



U. S. Department of Housing and Urban Development
Office of Inspector General
26 Federal Plaza, Room 3430
New York, NY 10278 0068

MEMORANDUM NO: 2011-NY-1803

September 1, 2011

MEMORANDUM FOR: Balu Thumar, Acting Director, New Jersey Office of Public Housing,
2FPH

Edgar Moore

FROM: Edgar Moore, Regional Inspector General for Audit, New York/New Jersey Region,
2AGA

SUBJECT: The Housing Authority of Long Branch, NJ, Needs To Strengthen Its Accounting
for Transactions with Affiliated Entities

INTRODUCTION

During the audit of the Housing Authority of Long Branch's administration of its Public Housing Capital Fund and Capital Fund Financing Programs,¹ we found that Authority officials had not accurately accounted for some transactions with its affiliated entities. Therefore, we performed a limited review of the Authority's processes for recording these transactions.

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

METHODOLOGY AND SCOPE

Our review was primarily limited to gaining an understanding of the nature and reporting of transactions between the Authority and its nonprofit and for-profit subsidiaries. To accomplish our objective, we reviewed HUD program requirements, particularly regulations at 24 CFR (Code of Federal Regulations) 990.280(a) and Public and Indian Housing Notice 2007-15 (Applicability of Public Housing Development Requirements to Transactions between Public Housing Agencies and their Related Affiliates and Instrumentalities); interviewed HUD field office and Authority officials; and reviewed the Authority's and its subsidiaries' by-laws, the Authority's independent public accountant reports, and the Authority's transactions with its two subsidiaries. Our review generally covered the period July 1, 2007 through February 28, 2011.

¹ Report number 2011-NY-1013, issued September 1, 2011.

We did not conduct the audit in accordance with generally accepted government auditing standards since we did not review the Authority's internal controls or information system controls. To meet our objectives, it was not necessary to fully comply with standards, nor did our approach negatively affect our review results.

BACKGROUND

The Authority is a nonprofit corporation established in 1938 to provide housing for qualified individuals. The Authority is responsible for the development, maintenance, and management of public housing for low- and moderate-income families residing in Long Branch, NJ. The Authority administers 486 low-rent and 695 Section 8 units and manages the financial operations of a for-profit and a nonprofit limited partnership, Shore Point Management Corporation and Maestro Community Development Corporation, respectively. The Authority is governed by a seven-member board of commissioners, which appoints the executive director, who manages the day-to-day operation of the Authority.

HUD has encouraged the formation of new and innovative public and private partnerships, including partnerships with entities related to a public housing authority, to ensure long-term sustainability of public housing developments and the leveraging of public and private resources to transform communities. To further this objective, Authority officials established the two limited partnerships.

Shore Point, a for-profit corporation formed in 2007, is governed by a seven-member board of directors independent of the Authority. The current managing agent of Shore Point is the Authority's assistant director. Its purpose is to provide a range of property maintenance and management services to both commercially owned and government-funded facilities.

Maestro, a nonprofit corporation established in 2003, is governed by a nine-member board of trustees including two of the Authority's commissioners and the Authority's assistant executive director. The executive director of Maestro is the Authority's executive director. Maestro's purpose is to acquire property, or redevelop existing structures for the construction of affordable housing, and then manage the affordable housing units. In addition, the Authority contracted with Maestro to provide oversight of the Bucky James Community Center, which the Authority constructed with HOPE VI funds.

RESULTS OF REVIEW

Reimbursement for Maintenance Staff Not Properly Allocated

Authority officials did not properly allocate, among its seven asset management projects², funds received from Shore Point as reimbursement for services the Authority's maintenance staff provided to Shore Point. Since its incorporation in 2007, Shore Point has had limited business

² Asset management is a business model similar to that employed by multifamily housing, with project-based funding, project-based budgeting, project-based accounting, and project-based management. As applied to public housing, an authority establishes asset management projects, each of which has its own funding, budgeting, accounting, and management and to which a reasonable management fee for central office costs is allocated. The Authority has seven asset management projects - three low-rent projects and four mixed-finance projects.

activity, reporting nine job orders for three clients and \$17,475 in revenue for fiscal year 2007 through March 2011. Consequently, Shore Point had used the Authority's maintenance staff to do its work, and then it reimbursed the Authority for the labor costs of the Authority's maintenance staff.

Regulations at 24 CFR 990.280(a) provide that authority officials establish an accounting system that allows for analysis of the actual revenues and expenses associated with each project. However, Authority officials credited the reimbursements received from its for-profit subsidiary for the use of Authority maintenance staff to only one of its asset management projects, although staff from more than one project was used. As a result, that asset management project was credited with approximately \$1,000 in excess reimbursement, and Authority officials did not properly reflect the operating cost of the Authority's asset management projects. This condition occurred because Authority officials lacked proper procedures for allocating reimbursements among their asset management projects. Once we notified Authority officials of this condition, they revised the Authority's accounting ledger to allocate the reimbursements to the appropriate asset management projects and central operations cost center.

Funds Transferred to a Subsidiary without HUD Approval

In the 1990s, previous Authority officials had set aside Section 8 certificate reserves to be used for the purchase and renovation of local houses. While some houses were renovated, others were demolished in 2009 as part of the Authority's HOPE VI-funded redevelopment. After the demolition, \$65,223 remained in an unused reserve account. Authority officials transferred \$12,223 of these funds to Shore Point as startup costs and \$53,000 to its redevelopment fund. As a result, funds were used for purposes other than that approved by HUD.

Regulations at 24 CFR 982.155(b)(1) allow a public housing agency to use these funds for other housing purposes permitted by State and local law. Therefore, the initial HUD-approved purpose for which the administrative fee reserve (or "operating reserve") was used was eligible. However, since Authority officials reallocated these funds without notifying HUD, HUD lacked assurance that the funds were used for allowable purposes.

RECOMMENDATIONS

We recommend that the Acting Director of the New Jersey Office of Public Housing instruct the Authority officials to

- 1A. Reallocate the excess credit of \$1,000 to the appropriate asset management project(s), thereby ensuring that each project's costs are properly reflected and funds are put to better use.
- 1B. Strengthen controls so that future reimbursements for asset management project services are properly allocated, thus ensuring that the cost of each asset management project is properly recorded.

- 1C. Develop a plan for the use of Authority staff, on a cost reimbursement basis, by its for-profit subsidiary to ensure that Authority assets are adequately protected and request HUD approval of the plan.
- 1D. Request HUD approval of the use of the reallocated \$65,223 Section 8 certificate reserves to ensure that the funds were reallocated in accordance with 24 CFR 982.155(b)(1), thus ensuring that the funds are put to better use.

APPENDIXES

Appendix A

SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use 1/
1A	\$1,000
1D	65,223
Total	<u><u>\$66,223</u></u>

1/ Recommendations that funds 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. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this case, if the Authority implements our recommendations, \$1,000 will be properly allocated to each project, and HUD will be assured that the \$65,223 will have been expended for eligible activity.


Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

HOUSING AUTHORITY OF THE CITY OF LONG BRANCH
P.O. Box 337 • Garfield Court • Long Branch, NJ 07740
Phone: (732) 222-3747 Fax: (732) 222-1809



Tyrone Garrett, JD, P.H.M.,
Executive Director

August 15, 2011

Mr. Edgar Moore
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
26 Federal Plaza, Room 3430
New York, NY 10278-0068

Re: Audit Memorandum of 2011

Dear Mr. Moore:

Listed below are the responses to the IG's audit memorandum of August 4, 2011.

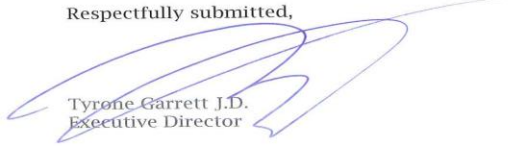
Finding 1: Reimbursement for maintenance staff not properly allocated.

The Authority concurs with the finding and had corrected the reimbursement allocation to the appropriate asset management projects and central operations cost center.

Finding 2: Funds transferred to a subsidiary without HUD approval.

The Authority concurs with the finding and will request HUD approval of the use of the reallocated \$65,223 Section 8 certificate reserve.

Respectfully submitted,



Tyrone Garrett J.D.
Executive Director

Plan... Action... Accountability... Performance...

Comment 1

Comment 1

OIG Evaluation of Auditee Comments

Comment 1 Authority officials have agreed to take action responsive to the recommendations.