Issue Date April 24, 2008	
Audit Report Number 2008-AT-0002	

TO: Deborah Hernandez, Deputy Assistant Secretary for Field Operations, PQ

FROM: James D. McKay

James D. McKay, Regional Inspector General for Audit, 4AGA

SUBJECT: The Miami Dade Housing Agency, Miami, Florida, Did Not Maintain Adequate Controls over Its Capital Fund Program

HIGHLIGHTS

What We Audited and Why

We audited the Miami Dade Housing Agency (Agency) capital fund program in response to a request from the Deputy Secretary of Housing and Urban Development. Our objective was to determine whether the Agency had adequate controls to ensure that contracts were awarded in accordance with regulations and U.S. Department of Housing and Urban Development (HUD) requirements.

What We Found

The Agency did not have adequate controls to ensure that contracts were awarded in accordance with regulations and HUD requirements. It did not maintain documentation supporting that contracts were awarded with full and open competition. This condition occurred because the Agency did not have effective internal controls for documenting the procurement process and disregarded federal procurement requirements. As a result, it could not ensure that more than $12.1 million for contract payments was awarded through full and open competition and that the costs were reasonable.

The Agency did not properly support multiple drawdowns of capital funds. It drew down capital funds from HUD to reimburse itself for expenses associated with 2003 and 2004 capital fund program grants. It then transferred these expenses to close out a 2002 capital fund program grant and drew down additional capital funds from HUD using these same expenses as justification. It could not provide documentation to support that HUD was reimbursed for the excess funds used to close out the grant. This condition occurred because the Agency did not have effective controls in place to track excess funds that needed to be returned to HUD. As a result, we have no assurance that excess funds of more than $1.8 million were repaid to HUD.

What We Recommend

We recommend that HUD require the Agency to (1) provide supporting documentation to justify the eligibility and reasonableness of more than $12.1 million disbursed for five contracts and to Miami Dade County (County) for seven transactions or reimburse the capital fund program more than $2.2 million and the HOPE VI program almost $9.9 million from nonfederal funds, (2) ensure that federal procurement requirements for maintaining supporting documentation are implemented and enforced, and (3) ensure that any services obtained through the County are purchased in compliance with federal procurement requirements.

In addition, HUD should require the Agency to (1) provide documentation to support that the excess drawdown of more than $1.8 million was returned to HUD or reimburse the capital fund program from nonfederal funds; (2) develop a system to track excess drawdowns and reimbursement of capital funds to HUD and maintain supporting documentation for both; (3) hire an independent accounting firm to reconcile capital fund program grants between HUD's Line of Credit Control System and the Agency financial system; and (4) incorporate the tracking system, maintenance of supporting documentation, and the reconciliation of capital fund program grants into existing procedures.

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 Response

We discussed the findings with your representative during the audit. We also provided your office a draft report on March 7, 2008, and discussed the report with you and your representative at the exit conference on March 20, 2008. You provided written comments to our draft report on March 24, 2008. In your response, you generally agreed with the findings.

Your response and our evaluation of the response are included in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Miami Dade Housing Agency (Agency) is the Miami Dade County (County) departmental unit that owns, operates, or controls almost 10,000 units of public and other assisted housing within Miami Dade County, Florida. The Agency's objective is to provide low- and moderate-income residents with quality, affordable housing opportunities. The Agency is managed by an executive director and reports directly to the county manager, who reports to the mayor and a 13-member board of County commissioners.

The U.S. Department of Housing and Urban Development (HUD) awarded the Agency 14 capital fund program grants valued at $87 million for fiscal years 2002 through 2006. These funds were to enable the Agency to improve the physical condition and to upgrade the management and operations of existing public housing developments to assure their continued availability for low-income families. HUD also awarded the Agency a $4,697,750 HOPE VI program grant in 1998 to develop Ward Towers and a $35 million HOPE VI program grant in 1999 to revitalize the Scott/Carver Homes public housing developments.

The Agency has come under increased scrutiny since 2005 when various newspaper articles and reviews highlighted Agency problems. *The Miami Herald* published a series of articles alleging that the Agency had insider deals, pet projects, and wasteful spending. The Miami Dade County Office of the Inspector General reported problems with contracting and management reporting accuracy. HUD also requested an independent external forensic audit of the Agency that disclosed problems with business practices, financial management, and development funds.

The Deputy Secretary of Housing and Urban Development requested that we conduct an audit of the Agency. We reviewed the capital fund program to determine whether the Agency had adequate controls to ensure that contracts were awarded in accordance with regulations and HUD requirements.

The issues identified in our report deal with internal control activities that we feel are necessary to bring to HUD's attention now. Other matters regarding contractors may remain of interest to our office as well as other authorities. Release of this report does not immunize any individual or entity from future civil, criminal, or administrative liability or claim resulting from future action by HUD and or other authorities.

RESULTS OF AUDIT

Finding 1: The Agency Did Not Maintain Adequate Supporting Documentation for Contracts

The Agency did not maintain documentation to support that five contracts were awarded with full and open competition and did not ensure that a cost analysis was obtained before receiving County services. This condition occurred because the Agency did not have effective internal controls for documenting the procurement process and disregarded federal procurement requirements. As a result, it could not ensure that it paid more than $12.1 million for contracts that were awarded through full and open competition and that the costs were reasonable.

Federal Procurement Requirements Not Followed

Regulations at 24 CFR [*Code of Federal Regulations*] 85.36 require the Agency to maintain records detailing the significant history of a procurement transaction, including that it conducted the procurement using full and open competition and that it determined that the cost was reasonable. The regulations also encourage the Agency to enter into local intergovernmental agreements to foster greater economy and efficiency. HUD Procurement Handbook 7460.8, which sets forth procedural requirements of 24 CFR 85.36, states that the Agency can noncompetitively enter into these intergovernmental agreements after comparing the cost to the open market.

The Agency paid $32 million in capital funds between October 1, 2002, and April 30, 2007, to 291 contractors and County departments. We selected 12 contractors and 10 County payments totaling more than $1.9 million to review. We also reviewed an $833,200 capital fund loan and HOPE VI payments and a HOPE VI loan totaling more than $9.8 million to three of the 12 contractors.

The Agency did not maintain documentation to support contract payments to five contractors and seven County capital fund payments. Specifically, the Agency did not maintain documentation to support that five contracts were awarded with full and open competition and did not ensure that a cost analysis was obtained before receiving County services.

- The Agency was unable to provide sufficient documentation to support its selection of the MDHA Development Corporation to develop Ward Towers. Because Ward Towers was a mixed-finance project, it was subject to federal procurement regulations at 24 CFR

941.602, which require the Agency to select a developer based on competitive bidding or qualifications or a HUD-approved alternative noncompetitive method. We requested several times that the Agency provide documentation to support its selection of the MDHA Development Corporation, but it was never provided to us. As a result, since this project involved multiple HUD funding sources, we considered $343,054 paid in 2005 with capital funds and $455,376 paid in 2006 with HOPE VI funds by the Agency to MDHA Development Corporation to be unsupported costs. We also considered two loans in 2003 of $833,200 in capital funds and more than $4.2 million in HOPE VI funds from the Agency to the MDHA Development Corporation to be unsupported costs.

- The Agency was unable to provide sufficient documentation to support that a cable installation and security equipment County-wide contract was competitively awarded. The County provided the Agency with a list of prequalified contractors, and the Agency then evaluated contract proposals. The Agency maintained some historical documentation but could not locate its proposal evaluations to support that fair and open competition occurred. As a result, we considered $30,182 paid in 2004 and 2005 with capital funds by the Agency to the contractor to be unsupported costs.

- The Agency was unable to provide sufficient documentation to support a temporary employee County-wide contract. The Agency stated that the documentation was sent to the County's central records retention office. We did not find any documentation supporting the administration of this contract. Because there was no documentation to support this contract, we considered the $9,062 paid in 2002 and 2003 with capital funds by the Agency to the contractor to be unsupported costs.

- The Agency was unable to provide sufficient documentation to support that a program management and relocation service contract for Scott/Carver Homes was awarded through fair and open competition. A contractor provided a technical proposal to the Agency for the program management contract that included another contractor who was awarded the relocation service contract for this project. Despite the County attorney indicating that this relationship would be a conflict of interest, the Agency did not disqualify this technical proposal. As a result, since this project involved multiple HUD funding sources, we considered $129,933 paid in 2006 with capital funds and more than $2.8 million paid from 2002 - 2006 in HOPE VI funds by the Agency to the contractor for the program management contract to be unsupported costs. We also considered $183,094 paid in 2006 – 2007 with capital funds and more than $2.3 million paid from 2001 – 2005 in HOPE VI funds by the Agency to the contractor for the relocation service contract to be unsupported costs.

The Agency was also unable to provide sufficient documentation to support that costs for County services were reasonable. It did not ensure that a cost analysis was obtained before receiving County services. We reviewed 10 capital fund payments from the Agency to the County for these services. The Agency was not required to obtain a cost analysis for three payments because the services could not be provided by commercial sources. It was required to obtain a cost analysis before receiving services and making the other seven payments to the County but was unable to provide sufficient documentation to support that the costs were reasonable. As a result, the Agency could not ensure that seven capital fund payments totaling $739,264 to the County were reasonable.

Security alarm system and security guards **–** The Agency paid the County for security guard services and alarm systems. The County did not have documentation available for most security guard services because the services involved outdated contracts, and some supporting documentation provided to us was incomplete. The County did not provide us with the bid evaluation for security alarms because it did not involve a county contract. As a result, we considered $273,684 paid in 2005 with capital funds by the Agency to the County to be unsupported costs.

Capital working fund services **–** The County provides various services to its departments including the Agency. The Agency provided us with the analysis of the distribution of this cost among County departments. The County's distribution of this cost is based on the number of projects administered by each department. However, the Agency did not provide us with an analysis that would enable us to compare the cost charged by the County against commercial sources to determine its reasonableness. As a result, we considered two capital fund payments in 2006 totaling $360,000 from the Agency to the County to be unsupported costs.

Capital supporting function **–** The County provides various services to its departments including the Agency. Despite repeated attempts, the County and the Agency did not provide us with (1) an analysis that would enable us to compare the cost charged by the County against commercial sources to determine its reasonableness and (2) the distribution of this cost among County departments. As a result, we considered $41,000 paid in 2004 with capital funds by the Agency to the County to be unsupported costs.

Standard fee for architectural and engineering services **–** The Agency directed us to the County department responsible for providing these services. This department informed us that it was unaware that the County had ever contracted for these services with an outside vendor. The County was unable to provide us with a cost analysis, and as a result, we considered $30,000 paid in 2004 with capital funds by the Agency to the County to be unsupported costs.

Advertisement - The County informed us that the Agency was allowed to advertise in select newspapers determined by the County. The County was unable to provide us with an explanation of how the newspapers were selected or the bid evaluation. As a result, we considered $18,250 paid in 2003 with capital funds by the Agency to the County to be unsupported costs.

Fleet management – Because of the volume of transactions and the variety of services we reviewed, it was not possible for the County to provide us with a cost analysis. The County did provide us with a sample cost analysis of the various services but did not provide us with a comparison against commercial services to determine its reasonableness. As a result, we considered $16,330 paid in 2004 with capital funds by the Agency to the County to be unsupported costs.

These deficiencies occurred because the Agency did not have effective internal controls for documenting the procurement process and disregarded federal procurement requirements. Agency procurement procedures required the departments that requested the procurement to maintain supporting documentation for service contracts and provide backup copies to the procurement office. For the cable installation and security equipment County-wide contract, neither the requesting department nor the procurement office was able to find the supporting documentation. For the temporary employee County-wide contract, the Agency initially informed us that supporting documentation was sent to the County for destruction, but later the Agency informed us that the documentation had not been destroyed and was at the County's central records retention office. As indicated above, we reviewed the records maintained at the County's central records retention office and found no documentation supporting the administration of this contract. For the contract with the MDHA Development Corporation to develop Ward Towers, the only supporting documentation provided by the Agency was the development and loan agreements and a budget. However, the Agency later informed us that about 150 boxes of files on this project were stored in a warehouse. For the program management and relocation service contracts for Scott/Carver Homes, the Agency disregarded federal requirements that contracts be awarded based on full and open competition. For the County services, the Agency believed that it was the County's responsibility to maintain supporting documentation because it provided these services. As indicated above, the County departments that provided these services did not maintain documentation supporting that a cost analysis was prepared.

Conclusion

Federal procurement requirements stipulate that contracts be awarded with full and open competition and that the cost of the contract be reasonable. The Agency failed to maintain supporting documentation to comply with these requirements because of ineffective internal controls over documenting the history of a procurement. As a result, we considered more than $12.1 million to be unsupported costs because the Agency could not show that quality goods and services were obtained equitably and at the most advantageous terms.

Recommendations

We recommend that HUD require the Agency to

1A. Provide supporting documentation to justify the eligibility and reasonableness of $12,110,698 disbursed for five contracts and to the County for seven transactions. If sufficient documentation can not be provided, determine whether nonfederal funds are available for the agency to reimburse the capital fund program $2,267,789 and the HOPE VI program $9,842,909. Based upon that determination, require the agency to reimburse the appropriate program account or consider forgiving the recovery of any remaining unsupported amounts.

1B. Ensure that federal procurement requirements for maintaining supporting documentation are implemented and enforced.

1C. Ensure that any services obtained through the County are purchased in compliance with federal procurement requirements.

Finding 2: The Agency's Internal Controls over Capital Fund Drawdowns from HUD Were Inadequate

The Agency did not properly support multiple drawdowns of capital funds. It drew down capital funds from HUD to reimburse itself for expenses associated with 2003 and 2004 capital fund program grants. It then transferred these expenses to close out a 2002 capital fund program grant and drew down additional capital funds from HUD using these same expenses as justification. The Agency did not know the balance of excess fund drawdowns and could not provide documentation to support that HUD was reimbursed for the excess funds used to close out the grant. This condition occurred because the Agency did not have effective controls in place to track excess funds that needed to be returned to HUD. As a result, we have no assurance that more than $1.8 million in excess funds was repaid to HUD.

No Support for Multiple Capital Fund Drawdowns

Regulations at 24 CFR 85.20 require that fiscal control and accounting procedures be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. Regulations at 24 CFR 85.50(d) require the Agency to immediately refund to HUD any unobligated funds that are not authorized to be retained for use on other grants.

In an attempt to reconcile capital fund disbursements between HUD's Line of Credit Control System (LOCCS) and the Agency check database for a 2002 capital fund program grant, we noticed that the final Agency drawdown from LOCCS was $1,801,426. We reviewed the supporting accounting records for this drawdown, which showed that the Agency transferred $1,801,426 in expenses from the 2003 and 2004 grants to close the 2002 grant. We then tested whether the Agency had already drawn down $1,801,426 from LOCCS to reimburse itself for expenses associated with the 2003 and 2004 capital fund program grants. Due to difficulty in obtaining supporting documentation from the Agency, we limited our testing to reviewing 19 checks amounting to $374,467. We compared these checks for the 2004 capital fund program grant against checks used to support drawdowns to close out the 2002 grant. We found that the Agency overdrew HUD funds by using the same checks as support for more than one drawdown.

The former grant accountant told us that the Agency regularly transferred expenses between grants and would again draw down capital funds for those same expenses from LOCCS. To reimburse HUD for the excess drawdowns, he would prepare accounting journal entries to reduce future drawdowns. In addition, Agency officials informed us that they would transfer expenses between grants to close a grant to (1) disburse all funds before disbursement eligibility expired, (2) contain the number of grants that needed to be managed, or (3) obtain a more favorable HUD financial assessment score.

The Agency did not have effective controls in place to track excess capital fund drawdowns that needed to be returned to HUD. The former grant accountant said that he maintained a spreadsheet on his Agency computer, but he could not recall the amounts. Current Agency officials were unable to locate this spreadsheet and said that they were unaware of any remaining balance to be returned to HUD. We asked Agency officials for any other documentation to support any capital fund reimbursements to HUD, but none was provided.

Conclusion

The Agency is permitted to draw down capital funds from HUD to reimburse itself for expenses. The problem arises when the Agency draws down additional capital funds to close a grant using previously reimbursed expenses as justification. This practice of multiple drawdowns becomes even more confusing when the Agency attempts to reimburse HUD by preparing accounting entries to reduce future drawdowns. Because of ineffective financial controls, the Agency was unaware of any amounts owed to HUD. The Agency employee responsible for grant accounting has since retired, leaving no formal accounting records to support whether there was a remaining balance of excess funds and whether HUD was reimbursed for the excess funds used to close out the 2002 capital fund program grant. As a result, we have no assurance that more than $1.8 million in excess funds was repaid to HUD.

At HUD's request, we will perform an additional audit of capital fund expenses.

Recommendations

We recommend that HUD require the Agency to

2A. Provide documentation to support that the excess drawdown of $1,801,426 was returned to HUD. If sufficient documentation can not be provided, determine whether nonfederal funds are available for the agency to reimburse the capital fund program. Based upon that determination, require the agency to reimburse the capital fund program account or consider forgiving the recovery of any remaining unsupported amounts.

2B. Develop a system to track excess drawdowns and reimbursement of capital funds to HUD and maintain supporting documentation for both.

2C. Hire an independent accounting firm to reconcile capital fund program grants between LOCCS and the Agency financial system.

2D. Incorporate the tracking system, maintenance of supporting documentation, and the reconciliation of capital fund program grants into existing procedures.

SCOPE AND METHODOLOGY

Our audit objective was to determine whether the Agency had adequate controls to ensure that contracts were awarded in accordance with regulations and HUD requirements. To accomplish our objective, we

- Reviewed relevant HUD regulations and handbooks;
- Interviewed HUD, Agency, and County officials;
- Reviewed relevant Agency and County policies and procedures; and
- Reviewed Agency and County files and records including contracts, memorandums of understanding, reimbursement packages, and other financial data.

The Agency paid $31 million in capital funds between October 2002 and April 2007 to 291 contractors. We limited our testing to 12 contractors who were paid $1.1 million. We selected the contractors based on the amount of capital fund payments and other factors. In addition, the Agency paid $1 million in capital funds between October 2002 and April 2007 to County departments. We selected for review the 10 largest capital fund payments totaling $850,000 to County departments. In total, we reviewed more than $1.9 million in capital fund contract payments to determine whether they were in accordance with regulations and HUD requirements. We also reviewed HOPE VI funds provided to three contractors.

HUD provided us with a listing of capital fund program grants totaling more than $59 million allocated to the Agency between October 2002 and April 2007. In our attempt to reconcile Agency and HUD capital fund disbursements, we learned that the Agency transferred expenses between grants, which could account for some of the $26.7 million difference. To determine why the Agency transferred expenses between grants, we expanded our audit scope and randomly selected the 2002 capital fund program grant to review. HUD allocated more than $15.3 million to the Agency for this grant, while the Agency reported disbursements totaling more than $8.6 million.

To review capital fund procurements and expense transfers, we examined purchase and work orders, contracts, financial statements, general ledgers, requests for LOCCS drawdowns, accounting journal entries, minutes from board of County commissioners meetings, check vouchers, invoices, and independent public accountant reports.

To achieve our audit objective, we reviewed computer-processed data from the Agency's financial system. We performed limited testing of capital fund expenditure information to include only the Agency capital fund check database. By itself, we consider this database to be unreliable because it does not accurately reflect total capital fund payments for each grant.

The audit generally covered the period October 1, 2002, through April 30, 2007, and we extended the period as needed to accomplish our objective. We conducted our fieldwork from

July 2007 through January 2008 at the Agency office located at 1401 NW 7th Street, Miami, Florida.

We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

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

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Controls over the validity and reliability of data.
- Controls over compliance with laws and regulations.
- Controls over the safeguarding of resources as they relate to the disbursement of capital funds.

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 the following items are significant weaknesses:

- The Agency did not maintain documentation to support that five contracts were awarded with full and open competition and did not ensure that a cost analysis was obtained before receiving County services (see finding 1).

- The Agency's internal controls over capital fund drawdowns from HUD were inadequate (see finding 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported /1
1A	$12,110,698
2A	$1,801,426
Total	$13,912,124

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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

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

OFFICE OF PUBLIC AND INDIAN HOUSING

MAR 24 2008

MEMORANDUM FOR: James D. McKay, Regional Inspector General for Audit, 4AGA

FROM: Deborah Hernandez, Deputy Assistant Secretary, Office of Field Operations, PQ

SUBJECT: Draft Report of Miami-Dade Housing Agency, Miami, FL - Did Not Maintain Adequate Controls Over Its Capital Fund Program

This memorandum serves as my response to the draft audit recommendations related to the OIG review of the Miami-Dade Housing Agency (MDHA) Capital Fund Program. Due to the systemic nature of activities related to the Housing Choice Voucher (HCV) program and financial risks at the agency, including public housing development, operating fund and capital fund activities, HUD moved forward with the highest form of sanction against MDHA, finding the agency in default of the ACCs. The default led to a settlement agreement with HUD taking over possession of the agency for 12 months.

In October 2007, HUD took over management activities of MDHA and is diligently working toward major improvement in financial and management activities. Pursuant to Section C(4) (b) 1-5 of the Work Plan included in the Agreement signed by HUD and Miami-Dade County on October 26, 2007, the HUD Oversight Administrator will review and revise as necessary internal and financial controls at MDHA. The HUD Oversight Administrator is currently receiving direct financial management and technical assistance through a HUD procurement action with Deloitte and Touche. This contract includes activities such as managing the day to day financial activities, reconciliation of financial records and transactions, and implementation of internal controls to include accounting, financial, procurement and other management controls. Upon completion of the work items included in the contract, past deficiencies should be corrected.

Comment 1

There is no disagreement on recommendations 1B, 1C, 2B, 2C, and 2D. These recommendations relate to internal controls, procurement processes and procedures, and Capital Fund program management. PIH will use the 120 day process to further refine specific management decisions and a due date for completion of the recommendations.

With regard to recommendations 1A and 2A, we will agree to disagree. Both recommendations relate to reimbursement of funds to the program from nonfederal sources. When HUD took over the agency, this action officially acknowledged that MDHA had serious and significant management and financial concerns. The ultimate sanction was invoked through

www.hud.gov espanol.hud.gov

the takeover. HUD has a window of opportunity to correct the current and future practices of the agency. HUD will never be able to correct all mistakes from the past, and I ask that you not hold HUD to that standard. At the end of the Agreement, PIH will continue to have a major presence in oversight and monitoring of MDHA, to ensure that the agency does not revert to past practices.

Based on the above actions previously implemented I respectfully request that you remove recommendations 1A and 2A from the report.

Please contact me at (202) 708-4016 should you have additional concerns.

OIG Evaluation of Auditee Comments

Comment 1 HUD did not agree with recommendation 1A and 2A relating to reimbursement of funds to the program from non federal sources. HUD acknowledged that the ultimate sanction they invoked by their takeover of the Agency resulted from serious and significant management and financial concerns. HUD stated that they have an opportunity to correct current and future practices of the Agency, but indicated that they will never be able to correct all past mistakes and requested that we not hold them to that standard. HUD also stated that they will continue to have a major presence in oversight and monitoring of the Agency after the agreement with the County has expired to ensure that the Agency does not revert to past practices.

We considered HUD's comments but concluded that it would be premature to drop recommendations 1A and 2A. The Agency did not provide us with supporting documentation to justify the eligibility and reasonableness of five contracts and seven County transactions, or that an excess capital fund drawdown was returned to HUD. If nonfederal funds are available, we believe HUD has an obligation to hold the Agency accountable for its past practices. However, at this time, HUD is unable to determine whether nonfederal funds are available to reimburse the various program accounts. This inability is the result of the deficiencies that led HUD to take over possession of the Agency. As HUD notes in its response, it has hired an accounting firm to assist in a number of areas including the reconciliation of its financial records and transactions. We recognize the Agency is under HUD receivership and the difficulty addressing current Agency problems. However, we maintain that the costs need to be properly supported or reimbursed with nonfederal funds if available.