



Issue Date	April 30, 2007
Audit Report Number	2007-CH-1007

TO: Randolph Wilson, Acting Director of Columbus Multifamily Housing Hub,  
5EHM

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

SUBJECT: Trumbull Metropolitan Housing Authority, Warren, Ohio, Did Not Ensure Its  
Nonprofit Followed HUD's Section 8 Housing Requirements

## **HIGHLIGHTS**

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

We audited the Trumbull Metropolitan Housing Authority's (Authority) activities with its related nonprofit organizations. The review of housing authorities' development activities is set forth in our fiscal year 2006 annual audit plan. We selected the Authority for audit because it was identified as having high-risk indicators of nonprofit development activity. Our objective was to determine whether the Authority's nonprofit received Section 8 housing assistance payments in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements.

### **What We Found**

The Warren Housing Development Corporation (Corporation), a nonprofit entity created by the Authority, received more than \$2.2 million in housing assistance payments from July 1, 2005, through February 28, 2007, contrary to HUD's requirements. The Corporation was created in May 1977 as a nonprofit instrumentality of the Authority. However, the Corporation revised its articles of incorporation in June 2005 and was no longer an instrumentality of the Authority. According to HUD's regulations at 24 CFR [*Code of Federal Regulation*] Part 880, the project must be owned by a public housing agency (instrumentality) throughout the term of the housing assistance payments contract. The Authority

revised the Corporation's articles of incorporation on March 13, 2007, to reinstate the Corporation as an instrumentality of the Authority.

### **What We Recommend**

We recommend that the acting director of HUD's Columbus Office of Multifamily Housing require the Authority to implement procedures and controls to ensure that it follows HUD's requirements regarding Section 8 housing assistance payments to its instrumentality.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence issued because of the audit.

### **Auditee's Response**

We provided our discussion draft audit report to the Authority's executive director, the chairman of its board of commissioners, and HUD's staff during the audit. We held an exit conference with the Authority's executive director on April 20, 2007.

We asked the Authority's executive director to provide written comments on our discussion draft audit report by April 25, 2007. The Authority's executive director provided written comments, dated April 20, 2007. The Authority agreed with our finding and recommendation. The complete text of the written comments, along with our evaluation of that response, can be found in appendix B of this report except for five pages of documentation that was not necessary for understanding the Authority's comments. A complete copy of the Authority's comments plus the documentation was provided to the acting director of HUD's Columbus Office of Multifamily Housing.

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## BACKGROUND AND OBJECTIVES

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The Trumbull Metropolitan Housing Authority (Authority) was established under Section 3735.27 of the Ohio Revised Code. The Authority contracts with the U.S. Department of Housing and Urban Development (HUD) to provide low- and moderate-income persons with safe and sanitary housing through rent subsidies. As of March 2007, the Authority had 1,376 public housing units and 916 Section 8 Housing Choice Voucher program units. A five-member board of commissioners governs the Authority. The Authority's books and records are located at 4076 Youngstown Road, Southeast, Warren, Ohio.

The Authority created three nonprofits to develop four Section 8 new construction projects. The nonprofits are Warren Housing Development Corporation (Corporation), HUB-NIL Housing Development Corporation, and Ridge Housing Development Corporation. The four projects were financed through the receipt of 1977 Section 11(b) tax-exempt bonds and 1977 and 1978 revenue notes. The Authority was approved as a public housing agency and was eligible to carry out the four Section 8 projects. The three nonprofits were the financing agencies and instrumentalities of the Authority. None of the projects is HUD insured, but all are HUD subsidized.

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

We selected the Authority for audit because it was identified as having high-risk indicators of nonprofit development activity. Our objective was to determine whether the Authority's nonprofit Corporation received Section 8 housing assistance payments in accordance with HUD's requirements.

## RESULTS OF AUDIT

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### Finding: The Authority Lacked Procedures and Controls to Ensure That Its Nonprofit Complied with HUD's Requirements

The Corporation, a nonprofit entity created by the Authority, received housing assistance payments from July 1, 2005, through February 28, 2007, contrary to HUD's requirements. The Corporation was created in May 1977 as a nonprofit instrumentality of the Authority to act as the financing agency for the development of a Section 8 project. The Authority's 1977 housing assistance payments contract with HUD requires the project to be owned by a public housing agency (instrumentality) throughout the 30-year term of the housing assistance payments contract. However, the Corporation revised its articles of incorporation in June 2005 and was no longer an instrumentality of the Authority. The Authority and the Corporation's trustees were unaware of HUD's requirements that the Corporation remain a public housing agency to receive housing assistance payments. As a result, the Corporation received more than \$2.2 million in improper housing assistance payments.

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#### **The Authority Violated Its Contract with HUD**

The Corporation received more than \$2.2 million in housing assistance payments from July 1, 2005, through February 28, 2007, contrary to HUD's requirements. In December 2005, HUD provided final approval for a merger of two of the Authority's housing development corporations into the Warren Housing Development Corporation. As a result of the merger, the Corporation became the owner of four Section 8 new construction projects and received housing assistance payments.

On May 18, 2005, the Corporation's trustees approved a revision to its articles of incorporation to remove the Corporation as an instrumentality of the Authority. The Ohio secretary of state's office recorded the revision on June 2, 2005. This revision was made without HUD's knowledge and contrary to 24 CFR [*Code of Federal Regulations*] 880.102. Section 880.102 requires the projects to be owned by a public housing agency throughout the term of the housing assistance payments contracts. According to HUD regulations at 24 CFR [*Code of Federal Regulations*] Part 880, a public housing agency is defined as any state, county, municipality, or other governmental entity or public body or agency or instrumentality thereof, which is authorized to engage in or assist in the development or operation of low-income housing projects. Since the Corporation is no longer a public housing agency, the Authority violated its agreements with HUD. As a result, the Corporation was no longer eligible to receive Section 8 housing assistance payments from HUD.

## **The Authority Lacked Procedures and Controls over Its Nonprofits**

The Authority and the Corporation's trustees were not aware of HUD's requirement that the Corporation remain a public housing agency to receive Section 8 housing assistance payments. Once we identified that the Corporation was improperly receiving housing assistance payments, the Authority's executive director and the Corporation's trustees agreed to revise the Corporation's articles of incorporation to reinstate the Corporation as an instrumentality of the Authority. The Authority revised the Corporation's articles of incorporation on March 13, 2007, to reinstate the Corporation as an instrumentality of the Authority. The revision effectively makes the Corporation a public housing agency as stated in HUD's requirements. If the Authority implements procedures and controls to ensure compliance with its contracts with HUD, we estimate that nearly \$1.4 million in future housing assistance payments will be used correctly. The estimate is based upon the \$1,367,630 in annual Section 8 housing assistance payments received by the Corporation for the four projects.

## **Recommendation**

We recommend that the acting director of HUD's Columbus Office of Multifamily Housing require the Authority to

- 1A. Implement procedures and controls to ensure that it follows HUD's requirements regarding Section 8 housing assistance payments to its instrumentalities. The procedures and controls will ensure that \$1,367,630 in housing assistance payments over the next year will meet HUD's requirements.

## SCOPE AND METHODOLOGY

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To accomplish our objective, we reviewed

- Applicable laws, regulations, HUD's program requirements at 24 CFR [*Code of Federal Regulations*] Parts 811 and 880, HUD notices, HUD's declaration of trusts, and housing assistance payments contracts.
- The Authority's accounting records, annual audited financial statements for the year ending June 30, 2005, general ledgers, bank statements and cancelled checks, policies and procedures, board meeting minutes and resolutions that covered our audit period of July 2005 through August 2006, cost allocation plans, annual contributions contract number C-5001, and organizational chart.
- The Corporation's accounting records, general ledgers, bank statements, board meeting minutes and resolutions from May 1977 through August 2006, articles of incorporation, organizational chart, management agent certifications, management agent agreements, and merger documentation.
- HUD's files for the Authority.

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

We performed our on-site audit work from September through October 2006. The audit covered the period from July 1, 2005, through August 31, 2006. This period was adjusted as necessary.

We performed our audit in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

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

## Significant Weakness

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



- The Authority lacked procedures and controls to ensure that it followed HUD's requirements regarding Section 8 housing assistance payments to its instrumentalities (see finding 1).

# APPENDIXES

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## Appendix A

### SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

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Recommendation number	Funds to be put to better use 1/
1A	<u>\$1,367,630</u>
Total	<u>\$1,367,630</u>

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, if the Authority implements our recommendation, it will ensure that program funds are spent according to federal requirements. Once the Authority successfully improves its controls, this will be a recurring benefit. Our estimate reflects only the initial year of this benefit.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments



Donald W. Emerson, Jr.  
Executive Director

#### TRUMBULL METROPOLITAN HOUSING AUTHORITY

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April 20, 2007

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

Re: Comments on Discussion Draft Audit Report

Dear Mr. Farrell:

We appreciate the opportunity to comment on the discussion draft report of HUD's Office of Inspector General for Audit as it relates to the audit of our Authority's activities and its related nonprofit organizations.

We have reviewed the draft report and concur with the findings. In response to the issues raised by the Office of Inspector General, we revised Warren Housing Development Corporation's articles of incorporation to reinstate the Corporation as an instrumentality of the Authority. The trustees approved the revision on March 13, 2007 and forwarded the revision to the Ohio Secretary of State's office. On March 22, 2007 the Ohio Secretary of State approved the amended restated articles. Furthermore, we will work to implement procedures and controls as considered necessary to ensure adherence to HUD's requirements regarding Section 8 housing assistance payments to our instrumentalities.

Very Truly Yours

A handwritten signature in black ink that reads "Donald W. Emerson, Jr." in a cursive script.

Donald W. Emerson, Jr.  
Executive Director

Enclosures (2)



### Comment 1

## **OIG Evaluation of Auditee Comment**

**Comment 1** Since the Authority provided documentation that the Corporation revised its articles of incorporation to reestablish itself as an instrumentality of the Authority; we removed the applicable recommendation from this audit report.