

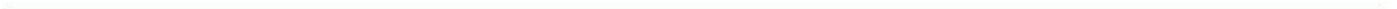


Inglewood Housing Authority, Inglewood, CA

Housing Choice Voucher Program

**Office of Audit, Region 9
Los Angeles, CA**

**Audit Report Number: 2016-LA-1013
September 30, 2016**





To: Marcie Chavez, Director, Office of Public Housing, Los Angeles, CA, 9DPH

//SIGNED//

From: Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

Subject: Inglewood Housing Authority, Inglewood, CA, Did Not Effectively Manage the Financial Operations of Its Housing Choice Voucher Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Inglewood Housing Authority's financial management of its Housing Choice Voucher program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 213-534-2471.



Audit Report Number: 2016-LA-1013

Date: September 30, 2016

Inglewood Housing Authority, Inglewood, CA, Did Not Effectively Manage the Financial Operations of Its Housing Choice Voucher Program

Highlights

What We Audited and Why

We audited the Inglewood Housing Authority's financial management of its Housing Choice Voucher program due to a hotline complaint allegation and the U.S. Department of Housing and Urban Development (HUD), Los Angeles Office of Public Housing's concerns about the Authority's financial management of its program. Our audit objective was to determine whether the Authority managed the financial operations of its program in compliance with HUD rules and requirements.

What We Found

The complainant's allegations and HUD's Los Angeles Office of Public Housing's concerns were valid. The Authority did not manage the financial operations of its program in accordance with HUD rules and requirements. Specifically, it (1) disbursed \$796,186 in program funds for unsupported transactions, (2) misclassified program fraud recovery proceeds, (3) did not terminate program assistance to noncompliant participants, and (4) did not void or reconcile its outstanding checks in a timely manner. These conditions occurred because the Authority lacked adequate written policies and procedures to ensure compliance with program rules and requirements, and had staffing issues. In addition, its management was ineffective in ensuring that the financial operations of the program complied with HUD rules and requirements.

What We Recommend

We recommend that the Director of HUD's Los Angeles Office of Public Housing require the Authority to (1) provide supporting documentation or reimburse its program \$796,186 from non-Federal funds for unsupported allocated overhead and personnel costs charged, (2) develop and implement procedures and controls to ensure that the financial management of the program meets rules and requirements, (3) ensure staff is available to monitor and enforce repayments agreements, and (4) provide HUD training and technical assistance to ensure compliance with HUD rules and requirements that pertain to the financial operations of its program. In addition, we recommend that the Director of HUD's Los Angeles Office of Public Housing review current and future cost allocation plans to ensure compliance with HUD rules and requirements.

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Background and Objective

The Inglewood Housing Authority is a blended component unit of the City of Inglewood, CA, Economic and Community Development Department. The governing body of the Authority is comprised of members of the City Council and the mayor. It approves the Authority's budget and appoints its management. The Authority primarily focuses on improving service delivery to clients, expanding housing choice voucher options for clients, providing safe environments in which to live, and improving compliance with changing U.S. Department of Housing and Urban Development (HUD) policies.

The financial activities of the Authority are reported as a special revenue fund. The Authority has a baseline allocation of 1,002 housing choice vouchers and oversees additional vouchers from portable participants. Portable participants are eligible families that have been issued a housing choice voucher in one public housing agency's jurisdiction but have chosen to lease a unit in another public housing agency's jurisdiction. Between its fiscal year ending September 30, 2014, and its current fiscal year through February 29, 2016, it had revenues and expenditures totaling more than \$34.9 and \$34.8 million, respectively.

The City of Inglewood's Finance, Payroll, and Accounts Payable Departments perform many of the financial functions for the Authority. These financial functions include maintaining the portable receivable account, submitting the Voucher for payment of annual contributions and operating statement to HUD, and issuing housing assistance payments.

Our objective was to determine whether the Authority managed the financial operations of its program in compliance with HUD rules and requirements.

Results of Audit

Finding: The Authority Did Not Effectively Manage the Financial Operations of Its Program in Accordance With HUD Rules and Requirements

The Authority did not manage the financial operations of its program in accordance with HUD rules and requirements. Specifically, it (1) disbursed \$796,186 in program funds for unsupported transactions, (2) misclassified program fraud recovery proceeds, (3) did not terminate program assistance to noncompliant participants, and (4) did not void or reconcile its outstanding checks in a timely manner. These conditions occurred because the Authority lacked adequate written policies and procedures and staffing to ensure program compliance. In addition, its management was ineffective in ensuring that the financial management of the program complied with HUD rules and requirements. As a result, the Authority did not ensure that at least \$796,186 in questioned transactions was used for eligible program expenses that may affect its ability to ensure that funds are available to provide housing assistance to eligible participants.

The Authority Did Not Support Program Transactions

The Authority paid \$796,186 in unsupported transactions that were disbursed from its program. This amount included \$605,614 in unsupported allocated overhead costs and \$190,572 in unsupported personnel costs.

The Authority Did Not Support Its Cost Allocation Plans

The City's cost allocation plans used to distribute overhead costs to the Authority's program violated the applicable regulations at 24 CFR (Code of Federal Regulations) Part 200, appendix V (appendix C). In July 2015, HUD monitored the Authority and reviewed the City's cost allocation plans used during its fiscal years ending September 30, 2013, and September 30, 2014. Based on the review, HUD requested that the Authority repay the allocated overhead costs charged for the years reviewed. The repayment was based on the Authority not preparing its cost allocation plans and failing to complete the required certifications by the required deadline. In addition, it did not have support for cost data used to distribute the costs included in the plans. As a result, the Authority reimbursed its administrative fee account \$659,730 for ineligible allocated overhead costs charged in its fiscal years ending September 30, 2013, and September 30, 2014.

For the City's fiscal years ending September 30, 2015, and September 30, 2016, it could not support the overhead cost allocation plans with the required documents. The City used Microsoft Excel spreadsheets to document its cost allocation plans. The figures used in the worksheets were from the City's budget. However, neither the spreadsheets nor the City's budget included narratives to describe each of the allocated services provided to the Authority. Neither document identified the following required elements: the departments providing and receiving services, the details of the expenses incurred from providing services, and the

methodology for sharing costs among the benefiting departments. As a result, we were unable to understand the City's methodology for allocating overhead costs charged to the Authority's program. City staff explained that these cost allocation plans were submitted to HUD in July 2015. HUD staff acknowledged receiving the plans but did not provide the City with comments regarding the adequacy of the plans. Therefore, City and Authority staff was surprised that the cost allocation plans did not meet the applicable requirements. The City had paid from the Authority's program allocated overhead costs totaling \$605,614 for its fiscal year ending September 30, 2015, and its current fiscal year ending September 30, 2016. Since the Authority's cost allocation plans used to distribute the program costs were incomplete, it disbursed \$605,614 in unsupported allocated overhead costs.

The Authority Did Not Support Personnel Costs

The Authority charged \$174,941 to its program for City personnel costs that were not supported with appropriate source documentation as required by 24 CFR 85.20 (b)(6) and section 14(A) of the Authority's HUD-approved consolidated annual contributions contract (appendix C). These costs were related to two City police department employees and one accountant. These costs were charged to the Authority's program through unsupported payroll entries in its fiscal years ending September 30, 2013, September 30, 2014, and September 30, 2015, and yearend adjusting entries in its fiscal years ending September 30, 2014, and September 30, 2015. Overall, the City did not track these employees' time by program activity. Specifically, the City employees' time and attendance records did not show how much of their time was spent working on the program versus how much time they spent on other programs and activities. A City finance staff member explained that she did not agree with charging the accountant's personnel costs to the Authority's program as it had not been done that way before the fiscal year that ended in September 30, 2014. Therefore, she had obtained approval from the City's assistant finance director to adjust \$21,209 for the accountant's personnel costs for the fiscal year ending September 30, 2015. However, she was unable to reverse a similar yearend adjusting entry for the fiscal year ending September 30, 2014, since the City had already completed its general ledger for that fiscal year. As a result, the City continued to charge the Authority's program for unsupported City personnel costs totaling \$153,732. Further, other City departments, such as the Finance Department, provided services to several City departments, and those costs were allocated using the City's cost allocation plans. The \$153,732 in unsupported City personnel costs may have been charged to the Authority's program as part of allocated overhead costs previously discussed in this report.

Additionally, the Authority charged its program for \$36,840 in personnel costs that was not supported by the source documentation required by 24 CFR 85.20(b)(6) (appendix C). The Authority charged its program through a yearend adjusting journal entry. Specifically, this adjustment shifted an Authority staff member's payroll costs from the Authority's State of California-funded Affordable Housing program to its program. During the fiscal year, it adjusted this staff member's job-costing codes to show changes in work performed. City finance staff provided a copy of an email instructing staff to make the yearend adjusting entry. However, there was no source documentation to show that this staff member worked on the program for more time than what had been adjusted. Additionally, City staff could not provide an

explanation for the basis of this adjustment. The Authority's action resulted in \$36,840 in unsupported Authority personnel costs.

Overall, the Authority paid \$190,572 (\$153,732 + \$36,840) in unsupported personnel costs that were disbursed from its program.

The Authority Misclassified Fraud Recovery Proceeds

The City's finance staff credited the Authority's program fraud recovery proceeds¹ to a wrong account. While we did not note an issue with the proceeds recorded for fiscal years ending September 30, 2014, and September 30, 2015, the City's finance staff mistakenly credited these funds to the City's general fund. This portion of the fraud recovery proceeds should have been credited to the Authority's administrative fee reserve account. A City finance staff member attributed the misclassification to a misinterpretation of HUD's rules and requirements on how to account for the proceeds. The City finance staff member recalled that during a non-HUD training, it was explained that the Authority could keep up to 50 percent of fraud recovery proceeds. However, there was no clarification as to where these proceeds were to be credited. This matter was brought to the Authority's attention, and City finance staff corrected the error. As a result, no further action related to this issue is warranted. However, the Authority must ensure that future instances are eliminated.

The Authority Did Not Terminate Program Assistance to Noncompliant Participants

The Authority did not terminate program assistance to participants who failed to meet the terms of their repayment agreements². The Authority had 74 outstanding repayment agreements with current program participants totaling \$128,313. Of those 74 outstanding repayment agreements, the Authority had 24 outstanding repayment agreements that totaled \$49,017 from participants in continuous default status. The Authority had last mailed delinquency notices on December 17, 2015. As a result of our inquiries, in May 2016, the Authority mailed delinquency notices and collection notices to those participants who were delinquent and those who had been removed from the program. At the end of our fieldwork, the Authority had removed 8 of the 24 program participants, 8 participants were current with their accounts, and 6 participants had paid off their debts. The Authority was researching the remaining two repayment agreements to determine and proceed with the appropriate actions. An Authority official explained that staffing issues were a

¹ Regulations at 24 CFR 792.202 allow the Authority to retain up to 50 percent of the amount it collects from a judgment, litigation, or an administrative repayment agreement that is due as a result of a participant's fraud and abuse. Further, Office of Public and Indian Housing (PIH) Notice PIH-2015-17 states that this portion of fraud recovery proceeds is to be credited to the Authority's administrative fee reserve account (appendix C).

² A repayment agreement is a formal document executed with an owner or tenant in which the owner or tenant acknowledges and agrees to repay a debt, in a specific amount, and agrees to repay the amount due at a specific time(s). (The Authority executes these agreements with owners or participants due to participants' underreported or unreported income (appendix C - 24 CFR 792.103).) If a payment is not received, the Authority sends the owner or participants a delinquency notice, giving them 10 business days to make the late payment. If the late payment is not received, it will be considered a breach of the agreement, and the Authority will terminate assistance (appendix C - the Authority's administrative plan for the Housing Choice Voucher program, chapter 16, part IV, section IV.B, and 24 CFR 982.552(c)(1)(vii)).

factor in its shortcomings in monitoring and enforcing repayment agreements. While we agree with the Authority's explanation, it did not have formal written procedures for monitoring the agreements and sufficient personnel to monitor and enforce these agreements. Additionally, the Authority's management failed to ensure that staffing was available to monitor and enforce these repayment agreements.

The Authority Did Not Void or Reconcile its Outstanding Checks in a Timely Manner

The Authority had uncertainties regarding its payments of program funds, including uncashed checks, as it did not maintain the required controls³ over its program funds. It was unable to provide a listing of uncashed program checks from its program management software system. An Authority official claimed that all of the program checks had been cleared. However, an Authority staff member stated that the Authority had not been reconciling its disbursements. The Authority official later explained that the reconciliation of payments did not reconcile the status of its payments. Instead, the reconciliation of payments settled the total of the payments recorded in the Authority's program management software system with the total payments recorded and paid in the City's financial management system. Further, the Authority official admitted that these types of reconciliations had not been performed since December 2011 and that the responsibility of reconciliations had not been formally assigned to anyone at the Authority. However, the Authority staff member stated that this duty had been assigned to the Authority official, not staff. This condition occurred because the Authority's management failed to ensure that designated staff performed the reconciliations. As a result, management's lack of actions raised concerns of uncertainties regarding the Authority's payments of program funds.

The City's Finance Department provided us a listing of uncashed checks totaling \$17,192. Of this amount, we sampled 12 checks totaling \$11,108 and determined that the Authority did not properly void 4 checks totaling \$4,408. Based on our inquiries, the Authority voided two checks totaling \$2,112 for canceled trainings. It voided the remaining two checks totaling \$2,296 for housing assistance payments. The Authority's program management software system included notes regarding these checks. One check totaling \$1,804 had been returned to the Finance Department in November 2013. Another check totaling \$492 was for an overpayment in housing assistance to a participant. An Authority official did not provide an explanation for the untimely voiding of checks. However, the official assured us that the Authority followed the practice of sending the check to the City's Finance Department. The Authority's actions raised concerns of uncertainties regarding its payments of program funds.

³ Regulations at 24 CFR 85.20(b)(3) require that the financial management system of the Authority have effective control and accountability for all cash, real and personal property, and other assets. The Authority must adequately safeguard all such property and ensure that it is used solely for authorized purposes (appendix C).

The Authority's Management Lacked an Understanding of Rules and Requirements

The Authority's management was not aware that it had violated HUD rules and requirements. Additionally, the Authority's management and former housing manager⁴ could not implement existing policies and procedures, as they lacked an understanding of HUD rules and requirements related to the financial aspects of the Authority's program.

Conclusion

The Authority did not manage the financial operations of its program in accordance with HUD rules and requirements. This condition occurred because the Authority lacked adequate written policies and procedures and staffing to ensure compliance. Further, Authority management was ineffective in ensuring that the program's financial operations complied with HUD rules and requirements. Based on the results of this audit, the complainant's allegations and HUD's concerns about the Authority's financial management of its program were valid. As a result of its mismanagement, the Authority charged its program at least \$796,186 (appendix D) in unsupported expenses, which may affect its ability to ensure that funds are available to provide housing assistance to eligible participants.

Recommendations

We recommend that the Director of HUD's Los Angeles Office of Public Housing require the Authority to

- 1A. Support the eligibility of \$605,614 used for unsupported allocated overhead costs charged for the fiscal year ending September 30, 2015, and its current fiscal year through June 30, 2016, or reimburse its administrative fee reserve account using non-Federal funds.
- 1B. Support the eligibility of \$190,572 used for personnel costs or reimburses its administrative fee reserve account using non-Federal funds.
- 1C. Develop and implement adequate internal controls over its financial management of program funds. At a minimum, the internal controls should address the weaknesses cited in this report and include policies and procedures to ensure that costs are reviewed, documented, and supported as required by HUD; fraud recovery proceeds are classified correctly; repayment agreements are monitored and enforced; and disbursements are reconciled in its program management software system.
- 1D. Ensure that staffing is available to monitor and enforce repayment agreements executed with noncompliant program participants.

⁴ Our audit period included the period of the former housing manager's tenure. During the period of our review, the former housing manager was on administrative leave. Specifically, this individual was not at the Authority from October 2015 to May 2016, or the month when this individual was removed from the housing manager position.

- 1E. Obtain HUD training and technical assistance for its management, program staff, and applicable City finance staff to ensure that the financial management of its program complies with HUD rules and requirements.

We recommend that the Director of HUD's Los Angeles Office of Public Housing to:

- 1F. Review the Authority's current and future cost allocation plans to ensure compliance with HUD rules and requirements. Specifically, these cost allocation plans should include the following required elements: the departments providing and receiving the services, the details of the expenses incurred from providing services, and the methodology for sharing costs among the benefitting departments.

Scope and Methodology

We performed our audit work at the Authority's office in Inglewood, CA, and our office in Los Angeles, CA, from February 25 to July 22, 2016. Our review covered the period October 1, 2012, to June 30, 2016, and was expanded as necessary.

To accomplish our objective, we

- Reviewed the Authority's HUD-approved annual contributions contract and applicable HUD rules, regulations, and guidance;
- Obtained an understanding of the Authority's internal controls;
- Interviewed Authority officials to obtain an understanding of its program processes;
- Reviewed the Authority's independent public accountant reports for fiscal years ending September 30, 2013, and September 30, 2014;
- Reviewed HUD monitoring reports;
- Reviewed the City's overhead cost allocation plans for its fiscal years ending September 30, 2015 and September 30, 2016; and
- Reviewed payroll, repayment agreements, and outstanding checks data and records.

The audit universe of outstanding checks consisted of 63 checks totaling \$17,192 during the period of October 1, 2013, through March 31, 2016. For our review, we nonstatistically sampled 12 checks totaling \$11,108. Overall, the outstanding checks reviewed represented 65 percent (\$11,108/\$17,192) of the Authority's total outstanding checks. In addition, we nonstatistically selected and reviewed \$211,781 in personnel costs; \$27,395 of fraud recovery proceeds; and \$49,017 in repayment agreements.

We evaluated the reliability of computer-processed data to identify potential weaknesses related to our audit objective. Specifically, we reviewed the Authority's financial management system expenditures and revenues reports and its program management system expenditures report; data from HUD's Voucher Management System; and HUD disbursement data. We relied in part on computer-processed data primarily for obtaining background information on the Authority's program. We performed a minimal level of testing and found the data to be sufficiently reliable to meet the audit objective and for the intended use of the data.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Effectiveness and efficiency of operations – Implementation of policies and procedures to reasonably ensure that program objectives are met.
- Reliability of financial information – Implementation of policies and procedures to reasonably ensure that relevant and reliable data are obtained, maintained, and fairly disclosed in the required reports.
- Compliance with laws and regulations – Implementation of policies and procedures to reasonably ensure that program expenses are supported and comply with program funding guidelines and restrictions.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

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

- The Authority did not have adequate financial management controls to ensure that expenses were adequately supported, program fraud recovery proceeds were classified correctly, and program expenses were reconciled (finding).
- The Authority did not have adequate controls in place to ensure that repayment agreements were monitored and enforced (finding).

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1A	\$605,614
1B	190,572
Totals	796,186

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 2



CITY OF INGLEWOOD

Office of the Assistant City Manager
& Chief Financial Officer



David L. Esparza, Assistant City Manager & Chief Financial Officer
City Hall, First Floor

September 23, 2016

Ms. Tanya E. Schulze
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
300 N. Los Angeles Street, Suite 4070
Los Angeles, CA 90012

Subject: Management's Response to Draft Audit Report Dated September 9, 2016

Dear Ms. Schulze,

This letter is the City of Inglewood's management response to the Office of the Inspector General's audit findings as expressed in its draft audit of the City's Housing Choice Voucher Program dated September 9, 2016. These responses were discussed with you, your audit staff, the staff from the Office of Public Housing, and the City's staff on Thursday, September 15, 2016 at our offices located at One Manchester Boulevard, Suite 750. These comments are being provided to you for inclusion in your report.

The City acknowledges and accepts the responsibility for correcting the shortcomings of its Housing Choice Voucher Program and, to that end, has included a target date for the implementation of the necessary corrections in its comments for each finding.

Finding: The Authority Did Not Effectively Manage the Financial Operations of Its Program in Accordance With HUD Rules and Requirements

The Authority Paid for Unsupported Program Transactions
The Authority paid \$796,186 in unsupported transactions that were disbursed from its program. This amount included \$605,614 in unsupported allocated overhead costs and \$190,572 in unsupported personnel costs.

City's Response:
The City acknowledges that the cost plans used during its fiscal years ending September 30, 2013, and September 30, 2014, were not updated appropriately, and the proper certifications had not been submitted by the former Housing Manager by the required deadline, therefore the City did refund \$659,730 to the Housing Authority's administrative reserve in January 27, 2016, for overhead costs charged to the Housing Authority for the 2013 and 2014 fiscal years.

In early 2015, after reviewing the methodology of a prior HUD-approved cost allocation plan that was completed and submitted in 2005, the City's former-Accounting Manager, [REDACTED] prepared a similar cost allocation document using basically the same methodology with updated cost data. This

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document reflects an Indirect Cost Rate using a methodology very similar to the prior methodology approved by HUD in 2005. The required certifications were signed by the City and submitted to HUD in 2015, however no feedback was provided to City staff as of the date of our exit meeting on September 15, 2016. As a result of this meeting, the Regional Inspector General for Audit indicated that an internal meeting between OIG and HUD staff will be arranged in order to provide the City with feedback on the approval of the cost allocation plans submitted. In the meantime, City staff requested an opportunity to provide additional information such as more complete narratives within the cost allocation document, along with any additional schedules to enhance or assist the reader to understand how data was used within the document.

Even though the 2015 document was created following the applicable regulations at 24 CFR (Code of Federal Regulations) Part 200, appendix V (appendix C), since the document was created and implemented by the City's former Accounting Manager, [REDACTED] who is no longer employed by the City, City staff requested the opportunity to help clarify the data in the document to make it easier to follow, and ask that OIG and HUD to reconsider and accept the plan as supporting documentation for the overhead charges to the Housing Authority for the fiscal years ending September 30, 2015, and September 30, 2016.

City staff is currently working on these enhancements to the cost allocation document used for these two fiscal years, and will forward the final updated document to both OIG and HUD as soon as it is completed. It is our goal to meet the requirements of the applicable Federal Regulations and to also satisfy OIG and HUD so that the information in the document will be easier to follow and understand. **Correction:** Within 90 days of receiving guidance from OIG and HUD staff.

Finding: The Authority Did Not Support Personnel Costs

The Authority did not support personnel costs with the appropriate source documentation as required by 24 CFR 85.20 (b)(6) and section 14(A) of the Authority's HUD-approved consolidated annual contributions contract.

City's Response:

The Authority acknowledges the lack of source documentation for payroll costs for two Police Department employees and one Accounting staff member. These costs were reclassified via journal entries approved and posted by the former Accounting Manager, [REDACTED]. The former Accounting Manager reclassified these expenses despite the disagreement and warning given from the accountant staff person who informed her that the posting would amount to "double charging" for her time. The accountant knew that her time was included in the cost allocation plan charged to Housing, however, the Accounting Manager chose to ignore the staff's concern and had the journal entry prepared by staff, which she approved and posted and, thus, reclassifying the payroll costs. The City would like to note that we do have one staff accountant who provides a significant amount of accounting support to the Housing Authority. We also have signed certification from the Police Department that its department employees in question, did provide support to the Housing Authority and they continue to provide support to the Housing Authority by conducting tenant background checks and site visits to tenant residences to insure there are no unauthorized tenants living at the locations.

The former Accounting Manager [REDACTED] also instructed City staff to make a yearend adjusting journal entry to reclassify payroll costs for the former Housing Manager out of the Affordable Housing Division, and into the Housing Section 8 Division. This resulted in the former Housing Manager's timecards not agreeing with the payroll charges reflected in the general ledger. The only supporting

Comment 3

To: Tanya E. Schulze, Regional Inspector General for Audit

September 23, 2016

Subject: **Management's Response to Draft Audit Report Dated September 9, 2016**

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documentation the City has for this reclassification, is an email from the former Accounting Manager, [REDACTED] giving this directive to City Finance staff to make the adjustment.

Going forward, City Finance Department and Housing Program staff will work together and follow up on methods to allocate costs more accurately and in accordance with the Federal Regulations applicable to allocating costs to the Housing Authority. **Correction:** Changes in procedures have been implemented and new policies delivered to OIG and HUD by November 30, 2016.

Finding: The Authority Misclassified Fraud Recovery Proceeds

The City's staff credited the Authority's program fraud recovery proceeds to a wrong account.

City's Response:

Historically, the City has always credited Fraud Recovery proceeds back into the Housing Authority's program, however, the former Accounting Manager, [REDACTED] informed City staff that 50 percent of the proceeds recovered could be placed in the City's General Fund. [REDACTED] misinterpretation of Code of Federal Regulations at 24 CFR 792.202 was that 50 percent of the proceeds could go to the City's General Fund. [REDACTED] then directed City Accounting staff in an email, to record 50 percent of Fraud Recovery into the General Fund, which was then done. When this issue came to light with the Assistant Finance Director, City staff subsequently reversed this posting and placed all of the Fraud Recovery proceeds into the Housing Authority's program, and, therefore, at this time, the City credited all fraud recovery funds to the appropriate Housing account and does not have any disagreement with this issue resolution. To prevent this type of misinterpretation in the future, the City will confer with HUD before implementing these types of changes. **Correction:** Completed and implemented.

Finding: The Authority Did Not Terminate Program Assistance to Noncompliant Participants

The Authority did not terminate program assistance to participants who failed to meet the term of their repayment agreements.

City's Response:

As discussed during the exit meeting, this matter has been resolved. Going forward, the Housing Authority will prepare formal written procedures for monitoring the agreements. **Correction:** Completed and implemented.

Finding: The Authority Did Not Void or Reconcile its Outstanding Checks in a Timely Manner

The Authority had uncertainties regarding its payments of program funds, including uncashed checks, as it did not maintain the required controls over its program funds. It was unable to provide a listing of uncashed program checks from its program management software system.

City's Response:

This issue is the responsibility of both the Housing Authority and the Finance Department as discussed during our exit meeting. The Housing Authority is in the process of preparing their policies and procedures on reconciling their disbursements and properly tracking voided checks in their system and then submitting them to the Finance Department for processing in the City's financial system. A final written procedure will be submitted to OIG and HUD once it is completed.

The Finance Department has been working on cash processes and procedures which include the process of handling voided checks. The former Accounting Manager, [REDACTED] had this responsibility to complete the cash processes and procedures, which included working to clear up all areas related to cash, including the process of handling voided checks. However, had she completed

Comment 4

Comment 5

Comment 6

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September 23, 2016

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the task, the untimeliness of the voided check in OIG's sample selection, would have been discovered and, therefore, would have been corrected.

The Finance Department has now put in place certain controls to insure that all voided checks received from the Housing Authority are tracked and processed in the City's financial system. When the Housing Authority submits voided checks to the Finance Department, they are tracked and logged in by finance staff. The voided check will then be entered into the accounts payable system to either void and cancel the check, or void and re-issue the check. The status of each voided check will also be tracked, and the date the check is voided, and the status of the check logged. Finance will then close the loop with the Housing Authority to make sure that all voided checks have been properly addressed in both the Housing system and the City's financial system. A comprehensive written policy and procedure will be submitted to OIG and HUD once the final procedures have been completed. **Correction:** New policies and procedures will be developed and delivered to OIG and HUD by October 31, 2016.

Finding: The Authority's Management Lacked an Understanding of Rules and Requirements

The Authority's management was not aware that it had violated HUD rules and requirements. Additionally, the Authority's management and former housing manager could not implement existing policies and procedures, as they lacked an understanding of HUD rules and requirements related to the financial aspects of the Authority's program.

City's Response:

The former Housing Manager and former Accounting Manager who were responsible for the subject findings as described above, are no longer employed by the City. Going forward the City plans to implement written policies and procedures and request HUD training for all applicable staff in order to help staff gain a better understanding of HUD rules and requirements related to the financial aspects of the Authority's program.

In conclusion, the Authority and Finance Department will prepare written policies and procedures to help guide the operations of the program. In addition, HUD training will be implemented so all applicable staff will gain a better understanding of the rules and regulations as required by HUD. It is anticipated that these steps will ensure that the weaknesses noted above will be eliminated. **Correction:** On-going with training assistance from HUD, however, new policies and procedures will be developed and delivered to OIG and HUD by November 30, 2016.

If you have any questions or comments, please contact me directly by phone a (310) 412-5257 or by email at dlesparza@cityofinglewood.org. Thank you and I look forward to working with you to better the performance of the Inglewood Housing Choice Voucher Program.


David L. Esparza
Assistant City Manager & Chief Financial Officer

Cc: Artie Field, City Manager
Sharon Koike, Assistant Finance Director
Harjinder Singh, Housing Manager
Charles Slyngstad, Esq.

Comment 7

OIG Evaluation of Auditee Comments

- Comment 1 We appreciate and commend the Authority for accepting the responsibility to take corrective action to ensure that the reported deficiencies are addressed. The Authority's corrective actions should ensure its program funds are used for eligible program expenses and that funds are available to provide housing assistance to eligible participants. The Authority should work with HUD during the audit resolution process to ensure the recommendations are adequately addressed.
- Comment 2 We acknowledge and commend the Authority for taking corrective action on previous issues related to the cost allocation plans for its fiscal years ended September 30, 2013, and September 30, 2014. Since those cost allocation plans were not included in our review, we cannot comment on the similarities between the methodologies of the plans. We included a recommendation for HUD to review the Authority's current and future cost allocation plans. As part of the audit resolution, the Authority can work with the HUD local field office in ensuring that the current and future cost allocation plans meet HUD requirements. The Authority's approach to addressing the finding should include the following required elements: the departments providing and receiving the services, the details of the expenses incurred from providing services, and the methodology for sharing costs among the benefitting departments. If the Authority implements our recommendations, it will ensure its program funds are used for eligible program expenses.
- We redacted individuals' names mentioned in the letter for privacy reasons.
- Comment 3 We appreciate the Authority for acknowledging the lack of source documentation for payroll costs. We commend the City of Inglewood for sharing essential services with the Authority to help manage the program. However, both the Authority and the City must ensure that program funds are used for eligible payroll program expenses that include accurate tracking of program employees' time by the respective program activity. We commend the Authority and the City for taking corrective action to ensure that this reported deficiency is addressed.
- Comment 4 We appreciate and commend the Authority for taking corrective action to ensure that the reported deficiency was addressed. The Authority's corrective action will ensure that its program funds are available to support the program.

- Comment 5 We appreciate and commend the Authority for taking corrective action to ensure that the reported deficiency was addressed. The Authority's corrective action will ensure that its program funds are available to provide housing assistance to eligible participants.
- Comment 6 We appreciate the City for acknowledging that the Authority did not void or reconcile its outstanding checks in a timely manner. We acknowledge that this issue is the responsibility of both the Authority and City to ensure coordination and communication of program fund transactions are accurate and complete. If the required controls are implemented and maintained, the Authority will ensure that program funds are used for eligible program expenses and that funds are available to provide housing assistance to eligible participants. We commend the City and Authority for proactively addressing this reported deficiency.
- Comment 7 We commend the City and Authority for taking corrective action to ensure that the program and City staff involved in the financial operations of the program are trained on HUD rules and requirements. By implementing this recommendation, the City and Authority will ensure program funds are used for eligible program expenses and that funds are available to provide housing assistance to eligible participants.

Appendix C

Criteria

The following sections of the consolidated annual contributions contract, the Authority's administrative plan, 2 CFR Part 200, 24 CFR Part 85, 24 CFR Part 792, 24 CFR Part 982, and Office of Public and Indian Housing (PIH) Notice PIH-2015-17 were relevant to our audit of the Authority's financial management of its program.

Consolidated Annual Contributions Contract, Section 14, Program Records

- (a) The HA [housing agency] must maintain complete and accurate books of account and records for a program. The books and records must be in accordance with HUD requirements, and must permit a speedy and effective audit.

Authority's Administrative Plan for the Housing Choice Voucher Program, Chapter 16, Program Administration, Part IV, Owner or Family Debts to the PHA, Section IV.B. Repayment Policy

Late or Missed Payments

If a payment is not received by the end of the business day on the date due, and prior approval for the missed payment has not been given by the PHA [public housing agency], the PHA will send the family a delinquency notice giving the family 10 business days to make the late payment. If the payment is not received by the due date of the delinquency notice, it will be considered a breach of the agreement and the PHA will terminate assistance in accordance with the policies in Chapter 12.

2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Appendix V, State/Local Government and Indian Tribe-Wide Central Service Cost Allocation Plans

A. General

1. ...All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.

E. Documentation Requirements for Submitted Plans

2. Allocated Central Services. For each allocated central service, the plan must also include the following: a brief description of the service, an identification of the unit rendering the service and the operating agencies receiving the service, the items of expense included in the cost of the service, the method used to distribute the cost of the service to benefitted agencies, and a summary schedule showing the allocation of each service to the specific benefitted agencies. If any self-insurance funds or fringe benefits costs are treated as allocated (rather than billed) central services, documentation discussed in subsections 3.b. and c. must also be included.

24 CFR Part 85, Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments, Section 85.20, Standards for financial management systems

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

(6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

24 CFR Part 792, Public Housing Agency Section 8 Fraud Recoveries, Section 792.103, Definitions

Repayment agreement. Repayment agreement means a formal document signed by a tenant or owner and provided to a PHA in which a tenant or owner acknowledges a debt, in a specific amount, and agrees to repay the amount due at specific time period(s).

24 CFR Part 792, Public Housing Agency Section 8 Fraud Recoveries, Section 792.202, PHA retention of proceeds

(a) Where the PHA is the principal party initiating or sustaining an action to recover amounts from tenants that are due as a result of fraud and abuse, the PHA may retain, the greater of:

(1) Fifty percent of the amount it actually collects from a judgment, litigation (including settlement of lawsuit) or an administrative repayment agreement pursuant to, or incorporating the requirements of, § 982.555 of this title.

24 CFR Part 982, Section 8 Tenant-Based Assistance: Housing Choice Voucher Program, Section 982.552, PHA denial or termination of assistance for family

(c) Authority to deny admission or terminate assistance—

(1) Grounds for denial or termination of assistance. The PHA may at any time deny program assistance for an applicant, or terminate program assistance for a participant, for any of the following grounds:

(vii) If the family breaches an agreement with the PHA to pay amounts owed to a PHA, or amounts paid to an owner by a PHA. (The PHA, at its discretion, may offer a family the opportunity to enter an agreement to pay amounts owed to a

PHA or amounts paid to an owner by a PHA. The PHA may prescribe the terms of the agreement.)

Notice PIH-2015-17, Use and Reporting of Administrative Fee Reserves, Section 2, Background

Pursuant to 24 CFR 982.155, PHAs maintain a UNP [unrestricted net position], which is a single administrative fee reserve account for the Housing Choice Voucher (HCV) program. On an annual basis, PHAs credit to the UNP the total of:

(4) the portion of fraud recoveries actually collected that flows to the administrative fee reserves (usually 50% of total collected).

Appendix D

Summary of Questioned Costs

Description	Amount
Unsupported allocated overhead costs	
Fiscal year ending September 30, 2015	\$343,589
Fiscal year ending September 30, 2016	262,025
Subtotal of unsupported allocated overhead costs	605,614
Unsupported personnel costs	
City police department officer	120,360
City police department civilian employee	3,393
City Finance Department accountant	29,979
Authority former housing manager	36,840
Subtotal of unsupported personnel costs	190,572
Total of unsupported allocated overhead and personnel costs	796,186