



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-5000

ASSISTANT SECRETARY FOR
PUBLIC AND INDIAN HOUSING

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Memorandum For: See Distribution

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From: Michael Liu, Assistant Secretary, Office of Public and Indian Housing, P

Subject: Frequent PHA Audit Findings

The Office of Public and Indian Housing (PIH) has performed a study of audit findings contained in the Office of Inspector General's (OIG) audit reports performed on Public Housing Agencies (PHAs) that receive funding from PIH. The study, which covered a period of three years, shows a recurring pattern of findings. The most prominent concerns relate to failure to adhere to the requirements of the Annual Contributions Contract (ACC), HUD regulations and statutory mandates in the areas of payment eligibility, internal controls, procurement and documentation to support expenses. These are basic areas of responsibility that are perhaps overlooked and taken for granted in dealing with seemingly more important matters in the day-to-day operation of a housing authority. I strongly urge you to focus management attention in these problematic areas and to ensure that you establish proper management controls to safeguard your housing authority from improper actions that threaten the integrity of the program.

The following provides both information and examples of four of the most common findings.

Reimbursement of Ineligible Payments and Procurement Activities:

A significant number of OIG findings (18%) relate to ineligible payments. The requirements related to eligibility are described below.

Part A, Section 5 – Covenant to Develop and Operate – of the ACC requires a PHA to comply with all applicable statutes, executive orders and regulations issued by HUD, including but not limited to those regulations promulgated by HUD at Title 24 of the Code of Federal Regulations (CFR). Those regulations are incorporated into the ACC by reference. PHAs are also to ensure compliance with such requirements by any contractor or subcontractor engaged in the development or operation of a project covered under the ACC.

24 CFR, 84.27, states that: "Allowability of cost shall be determined in accordance with the cost principles applicable to the entity incurring the costs." Thus, allowability of costs incurred by State, local or federally recognized Indian tribal governments is

determined in accordance with the provisions of OMB Circular A-87, "Cost Principals for State and Local Governments." Costs incurred by non-profit organizations are determined in accordance with the provisions of OMB Circular A-122, "Cost Principals for Non-Profit Organizations". Both of these Circulars state expenses must be charged to a specific award at the time the award is in effect.

Example:

A review of a recent audit report issued by the OIG revealed that costs had been charged to a grant award up to 11 months before the grant agreement's effective date. This was in direct violation of 24 CFR 761.17(9)(b)(2), which states that costs incurred prior to the effective date of the Grant Agreement are not allowable expenses. Because regulatory requirements were not adhered to, \$141,000 in costs was considered ineligible and the auditee had to reimburse HUD that amount. This example illustrates the importance of adhering to programmatic requirements in relation to cost eligibility.

The Section of the ACC referenced above is also applicable to the procurement activities carried out by a PHA in its day-to-day operations. In many instances, the procurement processes reviewed have proven to be problematic.

24 CFR 85.36, Procurement, states the requirements for procuring property and services in conjunction with HUD Handbook 7460.8, Rev.-1.

Example:

An auditee failed to perform cost analyses for 15 of 20 contracts totaling \$1,169,726, to ensure that proposals received and accepted were reasonable. The auditee also failed to obtain prior HUD approval for sole source contracts totaling \$207,156. As a result, the OIG issued multiple recommendations that required the auditee to repay its programs \$207,156, for the improper contract payments, to defer to HUD for all procurements of goods and services until such time as HUD determined the Authority could properly procure goods and services, and provide procurement training to its staff.

Internal Controls and Supporting Expenses Through Documentation:

Many OIG audits (15%) have found weaknesses in the overall internal controls process at PHAs.

Part A, Section 15(A) – Books of Account, Records and Government Access – of the ACC, requires a PHA to maintain complete and accurate books of account for the projects of the PHA in such a manner as to permit the preparation of statements and reports in accordance with HUD requirements and to permit timely and effective audits.

A PHA cannot realistically comply with this provision of the ACC without adequate internal controls. Procedures and controls must be in place that comply with HUD requirements, the ACC and the PHA's policies regarding the charging of costs to grant awards, claims for operating subsidies, contract awards, etc.

Example

A recent audit revealed that the auditee did not have controls in place to ensure accurate reporting of long-term vacancies. It under-reported vacancies and consequently received excess operating subsidies over a four-year period. As a result, the PHA was required to reimburse HUD for the excess subsidy claimed.

Section 15(A) of the ACC also applies to maintaining documentation that supports a PHA's expenses and expenditures. 24 CFR, 85.20(b)(2), requires accounting records to be supported by source documents and its financial management system to be accurate, current, and complete. In addition, no disbursements should be approved, check signed, or a charge made without the proper supporting documentation attached and available for review.

Example

An auditee provided documentation for approximately \$148,000 in disbursements, out of a total \$214,000, disbursements tested. The remaining \$66,000 in disbursements tested did not have supporting documentation. The OIG recommended that the PHA reimburse its program(s) from non-Federal funds for all of the undocumented disbursements.

Due diligence must be exercised when expending federal government funds in accordance with your ACC. All applicable laws, executive orders and HUD regulations must be complied with. All PHA's must take steps to review those areas and correct deficiencies that contribute to findings/recommendations in OIG audit reports. PHAs can expect continued scrutiny from both PIH Field Office staff as well as the OIG with respect to the areas covered in this memorandum.

If you have any questions regarding these issues, please contact Mr. Michael Mangahas, Deputy Comptroller, Office of Administration and Information Technology Services/Chief Financial Officer at (202)708-0614, extension 6726.