



Issue Date	June 2, 2010
Audit Report Number	2010-FW-1004

TO: David Pohler, Division Director, Office of Public Housing, 6JPH  
Craig Clemmensen, Director, Departmental Enforcement Center, DEC

//signed//

FROM: Gerald R. Kirkland  
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The Georgetown Housing Authority Used \$195,855 for Ineligible and  
Unsupported Expenditures

## **HIGHLIGHTS**

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

We audited the Georgetown Housing Authority (Authority) due to a congressional request. A member of Congress received a complaint alleging improprieties and irregularities in the way the former executive director conducted the Authority's business. Our objectives were to determine (1) whether the Authority and/or its nonprofit affiliates used U. S. Department of Housing and Urban Development (HUD) funding for recent developments and if so, whether they followed HUD regulations and (2) whether the Authority used HUD funds only for eligible expenditures.

### **What We Found**

The Authority's nonprofit related entities did not develop public housing units in their recent development projects; therefore, they were not required to follow HUD regulations for the developments. However, the Authority violated its annual contributions contract when it used \$195,855 in HUD funding for development costs and other ineligible and unsupported expenditures. In addition, the Authority's financial records were inaccurate. These conditions occurred because the Authority lacked financial and disbursement controls and

had no formal written policies and procedures. As a result, it had fewer funds available to operate its HUD-funded programs, and its stakeholders were unaware of its true financial position.

## What We Recommend

We recommend that the Director of HUD's San Antonio Office of Public Housing require the Authority to (1) reimburse its Housing Choice Voucher program fund \$48,269 from non-Federal sources for ineligible development costs, (2) hire an independent firm to perform a comprehensive review of the \$137,009 in questioned low-rent funds<sup>1</sup> to determine the source and appropriated year and require reimbursements where appropriate, (3) provide support for or reimburse its Housing Choice Voucher program fund \$1,109 in unsupported expenditures, (4) correct its books and records to show its true financial position, (5) reverse \$9,468 in expenses for voided checks and record the voids in the general ledger, and (6) develop and implement written policies and procedures regarding financial and disbursement controls. We also recommend that the Director of HUD's Departmental Enforcement Center take appropriate actions to ensure that the former executive director does not place HUD programs at further risk, including but not limited to issuing a limited denial of participation.

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 HUD and the Authority our draft report on May 7, 2010, and requested comments by May 21, 2010. The Authority requested an extension until June 1, 2010, to provide comments, which we granted. We held an exit conference on May 18, 2010. The Authority provided its response to the draft report on May 28, 2010.

The Authority generally agreed with the audit report. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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<sup>1</sup> The \$137,009 is comprised of \$108,808 for ineligible expenses (\$7,001 for development expenses and \$101,807 for other ineligible expenses), and \$28,201 for unsupported expenses. The Authority reimbursed the low-rent fund \$57,818 of the \$108,808 upon notification of the ineligible expenses.

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## BACKGROUND AND OBJECTIVES

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The Georgetown Housing Authority (Authority) is governed by a seven-member board of commissioners appointed by the Georgetown mayor. Its mission is to provide desirable homes and communities for lower income individuals and families through innovative collaborations with public and private enterprises. The Authority administers a low-rent public housing program consisting of 158 units, a Section 8 Housing Choice Voucher program with 88 units, and a Section 8 New Construction program property with 60 units.

The Authority operates nine related entities. All of the related entities are instrumentalities of the Authority; therefore, they must comply with U. S. Department of Housing and Urban Development (HUD) procurement requirements when engaging in public housing development activities.<sup>2</sup> The Authority recently used its instrumentalities to rehabilitate one project (Shady Oaks) and begin development of a second project (Sierra Ridge). Neither project involved public housing. Therefore, the instrumentalities did not have to follow HUD procurement requirements for the development-related contracts. The Authority borrowed \$1.2 million to develop Sierra Ridge, and one of its instrumentalities borrowed \$1.2 million to develop Shady Oaks.

Shady Oaks is a 60-unit Section 8 New Construction program property that was rehabilitated using low-income housing tax credits, and is managed by Shady Oaks GHA Housing, LP which is an instrumentality of the Authority. Sierra Ridge was in the predevelopment phase when we began the audit, but the Authority changed its plans and is no longer proceeding with the development. The Authority borrowed \$1.2 million to purchase the land for Sierra Ridge, received two Community Development Block Grants (CDBG) totaling \$318,314 from Williamson County and spent several thousand dollars on predevelopment expenses. Since Sierra Ridge will not be completed, the CDBG funds did not meet HUD's CDBG national objectives,<sup>3</sup> and the Authority signed a reimbursement agreement to repay them to Williamson County. In addition, the Authority is paying a mortgage on a \$1.2 million parcel of land that it is not planning to develop.

Since we began our fieldwork, the mayor of Georgetown has replaced four of the seven board members, and a fifth board position remains vacant. The previous executive director resigned effective September 30, 2009.

Our objectives were to determine (1) whether the Authority and/or its nonprofit related entities used HUD funding for recent developments and if so, whether they followed HUD regulations and (2) whether the Authority used HUD funds only for eligible expenditures.

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<sup>2</sup> Public and Indian Housing (PIH) Notice 2007-15, sections D, E(2), and F(4)

<sup>3</sup> The CDBG national objectives are identified in 24 CFR (Code of Federal Regulations) 570.208.

## RESULTS OF AUDIT

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### Finding: The Authority Used Federal Funds for Ineligible and Unsupported Expenses

In violation of its annual contributions contract (contract), the Authority used HUD funds totaling \$195,855 for development costs and other ineligible and unsupported expenditures. In addition, the Authority's financial records were inaccurate. These conditions occurred because the Authority lacked financial and disbursement controls and had no formal written policies and procedures. As a result, it had fewer funds available to operate its HUD-funded programs, and its stakeholders were unaware of its true financial position.

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#### **The Authority Used HUD Funds to Pay Ineligible Development Expenses**

The Authority used operating funds totaling \$55,270 for ineligible development expenses. This amount included \$48,269 in Section 8 Housing Choice Voucher program (Section 8) funds and \$7,001 in low-rent funds. The Authority's contract with HUD<sup>4</sup> defines operating expenditures as costs and charges that are necessary for the operation of the project. Further, operating expenditures do not include development or modernization costs and are not interchangeable.

The Authority used \$48,269 in Section 8 funds for development costs including legal and survey expenses and for mortgage payments. It claimed that the costs were eligible because it used Section 8 administrative fee reserves earned before Federal fiscal year (FFY) 2004.<sup>5</sup> However, the Authority recorded the questioned costs in the general ledger as receivables from Sierra Ridge and/or Shady Oaks or as a Section 8 asset called "land." The Authority did not expense the costs.<sup>6</sup> Section 8 funds already expensed in the general ledger were eligible as other housing expenses and reduced the Authority's pre-2004 Section 8 administrative reserve balance. The former executive director claimed that she was not familiar with the Section 8 requirements and did not track the pre- and post-2004 Section 8 administrative fee balances. She also stated that the Authority used administrative fee reserves earned after 2004. However, the Authority did not have excess administrative fees after

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<sup>4</sup> Part A, section 2, and section 9, paragraph C

<sup>5</sup> Regulations at 24 CFR 982.155(b)(1) allow a housing authority to use funds in the administrative fee reserve for other housing purposes permitted by State and local law. However, since FFY 2004, HUD has prohibited new excess administrative fees from being used for other housing purposes and has only permitted them to be used for the provision of Section 8 rental assistance and related development activity.

<sup>6</sup> PIH Notice 04-7 states that administrative fee reserve funds must be expended to be considered used for other housing purposes.

2004<sup>7</sup> and did not expense the questioned funds in the general ledger. It did not implement controls to ensure that it spent Section 8 funds properly.

The Authority also used \$7,001 in low-rent funds for legal expenses for development purposes. HUD prohibits using public housing funds to pay the cost of forming an instrumentality created for the sole purpose of developing low-income housing tax credit or market rate developments that do not include any public housing units.<sup>8</sup> The former executive director said she was familiar with public housing requirements and paid these expenses in error. The Authority did not have written policies and procedures to ensure that it spent funds properly and allocated costs appropriately.

### **The Authority Used HUD Funds to Pay Other Ineligible Expenses**

The Authority spent \$101,807 in low-rent funds for nonprogram expenses, including \$15,541 in legal fees not related to development and \$86,266 in payroll costs. The legal fees involved a former employee who was not assigned to the low-rent program and other costs for Shady Oaks. Again, the former executive director claimed to have paid these fees with low-rent funds in error. Payroll expenses for other programs totaled \$86,266, including \$57,146 for Shady Oaks<sup>9</sup> and \$29,120 for the Section 8 program. The former executive director stated that the low-rent program paid all payroll expenses and the different programs reimbursed the low-rent program quarterly. However, the Authority incurred these expenses in fiscal year 2008 and had not reimbursed the low-rent program by September 18, 2009. The former executive director stated that she was aware that the funds had not been reimbursed.

### **The Authority Cannot Support \$29,310 in Costs Paid With HUD Funds**

The Authority could not provide support for \$29,310 in expenses paid with HUD funds, including \$28,201 in expenditures paid with low-rent funds and \$1,109 paid with Section 8 funds. The unsupported expenditures included payments for legal fees for general costs allocable to all programs and payments to other vendors with no invoice, supporting documentation, or justification for the allocation. The former executive director stated that all payments had supporting documentation when the

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<sup>7</sup> At the end of fiscal year 2004, the Authority had \$1,281, which was exhausted in its fiscal year 2005. Appendix C shows the Authority's administrative fees earned after 2004 and the disposition of its pre-FFY 2004 excess administrative fee reserves.

<sup>8</sup> PIH Notice 2007-15, paragraph II(A)(2)

<sup>9</sup> The Authority reimbursed the low-rent fund \$57,818 from Shady Oaks upon our notification of the ineligible expenses.

Authority paid them. Current Authority staff could not locate the supporting documentation.

### **The Authority's Financial Records Were Not Accurate**

The Authority's financial records did not accurately account for its use of HUD funds because the Authority did not properly maintain the records. Specifically, it

- Did not create a general ledger for Sierra Ridge,
- Did not properly account for interprogram balances,
- Did not keep subsidiary ledgers for different Section 8 funds,
- Recorded more in cash deposits than in revenues reported to HUD,
- Did not properly record voided checks, and
- Did not update financial records in a timely manner and had several different versions of the general ledger at any given time.

The Authority did not create a general ledger for Sierra Ridge. It recorded most development expenses paid with HUD funds as a receivable from Sierra Ridge but did not create books to record Sierra Ridge payables.

The Authority did not record interprogram balances correctly. At the end of fiscal year 2008, the Section 8 fund had a receivable totaling \$18,360 from Shady Oaks Housing Development Corporation.<sup>10</sup> Also, the low-rent fund had a receivable totaling \$57,146 from the Shady Oaks Housing Development Corporation.<sup>11</sup> The Shady Oaks Housing Development Corporation's general ledger did not reflect the corresponding payables. Neither the fee accountant nor the former executive director could explain the missing payables.

Further, the Authority did not keep subsidiary ledgers<sup>12</sup> for the different Section 8 funds.<sup>13</sup> As a result, it did not know its pre-2004 Section 8 administrative fee reserve balance.

The Authority recorded \$4,138 more in cash deposits into its Section 8 accounts than revenues that it reported to HUD. In addition, the revenue reported in the Authority's 2007 audited financial statements did not match disbursements from HUD. The former executive director could not explain the discrepancies because she was no longer employed at the Authority and was, therefore, unable to review the financial records.

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<sup>10</sup> This amount consisted of \$13,341 for Sierra Ridge and \$5,019 for an additional parcel of land. The independent auditor classified the funds as receivables from Shady Oaks Housing Development Corporation.

<sup>11</sup> Payroll expenses discussed earlier in this finding

<sup>12</sup> Section 9, paragraph C of the Authority's contract with HUD requires the Authority to maintain records that identify the source and application of funds in such a manner as to allow HUD to determine that all funds have been expended in accordance with each specific program regulation.

<sup>13</sup> Housing assistance payments, Section 8 administrative fee, Pre-2004 Section 8 administrative fee, disaster housing assistance payments, disaster housing assistance payment administrative fee



The Authority voided checks in the low-rent account totaling \$4,929 and in the Section 8 account totaling \$4,539 but, in error, did not void the checks in the general ledger. It included the voided checks in its recent cash reconciliations and expensed them in the general ledger. As a result, its financial records did not reflect the true amount of available cash, and it was unaware that the funds were available.

The Authority did not make timely accounting entries in its financial records, and the automated server used to communicate finances among the Authority, fee accountant, and independent auditor contained several different versions of the Authority's general ledger.<sup>14</sup> As a result, the Authority was late in submitting its fiscal year 2008 audited financial statements to HUD while the independent auditor determined which general ledger was complete. The former executive director recorded all transactions, performed all reconciliations, and allocated costs. The fee accountant was responsible for reviewing the recordation of transactions and cash reconciliations and entering month-end journal entries. The fee accountant did not review the financial transactions until 3 to 6 months after they occurred. The former executive director blamed the untimely review on the fee accountant's distance from the Authority,<sup>15</sup> a new computer system for tracking residents, and working with the fee accountant to determine accurate year-end balances in the financial records. Further, as of September 30, 2009, when the former executive director resigned, the latest cash reconciliation performed was June 2009 and the latest rent reconciliation performed was in October 2008. She attributed the absent reconciliations to other pressing duties and a new tenant software system. Without current reconciliations, the Authority was at risk of not identifying fraudulent transactions in a timely manner, and its monthly financial statements were unreliable. As a result, the Authority was unable to make sound financial decisions.

## Conclusion

The Authority violated its contract with HUD by using \$195,855 in HUD funds for development costs and other ineligible and unsupported expenditures. This violation occurred because the Authority lacked financial and disbursement controls and had no formal written policies and procedures. As a result, it had fewer funds available to operate its HUD-funded programs.

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<sup>14</sup> We used the general ledger that was located on the Authority's computers since it was physically present on the premises of the Authority.

<sup>15</sup> The fee accountant is located in Addison, TX, about 180 miles from the Authority.



## Recommendations

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

- 1A. Reimburse its Housing Choice Voucher program fund \$48,269 from non-Federal funds for ineligible development costs,
- 1B. Hire an independent firm to perform a comprehensive review of the \$137,009 in questioned low-rent funds<sup>16</sup> to determine the source and appropriated year and require reimbursements where appropriate,
- 1C. Provide support for or reimburse from non-Federal funds its Housing Choice Voucher program fund \$1,109 for unsupported expenditures,
- 1D. Correct its books and records to show its true financial position,
- 1E. Reverse \$9,468 in expenses for voided checks and record the voids in the general ledger to determine the amount of funds available, and
- 1F. Develop and implement policies and procedures regarding financial and disbursement controls.

We recommend that the Director of the Departmental Enforcement Center

- 1G. Take appropriate actions to ensure that the former executive director does not place HUD programs at further risk, including but not limited to issuing a limited denial of participation.

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<sup>16</sup> See footnote 1

## SCOPE AND METHODOLOGY

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Our audit objectives were to determine (1) whether the Authority and/or its nonprofit related entities used HUD funding for recent developments and if so, whether they followed HUD regulations and (2) whether the Authority used HUD funds only for eligible expenditures. To accomplish our objectives, we

- Reviewed background information for the Authority, including audited financial statements for fiscal years 2007 and 2008,<sup>17</sup>
- Reviewed applicable HUD regulations, housing notices, and Office of Management and Budget circulars,
- Interviewed HUD's Office of Public and Indian Housing staff,
- Interviewed Authority board members, management, and staff,
- Obtained an understanding of applicable internal controls,
- Interviewed the Authority's fee accountant and independent public auditor,
- Reviewed the articles of incorporation and financing documents for the different related entities at the Authority and obtained a legal opinion from OIG legal counsel regarding the entities' relationships to the Authority,
- Tested the reliability of the computerized general ledger provided by Authority staff using Audit Command Language and control totals provided by the Authority,
- Reviewed the computerized general ledger audited by the independent auditor,
- Reviewed a schedule of payments to Sierra Ridge vendors provided by the Authority and reviewed the general ledger for payments from HUD accounts that were coded as Sierra Ridge expenses,
- Pulled several samples to meet our objectives (discussed in detail below), and
- Reviewed interprogram payable balances as calculated by the independent auditor. We relied on his calculations because he explained each calculation in detail, including individual check numbers. Further, other tests during the audit produced some of the checks already identified.

We conducted the audit between September 1, 2009, and February 18, 2010, at the HUD San Antonio field office and the Authority's office in Georgetown, TX. The Authority provided electronic financial records for fiscal years 2007 through 2009.<sup>18</sup> However, we expanded our review to earlier periods as necessary to accomplish our objectives. We verified the reliability of the data, using control totals and comparative analysis to the audited financial statements, and found that we had received all transactions recorded in the Authority's general ledger. In addition, we found that the Authority's revenue reported in its audited financial statements for fiscal year 2007 did not match revenue disbursements from HUD.

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<sup>17</sup> The independent auditor provided the fiscal year 2008 audited financial statements because at the time of our review, HUD did not have the Authority's fiscal year 2008 audited financial statements available as they were still under review.

<sup>18</sup> We began our fieldwork on September 1, 2009, before the completion of the fiscal year. We obtained the Authority's financial records on September 18, 2009.

We reviewed a nonstatistical representative sample of 52 payments out of a universe of 196 payments from HUD accounts to Shady Oaks vendors to determine whether HUD funds were used to pay construction costs at Shady Oaks. We did not find any instances in which construction costs were paid with HUD funds and concluded that HUD funds were not used for the Shady Oaks rehabilitation. However, we found two ineligible payments for other Shady Oaks expenses totaling \$696 and two unsupported payments totaling \$374.

We performed a 100 percent review of 112 payments from HUD accounts to Sierra Ridge vendors for which the Authority did not record the transaction as a Sierra Ridge predevelopment expense to determine whether the Authority used HUD funds for ineligible Sierra Ridge expenses. We found two transactions totaling \$1,185 that were not recorded as Sierra Ridge expenses. We also found five disbursements totaling \$10,979 that were not properly supported.

We reviewed a nonstatistical representative sample of 18 payments from the Section 8 cash disbursements journal out of a universe of 733 disbursements to determine whether disbursements were recorded and allocated appropriately and whether disbursements were appropriately supported. We found two transactions totaling \$925 in questioned Section 8 disbursements.

We reviewed a nonstatistical representative sample of 20 payments from the low-rent cash disbursements journal out of a universe of 2,199 disbursements to determine whether disbursements were recorded and allocated appropriately and whether disbursements were appropriately supported. We found two transactions totaling \$3,472 in questioned low-rent disbursements.

We recalculated the pre-2004 Section 8 administrative reserve balance and determined it to be \$1,287 as of the beginning of fiscal year 2009. Appendix C is a schedule of our calculations of the Authority's administrative reserve balances since fiscal year 2003.

There were several different versions of the general ledger, and we were only provided two versions.<sup>19</sup> We reviewed the general ledgers provided by the Authority and the independent auditor. For testing purposes, we used the general ledger provided by the Authority because it was the general ledger in the Authority computers and accessed by the executive director on a daily basis. For verification, we physically reviewed checks, invoices, and other supporting (or noted missing) documents for the questioned costs except where noted in the finding.

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

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<sup>19</sup> The fee accountant was not able to provide her version of the general ledger because she was not familiar with the related functions in Quick Books.

# INTERNAL CONTROLS

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

- Program operations,
- Relevance and reliability of information,
- 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 objectives:

- Controls over compliance with laws and regulations,
- Controls over disbursements, and
- Controls over financial reporting.

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 Weaknesses

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

- Controls over compliance with laws and regulations did not exist (finding 1).
- Controls over disbursements did not ensure that the Authority spent program funds for only reasonable and necessary expenses (finding 1).
- Controls over financial reporting did not ensure that the Authority recorded accounts payable appropriately or that it submitted the audited financial statements to HUD in a timely manner (finding 1).

## APPENDIXES

### Appendix A

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

Recommendation number	Ineligible <u>1/</u>	Unsupported <u>2/</u>	Funds to be put to better use <u>3/</u>
1A	\$ 48,269		
1B	108,808	\$28,201	
1C		1,109	
1E			<u>\$9,468</u>
<b>TOTALS</b>	<b><u>\$157,077</u></b>	<b><u>\$29,310</u></b>	<b><u>\$9,468</u></b>

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 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.

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. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this case, recording the voids and reversing the expenses will deobligate the funds and make them available to the Authority.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments



#### GEORGETOWN HOUSING AUTHORITY

May 27, 2010

Office of Inspector General, Region VI  
819 Taylor Street, Suite 13A09  
Fort Worth, Texas 76102

Dear Sir;

This document has been prepared and submitted in response to the OIG's draft Audit Report of The Housing Authority of the City of Georgetown, Texas (GHA).

It is the objective of GHA to provide quality, affordable housing to low-income families and individuals through the effective and efficient administration of housing assistance programs; and to create and cultivate opportunities for program participants to achieve self-sufficiency and service that low income families need.

The following is our response to each component of the original audit summary.

1. THE AUTHORITY USED HUD FUNDS TO PAY INELIGIBLE DEVELOPMENT EXPENSES.

The Authority acknowledges that federal funds were used for development expenses. We believe we used Section 8 administrative fee reserves earned before Federal fiscal year 2004. These Pre-2004 reserves would be eligible for development expenses. We will work with the local HUD Office to ascertain our Pre 2004 administrative fee reserve and make adjustments as necessary.

Comment 1

2. THE AUTHORITY USED HUD FUNDS TO PAY OTHER INELIGIBLE EXPENSES.

The expenses were paid by Low Rent and allocated to the appropriate program instead of cutting multiple checks per expense. The Authority acknowledges that Low Rent was not reimbursed timely. We will repay allocated expense more timely.

Comment 2

3. THE AUTHORITY CANNOT SUPPORT \$29,310 IN COSTS PAID WITH HUD FUNDS

The allocation between programs is what is in question or not supported. GHA will work with the local HUD office and document the allocations and make adjustments as necessary.

Comment 2

4. THE AUTHORITY'S FINANCIAL RECORDS WERE NOT ACCURATE.

The Authority acknowledges problems with our financial records. GHA has reversed \$9,468.00 in expenses for voided checks and recorded the voids in the general ledger. The Authority has hired a new CPA Firm to assist us with our fee accounting as we make a concentrated effort towards improving documentation of our financial records.

Comment 3

The Georgetown Housing Authority appreciates having had the opportunity to discuss the original audit draft during the exit conference held on May 12, 2010. The Authority acknowledges that during the audit period there were weaknesses in our internal controls. GHA Board approved the Internal Control Policy effective May 20th, 2010, and will continue to evaluate and refine such controls.

Comment 4

Sincerely,

Nikki Brennan  
Executive Director, Georgetown Housing Authority

Cc: Joanna Varenhorst, Senior Auditor  
U. S. Department of Housing and Urban Development

210 West 18<sup>th</sup> St., Georgetown TX 78626  
Phone (512) 863-5565

P.O. Box 60, Georgetown TX 78627  
Fax (512) 869-3475

### **OIG Evaluation of Auditee Comments**

- Comment 1** The Authority stated that the questioned Section 8 funds are from pre-2004 administrative fee reserves; and were therefore, eligible. The OIG disagrees with the Authority's claim because it did not provide any evidence as to the source of funds, and it did not challenge our calculations in Appendix C.
- Comment 2** The Authority agrees with the audit report.
- Comment 3** The Authority provided journal entries to show that the expenses were reversed. We reviewed the journal entries and agree that the expenses were reversed.
- Comment 4** The Authority acknowledged weaknesses in its internal controls and provided updated policies and procedures with its response. However, we did not review the policies and procedures for adequacy.



## Appendix C

### OIG CALCULATION OF SECTION 8 ADMINISTRATIVE FEE RESERVE

<b>OIG calculation of Section 8 administrative fee reserve balance</b>			
<b>Description/account</b>	<b>Reserve balance</b>	<b>Pre-2004 balance<sup>20</sup></b>	<b>Post-2004 balance</b>
Fiscal year ending 9-30-04			
Beginning reserve balance <sup>21</sup>	\$54,426	\$54,426	
Administrative fee revenue	53,818		
Administrative expenses	(52,537)		
Reserves used for housing assistance payments	0.00		
Ending reserve balance	\$55,707	\$54,426	\$1,281
Fiscal year ending 9-30-05			
Administrative fee revenue	64,515		
Administrative expenses	(59,925)		
Reserves used for housing assistance payments	(25,071)		
Ending reserve balance	\$35,226	\$35,226	
Fiscal year ending 9-30-06			
Administrative fee revenue	56,987		
Administrative expenses	(62,044)		
Reserves used for housing assistance payments	0.00		
Ending reserve balance	\$30,169	\$30,169	
Fiscal year ending 9-30-07			
Administrative fee revenue	74,365		
Administrative expenses	(82,574)		
Reserves used for housing assistance payments	0.00		
Ending reserve balance	\$21,960	\$21,960	
Fiscal year ending 9-30-08			
Administrative fee revenue	51,330		
Administrative expenses	(72,003)		
Reserves used for housing assistance payments	0.00		
<b>Ending reserve balance</b>	<b>\$1,287</b>	<b>\$1,287</b>	

<sup>20</sup> Pre-2004 funds were decreased only after post-2004 funds were exhausted.

<sup>21</sup> Operating reserve beginning balance for fiscal 2004 from Form HUD-52681, block 46(b).