Issue Date	July 23, 2007
Audit Report Number	2007-CH-1011

TO: Thomas S. Marshall, Director of Public Housing Hub, 5DPH

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

SUBJECT: The Indianapolis Housing Agency, Indianapolis, Indiana, Lacked Adequate Controls over Expenses Charged to Its Section 8 Program

HIGHLIGHTS

What We Audited and Why

We audited the Indianapolis Housing Agency's (Agency) Section 8 Housing Choice Voucher program (program). The audit was part of the activities in our fiscal year 2007 annual audit plan. We selected the Agency based upon our analysis of risk factors relating to the housing agencies in Region V's jurisdiction. The objective of the audit was to determine whether the Agency appropriately used its program funds in accordance with the U.S. Department of Housing and Urban Development's (HUD) requirements. This is the first of two audit reports on the Agency's program.

What We Found

The Agency failed to comply with HUD's requirements and its cost allocation plan regarding the allocation of administrative expenses. It did not document its initial allocation analysis in 2005, base allocations on actual historical data, or update its allocation percentages for 2006. Based on our review of administrative expenses for the period January 1, 2005, to November 30, 2006, the Agency used its restricted program administrative fees (fees) to pay more than $1.6 million for expenses that exceeded the program's reasonable fair share, allocated expenses that were unrelated to the program's operation, and lacked documentation to support expenses incurred. Based on our review, we estimate that over the next year the Agency will use more than $855,000 in fees for expenses not related to its program.

What We Recommend

We recommend that the director of HUD's Cleveland Office of Public Housing require the Agency to reimburse its program administrative fee reserve for the improper use of fees, provide documentation to support the reasonableness of the allocation of vehicle costs to its program or reimburse its program administrative fee reserve from nonfederal funds for the improper use of fees, and implement adequate procedures and controls to ensure that the Agency uses an appropriate basis for allocating administrative expenses to its program and that adequate expense documentation is maintained.

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 review results and supporting schedules to the director of HUD's Cleveland Office of Public Housing and the Agency's executive director during the audit. We provided our discussion draft audit report to the Agency's executive director, its board chairman, and HUD's staff during the audit. We held an exit conference with the executive director on June 26, 2007.

We asked the executive director to provide comments on our discussion draft audit report by July 16, 2007. The executive director provided written comments, dated July 17, 2007. The Agency generally agreed with our finding and recommendations with the exception of the administrative building rent costs. The complete text of the written comments, along with our evaluation of those comments, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

The Indianapolis Housing Agency (Agency) is a nonprofit governmental entity created by the City of Indianapolis, Indiana (City), under State of Indiana law in 1964 to provide decent, safe, and sanitary housing. The Agency became a division of the City's Department of Metropolitan Development on January 1, 1986. It was separated as an independent organization in December 1994 but still operates with oversight by the Metropolitan Development Committee of the combined City and Marion County, Indiana (City/County), government. The Agency's jurisdiction encompasses Marion County, Indiana. A nine-member board of commissioners governs the Agency. The City's mayor appoints five board members, the City/County council appoints two members for four-year staggered terms, and the Agency's resident council appoints two board members for one-year terms. The Agency's executive director is appointed by the board of commissioners and is responsible for coordinating established policy and carrying out the Agency's day-to-day operations.

The Agency administers a Section 8 Housing Choice Voucher program (program) funded by the U.S. Department of Housing and Urban Development (HUD). The Agency provides assistance to low- and moderate-income individuals seeking decent, safe, and sanitary housing by subsidizing rents with owners of existing private housing. As of April 25, 2007, the Agency had 5,638 units under contract with annual housing assistance payments totaling more than $29 million in program funds.

Our objective was to determine whether the Agency appropriately used its program funds in accordance with HUD's requirements. This is the first of two audit reports on the Agency's program.

RESULTS OF AUDIT

Finding: Controls over Administrative Cost Allocation Were Inadequate

The Agency failed to comply with HUD's requirements and its cost allocation plan regarding the allocation of administrative expenses. Between January 1, 2005, and November 30, 2006, it used restricted program administrative fees (fees) to pay more than $1.6 million for expenses that exceeded the program's reasonable fair share, allocated expenses that were unrelated to the program's operation, and paid unsupported expenses. This noncompliance occurred because the Agency lacked adequate procedures and controls to ensure that HUD's requirements and its cost allocation plan were appropriately followed. As a result, fees of more than $1.6 million were not used to benefit the Agency's program. Based on our review, we estimate that over the next year the Agency will use more than $855,000 in fees for administrative expenses not related to its program.

Unsupported Allocation of Administrative Expenses

The Agency lacked documentation to support how it determined the basis for its 2005 cost allocation plan and why the same allocation basis was continued for 2006. The Agency's executive director said the methodology for the allocation plan was developed by the former finance director who left the Agency in 2003. The executive director and the Agency's controller could not provide documentation to support the plan or how the allocation percentages were determined. Further, the Agency lacked documentation to support why the cost allocation plan for 2005 was used for 2006. As a result, it used program fees to pay: excessive costs totaling $1,636,075 ($37,176 of building rent, $24,381 of vehicle costs, $615,477 of salary and fringe benefit costs, and $959,041 of miscellaneous administrative costs), $4,243 of costs unrelated to its program, and unsupported expenses of $10,545 related to its vehicle maintenance. Additionally, we estimate that the Agency's program will save $855,818 ($1,636,075 plus $4,243 divided by 23 months times 12) over the next year by improving its allocation of expenses for its program.

Excessive Administrative Building Rent

The cost allocation plan provided for most indirect costs to be allocated between the Agency's Section 8 and Public Housing programs based on their budgeted number of direct labor employees on the first day of each calendar year. The exceptions cited were administrative office building rent, audit costs, and postage. The administrative office building rent was to be allocated based on square footage occupied by the programs. The plan, which they did not follow, recommended allocating 65 percent and 35 percent to the Section 8 and Public Housing programs, respectively.

The Agency provided an analysis of its administrative office building's square footage showing that the program should have been charged 56.13 percent. Between January 1, 2005, and November 30, 2006, the program paid $591,871 in allocated expenses for the administrative office building rent, or 59.9 percent of the $988,233 of building rent. The program should have paid $554,695 based upon the 56.13 percent of direct space it occupied. The incorrect allocation of the administrative office building rent resulted in the program being overcharged by $37,176.

Program Overcharged for Vehicle Costs

The Agency's plan stated that indirect costs, including vehicle costs, should be allocated 50 percent each to its Section 8 and Public Housing programs because there were 62 program staff and 65 Public Housing staff. In January 2005 and 2006, program staff totaled nearly 34 percent and 39 percent of the total agency staff, respectively. The Agency has vehicles assigned to all departments, not just its program and Public Housing.

Between January 1, 2005, and November 30, 2006, the Agency incurred $213,870 in expenses for fuel, maintenance, and car washes for its vehicles. The program paid $65,566 ($32,394 for direct costs plus $33,172 for indirect costs). The Agency lacked documentation to support $10,545 for direct vehicle costs paid and overcharged its program $24,381 for indirect vehicle costs based upon the percentage of the Agency's program staff. The Agency used program fees to pay $33,172 ($24,438 for 2005 and $8,733 for 2006) when it should have paid $8,791 ($2,282 for 2005 and $6,508 for 2006), an overpayment of $24,381.

Overcharged for Salary and Fringe Benefits

The Agency overcharged its program $615,477 for indirect salary and fringe benefit expenses. For the period, January 1, 2005, through November 30, 2006, it charged more than 67 percent of its salary and fringe benefit costs ($1,337,831 of $1,980,485) to its program when the program staff averaged 34 percent ($340,237 of $1,000,698) and 39 percent ($382,117 of $979,787) at January 2005 and 2006, respectively. As previously mentioned, the Agency's cost allocation plan stated that indirect costs should be allocated 50 percent each to its Section 8 and Public Housing programs because there were 62 Section 8 staff and 65 Public Housing staff for the budget year 2005. However, the plan also provided for most indirect costs to be allocated between the Agency's Section 8 and Public Housing programs based on their budgeted number of direct labor employees on the first day of each calendar year. The Agency's computer system automatically allocated 67 percent of the salary and fringe benefit costs to its program based upon a previous ratio of program to public housing units. The system was never adjusted because the Agency did not update the system to agree with its plan. In addition, the Agency never updated its plan to account for annual changes in employee levels or departments affected by the indirect costs.

Excessive Miscellaneous Administrative Costs

For the 23-month period of January 1, 2005, through November 30, 2006, the Agency overcharged its program $959,041 for excessive other administrative expenses such as, legal counsel contracts, staff training, travel, administrative benefits, advertising and marketing, communications, technical services, office supplies, resident activities, utilities, public service salaries, and agency insurance. The overcharges occurred because the Agency did not update its plan to reflect the number of direct labor employees for its Section 8 and Public Housing programs on the first day of each calendar year. Further, the Agency used program fees to pay $4,243 for bond debt service fees for its Public Housing bonds issued that were unrelated to the operation or funding of its program.

Conclusion

The Agency did not comply with HUD's requirements and its cost allocation plan regarding the allocation of program administrative expenses. Between January 1, 2005, and November 30, 2006, it paid for expenses that exceeded the program's reasonable fair share, allocated expenses that were unrelated to the operation of its program, and paid unsupported expenses. This occurred because the Agency lacked adequate procedures and controls to ensure that HUD's requirements and its cost allocation plan were appropriately followed.

Recommendations

We recommend that the director of HUD's Cleveland Office of Public Housing require the Agency to

1A. Reimburse its program administrative fee reserve $1,636,075 from the appropriate funds for the excessive administrative expenses cited in this finding.

1B. Provide supporting documentation or reimburse its program administrative fee reserve $10,545 from nonfederal funds for the unsupported direct vehicle costs cited in this finding.

1C. Reimburse its program administrative fee reserve $4,243 from nonfederal funds for the bond debt service fees paid from program fees cited in this finding.

1D. Implement adequate procedures and controls to annually develop and support a cost allocation plan in accordance with HUD's requirements and ensure expenses comply with its cost allocation plan. By implementing adequate procedures and controls, the Agency should help ensure that $855,818 in fees is appropriately used.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- Applicable laws; regulations; the Agency's program administrative plans effective October 2005 and June 2006; and HUD's program requirements at 24 CFR [*Code of Federal Regulations*] Parts 5, 35, 982, and 984; HUD's Public and Indian Housing Notices 2004-12, 2005-1, 2005-9, 2006-3, and 2006-5; and HUD's Housing Choice Voucher Guidebook 7420.10.

- The Agency's accounting records; annual audited financial statements for 2003, 2004, and 2005; general ledgers; bank statements and cancelled checks; computerized databases; policies and procedures; board meeting minutes for 2005 and 2006; organizational chart; and program annual contributions contract.

- HUD's files for the Agency.

We also interviewed the Agency's employees and HUD staff.

We reviewed the Agency's general ledgers and supporting documentation including invoices for more than $3.6 million in administrative costs charged to the program between January 1, 2005, and November 30, 2006. We analyzed the basis by which the costs were allocated to the program and compared those costs with what should have been charged using available historical data such as square footage occupied or direct staff costs. Unless the Agency improves its administrative cost allocation calculation process, we estimate that it could incorrectly expend more than $855,000 in restricted program administrative fees for future administrative expenses. This estimate is presented solely to demonstrate the annual amount of fees that could be put to better use if the Agency implements our recommendation. While these benefits would recur indefinitely, we were conservative in our approach and only included the initial year in our estimate.

We performed our on-site audit work between October 2006 and May 2007 at the Agency's central office located at 1919 North Meridian Street, Indianapolis, Indiana. The audit covered the period from January 1, 2005, through September 30, 2006, but was expanded when necessary to include other periods.

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

INTERNAL CONTROLS

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.

Relevant Internal Controls

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

- Safeguarding resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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 Agency lacked adequate procedures and controls to ensure compliance with HUD's requirements and its cost allocation plan regarding the allocation of program expenses (see finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	$1,636,075		
1B		$10,545	
1C	4,243		
1D			$855,818
Totals	$1,640,318	$10,545	$855,818

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 those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of 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.

3/ 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 Agency implements our recommendation, it will cease to incur program costs for excessive expenses or expenses not related to its program and, instead, will expend its fees in accordance with HUD's requirements. Once the Agency 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

Ref to OIG Evaluation | **Auditee Comments**

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Rufus "Bud" Myers
Executive Director

COMMISSIONERS

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THE INDIANAPOLIS HOUSING AGENCY MISSION STATEMENT

Our mission is to be a *top performing agency* that:

Provides *quality* and *affordable* housing;

Contributes to *safe communities;*

Encourages *individual* and *family self-sufficiency;* and

Affirmatively promotes fair housing

July 17, 2007

SENT VIA FIRST CLASS MAIL AND ELECTRONIC MAIL
Heath Wolfe, Regional Inspector General for Audit
U.S. Dept. of Housing and Urban Development
Office of Inspector General Region V
77 West Jackson Boulevard, Suite 2646
Chicago, Illinois 60604-3507

Re: OIG Phase I Audit response from the Indianapolis Housing Agency

Dear Mr. Wolfe,

The following memorandum is in response to the Phase I draft audit report of HUD's Office of Inspector General for Audit.

Historically, the Indianapolis Housing Agency (IHA) has demonstrated a strong record of commitment to providing housing services to residents and working to improve our internal controls for the protection of the federal funds received from U.S. Department of Housing and Urban Development ("HUD"). Programs such as the IHA "Homeownership" program and the HOPE VI/Mixed Income development program exemplify our active role in creating better lives for the citizens of City of Indianapolis. As a compliment to providing housing over the last few years through our programs, including our efforts to stabilize our Section 8 Department, IHA has worked consistently and closely with the Office of Inspector General (OIG) to discover and punish fraudulent activity committed by Housing Choice voucher participants (both landlords and voucher recipients). Over the last two years, the IHA Section 8 Department and our Office of Special Investigations partnered with the OIG to recover hundreds of thousands of dollars. And IHA will continue to advance our rapport with OIG into the future, jointly protecting the integrity of IHA programs and the taxpayer dollars used for their subsidization.

Comment 1

Notwithstanding our commitment to Indianapolis residents, and our dedication to fraud prevention, we endured potentially debilitating financial challenges over the last few years. FY 2005 marked a particularly challenging period of transition for IHA. In 2005 we were placed in the unenviable position of having to replace our Chief Operating Officer and General Counsel, various staff from our finance department including the Director of Finance and our Comptroller, our Director of Strategic Planning and Development, etc.

CITY OF INDIANAPOLIS
BART PETERSON, MAYOR

Ref to OIG Evaluation	Auditee Comments

With the replacement of various members of our upper management came certain operational assessments and predictable "growing pains". The new members of our staff made fairly quick assessments of their respective positions and the needs of their departments and the Agency, and create plans to address the same. At that time the Agency made a critical assessment – that of the real financial health and stability of IHA. The staff (and HUD) determined that the financial health and stability of IHA was, in fact, precarious, if not, dire. Our newly formed management team recognized the need to implement financial controls and policies, create an environment of financial discipline and responsibility, rebuild our financial credibility, as well as, regain the community's confidence in our leadership.

Comment 1

At the end of our FY 2004, we had more than $1.8 million of unpaid short-term debt (current liabilities); this figure does not include long-term debt amounts. Agency management recognized that our accounts payable budgeting strategy had resulted in a severe debt-accumulating effect. Mission critical functions, such as utilities, information technology services, supplier resources, and benefits, for example, were critically behind in payment. As a result, management resolved to eliminate most of its accumulated (short-term) debt so that the Agency could regain its financial health and stability.

In conjunction with the decision to analyze and eliminate our accumulated short-term debt was, also, our anticipated agreement with HUD. The partnership between IHA and the local HUD office marked a remarkable spirit of cooperation to address our financial health and stability, among other issues. IHA and HUD entered into an eighteen (18) month "Memorandum of Agreement" on June 10, 2005 as a result of, inter alia, our Agency being designated "troubled". In accord with the "targets and strategies" (t/s) per the Agreement, we agreed to:

- "[i]ncrease [our current assets and/or current liabilities by at least $1,400,000…".
- utilize a combination of approaches to reduce this amount, including "developing a budget for fiscal year 2005 that produce[d] about $1,000,000 net income/contribution to reserve…".
- "[i]ncrease [our] 'Expendable Fund Balance'".
- "[i]mprove [our] net income/loss ratio".

Finally, and of particular importance in this response to the OIG Report, it should be understood that we clearly understand that we were (and are) committed, as agreed, to "[a]llocate [our] costs accurately among [our various] programs". Indeed, we provided that "[i]n December 2004, the annual cost allocation plan was updated (effective January 1, 2005). Going forward, [we would] work with HUD to determine if a better process exist[ed] for an alternative agreed upon cost allocation plan. If changes occur[red], there [w]ould be a mutually agreed upon timeline for implementation…[We would] comply on or before completion date, and [would] notify HUD when changes occur[red] and in advance if [the] deadline [would] not be met". In addition, as a part of the process, we were, also, charged with evaluating the "impact of the [the] allocation plan", as well as, receive "[C]ost Allocation Planning, including OMB Cost Principles and Requirements, and

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proper segregation of federal and non-federal funds" and "[F]inancial Management" technical assistance training.

The agreement between our Agency and HUD was a clear recognition of the tenuous financial condition that we faced. The partnership between our Agency and HUD throughout the agreement's compliance period fostered a candid relationship regarding our status and our particular programmatic needs. It was through management's difficult process of determining appropriate and permissible solutions to financially stabilize the Agency and adhere to the ongoing requirements of the agreement with HUD that our Agency resolved to regain the financial viability of our Agency by taking financially prudent measures. In addition, our focus on fraud recovery for the benefit of the Section 8 program and the Agency intensified and, consequently, resulted in modest financial benefit to the program and the Agency.

FINDINGS:

1) Unsupported Allocation of Administrative Expenses

a) Agency lacked documentation to support how it determined the basis for its 2005 cost allocation plan.

RESPONSE: IHA instituted its 2005 cost allocation plan via a Board resolution in December of 2004. The basis for instituting the cost allocation plan was stated as follows in the resolution: "The Indianapolis Housing Agency implemented its current cost allocation methodology in 1998. Both HUD and Crowe Chizek, the IHA independent auditor, recommended that we review and modify the methodology for allocating indirect costs on an annual basis. The current indirect cost allocation methodology is based upon the number of Public Housing units and the number of Section 8 vouchers."

Attached to the basis was the proposed cost allocation plan for 2005.

IHA agrees that it had no further information to offer OIG regarding the basis for utilizing the implemented 2005 cost allocation plan.

b) IHA did not provide a basis for why the same allocation was continued for 2006.

RESPONSE: As a part of the Agency's management transition in 2005, we had to replace our Director of Finance, our Comptroller and our accounts payable clerk. The transition from old staff to new staff admittedly created a loss of institutional knowledge, including the status of various Agency

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Ref to OIG Evaluation	Auditee Comments

or department programmatic concerns. Consequently, the Agency did not update its cost allocation plan in 2006 but resumed to implement sound fiscal controls and debt management policies.

c) Estimate that IHA program will save $855,818 ($1,636, 075 plus $4,243 divided by 23 months times 12) over the next year by improving its allocation of expenses for the program.

RESPONSE: The Agency will adjust its cost allocation plan so that it conforms with the revised OMB Circular A-87 requirements. In addition, the Agency will work with its local HUD office to determine best practice approaches for asset management allocation/fees.

2) Excessive Administrative Building Rent

The Agency provided an analysis of its administrative office building's square footage showing that the program should have been charged 56.13%. Between Jan. 1, 2005 and Nov. 30, 2006, the program paid $591,871 in allocated expenses for the admin office building rent, or 59.9% of the $988,233 of building rent. The program should have paid $554,695 based upon the 56.13% of direct space it occupied.

Comment 2

RESPONSE: The Agency respectfully disagrees with the methodology used to analyze the Section 8 programs cost allocation and, ultimately, the final calculation for building rent. The finding calculates a total of $591,871 in allocated expenses for the administrative building rent to the Section 8 program. The figure used is comprised of direct building rent (costs) and computed allocation for indirect costs.

It appears that the indirect costs associated with the executive office, legal, mis, finance, human resources, procurement and office of special investigations departments were included in the findings calculation. The various departments listed are "service oriented" departments that are "charged" rent as a budget line item. The various "service oriented" departments are funded by the Section 8, Public Housing and Capital Funds programs, primarily. Through that funding for those services, building rent is funded for their respective departments. The methodology utilized in the finding has considered the funding of those departments as a part of the Section 8 programs total rent allocation that was calculated against the direct square footage utilized by the Section 8 program. To make this method of calculation more appropriate, the methodology would have to also take into consideration the square footage utilized by the various "service oriented" departments and then multiply the square footage used by those departments by the appropriate percentage allocation.

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Ref to OIG Evaluation

Auditee Comments

We respectfully contend that the program paid for FY 2005 $160,000 which is 33% of $484,624 and for FY 2006 (up to November 30) $149,340 which is 32% of $461,980. It should be noted that the total rent paid for the respective periods was $946,604 as opposed to the $988,233 figured occurred in the report. It appears that an additional month was calculated into the total for the findings. Consequently, the Section 8 program paid $309,340 in building rent for direct square footage used, or 32.7% of the total building rent paid during the 23 month period.

3) Program Overcharged for Vehicle Costs

a) Between January 1, 2005 and November 30, 2006, the Agency incurred $213,870 in expenses for fuel, maintenance, and car washes for its vehicles. The program paid $65,566 ($32,394 for direct costs plus $33,172 for indirect costs). The Agency lacked documentation to support $10,545 for direct vehicle costs paid and overcharged its program $24,381 for indirect vehicle costs based upon the percentage of the Agency's program staff. The Agency used program fees to pay $33,172 ($24,438 for 2005 and $8,733 for 2006) when it should have paid $8,791 ($2,282 for 2005 and $6,508 for 2006), an overpayment of $24,381.

RESPONSE: Consistent with the spirit of the Memorandum of Agreement with HUD, IHA recognizes that in order to satisfy our on-going financial obligations and reduce our current liabilities/short-term debt, we were compelled to allocate more of a cost burden to our Section 8 program. IHA did, however, have documentation to support its direct vehicle costs and will provide the same if directed.

4) Overcharged for Salary and Fringe Benefits

a) The Agency overcharged its program $615,477 ($1,337,831 minus $722,354) for indirect salary and fringe benefit expenses. For the period, January 1, 2005, through November 30, 2006, it charged more than 67% of its salary and fringe benefit costs ($1,337,831 of $1,980,485) to its program when the program staff averaged 34% ($340,237 of $1,000,698) and 39% (382,117 of $979,787) at January 2005 and 2006, respectively.

RESPONSE: Consistent with the spirit of the Memorandum of Agreement with HUD, IHA recognizes that in order to satisfy our on-going financial obligations and reduce our current liabilities/short-term debt, we were compelled to allocate more of a cost burden to our Section 8 program. Not to do so, would have potentially created a paralyzing effect on the operations of the Agency.

5) Excessive Miscellaneous Administrative costs

a) For the 23-month period of January 1, 2005, through November 30, 2006, the Agency overcharged its program $959,041 for excessive administrative expenses such as, legal counsel contracts, staff training, travel, administrative benefits, advertising and marketing, communications, technical services, office supplies, resident activities, utilities, public service salaries, and agency insurance.

RESPONSE: Consistent with the spirit of the Memorandum of Agreement with HUD, IHA recognizes that in order to satisfy our on-going financial obligations and reduce our current liabilities/short-term debt, we were compelled to allocate more of a cost burden to our program. The Agency's operational status was critically jeopardized by the level of unsatisfied short-term debt. Not to do so, would have potentially created a paralyzing effect on the operations of the Agency.

b) The Agency used program fees to pay $4,243 for bond debt service fees for its Public Housing bonds issued that were unrelated to the operation or funding of its program.

RESPONSE: We agree with this finding. However, it must be noted that the payment of the debt service was a direct reflection of our commitment to improve the financial health and stability of the Agency as a whole.

In conclusion, the Indianapolis Housing Agency is and continues to be a stalwart Agency for the citizens of the City of Indianapolis. Our commitment to provide decent, safe and sanitary housing has been unwavering. In our effort to preserve our commitment and the integrity of our programs, our management has had to make and will continue to make very difficult decisions in the face of equally difficult financial times. We will continue to satisfy our commitment by maintaining the sound practices and approaches that we had implemented in 2005 by our own accord and pursuant to our agreement with HUD, including but not limited to instilling fiscal discipline, managing our internal controls, allocating in accordance with the OMB circular and partnering with our local HUD partners.

Sincerely,

R B Myers

Rufus "Bud" Myers
Executive Director
The Indianapolis Housing Agency

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OIG Evaluation of Auditee Comments

Comment 1 The OIG is extremely appreciative of the Agency's joint efforts with our Office of Investigations to address program fraud. The Agency was commended earlier this year by OIG's Office of Investigations for its continued commitment to combating housing fraud.

Comment 2 We analyzed the administrative building rent charged to the Agency's program by using its general accounting ledgers provided to us for the period in question. While the Agency may have mistakenly provided incorrect documents for the administrative building rent during the audit, the Agency did not provide any supporting documentation with its written response.

Appendix C

FEDERAL REQUIREMENTS

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.153 state that the public housing authority must comply with the consolidated annual contributions contract, the application, HUD regulations and other requirements, and its program administrative plan.

HUD's regulations at 24 CFR [*Code of Federal Regulations*] 982.158(a) state that the public housing authority must maintain complete and accurate accounts and other records for the program in accordance with HUD requirements in a manner that permits a speedy and effective audit.

HUD's program annual contributions contract with the Agency, dated August 22, 1996, contains provisions relating to the use of program funds. Section 11(a) states that program receipts may only be used to pay program expenditures.

HUD Handbook 7420.6, "Housing Assistance Payments Program Accounting Handbook," chapter 5, paragraph 5-24(c), states that if the public housing agency is administering other low-income housing programs or enterprises other than housing assistance payments programs and certain costs are applicable to other than the housing assistance payments program, it will be necessary to prorate such costs to charge the housing assistance program with its applicable portion of the costs. The public housing agency shall maintain appropriate schedules and work sheets showing how the allocation of costs was made.

Notice PIH [Public and Indian Housing] 2005-1, issued December 8, 2004, "Implementation of the Consolidated Act (HR4818 - House report 108-792), 2005 Funding Provisions for the Housing Choice Voucher Program," part 5, states that the Act stipulates that administrative fees provided from this appropriation shall only be used for activities related to provision of Section 8 tenant-based rental assistance, including related development activities.

Notice PIH 2006-5, issued January 13, 2006, "Implementation of the 2006 HUD Appropriations Act (Public Law 109-115)," part 6(d), states that the 2006 Appropriations Act stipulates that administrative fees must only be used for activities related to provision of Section 8-based rental assistance.

In accordance with HUD's requirements, the Agency must only charge its program with costs directly incurred for operating the program and its prorated fair share of joint costs incurred for operating the program and the other low-income housing programs. Any allocations of joint costs that exceed the program's fair share are excessive and not eligible.