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August 17, 2009

MEMORANDUM NO:
2009-FW-1801

MEMORANDUM FOR: David Pohler, Director, Office of Public Housing, 6JPH

//signed//
FROM: Gerald R. Kirkland
Regional Inspector General for Audit, 6AGA

SUBJECT: Travis County Housing Authority, Austin, Texas, Lacks Capacity to Administer American Recovery and Reinvestment Act of 2009 Public Housing Capital Funds

INTRODUCTION

We performed an American Recovery and Reinvestment Act of 2009 (ARRA) capacity review of the Travis County Housing Authority (Authority) because of financial control weaknesses identified during an ongoing U. S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) audit. The review objective was to determine whether the Authority has the capacity to properly account for ARRA funding and the controls to ensure those funds are expended only for eligible program activities. This memorandum provides the review results.

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 review

METHODOLOGY AND SCOPE

The review was based on information obtained and reviewed and conclusions made about the Authority's financial controls during an ongoing HUD OIG audit. The audit included a review of the Authority's financial controls and records for fiscal years 2006 through 2008 with some additional review of prior periods as necessary to accomplish the audit objective. For this review, we also obtained an understanding of ARRA legislation and program guidance, reviewed the Authority's ARRA grant, and contacted Authority and HUD public housing program staff.

BACKGROUND

The Authority is governed by a five-member board of commissioners appointed by the county commissioners. It is an independent, government-funded agency charged with the responsibility of providing low-income housing to help meet the housing needs of the residents of Travis County, Texas. The Authority receives various HUD grants and administers 105 low-rent public housing units and 564 Housing Choice Voucher program units.

HUD expressed concern over the Authority's financial status when it rejected the Authority's fiscal year 2005 and 2006 audited financial statements. HUD also froze grant draw downs in 2007 for the Authority's Shelter Plus Care grants. Shortly after OIG's on-going audit started, HUD formally designated the Authority as "Troubled" after reviewing its fiscal year 2007 audited financial statements.

On February 17, 2009, Congress enacted ARRA, which provided funding to carry out capital and management activities at public housing developments. ARRA requires a high degree of transparency and accountability. Additionally, ARRA recipients are required to provide timely and reliable program data and demonstrate the capacity to administer ARRA funding.

On March 18, 2009, HUD authorized \$182,074 in ARRA funding for the Authority to carry out capital and management activities at public housing developments. The Authority indicated it will use the funding to repair and/or replace air conditioning units, roofing, and fencing at its low-rent program properties.

RESULTS OF REVIEW

The Authority lacks capacity to administer ARRA funding in accordance with program requirements. Our ongoing audit found that the Authority disregarded federal requirements by transferring program assets between federal and nonfederal funds without proper support or justification and did not maintain auditable financial records. This condition occurred because the Authority disregarded HUD requirements in order to keep its programs running and lacked financial controls. Consequently, HUD cannot be assured the Authority will accurately account for its use of ARRA funding or use ARRA funding for only eligible program activities. Thus, we recommend that HUD increase oversight over the grant and either rescind ARRA funding or place the funding on a cost reimbursement basis.

The Authority Transferred Funds without Support and Justification

The Authority violated federal requirements when it haphazardly transferred program assets between federal and nonfederal programs to fund program operations. The Authority transferred assets between programs using electronic funds transfers between bank accounts and by inappropriately using funds from one program to pay the expenses of one or more other programs. During its fiscal year ending June 30, 2007, the Authority transferred more than \$2.5 million between its federal and nonfederal programs.

The audit included a statistical sample of 166 interfund transactions. The sample was taken from a total of 302 interfund transactions that the Authority posted to its general ledger, increasing HUD program liabilities. The Authority provided documentation for only four of the sampled items. The documentation supported two sample items representing electronic funds transfers into the low-rent program bank account. The documentation did not support the remaining two items, and the Authority could not provide support for its allocation of costs between federal and nonfederal programs or competitive pricing support for contracted grounds maintenance costs.

The Authority Did Not Maintain Auditable Financial Records

The Authority did not provide timely support for the sample of interfund transactions. Additionally, it did not completely and accurately record interfund transactions and used incompatible electronic accounting systems requiring additional manual entries for accounts payable transactions. Additionally, the Authority did not have controls to ensure its interfund transactions and accounts payable transactions were completely and accurately recorded. The lack of controls affected both HUD and non-HUD interfund payables and receivables, expenses, and disbursements. Because of the Authority's poor accounting practices, such as haphazardly transferring funds between its program accounts; its inability to provide timely support for the transfers; and its lack of controls to ensure its transactions were completely and accurately recorded, it cannot meet ARRA accountability, transparency, and reporting requirements. Further, it cannot accurately prepare financial reports in accordance with HUD requirements.

AUDITEE RESPONSE

On July 1, 2009, we provided a draft of this memorandum and the related audit report¹ to the Authority with written comments due by July 20, 2009. We extended the response date to July 27, 2009. The Authority did not provide comments for this memorandum, but both the Authority and the chairman of the board of commissioners provided comments to the report, which are included in appendix B of the report

RECOMMENDATIONS

We recommend that the Director of the San Antonio Office of Public Housing

- 1A. Increase monitoring and oversight of the Authority's financial and program activities and
- 1B. Either recover ARRA funding from the Authority or place the Authority's ARRA funding on a cost reimbursement basis.

¹ The Housing Authority of Travis County, Austin, Texas, Could Not Adequately Account For or Support Its Use of Federal Program Funds, 2009-FW-1015, issued August 17, 2009.