



Issue Date
August 23, 2010
Audit Report Number
2010-AT-1010

TO: Ada Holloway, Director, Atlanta Office of Public and Indian Housing

//signed//

FROM: James D. McKay, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: The Housing Authority of DeKalb County Improperly Used Its Net Restricted Assets

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of DeKalb County's (Authority) use of its net restricted assets based on a request from the Atlanta Office of Public Housing. The request indicated that a significant amount of net restricted assets was used to pay for items other than the required housing assistance payments.

Our audit objective was to determine how the Authority expended its net restricted assets and what controls were in place to ensure that net restricted assets were not used for non-housing assistance payments.

What We Found

The Authority used more than \$2.5 million of its net restricted assets to pay ineligible program and administrative expenses for other assisted housing programs. This condition occurred because the Authority did not (1) maintain separate bank accounts, (2) properly track its net restricted asset funds, and (3) have proper policies and controls in place. As a result, it misused net restricted asset funds that could have provided assistance to eligible families in its housing voucher program.

What We Recommend

We recommend that the Director of Public and Indian Housing require the Authority to (1) reconcile its books and records to determine the amount of net restricted asset funds used to pay program and administrative expenses for various housing programs, (2) reimburse the net restricted assets fund account from non-Federal funds the \$2.5 million or the current amount owed from various housing programs, and (3) implement its established policy for the use of net restricted assets to ensure that net restricted assets are properly used and bank accounts remain separated for the various programs.

For each recommendation without a management decision, please respond and provide status reports in accordance with U.S. Department of Housing and Urban Development (HUD) Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed our review results with Authority officials during the audit. We provided a copy of the draft report to the Authority on July 9, 2010, for their comments and discussed the report with Authority officials at the exit conference on July 16, 2010. The Authority provided written comments on July 23, 2010, and generally agreed with the finding.

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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BACKGROUND AND OBJECTIVES

The Housing Authority of DeKalb County (Authority), located in Decatur, GA, was established in December 1955 in accordance with State and Federal law to serve the citizens and communities of DeKalb County, GA, by promoting quality affordable housing and related economic development.

The Authority's six-member board of commissioners oversees the direction of the Authority. The board of commissioners is appointed by the chief executive officer of DeKalb County. The board of commissioners is responsible for hiring the Authority's executive director to manage daily operations and the Authority's annual operating budget.

The Authority has had two executive directors since 2004. The former executive director was appointed in October 2004, but that appointment was terminated by the Authority's board of commissioners on October 13, 2006. The executive director in place when we started our audit served as interim executive director and was permanently appointed on May 2, 2007. However, he resigned on June 11, 2010, and an interim executive director was chosen to serve during the transitional period.

The Authority administers 6,070 housing assistance vouchers in DeKalb County, GA, and its vicinity. The annual housing assistance payments and administrative fees approved were \$33.8 million for fiscal year 2005, \$33.5 million for fiscal year 2006, \$32.6 million for fiscal year 2007, \$32.9 million for fiscal year 2008, and \$29.5 million for fiscal year 2009.

The U.S. Department of Housing and Urban Development's (HUD) Georgia State Office of Public Housing in Atlanta, GA, is responsible for overseeing the Authority.

HUD designated the Authority as a high-performing Section 8 public housing authority for fiscal years 2005, 2006, and 2009. It designated the Authority as standard performing for fiscal years 2007 and 2008.

In August 2009, HUD identified possible misuse of net restricted assets. In response, the executive director indicated that the funds were misappropriated because of the Authority's poor internal accounting process, weak controls, and staff turnover.

Our audit objective was to determine how the Authority expended its net restricted assets and what controls were in place to ensure that net restricted assets were not used for non-housing assistance payments.

RESULTS OF AUDIT

Finding 1: The Authority Used Net Restricted Assets To Pay for Other Assisted Housing Programs

The Authority used more than \$2.5 million of its net restricted assets to pay ineligible program and administrative expenses for other assisted housing programs. This condition occurred because the Authority did not (1) maintain separate bank accounts, (2) properly track its net restricted asset funds, and (3) have proper policies and controls in place. As a result, it misused net restricted asset funds that could have provided assistance to eligible families in its housing voucher program.

Net Restricted Assets Were Improperly Used

HUD defines the net restricted assets balance as the difference between housing assistance payment funding provided to the Authority and the Authority's validated housing assistance payment expenses reported in HUD's Voucher Management System each month.

HUD's public and Indian housing notices for calendar years 2005-2009, Implementation of Federal Fiscal Year Funding Provisions for the Housing Choice Voucher Program, state that authorities may only use housing assistance payment funding for housing assistance payments for current calendar year and future calendar year housing assistance payment needs. Authorities may not use housing assistance payment funds or housing assistance payment net restricted assets for Section 8 administrative expenses, public housing expenses or development costs, or any other costs of the authority.

We computed the difference between the housing assistance payment funding the Authority received and the Authority's validated housing assistance payment expenses reported in the Voucher Management System for calendar years 2005-2009 and determined that the net restricted balance as of December 31, 2009, should have been approximately \$2.5 million. However, the Authority's general ledger showed a net restricted asset balance of \$11.2 million as of December 31, 2009, and the Authority's general bank account balance was \$5.1 million. The Authority's accountant stated that the amount shown in the general ledger was incorrect and the actual balance of net restricted assets was zero because the funds were used to pay program and administrative expenses for other assisted housing programs.

We reviewed the Authority's check registers for the period of July 1, 2007 through June 30, 2009. We determined that the Authority used net restricted asset funds to pay program and administrative expenses for its Housing Choice Voucher, Disaster Housing Assistance, Family Self-Sufficiency, Portability, Veterans Affairs Supportive Housing, and Homeownership programs. For example, the Authority used net restricted assets to pay salaries for Disaster Housing Assistance program temporary employees, workmen's compensation for employees of the Housing Choice Voucher program and Disaster Housing Assistance program, rental car expenses for housing inspectors, office supplies, and rental expense for office space. The Authority did not maintain separate bank accounts for the various programs. Therefore, the bank balance of \$5.1 million did not represent an accurate balance for the net restricted assets account.

Based on a letter from HUD, as of January 1, 2005, each authority was required to establish and maintain its own housing assistance payment net restricted account. Any housing assistance payment funds from the year that were not used for eligible program purposes must be deposited by the authority into its housing assistance payment net restricted asset account.

The Authority did not properly track its net restricted asset funds. The Authority's books were not accurately reconciled to show the correct balance of net restricted assets. The net restricted asset funds were not accounted for in the Authority's general ledgers until calendar year 2008. Its accountant could not explain why the Authority did not account for net restricted asset funds before calendar year 2008.

The Authority did not implement a policy regarding net restricted assets until May 2009. The policy was established in response to an April 2, 2009, letter from HUD, reminding the authorities of the January 1, 2005, requirements regarding the housing assistance payment net restricted assets account. Overall, due to the Authority's poor control over its net restricted assets, we could not ensure that the funds were used for its housing assistance payments as required.

At the request of the Atlanta Office of Public Housing, HUD's Recovery and Prevention Corps performed an assessment of the Authority's Housing Choice Voucher program for calendar year 2009, which included the net restricted assets account. The assessment was performed in February 2010 and recommended a forensic audit of the Authority's financial records to ensure program accountability. The report stated that having three different finance directors in charge of the finance department in a relatively short period severely impacted the agency's ability to handle the issues and the net restricted assets were not in separate accounts, which caused problems in determining the net restricted assets reserve balance.

In October 2009, the Authority moved its housing assistance payments and administrative fees into separate bank accounts and transferred its Veterans Affairs Supportive Housing program funds to a separate bank account. In January 2010, the Authority established a separate bank account for its net restricted asset funds. The Authority's accountant stated that as of January 2010, the Authority did not pay administrative expenses until administrative funds were available. The finance director in place when we started our audit had resigned as of June 1, 2010.

Conclusion

As a result of the Authority's not having proper controls in place to ensure that net restricted asset funds were properly used, the Authority misused more than \$2.5 million of its net restricted assets, which could have been available to provide assistance to eligible families.

Recommendations

We recommend that the Director of HUD's Office of Public Housing

- 1A. Require the Authority to reconcile its books and records to determine the amount of net restricted asset funds that was used to pay program and administrative expenses for various housing programs (Housing Choice Voucher, Disaster Housing Assistance, Family Self-Sufficiency, Portability, Veterans Affairs Supportive Housing, and Homeownership).
- 1B. Require the Authority to reimburse the net restricted assets fund account from non-Federal funds the \$2,583,244 or the current amount owed.
- 1C. Require the Authority to implement its established policy for the use of net restricted assets to ensure that the net restricted assets are properly used and bank accounts remain separated for the various programs.

SCOPE AND METHODOLOGY

Our audit objective was to determine how the Authority expended its net restricted assets and what controls were in place to ensure that net restricted assets were not used for non-housing assistance payments. To accomplish our objective, we

- Reviewed applicable laws, regulations, and other HUD program requirements relating to net restricted assets;
- Interviewed HUD and Authority staff;
- Reviewed HUD's program files for the Authority; and
- Reviewed the Authority's accounting records, policies and procedures, financial audits, and related documents.

We conducted our audit from January through May 2010 at both the Atlanta, GA, HUD office and the Authority's central office located at 750 Commerce Street, Decatur, GA. Our audit period was January 1, 2005, through December 31, 2009. We expanded our audit period as needed to accomplish our objective.

We tested disbursements made by the Authority from July 1, 2007, through June 30, 2009. The disbursements were made from the bank account that included the housing assistance payment funding, administrative fees, portability funds, and net restricted asset funds. During the period, the Authority disbursed \$98,427,924 from the account, of which we examined \$3,218,511. We selected the tested items, considering factors such as the transaction amount and transaction type. The results of the audit only apply to the tested activities and cannot be projected to the universe or total population.

We did not review and assess general and application controls over the Authority's information systems. We conducted other tests and procedures to ensure the integrity of computer-processed data that were relevant to the audit objective. The tests included but were not limited to comparison of computer-processed data to invoices and other supporting documentation. We did not place reliance on the Authority's information systems and used other supporting documentation for the activities reviewed.

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

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management designed to provide reasonable assurance about the achievement of the organization's mission, goals and objectives with regard to:

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls 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.

Relevant Internal Controls

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

- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Effectiveness and efficiency of operations – Policies and procedures that the audited entity has implemented to provide reasonable assurance that a program meets its objective, while considering cost effectiveness and efficiency.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Weaknesses

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

- The Authority did not have adequate controls in place to ensure that net restricted asset funds were expended as required (see finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Ineligible 1/</u>
1B	\$2,583,244

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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

July 23, 2010

Mr. James D. McKay, Regional Inspector General for Audit
U. S. Department of Housing and Urban Development
Office of Audit, Box 42
Richard B. Russell Federal Building
75 Spring St., SW, Suite 330
Atlanta, GA 30303-3388

**RE: Housing Authority of the County of DeKalb, Georgia
GA237 – Draft Report Response**

Dear Mr. McKay,

This letter is in response to the Draft Audit dated July 9th, 2010 relating to your Department's review of the Housing Authority of the County of DeKalb, Georgia's ["HADC"] Net Restricted Asset ["NRA"] for the period of January 1, 2005 through December 31, 2009.

On behalf of the HADC's Board of Commissioners and staff, I would like to thank you and your staff, Barbara Brock, Joyce Harris and Tiffany Love for the time and effort dedicated to this review. We appreciate the collaborative and constructive approach with which this report was prepared.

I have reviewed the draft report in detail and agree that the HADC's net restricted asset for the Housing Choice Voucher Program were improperly used. I also agree that Housing Authority's net restricted asset were improperly used.

I have commented below on each of the three (3) recommendations noted in your draft report and look forward to working with the local HUD office to make sure we have no future occurrences.

Per your letter, please find below updated corrective actions for each recommendation:

Recommendation 1A:
Require the Authority to reconcile its books and records to determine the amount of net restricted asset funds that was used to pay program and administrative expenses for various housing programs (Housing Choice Voucher, Disaster Housing Assistance, Family Self-Sufficiency, Portability, Veterans Affairs Supportive Housing, and Homeownership).



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General Counsel

Mr. Matthew K. McClammy
Interim Executive Director

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Comment 1

The Housing Authority of the County of DeKalb, Georgia has contracted an independent audit firm to conduct a forensic review of all Housing Choice Voucher programs. This review will provide to the Housing Authority reconciled program accounts related to the deficit and NRA use in Housing Choice Voucher Programs.

The programs included in the forensic work are the Housing Choice Voucher Program, Relocation Voucher Program, Veteran Administration Supportive Housing, Portable Tenant Voucher Program, Disaster Housing Program, Disaster Housing Choice Voucher Program, Home Ownership Voucher Program Family Self Sufficiency, Katrina Disaster Housing Program and Tenant Protection Voucher Program.

For each program the result will provide the following forensic work as of June 30, 2009;

1. Prepare the statement of net assets and statement of activities for each program.
2. Verify the amounts due to and due from each program.
3. Investigate the transactions that established the intercompany balances for each program.
4. Verify the surplus or deficit for each program.
5. Verify the reason for the surplus or the deficit for each program.
6. Identify how the government funds were spent for each program.
7. Verify that each program is now maintaining separate bank accounts.
8. Determine how HADC tracks the net restricted assets/unearned revenue for each program.
9. Inquiry with HADC staff on the policies and procedures that are now in place to ensure restricted assets/unearned revenue are expended as required.

At the conclusion of the above mentioned forensic work the auditors will provide HADC a report outlining the results in a management report.

The auditors anticipate starting fieldwork at HADC's office on July 26th, 2010 and anticipate delivery of the final report on or about August 30th, 2010.

Recommendation 1B:

Require the Authority to reimburse the net restricted assets fund account from non-Federal funds the \$2,583,244 or the current amount owed.

Comment 1

At the conclusion of the aforementioned forensic review, as referenced in response to recommendation number 1A, the Housing Authority will be in a position to detail the amounts due to and from each program and have a better grasp on each program's responsibility to the recommended reimbursement of \$2,583,244. At this point, the HADC will be in a better position to work with the Atlanta HUD office to establish a resolution of the outstanding balance.

James D. McKay, Regional Inspector General for Audit
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Recommendation 1C:

Require the Authority to implement its established policy for the use of net restricted assets to ensure that the net restricted assets are properly used and bank accounts remain separated for the various programs.

As stated in the recommendation 1C, the HADC has established a policy for the tracking, segregation and use of net restricted assets. The HADC Management team is committed to following its established procedures.

After your review, should you have any questions, please do not hesitate to contact me at (404) 270-2528.

Sincerely,



Matthew K. McClammy
Interim Executive Director

CC: Ada H. Holloway, Director of Public Housing – Atl. HUB
Sonya D. Lucas, Assistant Regional Inspector General for Audit
Glenwood Ross, HADC Chair

Comment 1

OIG Evaluation of Auditee Comments

Comment 1 The Authority agreed to hire an independent audit firm to conduct a forensic review of all Housing Choice Voucher programs and reconcile program accounts related to the use of net restricted assets. After the forensic review, the Authority will be in a position to detail the amounts due to and from each program and work with the Atlanta HUD office to establish a resolution of the outstanding balance. The Authority has established a policy for the tracking, segregation and use of net restricted assets.

The Authority's agreement with the finding and recommendations indicates its willingness to make necessary improvements to ensure net restricted assets are only used to pay required housing assistance payments.