. He said he had access to account information; however, his records were not updated. A properly maintained investment register provides managers with the necessary information to make cost effective decisions when buying or selling investments.

In addition, the Authority's former Executive Director presented an Investment Policy to the Board of Commissioners. The Board approved the Policy and adopted it effective January 22, 1991. The Authority's Investment Policy states that it complies with the requirements of Section 401 in Part II of the Annual Contributions Contract; however, it covers the former Annual Contribution Contract for the Authority. The Annual Contributions Contract Number C-5081 that the Authority is required to follow was executed on June 22, 1996. The 1996 Annual Contributions Contract does not include the requirements of the former Annual Contributions Contract. Therefore, the Authority's Investment Policy was incorrect.

Blank Checks Were Not Safeguarded

The Authority did not adequately safeguard its blank checks. The blank checks were stored in the Authority's safe. The Authority purchased the safe on January 24, 2000. A combination for the safe was not created until March 15, 2001. The safe is located in a closet room that was open throughout the day.

After we started our on-site audit work at the Authority, the former Executive Director said he became aware that the Authority's safe did not have a combination. The Authority's former Executive Director instructed the Authority's former Finance Director to create a combination. The Authority must secure and control access to its blank checks to protect them from unauthorized use or loss.

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In October 2001, access to the Authority's blank checks and the safe were limited to its current Executive Director, Public Housing Manager, and the Fee Accountant.

Checks Were Not Required To Have Two Signatures

Since the current Executive Director was hired by the Authority in August 2001, he is the only person who signs the Authority's checks. However, a second signature is required when a member of the Authority's Board of Commissioners signs a check instead of the Executive Director. Two signatures should always be required to ensure the safeguarding of the Authority's monetary assets.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Housing Authority's Executive Director on our draft audit report follows. Appendix B, pages 95 and 96, contains the complete text of the comments for this finding.]

The Authority implemented procedures and controls to address the issues discussed in this finding.

OIG Evaluation Of Auditee Comments

The actions taken by the Authority, if fully implemented, should improve its cash management controls and procedures.

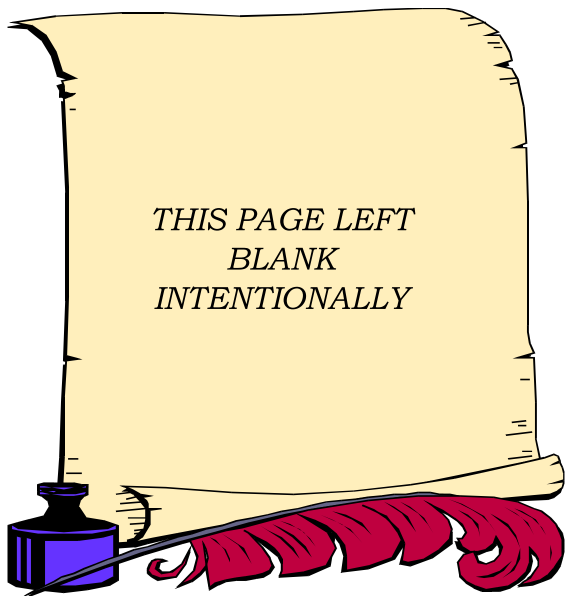
Recommendations

We recommend that HUD's Acting Director of Troubled Agency Recovery Center, Cleveland Field Office, assure that the Coshocton Metropolitan Housing Authority:

8A. Segregates the duties of its employees so that no employee has complete control over all phases of any significant transaction.

8B. Implements procedures and controls: to maintain updated bank signature cards; for its Board of Commissioners to approve the write-off of outstanding checks; over the collection and deposit of laundry receipts; for the collection of tenant rent payments and the issuance of rent receipts for all tenant rent payments; to safeguard access to blank checks; and for its checks to require two signatures.

8C. Implements an investment policy and maintains its investment register in accordance with HUD's requirements.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The Housing Authority Needs To Improve Controls Over Equipment, Materials, And Supplies

The Coshocton Metropolitan Housing Authority did not have controls over equipment, materials, and supplies. Contrary to Federal requirements and the Housing Authority's policy, the Authority did not: (1) dispose of used appliances in accordance with Federal requirements; (2) maintain complete and accurate books of account regarding its equipment; (3) conduct a complete and accurate inventory of non-expendable equipment; and (4) safeguard equipment, materials, and supplies. The Authority did not have controls and procedures over its property that ensured compliance with Federal regulation and the Authority's policy. As a result, the Authority's Public Housing Program did not receive the maximum economic benefit from the disposal of property and its equipment, materials, and supplies were susceptible to loss, theft, or misuse. In addition, HUD lacks assurance that the Authority's books and records were accurate.

Federal Requirements

24 CFR Part 85.32(d) requires: (1) equipment records be maintained to include a description, identification number, source of the equipment, who holds title, the acquisition date, the cost of the equipment, and any ultimate disposition data including the date of disposal and sales price; (2) an inventory be taken and the results reconciled with the property records at least once every two years; and (3) a control system be developed to safeguard property from loss, damage, or theft.

Section 15 of the Annual Contributions Contract, between HUD and the Coshocton Metropolitan Housing Authority, required the Authority to maintain complete and accurate books of account to permit the preparation of statements and reports in accordance with HUD's requirements, and to permit a timely and effective audit.

Housing Authority's Policy

The Authority's Property Accountability procedures require that an inventory be taken at the end of the fiscal year for all Authority property. When property is transferred from one location to another, a transfer document should be prepared and signed by the recipient.

Responsibilities Of Executive Director

The responsibility for carrying out the Board of Commissioners' policies and managing the Authority's day-to-day operations rests with the Authority's Executive Director. In particular, the Executive Director must maintain the Authority's overall compliance with its policies and procedures and Federal, State, and local laws.

Appliances Were Not Disposed Of Properly

The Authority did not have Board of Commissioners approved policies or procedures for the disposition of non-expendable property. 24 CFR Part 85.32(c)(4) states, when acquiring replacement equipment, the grantee may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property. Section (d)(5) further states that proper sales procedures must be established to ensure the highest possible return from the sale of property.

In June 1999, the Authority purchased new refrigerators and stoves for the 106 Public Housing units at its Meadows Development. The Authority's former Finance Director negotiated the disposal of 212 old appliances with a former local salvage dealer. The salvage dealer verbally agreed to purchase the appliances for $25 each for a total purchase price of $5,300. The salvage dealer paid the Authority $2,575 in advance for 103 of the old appliances. However, the Authority provided only 51 appliances to the salvage dealer.

Contrary to HUD requirements, the Authority's Executive Director offered a free refrigerator and stove to each of the Authority's employees. Fourteen appliances were provided to Authority employees including the former Executive Director. Additionally, the former Finance Director approved the sale of eight appliances to the Authority's former Maintenance Supervisor for $10 each.

The Authority relocated 31 of the old appliances to replace appliances at some of the Authority's scattered Public Housing units. No records were maintained regarding the relocation of the 31 appliances, although the Authority's policy required documentation.

We were unable to determine the disposition of the remaining 108 appliances because the Authority did not maintain complete records.

The Authority received $2,655 for the sale of 59 appliances when it should have realized $5,300 from the sale of the appliances. As a result of the Authority's failure to follow its property disposition policies and procedure, the Authority did not realize the highest possible return from the sale of its used appliances. Furthermore, the Authority's public housing tenants lost the benefit of the use of $2,645 (possible proceeds of $5,300 less $2,655 of actually received) that should have been realized from the disposition of the appliances.

The Authority did not maintain complete and accurate property records and reconcile its inventory ledger to its general ledger. The Authority's property ledger was not accurate and current. Federal regulation requires that property records be maintained to include a description, identification number, the acquisition date, the cost of the equipment, and any ultimate disposition data including the date of disposal and sales price. The Authority's property records for appliances purchased in 1999 did not include the purchase price or the purchase date.

The Housing Authority's Inventory Records Were Not Current

The Authority did not remove the cost of non-expendable equipment it replaced from the property account balance. The Authority did not adjust the property accounts by over $60,000 for the 212 refrigerators and stoves that were sold, discarded, or relocated in 1999. The following table shows the cost of the disposed appliances for each project.

Project	Estimated Cost of Disposed Appliances
Meadows	$53,137
North Meadows	2,847
Scattered sites (25 units at various locations)	7,576
Total	$63,560

In addition, no property records existed for two trucks, two golf carts, a sport utility vehicle, security surveillance cameras and monitors, five computers, and two printers. The former Executive Director said he was aware that the Authority's records were not up to date. He said he relied on the former Finance Director and the Authority's Fee Accountant to update property records as a prerequisite for a required accounting change. The Authority's procedures state the accounting department was responsible for maintaining property records. However, the former Finance Director said he did not receive any disposition information from the former Executive Director or the former Maintenance Supervisor. The Authority's Fee Accountant said he was aware that the appliances were replaced, but it was not his responsibility to take an inventory and update property records.

The Authority failed to maintain complete and accurate property records because it lacked controls over equipment. As a result, the Authority's assets were overstated by an estimated $60,000 since the discarded appliances were not removed from the books and records.

Annual Physical Inventories Were Not Conducted

The Authority's policies required a physical inventory at the end of the fiscal year. The Authority failed to conduct a complete physical inventory of its non-expendable equipment. The Authority performed an inventory of its maintenance equipment in 1998 and 2001. However, an inventory was not conducted of the Authority's office equipment and furniture, automotive vehicles, apartment appliances, and community space property.

The physical inventory counts were not scheduled and conducted on a regular basis because the Authority lacked controls over its property and equipment.

As a result, HUD lacks assurance that the Authority's inventory records are accurate and that the Authority's ability to detect loss is diminished.

The Housing Authority Failed To Safeguard Property

The Authority failed to safeguard property from loss, theft, or misuse. Furthermore, inventory shortages were not reported, and access to property and equipment was not restricted. For instance, three Simplicity tractor mowers were counted during the physical inventory of maintenance equipment in 1998. Only two mowers were counted during a physical inventory conducted in 2001. Maintenance employees said the Authority owned four Simplicity mowers, but two of the mowers were taken to the former Executive Director's residence and were never returned to the Authority. The Authority had documentation for the disposition of one of the two missing mowers.

The former Executive Director said the mower at his residence was received in trade for a used paint sprayer. The former Executive Director claims the mower was being used for spare parts. However, the Authority's records indicate the mower was the newest mower owned by the Authority. In 1999, when the transaction occurred, the mower received by the former Director was three years old. The vendor that repaired the Authority's mowers said the retail value of the used mower was about $1,000. We were unable to determine the value of the used paint sprayer. However, a local paint vendor said a similar sprayer of the same brand sells for $1,100.

Interviews with Authority employees and the vendor that repaired the Authority's mowers confirmed that the Authority continued to pay for the repair and service of the mower taken by the former Executive Director. Invoices for Fiscal Years 2000 and 2001 also showed the Authority continued to pay for the repairs and service of three mowers, even though only two were in the Authority's inventory. The Authority's former Maintenance Supervisor said he delivered the mower to the repair shop and returned it to the former Executive Director's residence. The Board of Commissioners did not authorize the transfer of the mower to the former Executive Director or the subsequent repairs.

The Housing Authority Failed To Safeguard Materials and Supplies

The Authority did not safeguard its inventory of materials and supplies against loss, theft, or misuse. The Authority loaned tools to tenants without maintaining a log of when and where items were being used. For example, the Authority's carpet cleaner was regularly loaned to tenants. The former Executive Director acknowledged that occasionally tools were loaned to residents. He was aware of an instance when a tenant did not return a loaned tool. The Authority never documented that items were out on loan.

The Authority's former Maintenance Supervisor said the former Executive Director gave permission for contractors to enter the maintenance garage and take supplies. The supplies were intended for use in performing cleaning, painting, and other maintenance functions. However, the Authority did not maintain a record of when items such as cleaning solvents were used.

Attachment A of Office of Management and Budget Circular A-87 states Governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices. Consequently, the Authority needs to establish policies and procedures to control the use of its inventory of materials and supplies.

The Authority did not control access to the maintenance garage where equipment, materials, and supplies were stored. The former Maintenance Supervisor said keys were given to contractors and other staff at the request of the former Executive Director. For example, a former security guard did not turn in keys when he was dismissed from employment with the Authority. Another former security guard with an extensive criminal record had access to keys to the Authority's Office and one of the Authority's vehicles.

The Authority did not have policies or procedures for the issuance of keys to persons other than tenants. The Authority's Public Housing Manager and the former Maintenance Supervisor admitted they did not know how many people had keys to the maintenance garage. The Authority should establish controls to limit access to the maintenance garage in order to safeguard its equipment, materials, and supplies from loss, theft, or misuse.

HUD completed a maintenance review of the Authority in May 2000 and reported the Authority's inventory was basically uncontrolled and not always secure. It was also noted that sometimes the maintenance area was found to be unlocked and unattended.

As a result of the lack of controls over its inventory, HUD and the Authority lack assurance that materials and supplies were used for the benefit of the Public Housing program. In addition, materials and supplies were susceptible to loss, theft, or misuse.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Housing Authority's Executive Director on our draft audit report follows. Appendix B, page 96, contains the complete text of the comments for this finding.]

The Authority's equipment was numbered and inventoried and will be entered into its upgraded accounting software. The Authority has not disposed of any equipment, materials, or supplies under the current Executive Director without the Authority's Board approval.

OIG Evaluation Of Auditee Comments

The actions taken by the Authority, if fully implemented, should improve its procedures over property and equipment. However, the Authority needs to request the return of equipment taken without its Board of Commissioners' authorization.

Recommendations

We recommend that HUD's Acting Director of Troubled Agency Recovery Center, Cleveland Field Office, assure that the Coshocton Metropolitan Housing Authority:

9A. Implements adequate procedures and controls to ensure that it follows the Annual Contributions Contract, its policy, and/or HUD's regulation in order to: (1) maintain complete and accurate books, accounts, and records for property and equipment; (2) conduct inventories of all properties and equipments and reconciling the results with the Authority's records; (3) dispose of property and equipment; and (4) safeguard property and equipment from loss, theft, and misuse.

9B. Requests the return of equipment taken without its Board of Commissioners' authorization.

9C. Reimburses its Public Housing Program from non-Federal funds the monies used to pay for repairs of equipment taken without the Board of Commissioners' authorization.


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Management Controls

Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

We determined that the following management 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 during our audit of the Coshocton Metropolitan Authority's Public Housing Program.

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

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- Program Operations.

The Authority was not operated according to Program requirements. Specifically, the Authority did not: (1) have documentation to support $72,329 in payroll expenditures and $22,500 for contracted personnel services; (2) use $71,463 of its Public Housing program funds in accordance with Federal requirements; (3) have documentation to support $2,985 in travel reimbursements; (4) follow Federal and State requirements to avoid conflicts of interest; (5) keep complete personnel files; (6) prepare job performance evaluations; (7) follow its Personnel Policy when hiring employees; (8) maintain complete and accurate payroll records; (9) periodically review its Public Housing utility allowances as required; (10) have support as to how its current utility allowances were determined; (11) ensure that its Public Housing units met HUD's physical condition standards; (12) maintain documentation to support its use of $33,284 of Public Housing Program funds; (13) properly use $4,703 of Public Housing Program funds; and (14) maintain an effective system of controls over its contracting process (see Findings 2, 3, 4, 5, and 6).

Additionally, the Authority did not: (1) correctly compute tenants' income and rent; (2) appropriately verify tenant income; (3) establish a lease and occupancy policy according to HUD's regulations; (4) maintain and select applicants from its waiting list in accordance with the Authority's requirement; (5) evaluate applicants' eligibility for residency according to its requirement; (6) assign housing units in accordance with its Plan; (7) maintain effective controls over cash management; (8) dispose of used appliances in accordance with Federal requirements; (9) maintain complete and accurate books of account regarding its equipment; (10) conduct a complete and accurate inventory of non-expendable equipment; and (11) safeguard equipment, materials, and supplies (see Findings 7,8, and 9).

The Authority's Board of Commissioners lacked adequate oversight. The Board of Commissioners did not: require timesheets for the former and current Executive Director; ensure bonuses for employees were supported by performance evaluations; evaluate the former and current Executive Director; perform any compliance checks to determine whether the Authority's personnel carried out their policies and procedures; follow procurement policies for hiring the current Executive Director; follow Federal and State requirements to avoid conflicts of interest; ensure expenditures were approved prior to payments and expenditures were eligible expenses of the Authority; request or review supporting documentation for disbursements presented at Board meetings; know the former Executive Director took Authority property for personal use; and perform all of its administrative responsibilities (see Findings 1,2,5, and 9).

- Validity and Reliability of Data

The Authority did not maintain accurate books of records regarding its personnel policies and safeguarding of assets (see Findings 2, 3, 5, 6, 7, 8, and 9).

- Compliance with Laws and Regulations

The Authority did not follow HUD's regulations, Office of Management and Budget Circular A-87, and the State of Ohio's requirement regarding: conflicts of interest; Public Housing utility allowances; health and safety violations for Public Housing units; safeguarding of assets; procurement of services; and occupancy practices (see Findings 2, 3, 4, 5, 6, 7, 8, and 9).

- Safeguarding Resources.

The Authority: could not support: (1) $72,329 in payroll expenditures; (2) $22,250 for contracted personnel services; (3) $2,985 in travel reimbursements; (4) its use of $33,284 of Public Housing Program funds; and (5) the procurement of $34,874 of services (see Findings 2, 5, and 6). Further, the Authority improperly: (1) spent $71,463 in salaries for work unrelated to it operations; (2) used $4,703 of Public Housing Program funds for ineligible expenses; and (3) computed family income and rent and lost $16,708 in rental income (see Findings 2, 5, and 7).


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Follow Up On Prior Audits

This is the first audit of the Coshocton Metropolitan Housing Authority's Public Housing Program by HUD's Office of Inspector General. The latest Independent Auditor's Report for the Authority covered the period ending June 30, 2001. The Report contained no findings.


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Schedule Of Questioned Costs

Recommendation Number	Type of Questioned Costs Ineligible 1/	Unsupported 2/
2A		$72,329
2B		22,500
2C	71,463	
2D		2,985
5A		33,284
5B	4,703	
6A		34,874
Total	$76,166	$165,972

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 policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future 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.


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Auditee Comments

The Coshocton Metropolitan Housing Authority

March 12, 2003

Mr. Edward Kim
Assistant Regional Inspector General for Audit
U. S. Dept of HUD-Office of Inspector General
200 North High Street – Room 334
Columbus, OH 43215

RE: OIG DRAFT AUDIT REPORT: COMPREHENSIVE IMPROVEMENT ASSISTANCE PROGRAM

Dear Mr. Kim:

Coshocton Metropolitan Housing Authority has received draft audit findings for the audit period March, 2001 through May, 2002. We would like to make note that the audit ran for fourteen months due to the condition of the financial documentation or lack thereof. The draft findings were received nine months after the audit period. Our response time was limited to approximately 30 days of which limits our ability to comprise a substantial written response. Therefore, our response is completed with limited time and available information to make supportive comments.

Within the findings, it has been stated that Coshocton Metropolitan Housing Authority must repay, reimburse, or return funds with "non-Federal funds". This request will be impossible as the Coshocton Metropolitan Housing Authority's income source is limited to all Federal funding i.e., Public Housing, Operating Assistance; Section 8 Choice Voucher assistance; Contract Administrative Fees earned for monitoring Federal Section 8 Project Based HAP, and Capital Fund Improvements, as well as potential administrative fees earned from PHDEP and TOP grants. Other consideration to recapture the funds would only be from our employee dishonesty claim presented to Gallagher-Basset.

As of February 24, 2003 the Troubled Authority Recovery Center-North in Cleveland, Ohio has been assigned to our Housing Authority for ongoing assistance and improvement with the new administration.

823 Magnolia Street, Coshocton, Ohio 43812
Phone: (740) 622-6300~~Fax: (740) 622-5562

Finding 1: The Authority was not operating according to program requirements:

The Board of Commissioners did exercise their rights and responsibilities to the Housing Authority based upon information provided by the former Executive Director, Finance Director and information received from other partnering entities. The Board of Commissioners eliminated the Finance Director position October 17, 2001 upon recommendation of the new Executive Director due to the Finance Director refusing to provide adequate financial records for the regular scheduled Board meeting. The new Executive Director has scheduled regular monthly meetings as well as emergency meetings during his tenure to address issues for resolution. The Board of Commissioners have supported any and all efforts of the new administration. While not offering an excuse, the Board of Commissioners relied heavily upon the former Executive Director's leadership due to his long-term tenure with the U. S. Department of Housing and Urban Development. The Board of Commissioners were never informed by the former Executive Director or any overseeing agency of any wrong doing until the OIG had been assigned.

The new administration has followed the Sunshine Law with regard to the Ohio Revised Code. With regard to the signing of resolutions; many variations have been recommended and followed under the present administration. The Troubled Authority Recovery Team has stated the Board Chairman must sign all resolutions. Our process goes one step further, to have the person making the motion and the second motioner also signing, effective March, 2003 Board meeting. Each consecutive Board meeting the current Executive Director provides monthly check registers for review and resolution for payment. Additionally, all checks are presented to at least one Board member for counter-signature.

The Troubled Authority Recovery Center is providing additional training and expertise to the Board of Commissioners so that they may be able to interpret the overall management of the Housing Authority.

Finding 2: Personnel Policies were not followed:

Being there is limited time to collect data for a formal response this administration presently cannot comment on the $72,329.00 of undocumented payroll expenditures. The work papers from the audit are not sufficient to determine the draft finding and therefore, we are requesting additional supportive documents. The $22,500 for contracted personnel services has been documented with a timeline and services rendered which is attached to each check written to the provider. The use of $71,463 of the Housing Programs in accordance with Federal requirements remains unsubstantiated with work documents from the OIG audit. The present administration does not understand the comment.

The unsupported $2,985 in travel reimbursements here again needs additional time to respond to comment.

The Authority did recognize the conflict of interest noted and corrected the issue by increased costs to the Authority in the management fee to reduce costs incurred for payroll and other related costs within the final payment made for services rendered.

Personnel files were found in many areas and have been combined into a systematic and auditable format. Job performance evaluations have been performed three times under the new administration.

Personnel policy and procedures are currently under review by the staff for updating and presentation to the Board of Commissioners attorney and will be adopted by the Board on or before the regularly scheduled April, 2003 Board meeting.

The current administration cannot respond to the comments relative to where the previous Executive Director's percentage of time was spent and/or allocated. Our current administration works with our fee accountant relative to payroll allocations on a quarterly basis to assess if the allocations are appropriate or need changed. Changes are presented to the Board for resolution if necessary. All other allocations are based upon the previous Director and Finance Director' communications which apparently lacked documentation and presentation to the Board. Subordinate staff reporting to OIG may not reflect the intent of the previous Executive or Finance Directors and therefore, their input should not be as heavily weighted in the comments within Finding 2.

Unauthorized overtime is here again, an issue that cannot be addressed by the current administration. However, overtime is presently authorized by the Executive Director or the Executive Administrative Assistant as it is presented by the employee and/or the direct supervisor.

Travel expenses were not followed by the previous administration. Current administration has followed practical reimbursement and is in the process to review non-bargaining employees policy and procedures.

The Authority's Executive Director created an alleged conflict of interest by signing the personnel services contract on behalf of SBI Corporation due to its president, David Houze being out of state. The OIG auditors that were on sight knew of the arrangements and no reference was made during the first five months of the arrangement. However, the Board of Commissioners, Executive Director, Council for the Board and SBI Corporation resolved the conflict issues by creating changes to the payment structure in which removed Gregory Darr from being paid for the position of Executive Director and crediting the Housing Authority for those costs through SBI's final payment. Open competition was not addressed as the Board of Commissioners agreed to the short-term processes that Mr. Darr presented so that additional personnel could be brought in to address crucial financial issues that had not been disclosed until the elimination of the Finance Director position. Excess of $110,000 worth of accounts payable invoices were found in the bottom of a box, several months of vendor statements were found and there were no cash controls which had to be remedied immediately. The short-term relationship was only developed to implement immediate corrective actions to benefit the Housing Authority, which can be readily audited.

The Authority's Leave Records did not reconcile: Once again the new Executive Director chose to hire an outside firm to process payroll until the payroll records were able to be reconciled. Current administration is anticipating bringing payroll processing back to in-house shortly after the second quarter of 2003.

Vacant positions were not filled appropriately: The Executive Director position was filled August 27, 2001 after an appropriate application interview process was completed. Documentation from multiple-HUD officials supported the termination of the Maintenance Supervisor, Paul Napier. The Board of Commissioners proposed an outside search be presented. Therefore, Chris McElroy was offered the position of Maintenance Engineer after a review process. A second Maintenance Supervisor/HQS Inspector was hired after the application process to include advertisement in the local newspaper. Current administration feels that the OIG comments are outside the facts that were presented during hire.

Finding 3: Public Housing Utility Allowances were not adjusted:

The records do reflect that the utility allowances were untimely and non-systematic. However, preventative measures are in place for ongoing correction.

Finding 4: Public Housing units had health and safety violations:

The 36 units inspected were reviewed and work orders were entered to overcome the 339 violations noted. The maintenance supervisor was terminated October 15, 2001 and a new maintenance engineer was hired October 17, 2001. Additionally, a new scattered-site maintenance supervisor/technician was hired March, 2002. Both additions have secured stellar maintenance.

Finding 5: The Authority used $37,987 of its Public Housing program funds for ineligible and unsupported expenditures:

Due to the short period of time allotted to respond to this preliminary audit report, we are unable to make a response. The supportive work papers provided from the OIG audit do not give enough information to formulate an opinion.

Exit

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Finding 6: The Authority needs to improve its contracting process:

The Board of Commissioners have adopted a Procurement Plan which was implemented. Architectural oversight will be pursued on all costs exceeding $2,000. This will allow proper scope of work to be provided so that measurable outcomes can be accomplished.

Additionally, the Davis-Bacon Act will be adhered to.

Finding 7: Occupancy policies were not followed:

The current administration terminated its relationship with the personnel that were responsible for the verification and other related duties. Rent calculation continuing education was provided to the staff during 2002. Ongoing education will be provided for as long as budgetary dollars exist.

A new occupancy specialist was encouraged to reunite with the Housing Authority as of June, 2002. A complete cycle of reexamination has almost occurred with a success rate of 100% turnaround on the resident files.

Public Housing units were not evaluated properly: An audit of each current resident file was completed by the entire staff. Our findings indicated that proper documentation of the screening process is in the file. Our evaluation did create some question on two files of 154, as to whether the persons' police records prevented them from being housed or not. Under the new administrations viewpoint one would have been housed, the other not, due to the succession of events.

The Housing Authority's Occupancy Plan does indicate maximum number of occupants per apartment. However, as economic trends changed the Authority's understanding is that a resident could be placed in a one bedroom size above their qualification as long as there was written documentation the resident may have to move upon a qualified unit becoming available. Our current administration is working through the process to reestablish proper bedroom size to the qualified families.

Finding 8: The Authority lacked effective cash management controls:

True. The new administration spent approximately 8 months reconstructing vendor files, payable files, unpaid invoices, bank statements, etc. During this period of time, a cash control journal was implemented for each depository account, check registers were implemented, policy and procedure on rent collections and bank depositing was implemented. A purchase order system was implemented. Cash receipt books were implemented. Laundry collections are presently being collected by two individuals and taken to the bank of which the deposit ticket is initialed by both collecting parties. Unused checks and petty cash are maintained in the safe.

Duties were not adequately segregated: The current administration segregated the duties during the period of November, 2001 through April, 2002. The Troubled Authority Recovery Center has reviewed the segregated duties and presently have responded that they meet or exceed requirements.

It should be known that NO cash is accepted at the drop box or the front desk

Finding 9: The Authority needs to improve its control over equipment, materials and supplies:

The new administration has not disposed of any equipment, materials or supplies without a Board resolution to authorize disposition. The equipment has been numbered and inventoried and is presently waiting to be entered in to the upgraded MCS Visual software.

The Troubled Authority Recovery Center currently is reviewing the above stated policy and procedures and have suggested some areas to strengthen the new administrations agenda.

All of the findings unsupported, undocumented references will be reviewed with the Troubled Authority Recovery Center team to address a formal resolution. If you have any comments and/or requirements please feel free to contact me.

Respectfully submitted,

Gregory James Darr

Gregory J. Darr
Executive Director

GJD/jn

cc: Tarc Team
Board of Commissioners

Distribution

The Honorable Susan Collins, Chairman, Committee on Government Affairs, 172 Russell Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Joseph Lieberman, Ranking Member, Committee on Government Affairs, 706 Hart Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Thomas M. Davis, III, Chairman, Committee on Government Reform, 2348 Rayburn Building, House of Representatives, Washington, DC 20515-4611

The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Building, House of Representatives, Washington, DC 20515

Andy Cochran, Committee on Financial Services, 2129 Rayburn House Office Building, United States House of Representatives, Washington DC 20515

Clinton C. Jones, Senior Counsel, Committee on Financial Services, B303 Rayburn Building, United States House of Representatives, Washington DC 20515

Sharon Pinkerton, Senior Advisor, Subcommittee on Criminal Justice, Drug Policy & Human Resources, B373 Rayburn House Office Building, United States Housing of Representatives, Washington, DC 20515

W. Brent Hal, United States General Accounting Office, 441 G Street, NW, Washington, DC 20548

Steve Redburn, Chief of Housing Branch, Office of Management and Budget, 725 17th Street, NW, Room 9226, New Executive Office Building, Washington, DC 20503

Linda Halliday (52P), Department of Veterans Affairs, Office of Inspector General, 810 Vermont Avenue, NW, Washington, DC 20420

Kay Gibbs, Committee on Financial Services, 2129 Rayburn House Office Building, United States House of Representatives, Washington DC 20515

Gregory Darr, Executive Director of Coshocton Metropolitan Housing Authority

R. Dale Smith, Chairman of the Board of Commissioners for Coshocton Metropolitan Housing Authority