Issue Date September 17, 2008	
Audit Report Number 2008-AT-0004	

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 Capital Fund Program Drawdowns

HIGHLIGHTS

What We Audited and Why

We audited capital fund program drawdowns by the Miami-Dade Housing Agency (Agency). Your representative at the Agency requested this audit, because we identified problems with multiple drawdowns of capital funds during our recent audit of the capital fund program. Our objective was to determine whether the Agency used capital fund program drawdowns in accordance with U.S. Department of Housing and Urban Development (HUD) requirements.

What We Found

The Agency did not use capital fund program drawdowns in accordance with HUD requirements.

The Agency's internal controls over capital fund program drawdowns from HUD were inadequate. The Agency drew down $257,253 to close out the 2003 capital fund program grant using the same expenses it used for previous drawdowns. The Agency also drew down from its 2007 capital fund program grant $283,168 more than was supported by expenses. These conditions occurred because the Agency did not have effective controls in place to identify and track excess funds that needed to be returned. As a result, we have no assurance that $540,421 in excess funds was repaid.

Further, the Agency used capital fund program drawdowns to reimburse itself for ineligible and unsupported expenses. The Agency was reimbursed from capital funds for $62,123 that was used for public housing operations and $127,593 that it could not support was used for capital fund activities. It was also unable to provide documentation to support $257,694 in expenses transferred to the 2007 capital fund program grant that had not been reimbursed. These conditions occurred because the Agency did not have effective internal controls in place to ensure that capital funds were used in accordance with HUD requirements. As a result, we consider $62,123 to be ineligible, $127,593 to be unsupported, and $257,694 to be funds that could be put to better use, since the Agency had not been reimbursed for these expenses.

What We Recommend

We recommend that HUD require the Agency to (1) provide supporting documentation showing that the $257,253 excess drawdown was returned to the program or reimburse HUD from non-federal funds, (2) provide supporting documentation for the $283,168 in expenses for the 2007 capital fund program grant or reimburse the capital fund program from non-federal funds, and (3) define the roles and responsibilities of its accountants for the monthly reconciliation of capital fund program grants to HUD records and monitor capital fund drawdowns and excess capital funds. We also recommend that HUD determine and place appropriate restrictions on the Agency's ability to draw down capital funds.

In addition, HUD should require the Agency to (1) reimburse HUD $62,123, (2) provide supporting documentation for $127,593 that it could not support was for capital fund activities and $257,694 transferred to the 2007 capital fund program, and (3) implement and enforce policies and procedures to improve controls over the program.

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 discussed the findings with your representative during the audit. We also provided your office a draft report on July 31, 2008, and discussed the report with you and your representative at the exit conference on August 8, 2008. You provided written comments to our draft report on September 3, 2008, and you generally agreed with the findings and recommendations.

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

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BACKGROUND AND OBJECTIVE

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 U.S. Department of Housing and Urban Development (HUD) awarded the Agency more than $47 million in capital fund program grants for fiscal years 2003 through 2005. These funds were to enable the Agency to correct physical and management deficiencies and to keep public housing units safe and desirable places to live.

On August 7, 2007, HUD announced that the Agency was in substantial default of both its public housing annual contributions contract and its Section 8 consolidated annual contributions contract. The default authorized HUD to take possession of the Agency's public housing and Section 8 assets, projects, and programs. HUD took possession of the Agency on October 26, 2007.

On April 24, 2008, we reported that the Agency did not properly support multiple drawdowns of capital funds. The Agency drew down capital funds from the 2002 capital fund program grant by using expenses that had been used to justify drawdowns from the 2003 and 2004 capital fund program grants. The Agency could not provide documentation to support that HUD was reimbursed for the excess funds. As a result, HUD requested that we perform additional work to determine whether this practice occurred in other capital fund program grants and, if so, how recently. HUD also requested that we determine the eligibility of capital fund program expenses. We reviewed additional capital fund program drawdowns during this audit to determine whether the Agency used them in accordance with HUD requirements.

Our objective was to determine whether the Agency used capital fund program drawdowns in accordance with HUD requirements.

RESULTS OF AUDIT

Finding 1: The Agency's Internal Controls over Capital Fund Program Drawdowns Were Inadequate

The Agency's internal controls over capital fund program drawdowns were inadequate. The Agency drew down $257,253 to close out the 2003 capital fund program grant using the same expenses it used for previous drawdowns. It also drew down from its 2007 capital fund program grant $283,168 more than was supported by expenses. These conditions occurred because the Agency did not have effective controls in place to identify and track excess funds that needed to be returned. As a result, we have no assurance that $540,421 in excess funds was repaid.

The Agency Used Duplicate Expenses to Justify Two Drawdowns

Regulations at 24 CFR [*Code of Federal Regulations*] 85.20 (b)(2)(3) require the Agency to maintain (1) accounting records that adequately identify the source and application of funds provided and must contain information pertaining to liabilities and expenditures and (2) effective control and accountability of cash and other assets to ensure that they are used solely for authorized purposes.

We reviewed 332 drawdowns for the 2003, 2004, and 2005 capital fund program grants to identify expense transfers in which the Agency used the same expenses to justify more than one drawdown from the HUD Line of Credit Control System (LOCCS). We identified 21 drawdowns that involved expense transfers and selected eight for further review. We identified two excess drawdowns from these expense transfers.

The Agency used duplicate expenses to justify a capital fund drawdown. We identified two capital fund drawdowns for $802,884 in November 2006 and March 2007 for the 2003 capital fund program grant. The Agency offset the March 2007 excess drawdown by not drawing down funds for subsequent capital fund program expenses. However, in June 2007, the Agency drew down $257,253 using these same expenses as justification to close out the 2003 capital fund program grant.

The current grant accountant did not consider the $257,253 to be an excess drawdown, because the former chief financial officer reconciled the general ledger to LOCCS for the 2003 capital fund program grant, and it balanced. However, the current grant accountant was not able to provide supporting documentation for this reconciliation. As a result, we consider the $257,253 excess drawdown to be unsupported costs.

The Agency did not have effective controls in place to identify and track excess funds that needed to be returned to the program. Agency accountants maintained informal accounting records on excess capital fund program drawdowns, but they were not used. The current grant accountant said that he provided his informal accounting records to the former chief financial officer, but she disregarded this information. The former grant accountant maintained informal accounting records on excess capital fund program drawdowns, but Agency officials were not aware of them. The former controller and the grant accountant's supervisor informed us that they did not know about Agency excess drawdowns and any repayments by the former grant accountant. In addition, the Agency did not ensure continuity of operations between the former and current grant accountants. The former grant accountant briefed the current grant accountant on his last day with the Agency but did not provide his informal accounting records.

The Agency's General Ledger Did Not Support the Drawdown Amount

We reviewed the expenses transferred by the Agency to the 2007 capital fund program grant for reimbursement and reconciled the general ledgers for the 2007 capital fund program grant to LOCCS as of May 2008. The Agency failed to reconcile its 2007 capital fund program grant to LOCCS according to its internal procedures and drew down $283,168 more than was supported by expenses. The Agency's procedures revised in February 2007 require the Agency to perform monthly reconciliations of the general ledgers for capital fund program grants to LOCCS. Agency staff were uncertain regarding who had responsibility for performing the reconciliations. As a result, we considered the $283,168 excess drawdown to be an unsupported cost.

Conclusion

The Agency needs to strengthen its internal controls over capital fund program drawdowns. The Agency drew down $257,253 using duplicate expenses and $283,168 more than was supported by expenses. Informal accounting records are maintained to identify and track excess capital funds. Excess capital fund drawdowns would not be a problem if the Agency conducted monthly reconciliations of its grants to LOCCS. Monthly reconciliations would improve the identification and tracking of excess capital funds that need to be reimbursed, create more formal records, and provide increased management oversight of capital funds. Without monthly reconciliations, we have no assurance that $540,421 in excess funds was reimbursed to the program.

Recommendations

We recommend that HUD

1A. Require the Agency to provide documentation to support that the $257,253 excess drawdown was returned to the program. If sufficient documentation cannot be provided, determine whether non-federal funds are available for the Agency to reimburse HUD, since the grant period has expired. Based upon that determination, HUD should require the Agency to reimburse HUD or consider forgiving the recovery of any remaining unsupported amounts.

1B. Require the Agency to provide documentation to support the $283,168 in expenses for the 2007 capital fund program grant. If sufficient documentation cannot be provided, determine whether non-federal funds are available for the Agency to reimburse the capital fund program. Based upon that determination, HUD should require the Agency to reimburse the capital fund program account or consider forgiving the recovery of any remaining unsupported amounts.

1C. Require the Agency to define the roles and responsibilities of its accountants in performing the monthly reconciliation of capital fund program grants to LOCCS and to monitor capital fund drawdowns and excess capital funds.

1D. Determine and place appropriate restrictions on the Agency's ability to draw down capital funds from LOCCS to reimburse itself for capital fund program expenses.

Finding 2: The Agency Used Capital Fund Program Drawdowns for Ineligible and Unsupported Expenses

The Agency used capital fund program drawdowns to reimburse itself for ineligible and unsupported expenses. The Agency was reimbursed from capital funds for $62,123 that was used for public housing operations and $127,593 that it could not support was used for capital fund activities. It was also unable to provide documentation to support $257,694 in expenses transferred to the 2007 capital fund program grant that had not been reimbursed. These conditions occurred because the Agency did not have effective internal controls in place to ensure that capital funds were used in accordance with HUD requirements. As a result, we consider $62,123 to be ineligible, $127,593 to be unsupported, and $257,694 to be funds that could be put to better use, since the Agency had not been reimbursed for these expenses.

As indicated in finding 1, we reviewed 332 drawdowns for the 2003, 2004, and 2005 capital fund program grants to identify, in part, (1) public housing and other program expenses transferred to the capital fund program for reimbursement and (2) capital fund program expenses transferred from one grant year to another for reimbursement. We identified 21 drawdowns that involved expense transfers and selected eight for further review. We reviewed two drawdowns above in finding 1 and six drawdowns below. We also selected one recent public housing agency program expense transferred to the 2005, 2006, and 2007 capital fund grants because of its large amount.

Deficiencies with the Transfer of Public Housing Operating Expenses to the Capital Fund Program

Regulations at 24 CFR 968.112(o)(3) state that costs to assist in public housing operations are ineligible. Regulations at 24 CFR 85.20(b) require grantees to maintain records that adequately identify the source and application of funds provided for financially-assisted activities and that these accounting records be supported by source documentation. The 2006 Agency annual plan states that additions of non-emergency work items that exceed $500,000, not included in the annual or five-year plan, are a significant amendment or modification, which would require formal approval by the Miami-Dade County Board of County Commissioners. Regulations at 24 CFR 903.21 state that the public housing agency may not implement the amendment or modification until it is provided to and approved by HUD.

In November 2006, the Agency transferred more than $2.6 million in public housing operating expenses to the 2003, 2004, and 2005 capital fund program grants and made four capital fund program drawdowns to reimburse itself for these expenses. We reviewed 20 expenses totaling $195,379 to determine whether the costs could be reimbursed from the capital fund program. The Agency was reimbursed from capital funds for five expenses totaling $62,123 that were for public housing operations and seven expenses totaling $30,718 that lacked support showing that the expenses were for capital fund activities. In addition to these 12 expenses, six eligible capital fund expenses were not budgeted and included in an amended and approved Agency annual plan. A comparison of the respective annual plans indicated that there were additions of non-emergency work items exceeding $500,000 that included these 18 expenses. However, the expenses were included in the annual plan only after they were transferred to the capital fund program grants and, therefore, were implemented without prior County or HUD approval. The other two expenses did not need to be budgeted and included in the annual plan, because they were for emergency work items. As a result, we considered $62,123 to be an ineligible cost because it was not used for its intended purpose of rehabilitating and modernizing public housing and $30,718 to be an unsupported cost because the Agency did not have the documentation to support that it was for capital fund activities.

In January 2008, the Agency transferred $2.4 million in public housing operating expenses to the 2005, 2006, and 2007 capital fund program grants. The Agency transferred the expenses but did not draw down the capital funds to reimburse itself. The Agency maintained documentation to support that $2.2 million was for payroll expenses transferred to the 2005 and 2006 capital fund program grants but was unable to provide documentation to support $257,694 transferred to the 2007 capital fund program grant. Since the Agency had not been reimbursed from capital funds for these expenses, we considered the $257,694 to be funds that could be put to better use if properly supported.

These conditions occurred because the Agency did not have effective internal controls in place to ensure that capital funds were used in accordance with regulations and HUD requirements. The Agency’s former director of public housing agreed that the five expenses totaling $62,123 should not have been reimbursed from capital funds. Regarding the seven expenses totaling $30,718, Agency staff said that their policies and procedures did not require them to maintain supporting documentation for capital fund expenses. The Agency prepared journal vouchers that transferred the seven expenses to the capital fund program. While the journal vouchers indicated that the seven expenses were for preparing vacant units for occupancy, the Agency lacked the documentation to support that the expenses were for this purpose. Agency staff added that due to the many vacant units that needed to be prepared at the time, the main concern was to put the units back online and not to prepare documentation. We were unable to obtain an explanation for the 18 expenses that were not budgeted and included in an amended and approved Agency annual plan, because the former director of public housing had left the Agency. As for the $257,694 in public housing operating expenses transferred to the 2007 capital fund program grant, Agency staff stated that they were directed by the former chief financial officer and a contractor to make this transfer without supporting documentation.

Deficiencies with the Transfer of Capital Fund and Other Expenses to the Capital Fund Program

Paragraph 2-14A of the HUD Comprehensive Grant Guidebook 7485.3G requires the housing agency to properly apportion to the appropriate program budget any direct charges for the salaries of employees assigned full or part time to the modernization program. The housing agency may allocate salary expense through use of the time sheet method or through use of a per unit or other reasonable basis. Attachment B(8)(h)(3) of Office of Management and Budget (OMB) Circular A-87 requires that when employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification.

In 2006, the Agency transferred $210,159 in capital fund and HOPE VI salary expenses to the 2005 capital fund program grant and made two capital fund program drawdowns to reimburse itself for these expenses. It transferred $180,423 in capital fund salary expenses from the 2004 capital fund program grant and $29,736 in HOPE VI salary expenses to the 2005 capital fund program grant. We reviewed $72,299 in capital fund salary expenses and $24,576 in HOPE VI salary expenses to determine whether the costs could be reimbursed from the capital fund program. Although these salary expenses were eligible for reimbursement under the capital fund program, the Agency did not maintain supporting documentation such as employee timesheets or certifications as required by the OMB circular. While Agency supervisors estimated the percentage of employee salaries and wages to be allocated to the capital fund program, the estimates were not based on documentation. Agency staff stated that they did not record time allocated between federal and non-federal programs. As a result, we considered $96,875 to be an unsupported cost, because the Agency did not have a required method for determining the percentage of time allocated to the capital fund program.

Conclusion

The Agency needs to strengthen its internal controls for using capital funds. The Agency used capital funds to reimburse itself for ineligible and unsupported expenses. It failed to provide supporting documentation for public housing operating expenses transferred to the capital fund program for reimbursement. It also failed to budget and include 18 capital fund expenses in an amended and approved Agency annual plan. As a result, we considered (1) $62,123 to be an ineligible cost, because it was not available for its intended purpose, (2) $30,718 to be an unsupported cost, because the Agency could not determine that it was for capital fund activities, and (3) $96,875 to be an unsupported cost, because the Agency did not have a required allocation/certification method for employee salaries. We also consider $257,694 to be funds that could be put to better use, since the Agency had not yet drawn down funds for these expenses.

Recommendations

We recommend that HUD

2A. Require the Agency to reimburse HUD $62,123, since the grant period has expired.

2B. Require the Agency to provide documentation to support that the seven expenses totaling $30,718 were for capital fund activities. If sufficient documentation cannot be provided, determine whether non-federal funds are available for the Agency to reimburse the capital fund program. Based upon that determination, HUD should require the Agency to reimburse the capital fund program account or consider forgiving the recovery of any remaining unsupported amounts.

2C. Require the Agency to revise, implement, and enforce policies and procedures to maintain supporting documentation for expenses transferred to and reimbursed from the capital fund program.

2D. Require the Agency to implement and enforce policies and procedures to plan and budget for the use of capital funds and any needed revisions by amending and approving the annual plan.

2E. Require the Agency to provide documentation to support the $257,694 in transferred expenses before it draws down capital funds. If sufficient documentation cannot be provided, the Agency should transfer these expenses back to the public housing program.

2F. Require the Agency to provide documentation to support the allocation of $96,875 in salary expenses to the capital fund program. If sufficient documentation cannot be provided, determine whether non-federal funds are available for the Agency to reimburse the capital fund program. Based upon that determination, HUD should require the Agency to reimburse the capital fund program account or consider forgiving the recovery of any remaining unsupported amounts.

2G. Require the Agency to develop an allocation/certification method for employee salaries and wages to comply with the requirements.

SCOPE AND METHODOLOGY

Our audit objective was to determine whether capital fund program drawdowns were used in accordance with HUD requirements. To accomplish our objective, we

- Reviewed relevant HUD and federal regulations;
- Interviewed HUD and Agency officials;
- Reviewed relevant Agency policies and procedures; and
- Reviewed Agency files and records including reimbursement packages, checks and invoices, and other financial data.

As of March 2008, the Agency had made 374 capital fund program drawdowns from HUD totaling more than $36 million to reimburse itself for expenses incurred under the 2003, 2004, and 2005 capital fund program grants. The Agency was unable to locate and provide us with the reimbursement packages for 42 drawdowns totaling more than $4 million. Due to HUD's taking possession of the Agency, several external parties may have been using these reimbursement packages. We reviewed 332 capital fund program drawdowns totaling more than $32 million.

To determine whether capital fund program drawdowns were used in accordance with HUD requirements, we reviewed the 332 Agency drawdowns to determine whether

- The same expenses were used to justify more than one reimbursement from HUD (i.e., excess drawdown),
- Public housing and other program (i.e., HOPE VI) expenses transferred to the capital fund program were eligible for reimbursement, and
- Capital fund expenses transferred from one grant year to another were eligible for reimbursement.

We selected eight capital fund program drawdowns for further analysis. Two drawdowns involved duplicate expenses, four drawdowns involved public housing program expenses, and two drawdowns involved capital fund and other program expenses. We also selected one recent public housing program expense transferred to the 2005, 2006, and 2007 capital fund program grants because of its large amount. The Agency had not drawn down capital funds from HUD for reimbursement of this expense.

Two drawdowns totaling more than $1.0 million involved duplicate expenses. In March 2007, the Agency drew down $802,884 using the same expenses as justification that were used in an earlier drawdown in November 2006. In June 2007, the Agency drew down $257,253 using the same expenses that were used for the March 2007 excess drawdown.

Four drawdowns totaling more than $2.6 million involved the transfer of public housing program expenses to the capital fund program. We did not consider $600,000 in expenses for further analysis, because these expenses were not subject to the eligibility requirements of the capital fund program, according to HUD requirements. From the remaining $2 million, we selected 20 expenses totaling $195,379 for further analysis, considering the large dollar amount and frequency of payments to vendors.

Two drawdowns totaling $215,073 involved the transfer of capital fund expenses from one grant year to another and the transfer of HOPE VI program expenses to the capital fund program. One drawdown involved a transfer of $180,423 in salary expenses from the 2004 capital fund program grant to the 2005 capital fund program grant. We limited our review to the three largest salary payments in each pay period from four cost centers, or 36 salary payments totaling $72,299. The other drawdown of $34,650 involved a transfer of $29,736 in salary expenses from the HOPE VI program grant to the 2005 capital fund program grant. We limited our review to 11 salary payments totaling $24,576.

We also selected for further analysis a January 2008 public housing program expense transfer totaling more than $2.4 million because of its large amount. In reviewing these expenses, we reconciled the general ledgers for the 2007 capital fund program grant to HUD records as of May 2008.

To achieve our audit objective, we reviewed computer-processed data from the Agency's financial system. We performed limited testing of capital fund program general ledgers. We traced selected capital fund program expenses to supporting documents such as invoices, checks, and purchase orders to test the accuracy and completeness of the expenses recorded to the general ledger. We consider the computer-processed data recorded in the general ledger to be reliable for accomplishing our audit objective.

The audit generally covered the period October 1, 2002, through September 30, 2007, and we extended the period as needed to accomplish our objective. We conducted our fieldwork from March through June 2008 at the Agency offices located in 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 objectives:

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

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's internal controls over capital fund program drawdowns from HUD were inadequate (see finding 1).

- The Agency used capital fund program drawdowns to reimburse itself for ineligible and unsupported expenses (see finding 2).

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		$257,253	
1B		283,168	
2A	$62,123		
2B		30,718	
2E			$257,694
2F		96,875	
Total	$62,123	$668,014	$257,694

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Funds to be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings which are specifically identified. For recommendation 2E, the $257,694 represents funds that could be put to better use, because the Agency had not drawn down capital funds to reimburse itself.

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

SEP 3 2008

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

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

SUBJECT: Draft Report dated 7-31-08, Miami-Dade Housing Agency, Miami, Florida, Did Not Maintain Adequate Controls over Capital Fund Program Drawdowns.

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 (CFP). As you know, due to the systemic and serious 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 declared MDHA in default of their ACCs. The default led to HUD assuming possession of MDHA in October of 2007. Subsequently, in July 2008 both HUD and the County agreed to an amended Settlement Agreement which focused efforts on three major areas of operation at MDHA, one of those being financial management and accounting.

I recently responded to Audit 2008-AT-0002, which also included procurement and other CFP drawdown and transfer irregularities which are related to the CFP issues and subsequent corrective actions raised in this report. As noted in our Management Decisions and draft response for that audit, MDHA is receiving direct financial management and technical assistance through a HUD procurement action with Deloitte and Touche. This contract includes activities specific to the reconciliation of the CFP as well as creating procedures for accounting for the CFP and internal controls. I am confident that this CFP reconciliation, subsequent policies, procedures and internal controls will address the findings disclosed in your report.

Additionally, a new Chief Financial Officer has been hired, staffing skills have been reviewed and personnel changes are being made accordingly. Any restrictions to CFP drawdowns determined necessary after the reconciliation, staffing changes and training will be instituted by HUD if deemed appropriate. Funds that require reimbursement to HUD, if determined by the reconciliation will be addressed by repayment to the applicable CFP accounts.

In light of the above, I would request that you accept this correspondence as a response to the draft report and as Management Decisions for the audit as follows:

www.hud.gov espanol.hud.gov

Ref to OIG Evaluation **Auditee Comments**

Recommendation 1A: Require the Agency to provide documentation to support the $257,253 excess drawdown was returned to the program. If sufficient documentation cannot be provided, determine whether non-federal funds are available for the Agency to reimburse HUD, since the grant period has expired. Based upon that determination, HUD should require the agency to reimburse HUD or consider forgiving the recovery of any remaining unsupported amounts.

Comment 1

PIH Response: We are in the process of identifying supporting documentation for the excess drawdown referenced in Recommendation 1A. Some documentation has been identified; but we need more time to complete the review. Once the review is complete, if we do not have supporting documentation we will ask the agency to repay from non-federal funds, enter into a repayment agreement or ask forgiveness of any remaining unsupported amounts. Should we enter into a repayment agreement we will request a revised date for the management decision to cover the term of the repayment agreement.

Requested target date: December 31, 2009

Recommendation 1B: Require the Agency to provide documentation to support the $283,168 in expenses for the 2007 capital fund program grant. If sufficient documentation cannot be provided, determine whether non-federal funds are available for the Agency to reimburse HUD, since the grant period has expired. Based upon that determination, HUD should require the agency to reimburse HUD or consider forgiving the recovery of any remaining unsupported amounts.

Comment 1

PIH Response: We are in the process of identifying supporting documentation for the expenses for the 2007 capital fund program grant referenced in Recommendation 1B. Some documentation has been identified; but we need more time to complete the review. Once the review is complete, if we do not have supporting documentation we will ask the agency to either repay from non-federal funds, enter into a repayment agreement or ask forgiveness of any remaining unsupported amounts. Should we enter into a repayment agreement we will request a revised date for the management decision to cover the term of the repayment agreement.

Requested target date: December 31, 2009

Recommendation 1C: Require the Agency to define the roles and responsibilities of its accountants in performing the monthly reconciliation of capital fund program grants to LOCCS and to monitor capital fund drawdowns and excess capital funds.

Comment 1

PIH Response: We have procured the firm of Deloitte and Touche to perform activities specific to the reconciliation of the Capital Fund Program (CFP) as well as creating procedures for accounting for the CFP and internal controls. They will review staff skills and recommend staffing changes and provide training to financial staff on new procedures, policies and controls.

Ref to OIG Evaluation | **Auditee Comments**

Any restrictions to CFP drawdowns determined necessary after the reconciliation will be instituted by HUD if deemed appropriate. Funds that require reimbursement to HUD, if determined by the reconciliation will be addressed by repayment to the proper accounts. The reconciliation will be provided to the IG for the applicable CFP grant years.

Requested target date: December 31, 2009

Recommendation 1D: Determine and place appropriate restrictions on the Agency's ability to draw down capital funds from LOCCS to reimburse itself for capital fund program expenses.

Comment 2

PIH Response: We request this recommendation be removed. Since HUD is currently in possession of MDHA it is not necessary to place any restrictions on the Agency's ability to draw down capital funds from LOCCS. When HUD is no longer in possession of MDHA, HUD will determine if it is necessary to have any restrictions on the Agency's ability to draw down capital funds from LOCCS.

Recommendation 2A: Require the Agency to reimburse HUD $62,123 since the grant period has expired.

Comment 1
Comment 3

PIH Response: We need to know the grant year for this specific amount before we are able to validate if the grant period has expired.

Requested target date: December 31, 2009

Recommendation 2B: Require the Agency to provide documentation to support that the seven expenses totaling $30,718 were for capital fund activities. If sufficient documentation cannot be provided, determine whether non-federal funds are available for the Agency to reimburse the capital fund program. Based upon that determination, HUD should require the Agency to reimburse the capital fund program account or consider forgiving the recovery of any remaining unsupported amounts.

Comment 1

PIH Response: We are in the process of identifying supporting documentation for the seven expenses for capital fund activities referenced in Recommendation 2B. Some documentation has been identified; but we need more time to complete the review. Once the review is complete, if we do not have supporting documentation we will ask the agency to repay from non-federal funds, enter into a repayment agreement or ask forgiveness of any remaining unsupported amounts. Should we enter into a repayment agreement we will request a revised date for the management decision to cover the term of the repayment agreement.

Requested target date: December 31, 2009

Ref to OIG Evaluation | **Auditee Comments**

Recommendation 2C: Require the Agency to revise, implement, and enforce policies and procedures to maintain supporting documentation for expenses transferred to and reimbursed from the capital fund program.

Comment 1

PIH Response: As noted above, we have procured the firm of Deloitte and Touche to perform activities specific to the reconciliation of the Capital Fund Program (CFP) as well as creating procedures for accounting for the CFP and internal controls. They will review staff skills and recommend staffing changes and provide training to financial staff on new procedures, policies and controls.

Requested target date: December 31, 2009

Recommendation 2D: Require the Agency to implement and enforce policies and procedures to plan and budget for the use of capital funds and any needed revisions by amending and approving the annual plan.

Comment 1

PIH Response: As noted above, we have hired the firm of Deloitte and Touche to perform activities specific to the reconciliation of the CFP as noted above. Any drawdowns that were not made based on justified expenses will be reversed and the proper programs charged. Any unsupported drawdowns will be reversed and reimbursed as applicable.

Requested target date: December 31, 2009

Recommendation 2E: Require the Agency to provide documentation to support the $257,694 in transferred expenses before it draws down capital funds. If sufficient documentation cannot be provided, the Agency should transfer these expenses back to the public housing program.

Comment 1

PIH Response: We are in the process of identifying supporting documentation for the transferred expenses referenced in Recommendation 2E. Some documentation has been identified; but we need more time to complete the review. Once the review is complete, if we do not have supporting documentation we will ask the agency to repay from non-federal funds, enter into a repayment agreement or ask forgiveness of any remaining unsupported amounts. Should we enter into a repayment agreement we will request a revised date for the management decision to cover the term of the repayment agreement.

Requested target date: December 31, 2009

Recommendation 2F: Require the Agency to provide documentation to support the allocation of $96,875 in salary expenses to the capital fund program. If sufficient documentation cannot be provided, determine whether non-federal funds are available for the Agency to reimburse the capital fund program. Based upon that determination, HUD should require the Agency to reimburse the capital fund program account or consider

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forgiving the recovery of any remaining unsupported amounts.

Comment 1

PIH Response: We are in the process of identifying supporting documentation for the allocation for salary expenses referenced in Recommendation 2F. Some documentation has been identified; but we need more time to complete the review. Once the review is complete, if we do not have supporting documentation we will ask the agency to repay from non-federal funds, enter into a repayment agreement or ask forgiveness of any remaining unsupported amounts. Should we enter into a repayment agreement we will request a revised date for the management decision to cover the term of the repayment agreement.

Requested target date: December 31, 2009

Recommendation 2G: Require the Agency to develop an allocation/certification method for employee salaries and wages to comply with the requirements.

Comment 4

PIH Response: We request that this recommendation be removed. Due to Asset Management, the allocation/certification method for employees' salaries and wages is no longer required. MDHA has developed and is continuing to implement a method that is in compliance with Asset Management, whereby all staff will be assigned directly to the projects and any Central Office Cost Center (COCC) staff required to work on specific Asset Management Projects (AMPs) will either be billed or charged back to the AMPs by a fee for service.

OIG Evaluation of Auditee Comments

Comment 1 We concur with your proposed management decisions and will record them in the Audit Resolution and Corrective Action Tracking System, with a target completion date of December 31, 2009.

Comment 2 You stated that since HUD is in possession of the Agency it was not necessary to place any restrictions on the Agency's ability to draw down capital funds from LOCCS. You also stated that when HUD is no longer in possession of the Agency, HUD will determine if it is necessary to have any restrictions on the Agency's ability to draw down capital funds from LOCCS.

We concur with your decision.

Comment 3 The five expenses totaling $62,123 were transferred and paid from the 2003 capital fund program grant.

Comment 4 You stated that allocation/certification for employee salaries and wages is no longer needed because the Agency has developed and is continuing to implement a method that complies with Asset Management requirements. Your office is working with the Agency to assign staff to appropriate cost centers and asset management projects.

We concur with your decision.