audit report

Issue Date March 20, 2008
Audit Report Number 2008-FW-1006

TO: Paula O. Blunt
General Deputy Assistant Secretary for Public and Indian Housing, P

Justin R. Ormsby
Director, Office of Public and Indian Housing, 6APH

Gerald R. Kirkland

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

SUBJECT: Dallas Housing Authority, Dallas, Texas, Management Failed to Implement Internal Controls over Its Housing Choice Voucher Program

HIGHLIGHTS

What We Audited and Why

As part of our strategic plan objective to assist the U. S. Department of Housing and Urban Development's (HUD) efforts to reduce rental assistance overpayments, we audited the Dallas Housing Authority's (Authority) financial management of its Housing Choice Voucher program (voucher program). Our objective was to determine whether the Authority had the necessary financial controls in place to operate its voucher program in an efficient, effective, and economical manner.

What We Found

Contrary to requirements, Authority management failed to implement internal controls over the financial management of its voucher program and did not exercise sound management practices. Although this has been an ongoing weakness, Authority management did not take substantive measures to ensure that basic controls were established. As a result, the Authority's financial data were unreliable, its fund balances were incorrect, and it could not assure HUD that it spent program funds in accordance with its annual contributions contract or federal regulations. Further, the Authority certified to HUD that it expended about $32.4 million less in program funds than it received in 2005 and 2006.

What We Recommend

We recommend that the Director of the Fort Worth Office of Public and Indian Housing require the Authority to support or repay more than $32.4 million, void and properly reclassify $648,530 in outstanding checks, and implement effective internal controls over the financial operations of its voucher program. In addition, we recommend that the Assistant Secretary for Public and Indian Housing take appropriate administrative sanctions, up to and including issuing a notice of default in accordance with section 15 of the annual contributions contract for the Rental Certificate and Rental Voucher Programs to ensure that the Authority complies with requirements.

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 the draft report to Authority officials on February 8, 2008. We held an exit conference with Authority and HUD officials on February 25, 2008. The Authority provided written comments to our draft report on March 3, 2008.

The Authority generally acknowledged the weaknesses of its financial management controls during the audit period. The Authority's response also included positive steps taken to strengthen its overall internal controls. The Authority's response along with our evaluation of the response can be found in appendix B of this report. Due to the volume of supporting documentation provided, we did not include the attachments submitted with the response. The attachments are available for review upon request.

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BACKGROUND AND OBJECTIVES

In 1938, the Dallas City Council established the Dallas Housing Authority (Authority) to provide housing to low-income persons. A five-member board of commissioners (board)[1] governs the Authority. The board appoints a president and chief executive officer to administer the operations of the Authority. The Authority's main office is located at 3939 North Hampton Road, Dallas, Texas.

The Authority administers the U. S. Department of Housing and Urban Development's (HUD) Housing Choice Voucher program (voucher program). Under the voucher program, HUD pays rental subsidies so that eligible families can afford decent, safe, and sanitary housing. The Authority administers the voucher program pursuant to an annual contributions contract with HUD. Under the contract, HUD agrees to provide financial assistance to the Authority, and the Authority agrees to comply with HUD requirements in administering the voucher program. The Authority is responsible for establishing internal controls to plan, organize, direct, and control program operations including systems for measuring, reporting, and monitoring fiscal performance.

The Authority administers more than 17,000 vouchers. In 2005 and 2006, HUD provided the Authority with more than $286 million in funds for housing assistance payments for its voucher program and more than $18.5 million to administer the voucher program.

This is the second of three planned reports on the Authority's voucher program. In the first audit, we reported that the Authority mismanaged its portable vouchers; collected $3.7 million from HUD based on inaccurate, unreliable, and altered records; and violated HUD requirements.[2]

Our audit objective for this audit was to determine whether the Authority had the necessary financial controls in place to operate its voucher program in an efficient, effective, and economical manner.

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1 The mayor of Dallas appoints board members.
2 Audit report number 2007-FW-1003, "The Dallas Housing Authority, Dallas, Texas, Mismanaged Its Portable Vouchers." issued on December 5, 2007.

RESULTS OF AUDIT

Finding: Authority Management Failed to Implement Internal Controls to Ensure That It Properly Managed Program Funds

Contrary to the terms of its annual contributions contract and applicable federal regulations, Authority management failed to implement internal controls over the financial management of its voucher program and did not exercise sound management practices. Although this has been an ongoing weakness, Authority management did not take any substantive measures to ensure that even basic controls were established. As a result, the Authority's financial data were unreliable, its fund balances were incorrect, and Authority management could not assure HUD that it spent program funds in accordance with its annual contributions contract or federal regulations. Further, the Authority certified to HUD that it expended about $32.4 million less in program funds than it received in 2005 and 2006.

Management Failed to Implement Basic Internal Controls

Contrary to requirements,[3] the Authority failed to implement basic controls to effectively, efficiently, and economically manage and operate its voucher program. Internal controls should be an integral part of the Authority's management of its voucher program and should be used to direct, monitor, and measure its resources. Its controls should also provide some assurance that its resources are protected from fraud and abuse.

Authority management failed to implement basic internal controls[4] over the financial management of its voucher program and did not exercise sound management practices. The Authority did not (1) have written policies and procedures, (2) maintain an adjusted trial balance showing the reconciliation of the year-end general ledger to the financial statements, (3) establish subsidiary general ledger accounts, (4) effectively monitor its budgeted expenses and revenues, (5) post transactions to or reconcile general ledger and bank accounts in a timely manner, or (6) reconcile or validate the amounts posted during automated transfer of data between

[3] Annual contributions contract and 24 CFR (*Code of Federal Regulations*) 85.20(b)(3).
[4] According to the Committee of Sponsoring Organizations of the Treadway Commission, internal control is broadly defined as a process, affected by an organization's people and information technology systems, designed to help the organization accomplish specific goals or objectives.

accounting systems. Further, many of the Authority's voucher program accounting staff who performed day-to-day accounting functions did not have formal accounting training. Also, management did not adequately segregate duties, and there was no evidence that approvals or authorizations were required or consistently performed.

As a result, the Authority's financial data were unreliable, its fund balances were incorrect, and Authority management could not assure HUD that it spent program funds in accordance with its annual contributions contract or federal regulations. This condition caused the Authority to submit inaccurate cost information to HUD and could result in reduced program funding and perhaps deprive eligible program recipients of housing assistance.[5]

The Authority Did Not Have Written Policies and Procedures

Authority management did not design and implement written policies and procedures to ensure accurate, properly authorized, supported, and consistent processing of transactions. Written policies and procedures are a fundamental element of internal control. They help to ensure that management directives are carried out and necessary actions are taken to address risks to achievement of the entity's objectives. Control activities should occur throughout the organization, at all levels and in all functions, and should include a range of activities including approvals, authorizations, verifications, and reconciliations. Authority management did not establish and implement written policies and procedures for any of the basic controls.

The Authority Did Not Have an Adjusted Trial Balance

The Authority did not provide an adjusted trial balance or other document[6] showing the reconciliation of its year-end general ledger balances to its financial statements for fiscal year 2005. According to the Authority and its independent auditor,[7] the Authority provided an adjusted trial balance for its 2005 financial statement audit. However, the Authority did not provide or reproduce the document for this audit. An adjusted trial

5 Notice PIH (Public and Indian Housing) 2007-14.

6 According to the Authority, its software produced a reporting tree that served the same purpose as an adjusted trial balance.

7 KPMG International.

balance reflects how management adjusted the balances in the general ledger accounts to arrive at the amounts reported in the audited financial statements. Without an adjusted trial balance or other document showing the connection between the general ledger and the financial statements, it was unknown whether management made the necessary adjusting entries to the general ledger balances to ensure that it supported the financial statements.

The Authority Did Not Maintain Subsidiary Account Ledgers

The Authority did not maintain subsidiary account ledgers supporting entries into its general ledger. A general ledger should contain the financial statement accounts of a business and reflect a summary of all the transactions occurring within an entity. Conversely, subsidiary ledgers should show the details underlying the balance of an account in the general ledger. However, contrary to this concept, the Authority posted both summary and detail entries directly to its general ledger. In addition, for the summary entries entered into its general ledger, the Authority did not maintain subsidiary ledgers supporting those entries. This methodology for posting transactions to the general ledger resulted in a 13,000 page document that was not useful as a management tool.

For example, the Authority posted approximately 10,000 vendor payments[8] per month using at least 69 different general ledger expense accounts. It posted summary level information for the bulk of the payments but entered detailed information for thousands of voided checks directly into the general ledger. The voided checks appeared a number of times in the general ledger, as the Authority needed to reverse its entries in cash and expense accounts. Posting this level of detail directly into so many general ledger accounts made reviewing, analyzing, and reconciling transactions extremely cumbersome. The Authority should use its general ledger as a primary tool to properly manage and oversee its program.

The Authority Did Not Effectively Monitor Its Budgeted Expenses and Revenues

The Authority did not provide documentation to support that it monitored its budgeted or actual expenses. The primary purpose of budgeting is to establish objectives and allocate available resources for individual

[8] Housing assistance and utility reimbursement payments to landlords and clients.

programs and the Authority as a whole. HUD required[9] the Authority to compare budgeted to actual amounts to analyze its performance. Planning and monitoring budgeted and actual revenues and expenses and analyzing differences should be an integral part of the Authority's business operations.

However, the Authority did not have a budget process in place to determine whether its actual revenues and expenses were within budgeted amounts. In addition, it was unable to identify and address why its administrative costs increased by 37[10] percent from 2005 to 2006. Thus, management operated its voucher program without fundamental financial oversight and failed to identify and correct a number of errors in its accounting records that are discussed in this finding.

The Authority Did Not Post to or Reconcile Accounts in a Timely Manner

The Authority did not routinely reconcile its general ledger or bank accounts in a timely manner. In a double-entry accounting system, every transaction is recorded with equal debits and credits so that the equality of the debits and credits may be tested as proof of accurate recording. Periodic reconciliations of the general ledger accounts ensure that equal postings were made. If differences in the balances occur, periodic reconciliation allows for timely correction of errors or omissions. Similarly, timely reconciliation of the bank accounts serves to detect and correct errors. The Authority did not reconcile its accounts, post transactions, or void outstanding checks in a timely manner. In addition, the general ledger contained duplicate and unexplained accounts.

<u>The Authority Did Not Post or Reconcile to Its General Ledger in a Timely Manner</u>

The Authority did not routinely reconcile its general ledger accounts and continued to make entries after year-end. For example, it did not record January 2005 bank deposits in its general ledger cash account until January 2006. In total, it did not record more than $45 million in transactions to this account until after year-end. As a result, it had inaccurate year-end balances in its general ledger accounts. If the Authority had routinely reconciled its general ledger, it should have identified and corrected these errors and omissions.

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9 24 CFR 85.20(b)(4).

10 The Authority's administrative expenses increased from $9,066,681 in 2005 to $12,448,033 in 2006.

The Authority Did Not Perform Bank Reconciliations in a Timely Manner

The Authority did not perform bank reconciliations in a timely manner, sometimes up to one year late. For example, a reconciliation of a January 2006 bank statement was dated January 4, 2007. Reconciling bank statements is an important element of fiscal responsibility that helps to ensure that the general ledger reflects accurate and complete financial information. The Authority maintained three bank accounts for its voucher program: a transfer account that received program funds from HUD, a direct deposit account used for electronic vendor payments, and a checking account used for traditional vendor payments.

Management neglected to establish written policies or provide training for employees to follow in performing the bank reconciliations. As a result, the reconciliations appeared to have been performed on a trial and error basis in many instances. For some monthly bank statements, employees performed multiple reconciliations with different results and no indication of the correct one. For example, the Authority had 11 reconciliations of the June 2006 bank account, dated between November 2006 and January 2007, with no indication of which, if any, was correct.

As another example of this poor control over its assets, the Authority's bank records showed that a check drawn on the Dallas Independent School District's account cleared through the Authority's checking account in January 2007. The bank did not identify the error, and the payment was not discovered until December 2007, when the Authority reconciled its January 2007 bank statement. The Authority must routinely reconcile its bank statements for all accounts on a timely basis to ensure that its records accurately reflect cash balances and that transactions posted to its accounts are valid. If management had properly reviewed and approved bank reconciliations it should have known these problems existed and corrected them.

Management Did Not Properly Account For Outstanding Checks

Management did not properly account for outstanding checks, resulting in inaccurate general ledger account balances. In January 2007, it had 6,087 outstanding checks on its voucher program checking account totaling $906,553. Of this amount 5,186 checks totaling $648,530 were outstanding more than 60 days. It issued these checks between January 2004 and December 2006.[11] The checks state that they are "void after 60 days." As a prudent business practice, the Authority should void outstanding checks if they are not presented for payment within a reasonable period. It should reclassify the outstanding obligations in

[11] One check was dated January 2002.

accordance with generally accepted accounting principles and state law; thus, putting the $648,530 to better use.

<u>The General Ledger Contained Unexplained and Duplicate Accounts</u>

The general ledger contained the following unexplained accounts that had significant balances:

Table 1: Unexplained accounts

Account number	General ledger account description	Account balance
851-281000	Unreserved Surplus	$704,710,574
851-284000	CUM HUD	698,693,851

The Authority's finance staff could not explain what these accounts represented. The Authority is required to report accurate and valid data to HUD. In its response, the Authority stated the accounts represented an antiquated method of accounting for the reserves.

The Authority's general ledger also had a number of duplicate accounts. As shown below, the Authority had five different accounts in the general ledger for the same purpose:

Account number	General ledger account description
851-112938	Port Receivable
851-112985	Rec. – Port Vouchers
851-112986	Portable Receivable
851-112987	Portable Rec'able
851-112988	AR-Port Vouchers

Of these five accounts, the Authority only used two consistently during the audit period. The other three accounts appeared to be unnecessary. The Authority acknowledged that it had duplicate accounts within its general ledger. This condition occurred because staff members in two different departments created new accounts rather than using existing accounts. The ability to create new accounts should be limited to a few key personnel with required supervisory approval. This practice would not only reduce the likelihood of duplicate accounts but also should improve the ability to reconcile balances, reduce the likelihood of errors, and reduce the opportunity to create fictitious vendor accounts. According to the Authority, it recently reduced the number of accounts from 62,000 to about 12,000 to eliminate the unnecessary accounts. The Authority needs to establish controls[12] over creating and maintaining general ledger accounts, including supervisory approval and documentation of changes.

[12] The controls should include written policies and procedures relating to its chart of accounts.

Data Transferred between Systems Were Unreliable and Unverified

The Authority's method of transferring data between its two software systems resulted in unreliable and inaccurate data. The Authority used two different software systems to record transactions, maintain its general ledger, and compile its financial reports. It had a number of errors and omissions when it transferred data between systems, including inaccurate and unverified postings of expenses, improperly recorded checks, and "bad date checks." Although management knew of ongoing problems with the data transfers, it did not take appropriate actions to resolve the underlying issues or ensure the validity of the data.

Postings of Program Expenses Were Inaccurate and Unverified

The Authority posted program expenses to the general ledger without ensuring the validity or accuracy of the data, as shown in table 3.

Table 2: January 2006 payments from direct deposit account

General ledger account description	Debits	Credits
DHA Sec 8 DD	$7,433,506	
S8 HAP Vendor checks 01/06	237,089	
S8 HAP Vendor checks 01/06		$7,543,181
Unknown[13]		127,422

The debit of $237,089 and the credit of $7,543,181 were both posted to the general ledger automatically during the data transfer. However, Authority finance staff did not validate the amounts or make any determination regarding their accuracy. The Authority posted more than $120 million to its general ledger in this manner in 2006. The Authority's finance staff should perform some level of independent verification of financial transactions and the propriety of data in general. Since the Authority was aware of problems with the data transfers, it should have taken additional steps to ensure that amounts were accurate.

Checks Were Improperly Recorded

On more than one occasion, the Authority had discrepancies between checks recorded and checks issued that it could not explain. Since it prepared checks as part of an automated process and used preprinted check stock, these discrepancies should not have occurred. For example,

[13] The Authority's general ledger did not have an account description for this transaction.

- In August 2006, the Authority recorded check number 451702 for $6,039 to one vendor. However, the check was issued to a different vendor in the amount of $58,216. Although the check cleared the Authority's checking account in the amount of $58,216, the general ledger continued to show the inaccurate amount and vendor.
- In October 2006, the Authority recorded a series of 10 checks to 10 vendors totaling $6,331. However, it issued the checks to 10 different vendors for $8,310. When vendors presented the checks for payment, the Authority's bank did not honor them.[14] However, the Authority did not void the 10 checks in its general ledger until August 2007, almost a year later.

The Authority could not provide an explanation for these errors. However, Authority staff indicated that these types of errors were not uncommon. These errors, combined with other errors discussed in this report, further distorted the Authority's financial records for fiscal years 2005 and 2006. As previously discussed, if the Authority had reconciled its accounts in a timely manner it should have discovered these errors. The Authority should also determine how these errors occurred and implement necessary controls to prevent their recurrence.

"Bad Date Check" Errors Occurred

The data transfers between software systems caused other errors in the general ledger, referred to by the Authority as "bad date checks." The Authority's bank reconciliations showed a number of adjusting entries with this description. Examples include the following:

- Checks totaling $7,779 in January 2006 were correctly recorded in one system, but during the data transfer, the check dates changed, and the amounts were not recorded in the general ledger, resulting in understated expenses in the general ledger. The Authority did not correct this error until December 2006.
- A series of voided checks posted in one system in March 2005 did not post to the general ledger during the data transfer. Thus, the March 2005 general ledger was overstated by at least $5,200. In March 2006, the voided checks appeared in the general ledger without explanation.
- Voided checks in August 2005 totaling $26,829 did not post to the general ledger during the data transfer because the check dates were changed to May 2008 during this process. Thus, the Authority's voucher program expenses for August 2005 were overstated. The Authority did not correct the error until December 2006.

[14] When the Authority prepared checks, it uploaded a file to the bank listing the individual checks and amounts. For the bank to honor the check, it must match the list sent to the bank. Since the file provided for these checks contained different amounts, the bank rejected them. However, this process did not prevent the bank from honoring the $58,216 in August 2006.

Since thousands of similar entries were made annually in the general ledger, it was unknown how many of these types of errors occurred during the data transfers. Further, since the Authority did not reconcile or validate the amounts posted during this process, it could not provide assurance that these types of errors were not widespread and undetected. The Authority must implement controls to ensure the accuracy and reliability of its data transfers.

Training Staff, Segregation of Duties, and Supervisory Approvals Were Lacking

In addition to having no written policies and procedures, many of the Authority's voucher program accounting staff who performed day-to-day accounting functions did not have formal accounting training. Also, management did not adequately segregate some duties. Further, there was no evidence that supervisory approvals or authorizations were required or consistently performed. For example, one staff member with no formal training in accounting received direct deposit payment data from another department, made unsupervised adjustments to it, and transmitted the adjusted data to the bank for processing electronic payments to vendors.

In addition, the Authority assigned the same employee the task of reconciling the bank statements for the direct deposit account. The Authority typically made more than $7 million in housing assistance payments through this account each month. It did not maintain supervisory review or approval of these activities, such as including initials on the adjusted data or bank reconciliations. This lack of training and supervision, coupled with failure to observe the basic safeguard of segregation of duties, exposed the Authority to greater risk of error and misappropriation of assets.

Inaccurate Reporting of Expenses to HUD Could Reduce Program Funding

Because of the deficiencies addressed throughout the finding, the Authority did not maintain accurate or consistent information on the funds received from HUD and funds it expended to house voucher program families. Its inaccurate records could result in reduced funding and perhaps deprive eligible program recipients of housing assistance. HUD collects leasing and cost information from the Authority through its Voucher Management System (VMS) and uses the data to determine future funding for the Authority. For fiscal years 2005 and 2006, the Authority recorded different amounts in its records than it certified to HUD via VMS as shown in table 3.

Table 3: Amounts in Authority's records versus amounts reported to HUD[15]

Description	Fiscal year 2005	Fiscal year 2006	Totals
Program revenue in the Authority's general ledger	$134,117,534	$140,108,275[16]	$274,225,809
Program expenses in the Authority's general ledger	132,387,195	117,207,745	249,594,940
Program expenses reported in VMS and certified by the Authority as correct	131,459,710	122,768,945	254,228,655
Program funds provided by HUD	141,216,484[17]	145,452,957	286,669,441
Unsupported[18]	**$9,756,774**	**$22,684,012**	**$32,440,786**

Although the Authority reported different amounts for the voucher program expenses it incurred, it could provide no assurance that any of the amounts were correct. The only verifiable amount in table 3 was the program funding provided by HUD. According to the Authority, it recorded its program funds as unearned revenues until it expended the funds, at which time it recorded the funds as revenues. Thus, cumulative revenue and expense balances should equal.

The Authority reported $254 million in expenses in VMS while it received $286 million in voucher program funds from HUD in 2005 and 2006.

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15 The amounts do not include administrative fees.

16 This number includes an additional $20,403,581 the Authority posted to its general ledger revenue account in December 2006.

17 This includes $3,789,252 received from HUD for portability tenants in 2005. The Authority did not agree that the amount should be included.

18 Unsupported amounts represent the difference between housing assistance payment expenses reported in VMS and housing assistance payments provided by HUD.

HUD required the Authority to maintain an undesignated fund balance account in accordance with generally accepted accounting principles[19] to account for the $32.4 million difference. The Authority needs to ensure that its undesignated fund balance includes the $32.4 million difference and that it expends and accounts for those funds in accordance with HUD requirements.

HUD required the Authority to report leasing and financial data via VMS accurately and in a timely manner.[20] Since March 2007, HUD has attempted to verify the Authority's 2006 VMS submission. As of January 9, 2008, the verification had not been completed because the Authority could not support its expenses.

Further, for April through June 2007, the Authority reported voucher program expenses in VMS of about $18.8 million. Other information provided by the Authority's information services department showed that the Authority's voucher program expenses for April through June 2007 totaled more than $31.9 million.[21] In comparison, the Authority reported housing assistance payment expenses of more than $32.6 million and $32.5 million in VMS for the same three months in 2005 and 2006, respectively. Since August 9, 2007, HUD has repeatedly contacted the Authority in writing, notifying it that the VMS submitted amount of $18.8 million did not appear accurate and that its 2008 program funding could be adversely affected if it does not correct the amount.[22] Although the Authority's management was aware of HUD's concerns, as of January 17, 2008, it had not adjusted its VMS submission for April through June 2007.

The Authority's management was responsible for establishing and maintaining effective internal control to ensure reliable and properly recorded financial information. Management's failure to implement these controls could jeopardize its future program funding, hindering its ability to meet its mission to provide affordable housing to low-income families.

Lack of Internal Controls Has Been an Ongoing Weakness

The Authority has repeatedly been informed of its internal control weaknesses. Its independent audit reports[23] for fiscal years 2004 and 2005 contained the following finding:

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[19] Notice PIH 2006-03.

[20] *ibid.*

[21] While these amounts were unverified, the discrepancy demonstrated that the Authority did not provide consistent information about its voucher program expenses.

[22] Notice PIH 2007-14.

[23] Office of Management and Budget Circular A-133 audits performed by KPMG International.

> "The system of internal control as designed and maintained by DHA [the Authority] appears to be inadequate and not operating effectively to reasonably ensure DHA's compliance with Federal laws, regulations, and program compliance requirements."

In addition, the Authority received a number of reviews and correspondence from HUD citing systemic problems related to its voucher program. Despite the Authority's having been informed of its lack of internal controls, management has not corrected the weaknesses. This was further reported in an Office of Inspector General (OIG) report issued in December 2007 that identified questionable financial accounting and reporting regarding its portable vouchers.

Conclusion

By failing to establish a control environment that safeguarded assets and ensured that the voucher program operated effectively and within budget, the Authority created an environment of haphazard recordkeeping and poor stewardship of the funds entrusted to it. Management neglected to establish basic controls over financial reporting, including providing staff with the written policies and procedures and guidance necessary to perform their duties. It also failed to

- Maintain an adjusted trial balance tying is records to its financial statements,
- Maintain subsidiary ledgers,
- Effectively monitor its budgeted expenses and revenues,
- Post to and reconcile its general ledger and bank accounts in a timely manner, and
- Reconcile or validate the amounts posted during automated data transfers.

Many of the Authority's voucher program accounting staff who performed day-to-day accounting functions did not have formal accounting training and management failed to adequately segregate duties. It could not provide evidence that supervisory approvals or authorizations were required or consistently performed.

The Authority has repeatedly disregarded findings of control weaknesses, which allowed the problems to fester, resulting in unreliable financial information and the possibility of reduced program funding for 2008. Due to the Authority mismanaging its program and neglecting to implement corrective action, it is in violation of the terms and conditions of its annual contributions contract and application regulations.

Recommendations

We recommend that the Director of the Fort Worth Office of Public and Indian Housing

1A. Require the Authority to support or repay to its undesignated fund balance account the difference between expenditures reported and funding received of $32,440,786 for fiscal years 2005 and 2006.

1B. Require the Authority to void and properly reclassify $648,530 in outstanding checks, thus putting the funds to better use.

1C. Require the Authority to implement adequate internal controls over its financial management of its voucher program. At a minimum, the internal controls should address the weaknesses cited in this report.

We recommend the Assistant Secretary for Public and Indian Housing

1D. Take appropriate administrative sanctions, up to and including issuing a notice of default in accordance with section 15 of the annual contributions contract for the Rental Certificate and Rental Voucher programs.

SCOPE AND METHODOLOGY

Our objective was to determine whether the Authority had the necessary financial controls in place to operate its voucher program in an efficient, effective, and economical manner. To accomplish our objective, we

- Reviewed relevant criteria;
- Interviewed HUD and Authority management and staff regarding the Authority's financial operations;
- Interviewed KPMG personnel and reviewed KPMG working papers;
- Analyzed and evaluated the Authority's bank records, general ledger, financial statements, and budgets;
- Reviewed relevant Authority personnel files;
- Reviewed financial data from HUD's Voucher Management System;
- Reviewed financial statements from HUD's Financial Accounting and Assessment System; and
- Reviewed HUD monitoring reports.

We conducted the audit in accordance with generally accepted government auditing standards. Our audit generally covered the period January 2005 through December 2006. We expanded the review period as necessary to accomplish our objective. We performed audit fieldwork at the Authority's administrative offices in Dallas, Texas, from July 2007 through January 2008.

APPENDIXES

Appendix A

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

Recommendation Number	Unsupported 1/	Funds to be Put to Better Use 2/
1A	$32,440,786	
1B		$648,530

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 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.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, the amount represents funds that the Authority needs to remit to the rightful owner or reprogram in accordance with generally accepted accounting principles and HUD requirements.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Dallas Housing Authority

Ann Lott
President/CEO

March 3, 2008

Mr. Gerald R. Kirkland
U.S. Department of Housing and Urban Development
Region VI, Office of Inspector General
819 Taylor Street, Room 13A09
Fort Worth, Texas 76102

Delivered Via Email

Subject Matter: Draft Report – Dallas Housing Authority
Housing Choice Voucher Program – Financial Management

Dear Mr. Kirkland:

Enclosed you will find the Dallas Housing Authority's response to the draft report prepared by the Office of Inspector General on the financial management of the agency's Housing Choice Voucher Program.

I greatly appreciate the opportunity to meet with you and your staff regarding this matter. If you have any questions regarding this response, please do not hesitate to contact me at (214) 951-8301.

Sincerely,

Ann Lott

cc: W. Nixon

3939 N. Hampton Rd. Dallas, TX 75212 | Phone: 214.951.8305 Fax: 214.951.8800 | www.dallashousing.org

Comment 1

Dallas Housing Authority

U.S. Department of Housing and Urban Development
Office of Inspector General (HUD OIG)
2007/2008 Audit of the Housing Choice Voucher Program
Concentration Area: Financial Management
Audit Period: January 2005 – December 2006
Dallas Housing Authority (DHA) – Official Response

This document has been prepared and submitted in response to the OIG's draft Audit Report of the Financial Management of the Section 8 Housing Choice Voucher Program (hereinafter the "Draft Report") and the administration thereof by The Housing Authority of the City of Dallas, Texas (hereinafter referred to sometimes as "DHA" and sometimes as the "Authority").

It is the mission of DHA 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 economic independence. The Authority takes great pride in providing programs and services that low income families need.

The Dallas Housing Authority appreciated having had the opportunity to discuss the original audit draft in the exit conference held on February 25, 2008. This exercise allowed DHA, OIG auditors, and HUD staff to gain a common understanding of the various items outlined in the summary. The Authority acknowledges that during the audit period there were weaknesses in its internal controls (i.e. outdated program software; newly implemented financial software and the challenges that accompanied the transition; and inadequate or outdated policies and procedures). DHA is making significant improvements in this area, and continues to evaluate and refine its internal controls.

The following pages contain the Authority's response to each component of the original audit summary. In addition, several exhibits have been attached as supporting documentation as a result of the discussion during the exit conference, as well as subsequent conversations between DHA staff and the lead OIG auditor.

Comment 1

Comment 2

1.) MANAGEMENT FAILED TO IMPLEMENT BASIC INTERNAL CONTROLS

DHA will address each "basic internal control" statement that the OIG has listed in the order they were presented in the report. DHA acknowledges and understands that improvements in its internal controls are needed. Business processes are currently being redefined; a new Finance organization chart that clearly separates accounting duties is being implemented; and new job qualifications are being drafted with positions requiring higher skill levels for accountants.

2.) THE AUTHORITY DID NOT HAVE WRITTEN POLICIES AND PROCEDURES

The Authority acknowledges that during the audit period existing policies and procedures were outdated, and a number of process guidelines were communicated only verbally. DHA has since implemented an aggressive plan to effectively document processes and procedures agency wide. The exercise of documenting processes will be captured at the departmental level, and drilled down to the worker's specific functions. The information will be compiled in a "Desk Manual". The manual will fully explain in detail how to perform the daily, weekly, monthly, quarterly and yearly tasks associated with the worker's area of responsibility. Exhibit A reflects the Section 8 Accounting information that will be included in the desk manual. Annual reviews of the policies and procedures will be conducted by the Compliance department.

3.) THE AUTHORITY DID NOT HAVE AN ADJUSTED TRIAL BALANCE

DHA provided an adjusted trial balance for both FY 2005 and FY 2006 at the exit conference. FY 2005 and FY 2006 adjusted trial balances are shown in Exhibit B and Exhibit C, respectively. The lead auditor met with the CFO the day following the exit conference and was shown how the trial balance is obtained from the Great Plains accounting application.

The lead auditor further clarified that it was necessary to validate the year-end numbers in Great Plains to the trial balance provided to KPMG and Yeager and Boyd, independent auditors for the 2005 and 2006 audit periods, respectively. Exhibit D reflects the trial balance extracted from Great Plains for FY 2005 and FY 2006. A sample size of Exhibit D was reconciled with the adjusted trial balance provided from the independent auditors (Exhibits B and C). The Authority acknowledges that during the course of the audit, DHA staff members did not provide some of the reports requested by the OIG auditor. As a result, documentation provided during the exit conference has also been included in this report.

4.) THE AUTHORITY DID NOT MAINTAIN SUBSIDIARY ACCOUNT LEDGERS

DHA concurs with the OIG's observation and documented example. Microsoft Great Plains accounting application has greatly enhanced the functionality of the accounting processes for the Authority. DHA recognizes the data in the general ledger is detailed and makes auditing difficult. The general ledger can be summarized for audit purposes.

5.) THE AUTHORITY DID NOT EFFECTIVELY MONITOR ITS BUDGETED EXPENSES AND REVENUES

Comment 3

DHA provides a budget-to-actual financial Section 8 report to the Board of Commissioners on a monthly basis. DHA failed to provide these reports to the lead auditor. Attached as Exhibit E are the monthly reports. Additionally, DHA created reports which reflect the utilization of Housing Assistance Payments (HAP) as well as break-out the Administrative and HAP reserves. Copies of these reports were distributed at the exit conference. During the audit, the Authority did not provide a report that reflected why there was a 37% increase between FY 2005 and FY 2006. The report outlining the increase is attached as Exhibit F.

6.) THE AUTHORITY DID NOT POST TO OR RECONCILE ACCOUNTS IN A TIMELY MANNER

Comment 1

The Authority acknowledges that during the audit period there were weaknesses in its internal controls (i.e. outdated program software; newly implemented financial software and the challenges that accompanied the transition; and inadequate or outdated policies and procedures). DHA has made improvements in this area, and continues to evaluate and refine its internal controls.

Comment 4

All outstanding checks have been voided and properly reclassified. Additionally written procedures have been developed outlining process for handling voided checks.

In the fourth quarter of 2007 action was taken to establish a new database in Great Plains that eliminated duplicate accounts, and trimmed the accounting strings available for use from 62,000 to approximately 12,000. The new database was then launched for FY 2008 and it conforms to HUD-mandated Asset Management Accounting. A crosswalk was built to allow for easy transition for users and auditors of the product between FY 2007 and FY 2008. Further design enhancements by in-house experts have led to restrictions regarding established verbiage that populates the description field; and the creation of account strings that are not defined in the segment tables. These two changes will prevent the proliferation of accounts with inconsistent descriptions. The Authority has developed procedures (Exhibit G) for the creation of account numbers, and Great Plains has been restricted to allow three designated staff members to establish new account numbers.

The audit report cites an example of unexplained accounts that merits clarifying information. The accounts displayed in the chart on page 11 represented HUD's old chart of account numbers and the staff questioned were unfamiliar with these accounting descriptions which date back to the 1990's. The explanation for those accounts is highlighted in HUD Guidebook 7510.1 (Exhibit H). GASB 34 (Exhibit I) changed those accounts to what is now reflected in the Real Estate Assessment Center (REAC) Financial Data Schedule (FDS) (See Exhibit J highlighted in yellow). Under the old HUD guidelines account number 2810 was the perpetual accumulator of income minus expenses while account number 2840 was the perpetual accumulator of HAP reserves. Since HUD retained the HAP reserves on HUD's books, the housing authority was required to also maintain the balance. The two numbers netted out to the administrative reserves as reflected on the general ledger. Corrective action has been initiated to update the accounts in question by reclassifying the accounts in accordance with GASB 34.

7.) DATA TRANSFERRED BETWEEN SYSTEMS WERE UNRELIABLE AND UNVERIFIED

Comment 5

As noted previously, DHA has experienced challenges integrating its data from PROCOMM (DHA's current DOS-based program software) to Great Plains. The data validation method used in FY 2005 and FY 2006 and witnessed by the OIG auditors was changed in FY 2007 with a new detailed report design. The Authority has the ability to use MS ACCESS to view the integrated data after it is posted in Great Plains. DHA is updating to a windows-based application in August 2008. The new software will alleviate the problems identified by the OIG.

Comment 6

During the Audit period, the Authority's outdated printer jammed frequently resulting in interruptions in the month end HAP check run. When the printer error was cleared and the print job resumed, the data in the spool was out of sequence with the check stock feeding into the printer causing the type of error cited in the report.

Comment 7

In October 2006, the Authority purchased a new high speed printer that has the capacity to handle high volume print jobs required for the monthly HAP check run. DHA also changed its check stock so that if an interruption occurs in the print job the data in the spool will not get out of sequence with the check stock feeding into the printer. After the monthly HAP cycle is complete, staff reviews a report to identify any discrepancy. Additionally, monthly reconciliations are performed to catch this type of error in a timely manner. To reduce the volume of checks being generated, the Authority now requires new landlords to establish direct deposit for HAP payments.

Comment 6

As it pertains to "bad date checks" referred to in the report, the Authority experienced software system failure in which data from the program area did not integrate seamlessly into the financial software. DHA hired a consultant and this integration error has been corrected.

Comment 1

Comment 8

8.) **TRAINING STAFF, SEGREGATION OF DUTIES, AND SUPERVISORY APPROVALS WERE LACKING**

The Authority acknowledges that during the audit period, documentation of staff training and supervisory approvals were inadequate. DHA is taking action in all the areas described in the topic statement. The Authority provided the OIG with a chart that reflects the new organizational structure that is currently being implemented. Along with the new organizational chart will be new position descriptions, stricter requirements to hold each position accountable for established performance measurements, and streamlining of functions. Segregation of duties will be defined to ensure adequate internal controls.

New forms are being designed and will be used to process manual general ledger entries. The forms will require the initials of the originator, the reviewer, and the person that enters and posts the journal voucher. Standardized forms will be created to perform reconciliations of bank statements and balance sheet accounts.

On-the-job training (OJT) records will be created for each employee that details the training required for them to perform their job in a satisfactory manner. Both the employee and their supervisor will initial records for all training provided.

9.) **INACCURATE REPORTING OF EXPENSES TO HUD COULD REDUCE PROGRAM FUNDING**

DHA recognizes the importance correctly reporting accurate information in HUD's Voucher Management System (VMS). DHA has redefined its process and trained staff in tracking the data from PROCOMM and Great Plains that is used to upload into VMS. Implementation of new software will eliminate this challenge and will perform VMS calculations within the software application.

The Authority presented documents at the exit conference that reflected variances in the amounts presented in the OIG draft report chart on page 15 of the original audit summary. Exhibit K replicates the chart presented by the OIG with amounts that came directly from the trial balance in Exhibit D. The footnotes in Exhibit K explain the entries in all cells. The OIG had further concerns that DHA could not fully support the reserves being shown in Exhibit K. DHA reviewed bank and investment statements in FY 2005 and FY 2006 and determined the detail on those documents did not segregate Section 8 funding. DHA uses a general fund approach to cash as allowed by HUD. DHA established a Section 8 zero balance account to further demonstrate its election to use the general fund approach to cash.

HUD guidebooks and PIH notices support the pooling of cash to increase the rate of return on investments. DHA uses an interfund account to monitor the cash "due from" and "due to" each fund. Both the FY 2005 and FY 2006 CAFR's reflect the amounts in all interfunds with liquidity available to clear the interfunds when necessary or required.

In FY 2007, DHA clearly separated the Section 8 funds from the general fund in the investment account. DHA has provided Exhibit L which is a snap shot of the Section 8 January 2008 investments in its MBIA account. The total amount invested and cash equals $32,121,159. This supports the difference between expenditures reported and funding received for FY 2005 and 2006. The Authority will reclassify its reserves from unrestricted to restricted.

10.) LACK OF INTERNAL CONTROLS HAS BEEN AN ONGOING WEAKNESS

Comment 1

The Authority acknowledges that during the audit period there were weaknesses in its internal controls (i.e. outdated program software; newly implemented financial software and the challenges that accompanied the transition; and inadequate or outdated policies and procedures). Over the last three years, DHA has made improvements in this area, and continues to evaluate and refine its internal controls.

Some of the advances made by the Authority include:

Fiscal Year 2004

- DHA upgraded its financial software to Great Plains

Fiscal Year 2006

- DHA hired key leadership staff including a Vice President of Leased Housing, Vice President of Information Services, Vice President of Compliance

Fiscal Year 2007

- DHA created a new Cost Allocation Policy, Budgeting Policy/Procedure, Portability Procedure, and a Voucher Management System Procedure
- DHA hired a new Chief Financial Officer
- DHA purchased a windows based software for its Housing Choice Voucher and Public Housing Programs (both areas will go live in August 2008)
- DHA sent key staff to participate in several financial management seminars including the Section 8 Voucher Management System workshop
- The Leased Housing department implemented a reorganization to increase the effectiveness of the administration of the voucher program

Fiscal Year 2008

- DHA created an Internal Control Policy, along with various desk manuals
- DHA created a procedure for financial management of its Section 8 program
- The Finance department began implementing a reorganization to improve the Authority's overall financial management

OIG Evaluation of Auditee Comments

Comment 1 The Authority acknowledged that they did not have sufficient policies and procedures during the audit period. The Authority asserts that it has or will implement improved procedures to correct deficiencies. Our audit did not evaluate changes implemented subsequent to our audit period. The Authority should work with HUD to implement the recommendations.

Comment 2 The Authority's response referenced an adjusted trial balance provided at the exit conference. However, the document provided did not reflect the relationship between the year-end balances in the general ledger and the financial statements. For example, the general ledger reflected an ending cash balance of ($653,488) for 2005; whereas, the document provided by the Authority for the same period reflects a cash balance of $65,371. The Authority did not provide documentation to reconcile the general ledger to the adjusted trial balance provided at the exit conference.

Comment 3 We modified the report to reflect additional information provided at the exit conference. While the Authority did provide additional information detailing the administrative revenues and expenses, it did not provide an explanation of the causes and actions taken to correct the 37 percent increase in administrative expenses between 2005 and 2006. During the exit conference, Authority officials stated that the budgets, along with any overages, were provided to the board on a periodic basis and provided recordings as evidence. The recordings contained the initial adoption of the 2006 housing choice voucher program. However, the recordings did not have discussions of the expenses or variances. The Authority should followup on variances on its budget to actual reports.

Comment 4 The Authority asserts it has taken actions of voiding and properly classifying outstanding checks, reducing accounts, and limiting the creation of new accounts. These actions should have positive impact on the management and operation of the Authority. The Authority will need to submit evidence of implementation to HUD for verification.

Comment 5 The Authority should continue to modernize its accounting system and accounts to ensure compliance with requirements and standards.

Comment 6 The Authority's response did not adequately address what caused the improperly recorded checks cited in the report. While the Authority explained how it solved a problem with its check printer, the checks cited in the report were not caused by this check printer error, and the Authority did not provide a plausible explanation for how this occurred.

Comment 7 The Authority's statement to require future landlords to utilize direct deposit can improve the management and efficiency of its operations. We would encourage the Authority to require existing landlords to utilize direct deposit to further reduce the use of paper checks.

Comment 8 We did not change the amounts in the report table or conclusions formed. We did modify the section as needed to further clarify. The Authority provided some evidence in its response that it is currently segregating the net assets of its housing choice voucher. However, we did not audit the details of the evidence as they were outside our audit period. The Authority must comply with HUD requirements including Notice 2006-03. Specifically, the Authority must be able to differentiate housing assistance payment equity (budget authority in excess of housing assistance payment expenses) from Administrative Fee equity (Administrative Fees earned in excess of administrative costs). The Authority must work with HUD to ensure it enters accurate, reliable data into VMS in a timely manner. Additionally, the Authority's calculation of its undesignated fund balance did not include an opening balance, prior to January 1, 2005, or subsequent to December 31, 2006.