



Issue Date

September 29, 2009

Audit Report Number:

2009-CH-1017

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

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

SUBJECT: The Housing Authority of the City of Terre Haute, Indiana, Failed to Follow Federal Requirements Regarding Its Turnkey III Homeownership Program Units' Sales Proceeds

## **HIGHLIGHTS**

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

We audited the Housing Authority of the City of Terre Haute, Indiana's (Authority) Turnkey III Homeownership program (program). We selected the Authority for review based on the results of our audit of the Authority's nonprofit development activities (see Office of Inspector General audit report #2009-CH-1011, issued on July 31, 2009). The audit was a part of the activities in our fiscal year 2009 annual audit plan. Our objective was to determine whether the Authority followed the U.S. Department of housing and Urban Development's (HUD) requirements regarding the administration of its program.

### **What We Found**

Under the direction of the former executive director and board of commissioners, the Authority did not comply with HUD's requirements regarding the use of the program proceeds from the sale of its program units. The Authority did not maintain documentation to support that the sales proceeds were used in accordance with its approved program plan. As a result, the Authority and HUD lacked assurance that the sales proceeds benefitted low-income families.

### **What We Recommend**

We recommend that the Director of HUD's Cleveland Office of Public Housing require the Authority to maintain accurate books of record to account for the activities and expenditures under the program and provide adequate supporting documentation for the use of the program proceeds from the sale of its program units. If the Authority cannot determine the activities and expenditures under the program and/or provide supporting documentation, it should reimburse more than \$579,000 in sales proceeds to the program from nonfederal funds.

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 or directives issued because of the audit.

### **Auditee's Response**

We provided our discussion draft audit report to the Authority's executive director, its board chairperson, and HUD's staff during the audit. We held an exit conference with the executive director on September 25, 2009.

We asked the Authority's executive director to provide comments on our discussion draft audit report by September 28, 2009. As of noon eastern time on September 29, 2009, the Authority had not provided any written comments to our discussion draft audit report.

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## **BACKGROUND AND OBJECTIVE**

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The Housing Authority of the City of Terre Haute (Authority), Indiana, was established on April 28, 1960, as a municipal corporation under Section 36-7-18-4 of the Indiana Code to provide decent, safe, and sanitary housing to low-income families under the United States Housing Act of 1937. The Authority is governed by a seven-member board of commissioners appointed by the mayor of Terre Haute to four-year terms. The board serves in a fiduciary relationship with the Authority and governs the business, policies, and transactions of the Authority. The executive director has the overall responsibility for carrying out the board's policies and managing the Authority's day-to-day operations. The Authority's books and records are located at 2001 North 19<sup>th</sup> Street, Terre Haute, Indiana. As of June 2009, the Authority had 868 low-rent housing units and 916 Section 8 voucher units.

For fiscal year 2007, the Authority received an overall public housing assessment score of 63 out of a maximum of 100. HUD designated the Authority as substandard financially. Based on the Authority's assessment score, HUD is drafting a memorandum of agreement with the Authority to address its deficiencies. However, as of September 18, 2009, the agreement was not executed. According to HUD's Coordinator of the Indianapolis Public Housing Program Center, the agreement would be amended, if necessary, to address the issues identified in the Office of Inspector General's audit reports of the Authority's various programs. HUD expects to have the agreement fully executed by October 30, 2009.

In 1995, the Authority requested a debt forgiveness waiver and a refund for the proceeds from the sale of 41 Turnkey III Homeownership program (program) units. In 1995, the U.S. Department of Housing and Urban Development (HUD) approved the Authority's requests and its planned use of the program proceeds from the sale of the units.

We selected the Authority for audit based on the results of our audit of its nonprofit development activities. Our objective was to determine whether the Authority followed HUD's requirements regarding the administration of its program.

## RESULTS OF AUDIT

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### Finding: The Authority Did Not Comply with HUD's Requirements Regarding Its Program Sales Proceeds

Under the direction of the former executive director and board of commissioners, the Authority did not comply with HUD's requirements regarding the use of the program proceeds from the sale of its program units. The Authority did not maintain documentation to determine whether the sales proceeds were used in accordance with its approved plan. The problem occurred because the Authority lacked adequate procedures and controls to ensure that it complied with HUD's requirements and maintained accountability of program funds and related expenses. Further, the Authority's former board did not provide adequate oversight and/or guidance regarding the Authority's operations. As a result, the Authority and HUD lacked assurance that the sales proceeds were used to benefit low-income families.

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#### **The Authority Requested a Waiver and Refund from HUD**

In February 1995, the Authority requested a debt forgiveness waiver and refund for the program proceeds from the sale of 41 program units. The waiver included a request to waive all future available program proceeds for the sale of program units. In June 1995, HUD approved the Authority's refund and its planned use of the program proceeds from the sale of the units. Therefore, HUD returned more than \$200,000 in sales proceeds to the Authority from the sale of eight of the nine program units sold between 1984 and 1989.

#### **The Authority Could Not Provide Documentation for the Use of Sales Proceeds**

The Authority did not comply with its program agreement with HUD regarding the use of proceeds from the sale of its program units. From 1995 to 2000, the Authority sold the remaining 32 units (41 minus 9) and received more than \$379,000 in program proceeds. In October 2007, the Authority closed its program reserve account and posted the transfer of more than \$579,000 in sales proceeds to its account for its public housing program in 2008.

The Authority lacked documentation to support whether it used or expended the sales proceeds in accordance with its program agreement with HUD. According to the administrative use agreement for proceeds of sales of homeownership projects, the Authority must maintain in good condition books, accounts, reports, files,

records, and reports relating to its activities and expenditures under the agreement, which will be separate from the Authority's books of record for its annual contributions contract. However, the Authority did not maintain accurate books of record to determine whether it used the sales proceeds in accordance with its approved program plan.

The Authority lacked adequate procedures and controls to ensure accountability of program funds and related expenditures and compliance with its agreement with HUD. Further, the Authority's former board did not provide adequate oversight and/or guidance regarding the Authority's program operations.

## **Conclusion**

The Authority did not comply with HUD's requirements regarding the program proceeds from the sale of its program units because it lacked adequate procedures and controls to ensure accountability of funds and related expenses and compliance with its agreement with HUD. Further, the Authority's former board did not provide adequate oversight to ensure that Authority program income and expenses were separated and properly identifiable.

## **Recommendation**

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

- 1A. Provide documentation to support that the use of \$579,914 in program sales proceeds met federal requirements or reimburse its program from nonfederal funds for the applicable amount.

## SCOPE AND METHODOLOGY

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To accomplish our objective, we reviewed

- Applicable laws, regulations, the Authority's contract with HUD, the loan forgiveness amendment to the annual contributions contracts, and the administrative use agreement for proceeds of sales of homeownership projects.
- The Authority's financial and accounting records, annual audited financial statements from 1995 through 2008, general ledgers from 2006 through 2008, and the County of Vigo, Indiana's records.
- HUD's files for the Authority.

We also interviewed the Authority's current and former employees and HUD staff.

We performed our on-site audit work during July and August 2009. The audit covered the period October 1, 2007, through June 30, 2009. We extended this period as necessary.

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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

# 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 achieved:

- Program operations,
- Relevance and reliability of financial reporting,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They 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.

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## Relevant Internal Controls

We determined that 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 the relevant controls identified above.

A significant weakness exists if internal 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 that the following item is a significant weakness:

- The Authority lacked adequate procedures and controls to ensure that it complied with HUD's requirements regarding the use of program proceeds from the sale of its program units (see finding).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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Recommendation number	Unsupported 1/
1A	<u>\$579,914</u>
Total	<u>\$579,914</u>

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**

### **FEDERAL REQUIREMENTS**

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HUD's regulations at 24 CFR 85.42(1) apply to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees as follows:

(b) Length of retention period. (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section.

(c) Starting date of retention period. (1) General. When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period.

Section 7 of the administrative use agreement for proceeds of sales of homeownership projects between the Authority and HUD states that the Authority shall keep and maintain in good condition books, accounts, reports, files, records, and other documents relating to its activities and expenditures under the agreement, which shall be separated from the Authority's books of account and records for the annual contributions contract.