AUDIT REPORT

YPSILANTI HOUSING COMMISSION
SAFEGUARDING MONETARY ASSETS AND INVENTORY

YPSILANTI, MICHIGAN

2002-CH-1001

March 26, 2002

OFFICE OF AUDIT, MIDWEST
CHICAGO, ILLINOIS

Issue Date
March 26, 2002
Audit Case Number
2002-CH-1001

TO: Joann L. Adams, Director of Public Housing Hub, Michigan State Office

FROM: Heath Wolfe, District Inspector General for Audit, Midwest

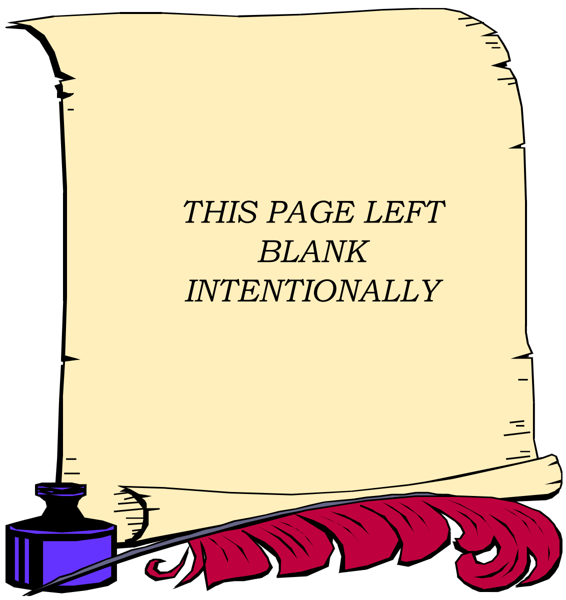
SUBJECT: Ypsilanti Housing Commission
Safeguarding Monetary Assets And Inventory
Ypsilanti, Michigan

We completed an audit of the Ypsilanti Housing Commission. The audit was conducted based on the Michigan State Office of Public Housing Hub's concerns about the Housing Commission's controls over monetary assets and inventory. The primary objective of our audit was to determine whether the Housing Commission had sufficient controls for safeguarding cash and other monetary assets and inventory.

We found that the Housing Commission's controls over cash and other monetary assets and inventory were weak. Specifically, the Housing Commission: (1) improperly claimed $98,466 in operating subsidy since the Commission did not adjust its subsidy claims for long-term vacant units and inflated the number of occupied units claimed; (2) failed to maintain an acceptable level of occupancy that resulted in the Commission losing an estimated $157,286 in rental income; and (3) did not implement procedures and controls to safeguard its cash and other monetary assets against possible waste, loss, and misuse. Procedures and controls were lacking over: cash receipts and deposits; disbursements; equipment; procurement; and financial and administrative processes.

Within 60 days, please provide us, for each recommendation made in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please provide us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (312) 353-7832.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Executive Summary

We completed an audit of the Ypsilanti Housing Commission. The primary objective of our audit was to determine whether the Housing Commission had sufficient controls for safeguarding cash and other monetary assets and inventory. The audit was conducted based on the Michigan State Office of Public Housing Hub's concerns about the Housing Commission's controls over monetary assets and inventory.

The Housing Commission's controls over cash and other monetary assets and inventory were weak. The Commission: inappropriately claimed $98,466 in operating subsidy since the Commission did not adjust its subsidy claims for long-term vacant units and inflated the number of occupied units claimed; did not maintain an acceptable level of occupancy that resulted in the Commission losing an estimated $157,286 in rental income; and failed to implement procedures and controls to safeguard its cash and other monetary assets against possible waste, loss, and misuse. Procedures and controls were lacking over: cash receipts and deposits; disbursements; equipment; procurement; and financial and administrative processes.

The Commission's Operating Subsidy Was Inflated

The Housing Commission improperly claimed an inflated operating subsidy. The Commission did not adjust its subsidy claims for long-term vacant units and it inflated the number of occupied units claimed. Because the Commission improperly claimed an inflated operating subsidy, HUD paid $98,466 worth of excess operating subsidies to the Commission from July 1, 1996 to June 30, 2001.

The Commission Needs To Reduce High Vacancy Rates

The Housing Commission did not maintain an acceptable level of occupancy. Despite a waiting list of 131 applicants, the Commission's vacancy rate at December 31, 2000 was 17.5 percent. As a result, the Commission lost an estimated $157,286 worth of rental income from January 1, 1997 to December 31, 2000 because of its high vacancy rates.

Controls For Safeguarding Assets Need Strengthening

The Housing Commission did not safeguard its cash and other monetary assets against possible waste, loss, and misuse. Management controls over cash receipts, deposits, disbursements, equipment, procurement, and financial and administrative processes were weak. Similar weaknesses were identified in previous OIG audits of the Commission for almost 20 years.

Recommendations

We recommend that HUD's Director of the Michigan State Office of Public Housing Hub assure that the Housing

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Commission implements controls to correct the weaknesses cited in this report.

We presented our draft findings to the Housing Commission's Executive Director and HUD's staff during the audit. We held an exit conference with the Commission on January 29, 2002. The Commission agreed to implement corrective action to improve its controls over operating subsidy requests and take action to reduce its high vacancy rates. The Commission disagreed that controls for safeguarding assets need strengthening.

We included paraphrased excerpts of the Housing Commission's comments with each finding. The complete text of the comments is in Appendix B.

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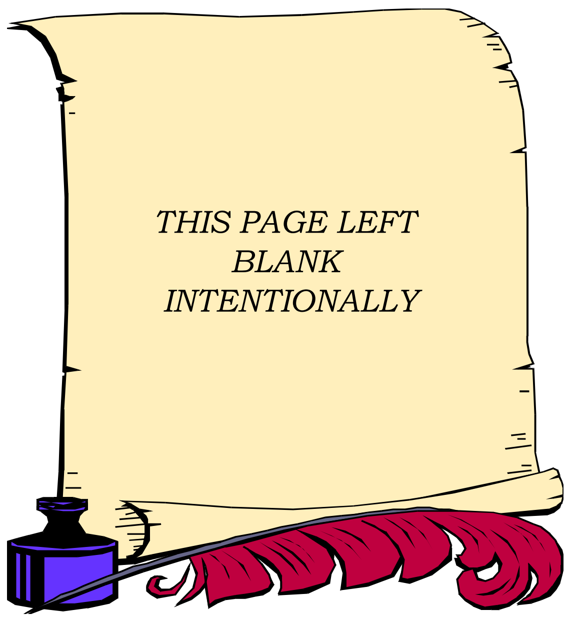
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Introduction

The Ypsilanti Housing Commission was established under State of Michigan law. The Housing Commission contracts with HUD to provide low and moderate-income persons with safe and sanitary housing through rent subsidies. A five member Board of Commissioners governs the Commission. The President of the Board is Macheryl Jones. The Commission's Executive Director is Janine Scott. The Commission's books and records are located at 601 Armstrong Drive, Ypsilanti, Michigan.

As of February 2002, the Housing Authority operated four programs: (1) a Low-Income Housing Program consisting of 198 units; (2) a Public Housing Drug Elimination Grant Program; (3) Comprehensive Improvement Assistance Program; and (4) a Section 8 Housing Assistance Program. The Low-Income Housing and Section 8 Housing Assistance Programs are designed to provide housing to low and moderate-income individuals whose annual incomes does not exceed 80 percent of the median income for the surrounding community. HUD's Drug Elimination Grant Program provides grants to public housing authorities to reduce drug-related crime in and around public housing sites. The Comprehensive Improvement Assistance Program funds capital improvements and related management improvements in public housing developments to upgrade living conditions, correct physical conditions, and achieve operating efficiency and economy.

Audit Objectives

The audit objectives were to: (1) determine whether the Housing Commission had sufficient controls for safeguarding cash and other monetary assets and inventory; and (2) review for waste, loss, and misuse of cash and other monetary assets and inventory.

Audit Scope And Methodology

We conducted the audit at HUD's Michigan State Office and the Housing Commission's office. We performed our on-site audit work between July 2000 and July 2001.

To accomplish our audit objectives, we interviewed: HUD's staff; the Housing Commission's officials, staff, fee accountant, and independent public accountant; and one of the Commission's tenants.

We analyzed the following items: tenant files; cash disbursements and invoices; vendor files and contracts; vacancy reports; Public Housing Drug Elimination Program Grant vouchers; Board meeting minutes; payroll records and personnel files; equipment records; cash receipts and registers; general ledgers; tenant accounts receivable ledgers; audited financial statements; waiting list; rent rolls; and the Authority's policies and procedures. We also reviewed: HUD's files for the Commission; Sections 201, 309, 401, and 407 of the Annual Contributions Contract between HUD and the Commission; Parts 24, 85, 901, and 990 of Title 24 of the Code of Federal Regulations; HUD's Public and Indian Housing Notice 96-35; Federal Register dated February 28, 1996, and HUD's Accounting Guide 7510.1.

The audit covered the period January 1, 2000 to December 31, 2000. This period was adjusted as necessary. We conducted the audit in accordance with generally accepted government auditing standards.

We provided a copy of this report to the Housing Commission's Executive Director and to the President of the Board.

The Commission's Operating Subsidy Was Inflated

The Ypsilanti Housing Commission improperly claimed an inflated operating subsidy. The Commission did not adjust its subsidy claims for long-term vacant units and it inflated the number of occupied units claimed. The Housing Commission's Executive Director said she was unaware of HUD's requirements to reduce subsidy claims on long-term vacant units. She said she also unaware that the Commission's fee accountant inflated the number of occupied units. Because the Commission improperly claimed an inflated operating subsidy, HUD paid $98,466 worth of excess operating subsidies to the Commission from July 1, 1996 to June 30, 2001.

Federal Requirements

24 CFR Part 990.109 requires that if a Housing Commission has a vacancy rate greater than three percent, it must reduce the subsidy of units that have been vacant for more than 12 months to 20 percent of the allowable expense level.

Section 309 of the Annual Contributions Contract, between HUD and the Ypsilanti Housing Commission, requires the Housing Commission to submit accurate and complete financial data to HUD.

24 CFR Part 24 allows HUD to take administrative action against Housing Commission's Executive Directors who violate HUD's requirements. The administrative action includes debarment, suspension, and limited denial of participation.

Subsidy Not Adjusted For Long-Term Vacancies

The Housing Commission did not adjust its operating subsidy to account for long-term vacancies from July 1, 1996 to June 30, 2000. The Housing Commission's Executive Director said she became aware of the long-term vacancy rule when the Commission's fee accountant reported the long-term vacancy adjustment for Fiscal Year 2001. However, the Commission's Executive Director contradicted herself in a subsequent interview when she said she was unaware of the requirement. Regardless, the Commission's Executive Director discussed the Fiscal Year 2001 long-term vacancy adjustment with a HUD official. The Housing Commission also had knowledge of the rule when HUD distributed Public and Indian Housing Notice

96-35 to all public housing agencies on June 4, 1996. The Notice explained the long-term vacancy adjustment requirement. HUD also published a Final Rule in the Federal Register on February 28, 1996 that included the need for housing agencies to reduce their subsidy request for long-term vacant units. As a result, the Commission received $98,466 worth of excess subsidies between Fiscal Year 1997 and Fiscal Year 2001.

The Housing Commission did not adjust subsidy claims to account for long-term vacancies once the Commission's Executive Director had knowledge of the rule.

The Housing Commission reported 26 long-term vacant units from July 1, 2000 to June 30, 2001. However, HUD adjusted the number of long-term vacant units to zero because the Commission's Executive Director told officials that the same unit did not remain vacant over the 12-month period. This made the 26 units eligible for the full subsidy payment. The actual number of long-term vacant units was four. Because the Commission's Director provided misleading information, HUD paid an additional $5,313 worth of subsidies for Fiscal Year 2001.

The table below illustrates the excess subsidy paid due to the omission of long-term vacant units from July 1, 1996 to June 30, 2001. Each Fiscal Year represents an annual operating subsidy claim. The vacancy rate for Fiscal Year 2001 represents July 1, 2000 to December 31, 2000.

Fiscal Year	*Vacancy Rate*	*Units*	*Audited Long-Term Vacant Units*	*Claimed Unit Months Available*	*Audited Unit Months Available*	*Operating Subsidy Paid And Obligated*	*Audited Operating Subsidy*	*Excess Subsidy Paid And Obligated*
1997	18%	218	18	2,616	2,400	$359,066	$334,882	$24,184
1998	18%	218	10	2,616	2,496	442,607	428,303	14,304
1999	19%	215	23	2,580	2,304	429,527	398,347	31,180
2000	18%	198	4	2,376	2,328	353,665	348,339	5,326
2001	17%	198	4	2,376	2,328	431,756	426,443	5,313
						$2,016,621	$1,936,314	$80,307

Occupancy Level Inflated

The Housing Commission inflated the number of occupied units it claimed for operating subsidy from July 1, 2000 to June 30, 2001. The Commission claimed 172 occupied units when it had 159 occupied units. The Housing Commission's Executive Director said the Commission's fee accountant prepared the claim. The fee accountant said the Commission provided the number of occupied units. The Commission's Tenant Accounts Receivable Report and the Vacancy Report both identified 159 occupied units. Because the Commission inflated the number of occupied units, HUD paid $18,159 in excess operating subsidy for Fiscal Year 2001.

The table below illustrates the excess subsidy paid due to an inflated occupancy level.

Fiscal Year 2001	Occupied Units	Operating Subsidy Paid	Adjustment For Long-Term Vacancies	Excess Operating Subsidy
Claimed	172	$431,756		
Audited	159	408,284		
Difference	13	$23,472	($5,313)	$18,159

Management Controls Over Operating Subsidy Claims Were Weak

The Housing Commission did not develop procedures and controls to provide reasonable assurance that operating subsidy claims were accurate. The Housing Commission's Executive Director said she relied on the Commission's fee accountant to accurately prepare the claim. The fee accountant said the Commission provided him inaccurate information. Procedures should identify what information should be provided to the fee accountant or used in preparing the claim, whom will review the claim for accuracy, and how the Commission will ensure the use of updated rules and regulations.

Auditee Comments

[Excerpts paraphrased from the Ypsilanti Housing Commission's comments our draft finding follow. Appendix B, pages 35 to 38, contains the complete text of the comments for this finding.]

The recalculation of the long-term vacancies by the OIG appears to be correct; however, the explanation of the Executive Director's knowledge is incorrect. The Housing Commission's Executive Director was absolutely unaware of the required adjustment until HUD questioned it as a result of the 2001 budget submission. The correction has not been taken because the Commission's Executive Director was awaiting the results of the OIG audit.

The Housing Commission would agree to repay the $98,466 by either de-obligating the funds from the Commission's 2002 budget, or repayment directly to HUD. The Commission's Executive Director does not believe referrals or administrative actions are necessary under the circumstances. The cost for both the Federal government and the Commission would be unwarranted and counter productive.

The Commission would agree to hire a finance manager to assist in form preparation, grant writing, and strengthening of internal controls.

OIG Evaluation Of Auditee Comments

We disagree that the Housing Commission's Executive Director was unaware of the required long-term vacancy adjustment until the 2001 budget submission. HUD distributed Public and Indian Housing Notice 96-35 to all public housing agencies on June 4, 1996. The Notice explained the long-term vacancy adjustment requirement. Additionally, HUD has continually issued notices since 1996 that related to operating subsidy calculations.

HUD should take the appropriate administrative action against the Housing Commission's Executive Director because of her failure to administer the Commission according to HUD's requirements.

Recommendations

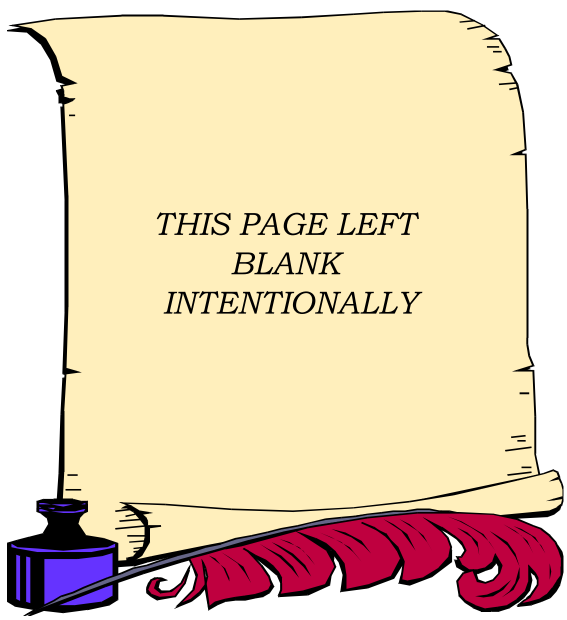
We recommend that the Michigan State Office Director of Public Housing Hub assure that the Ypsilanti Housing Commission:

1A. Reimburses HUD $98,466 ($80,307 plus $18,159) from non-Federal funds for the excess subsidy payments received for the long-term vacancies and the inaccurate occupied units reported.

1B. Implements procedures and controls to follow HUD's regulation and the Annual Contributions Contract regarding claims for operating subsidies.

We also recommend that the Michigan State Office Director of Public Housing Hub:

1C. Pursues administrative action against the Housing Commission's Executive Director based upon the information cited in this report as permitted by 24 CFR Part 24.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The Commission Needs To Reduce High Vacancy Rates

The Ypsilanti Housing Commission did not maintain an acceptable level of occupancy. Despite a waiting list of 131 applicants, the Commission's vacancy rate at December 31, 2000 was 17.5 percent. The Commission considers the vacancy rate to be acceptable. The Commission's continued failure to reduce vacancies identified in prior OIG audits has resulted in lost opportunity for low-income families to obtain affordable housing. The Commission lost an estimated $157,286 worth of rental income from January 1, 1997 to December 31, 2000 because of its high vacancy rates.

Federal Requirements

Section 201 of the Annual Contributions Contract, between HUD and the Ypsilanti Housing Commission, requires the Commission to provide public housing in an efficient, economic, and stable manner to low-income eligible tenants.

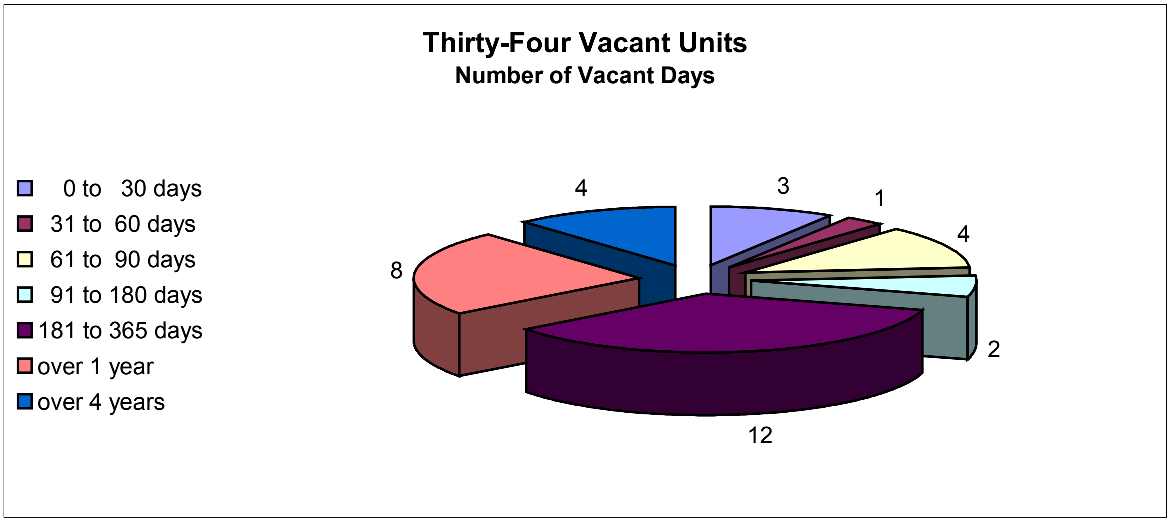
24 CFR Part 901.10 provides indications on how well a Housing Commission is performing. Part 901.10 states an actual vacancy rate greater than ten percent is the lowest score a Commission can receive. The Part also provides that an average turnaround greater than 50 days is the lowest score a Commission can receive.

Commission's Policy

The Housing Commission's Maintenance Policy requires that vacant units be prepared for occupancy within an average of seven calendar days from the date vacated.

High Vacancy Rate

As of December 31, 2000, the Housing Commission had a vacancy rate of 17.5 percent when 34 of 194 units were vacant. The Commission's Executive Director said the fundamental problem was due to a shortage of maintenance employees. The Director also said units remained vacant because: units were set aside for an activity center; and applicants did not want to live in the less desirable Parkridge Homes project. The Housing Commission could not provide any records to support that the units were inhabitable. Further, our inspection of five vacant units disclosed that the amount of work necessary to prepare the units for occupancy was minimal to moderate. We were unable to determine if crime rates contributed to the high vacancy rate at Parkridge Homes. HUD did not approve any units to be set aside for an activity center. The Commission's Executive Director said she believed the vacancy rate was acceptable. The following pie chart illustrates the number of vacant days for the 34 vacant units. The number next to each segment within the chart represents the number of vacant units. For example, four units were vacant for over four years and eight units were vacant for over one year.



Lost Rental Income

Because the Housing Commission failed to reduce its vacancy rate, the Commission lost an estimated $157,286 ($38,606 plus $38,797 plus $42,923 plus $36,960) worth of rental income from January 1, 1997 to December 31, 2000. The following table shows our computation of the lost rental income. The annual unit months were adjusted to allow for a three percent vacancy rate.

	1997	1997	1999	2000
Adjusted Annual Unit Months Available	2,490	2,490	2,335	2,258
Less: Annual Occupied Unit Months	2,069	2,092	1,934	1,883
Equals Lost Unit Months	421	398	401	375
Multiplied by Rent Per Unit Month	$91.70	$97.48	$107.04	$98.56
Lost Annual Rental Income	$38,606	$38,797	$42,923	$36,960

The Commission Did Not Correct Its Vacancy Problem

Low occupancy levels have been a continuous problem at the Housing Commission. In May 1982, an OIG audit disclosed the Commission's vacancy rate was 19 percent. The Commission cited a lack of funds to rehabilitate the vacant units as the primary reason for the excessive vacancies. In November 1992, another OIG audit revealed a vacancy rate of 13 percent. The Commission reported that the high vacancy rate was due to insufficient maintenance staffing levels. The annual average vacancy rates for 1998 and 1999 were 18 and 19 percents, respectively.

As a result of the 1992 OIG audit, the Housing Commission agreed to assign one maintenance employee to work on vacant units full time or hire an outside work crew for the vacant unit preparation. The Commission did not adhere to the agreement. The Housing Commission's Executive Director said it was difficult assigning one worker to prepare vacant units with only two maintenance employees. If one maintenance employee was absent or assigned to other tasks, the second employee was needed to service work orders. The Executive Director said the Commission did not have the money to hire an outside crew.

The Housing Commission's maintenance staff level was low compared to similar commissions. Three comparable public housing commissions reported employing a full-time maintenance supervisor and between two and four maintenance staff. This is compared to the Housing Commission's part-time maintenance supervisor and two maintenance staff.

Controls Over Maintenance Operations Were Weak

The Housing Commission's Board of Commissioners did not properly monitor the vacancy level. The November 1992 OIG audit resolution required the Commission's senior management and Board of Commissioners to review monthly maintenance reports on the status of each unit. Board meeting minutes revealed that the Commission did not review the monthly status of each unit. The Housing Commission's Executive Director said the Board was not interested in the details of individual vacant units.

The Housing Commission did not properly supervise its maintenance activities. The Commission dismissed its full-time maintenance supervisor in August 1998 for unacceptable conduct toward tenants. From August 1998 to March 1999, the Commission operated without a maintenance supervisor. In March 1999, the Commission contracted with a construction company to provide part-time maintenance supervision three days a week. The

Commission's Executive Director said an employment vacancy for a maintenance supervisor was advertised, but no one qualified applied. As an alternative solution, the Commission employs two full time maintenance staff and contracts for part-time supervision.

Waiting List Was Sufficient To Fill Vacancies

As of December 31, 2000, the Housing Commission's waiting list consisted of 131 applicants. The list was sufficient to fill 29 of the 34 vacant units. The remaining applicants could have been placed into larger units in accordance with the Commission's Admissions and Occupancy Plan.

Auditee Comments

[Excerpts paraphrased from the Housing Commission's comments on our draft finding follow. Appendix B, pages 38 and 39, contains the complete text of the comments for this finding.]

The OIG documented that the Housing Commission has had a high vacancy rate for several years. This fact is not being disputed. However, the Commission's Executive Director does not agree with the statement that she found the vacancy rate to be acceptable.

Several obstacles contributed to the Housing Commission's inability to correct the vacancy problem. They include: (1) applicants refusing units due to criminal activity, age of units, and lack of space; (2) the One Strike Policy resulted in a large number of evictions; (3) several public housing residents moved because they received Section 8 assistance; and (4) a lack of maintenance staff.

The Housing Commission agrees that the controls over the maintenance operations are weak. This problem is due in part that the Commission has not had a full time maintenance supervisor.

The OIG states that the waiting list was sufficient to fill 29 of the 34 vacancies. The Housing Commission's Executive Director does not necessarily agree with this statement. There is no guarantee that every applicant would have been willing to accept a unit that may have been available at Parkridge Homes.

The Housing Commission would agree to hire a full time maintenance supervisor and sufficient staff to reduce the high vacancy rate.

OIG Evaluation Of Auditee Comments

The Housing Commission stated that its Executive Director does not agree that she found the vacancy rate to be acceptable. We disagree. The Commission's management controls did not include monitoring, controlling, or preventing excessive vacancies since first reported by OIG in May 1982. The reason for the Commission's high vacancy rate has remained the same for almost 20 years.

We disagree that the Housing Commission's waiting list was insufficient to fill 29 of the 34 vacancies. The waiting list consisted of 131 applicants at the time of our audit. If an applicant refuses a unit, then that applicant would be place at the bottom of the Commission's waiting list allowing other applicants to occupy the unit. In addition, the Commission's Admissions Policy allows families to be housed in larger size units provided the applicant agrees to move to the proper size unit when units become available.

Recommendations

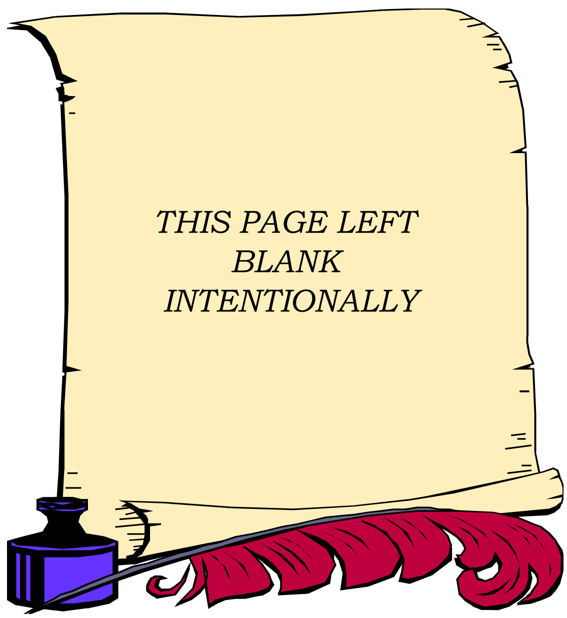
We recommend that the Michigan State Office Director of Public Housing Hub assure the Ypsilanti Housing Commission:

2A. Hires sufficient maintenance staff to reduce the high vacancy rate.

2B. Implements a plan to reduce vacancies that includes filling vacancies from the Commission's waiting list.

2C Prepares vacant units for occupancy within an average of seven calendar days from the date vacated as required by its Maintenance Policy.

2D. Implements procedures and controls to ensure that its Executive Director and Board of Commissioners monitors the status of vacant units as necessary to assure that the Commission finally reduces its vacancy rate.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Controls For Safeguarding Assets Need Strengthening

The Ypsilanti Housing Commission did not safeguard its cash and other monetary assets against possible waste, loss, and misuse. Management controls over cash receipts, deposits, disbursements, equipment, procurement, and financial and administrative processes were weak. The weaknesses can be attributed to the Commission's lack of knowledge or expertise of HUD's requirements, lack of procedures and controls, and errors. As a result, HUD lacks assurance that the Commission's cash and other monetary assets were safeguarded against waste, loss, and misuse.

Federal Requirements

24 CFR Part 85.20 requires Housing Commissions to establish good cash management procedures. Part 85.20 also requires that effective controls and accountability be maintained for all assets and the assets be safeguarded. The Commission's accounting records are to be supported by source documents and its financial management system is to be accurate, current, and complete. Part 85.20 states that records must identify the source and application of funds provided for financially assisted activities.

24 CFR Part 85.32 requires Housing Commissions to maintain detailed property records, take a physical inventory every two years, and reconcile the inventory with property records. The Commission's records must show the property description, source, title, cost, acquisition date, location, use, and condition.

24 CFR Part 85.36(c) requires Housing Commissions to conduct all procurement transactions in a manner to provide full and open competition. Part 85.36(b) requires Commissions to maintain sufficient records to show the procurement history.

Section 309 of the Annual Contributions Contract, between HUD and the Ypsilanti Housing Commission, requires the Housing Commission to maintain current, complete, and accurate books of accounts. Section 401 of the Contract requires the Commission to secure all deposits in excess of the $100,000 insured amount and execute a Depository agreement with its bank to give HUD authority over the

Commission's accounts. Section 401 also requires the Commission to invest General Fund monies not needed for the next 90 days into HUD-approved investment securities and that all funds received are deposited promptly.

Section 407 of the Annual Contributions Contract prohibits the Housing Commission from incurring expenditures in excess of amounts in approved Operating Budgets for controlled accounts, except for emergencies involving an immediate serious hazard to life, health, or safety of the residents.

HUD's Accounting Guide 7510.1, Section II, states that procedures over cash should include a segregation of duties.

Cash Receipts And Deposits Were Not Safeguarded

Management controls over cash receipts and deposits were weak.

- The Housing Commission did not collateralize bank balances that exceeded the $100,000 Federal Deposit Insurance Corporation coverage per the Commission's financial institution. The Commission's Executive Director said she was unaware of the requirement. However, the Commission's independent auditor reported the same condition in the 1999 financial statements audit report. The Commission's Executive Director said she did not read the entire report. As of December 29, 2000, the Commission had $575,568 worth of uninsured funds on deposit at one financial institution.

- The Housing Commission did not execute a Depository Agreement to give HUD the authority to exercise control over the Commission's bank accounts. The Commission's Executive Director said a General Depository Agreement existed, but it could not be located. However, bank officials could not provide us with a copy of the Agreement either. Without the authority, HUD could not exercise control over the Housing Commission's bank accounts in the event HUD declares a breach of the Annual Contributions Contract with the Commission.

- The Housing Commission did not invest excess funds into HUD-approved investment securities. The Housing Commission's Executive Director said the Commission did not have the time or expertise to invest excess funds and considered its interest-bearing bank accounts to be sufficient. However, since HUD provides sufficient investment guidance, the Commission would not need to spend an excessive amount of time or require expertise. Additionally, the Annual Contributions Contract requires the Commission to invest its excess funds into approved investment securities. As a result, we estimate that the Commission lost the opportunity to earn $6,161 worth of investment interest between January 1, 2000 and December 31, 2000.

- The Housing Commission did not deposit rents and other receipts in a timely manner. The Annual Contributions Contract requires that all funds received be deposited promptly. The Commission's Executive Director believed promptly meant one to three days. We reviewed 260 deposits for the period July 1, 1999 to December 31, 2000. A total of 94 deposits (36 percent) were not made within five days after the funds were collected. For example, the Commission collected $10,055 between June 2, 2000 and June 6, 2000 but did not deposit the funds until June 12, 2000, a delay of six to ten days. The Commission's current Accounting Assistant said she followed the practice of the prior Accounting Assistant by making weekly bank deposits. If the Housing Commission had a written collection policy in place, the Commission's Accounting Assistant would have known to make timely deposits. As a result, the Commission took increased risks by keeping the receipts on its premises for an excessive period of time.

Disbursements Were Not Safeguarded

Management controls over cash disbursements were weak.

<u>The Housing Commission did not segregate duties over its petty cash fund and check disbursements</u>. The Commission's Accounting Assistant had custody of the petty cash fund, blank checks, signature plates, and bank deposits. The Assistant also maintained custody of the Commission's accounting records. In effect, the Housing Commission's Accounting Assistant had complete control

over the Commission's accounting system, which could lead to misuse.

In part, the Housing Commission's petty cash disbursements were not segregated due to the Executive Director's medical leave of absence in February 2001. Additionally, the Housing Commission's Executive Director said the Commission's small staff size did not allow for a complete segregation of duties. We determined that even though the Housing Commission had a small staff of five, duties could have been segregated to ensure no one person had complete control over the Commission's transactions.

The Housing Commission could not support that all disbursements were made for reasonable operating expenses or necessary repairs.

- We reviewed 50 out of 3,167 General Fund invoices for the period October 1, 1998 to September 30, 2000 to determine whether the Housing Commission had supporting documentation. Four invoices lacked supporting documentation.

- HUD's Michigan State Office of Public Housing Hub cited the Housing Commission in its November 29, 2000 monitoring report for unsupported Drug Elimination Grant expenditures. HUD's review was conducted on June 19, 2000 and June 20, 2000. As a follow-up, we reviewed three subsequent Drug Elimination Grant vouchers for supporting documentation. Eleven invoices lacked supporting documentation.

The Housing Commission's Executive Director said she believed that the expenditures were supported by source documentation. However, the Commission lacked procedures and controls to ensure expenditures were supported by source documentation. As a result, the Commission lacked assurance that $11,850 worth of General Fund disbursements and $5,431 worth of Drug Elimination Grant disbursements was used for their intended purpose. The table on page 20 of this report shows the unsupported expenditures.

<u>The Housing Commission was reimbursed for duplicate and ineligible Drug Elimination Grant expenditures.</u>

- Wages for three of the Commission's employees and the purchase of signs were double billed. The excess reimbursement to the Commission totaled $2,827.

- An expenditure of $500 for a parking lot expense was not eligible for reimbursement, but was paid by the Commission.

The Housing Commission's Executive Director said she believed that the above expenditures were allowable and supported by source documentation. However, the Commission's Director was unaware of the duplicate reimbursements. HUD previously notified the Commission that the parking lot expenditure was not allowable. We determined that the Commission lacked procedures and controls over expenditures. As a result, the Commission lacked assurance that $3,327 ($2,827 plus $500) worth of Drug Elimination Grant disbursements was used for their intended purpose. The table on page 20 of this report shows the duplicate and ineligible expenditures.

Date	Number	Amount	Payee	Payment Explanation	Audited Results
Unsupported General Fund Expenses					
9/16/99	11584	$2,925	Motor City Asphalt	Repair turnaround at Paradise Manor.	No support
9/16/99	11585	2,925	Motor City Asphalt	Repair turnaround at Paradise Manor.	No support
9/30/99	11653	2,000	H.A. Hasan, PhD	EMU/Vista Program Collaboration.	No support
3/9/00	12368	4,000	H.A. Hasan, PhD	Hope VI/Vista Program Supervisor.	No support
Total		**$11,850**			
Unsupported Public Housing Drug Elimination Grant Program Expenses					
9/28/00	110944	$ 515	Diamond Computers	Computer supplies	No support
	110944	200	Advanced Blind	Blinds for Learning Center	No support
	110944	90	A. Williamson	Posters for Learning Center	No support
	110944	146	Wal-Mart	Unknown.	No invoice
	110944	903	Wal-Mart	Unknown.	No invoice
	110944	348	Wal-Mart	Unknown.	No invoice
	110944	400	Sam's Club	New software, videos, etc.	No support
	110944	200	Play-It-Again Sports	Sports equipment for Hollow Creek Center	No support
	110944	2,500	Jordan Tae Kwon Do	Karate classes & equipment – 30 youth	No support
11/30/00	114227	80	A. Williamson	Supplies	No support
	114227	49	Mattel Interactive	Software replacement	No support
Total		**$5,431**			
Public Housing Drug Elimination Grant Program Duplicate Claim Costs					
7/21/99	088469	$2,292	FastSigns	Estimate Number 5074 for various signs and wooden posts.	Duplicate Claim
11/30/00	114227	177	A. Jones (employee)	Replacement check for wages	Duplicate Claim
11/30/00	114227	204	R. Frasier (employee)	Replacement check for wages	Duplicate Claim
11/30/00	114227	154	C. Ervin (employee)	Replacement check for wages	Duplicate Claim
Total		**$2,827**			
Public Housing Drug Elimination Grant Program Ineligible Costs					
9/28/00	110944	$500	Bateson Farms & Co.	Parking lot paving expense.	Ineligible
Total		**$500**			

Controls over check disbursements were weak. The Housing Commission's check register did not reconcile with source documents. For example, manual check numbers 13110 through 13112 did not include the check amount in the Commission's register. The Commission's Executive Director said she could not explain why the errors occurred. We believe the lack of procedures and controls by the

Commission to ensure that the check register reconciled with source documents caused the errors to go undetected. As a result, the Commission could issue checks in excess of funds on hand.

Equipment Was Not Safeguarded

The Housing Commission's management controls over equipment accountability were weak for equipment purchased with Federal funds. The Commission failed to perform physical inventory reconciliations, itemize donated equipment, and maintain detailed property records. For example, one invoice identified the purchase of six computers on October 29, 1998 for $6,870. The computer equipment was not recorded in the Commission's property ledger. The Housing Commission's Executive Director said she was not fully aware of Federal requirements for safeguarding equipment. However, HUD's requirements identified specific record keeping guidance. As a result, the Commission cannot provide assurance that all equipment was accounted for and used for its intended purpose.

Procurement Controls Were Weak

The Housing Commission did not always conduct procurements in a manner to provide full and open competition. For example, the Commission did not advertise or solicit price quotes for legal services. The Commission has had legal services provided by the same law firm since 1992 without advertising or soliciting competitive price quotes. The Commission paid $16,667 for legal services between January 1, 2000 and December 31, 2000. The Commission's Executive Director said the Commission had not always advertised for procurements. She also said the Commission had been very satisfied with the services. Regardless, the Housing Commission's procurement policy required the Commission to advertise or mail out invitations to bid on contracts in excess of $5,000. As a result, HUD lacks assurance that the lowest price was obtained for the Commission's procurement transactions, and that there was full and open competition.

Financial And Administrative Controls Were Weak

The Housing Commission's budgetary controls were weak. The Commission did not control cost overruns and failed to obtain HUD's approval for the overruns. The Commission's Fiscal Year 2000 financial statements showed budget overruns totaling $241,423 in administration, utilities, ordinary maintenance, employee benefit contributions, and insurance. The Commission's

Executive Director said she could not explain the cost overruns, but believed high unit repair costs contributed to the overruns. However, we determined the Commission's lack of controls contributed to the budget overruns. Because of the lack of controls, the Commission did not know when it reached its budget authority. Accurate budgeting is important to ensure the efficient and effective use of funds.

Controls For Safeguarding Assets Have Been A Continuous Problem

The Housing Commission's weak management controls over petty cash, unsupported disbursements, equipment accountability, and procurement practices have been a continuous problem.

In May 1982, an OIG audit revealed that the Commission had not established effective controls over investments, cash receipts, cash disbursements, equipment records, and procurement. In November 1992, another OIG audit revealed the Commission continued to experience similar deficiencies. For example, the Commission failed to establish effective management controls for safeguarding cash receipts, cash disbursements, procurement, petty cash, property, and equipment.

In an effort to resolve the previous OIG audits, the Housing Commission agreed to improve its management controls. The Housing Commission's Executive Director said the Commission had not complied with the agreement. Because the Housing Commission failed to implement the necessary controls, HUD lacks assurances that the Commission's cash and other monetary assets were safeguarded against waste, loss, and misuse.

Auditee Comments

[Excerpts paraphrased from the Housing Commission's comments on our draft finding follow. Appendix B, pages 40 to 45, contains the complete text of the comments for this finding.]

The Housing Commission disagrees that it did not safeguard cash and other assets against possible waste, loss, and misuse. The Commission does have safeguards in place to protect its cash and other assts from waste, loss, or misuse. Missing cash or assets were not reported and there are no material weaknesses. The Housing Commission agrees that due to several circumstances, some of the controls were less than adequate.

OIG suggests that the disbursements were not safeguarded and that management controls were weak. However, OIG offers very little to support its statements. The Housing Commission asserts that disbursements were safeguarded and management controls were adequate.

OIG's draft finding states that equipment was not safeguarded and computers purchased with grant money were not used for their intended purpose. However, the draft finding offers no support or basis for the comment. The Commission's position is that all equipment is safeguarded and the computers are being used for their intended purpose.

The draft finding states that procurements were not always conducted in a manner to provide for full and open competition. The example used in the finding is for legal services. The finding states that in calendar year 2000 the Commission paid $16,667 for legal services and its in excess of the $5,000 threshold for getting competitive bids. The Commission believes that its procurement policy was and is being followed. The amount of money that will be paid for legal services during any given year is not known or stated in the contract; therefore, the Commission was not in excess of the $5,000 limit when it contracted for the legal services.

The Housing Commission's new Finance Director is responsible for reviewing and improving the Commission's budgeting and tracking process. The Commission is using new software and spreadsheets for this process. When the Housing Commission purchases a new accounting package and it is installed, there will be new management reports that will provide the Commission better and timelier reporting. One such report will show budget-to-actual comparisons for current months and the year-to-date expenditures. Included in the new software is a purchase order system that will improve the Commission's internal controls and approval process. Any potential cost overruns will be detected well in advance and year-end budget revisions will be made, if necessary.

OIG makes reference to past audit findings and that the Commission's cash and assets were not safeguarded. The draft finding states this is a continuous problem that the Commission has not fixed. The Commission believes that its cash and assets were safeguarded, and this is not a continuous problem. Again, there were no findings of loss, waste, or misuse.

OIG Evaluation Of Auditee Comments

We disagree that the Housing Commission has safeguards in place to protect its cash and other monetary assets from waste, loss, or misuse. In fact, the Commission's weak management controls have existed for almost 20 years. In May 1982, an OIG audit disclosed that the Commission had not established effective controls over investments, cash receipts, cash disbursements, equipment records, and procurement. In our November 1992 audit, OIG reported that the Commission continued to experience similar deficiencies.

We disagree that disbursements were safeguarded and management controls were adequate. We consider the Housing Commission's lack of segregation of duties over petty cash and check disbursements, and the Commission's inability to reconcile its check register with source documents to be a weak management control. The lack of a system of records to ensure supporting documents were maintained for disbursements to be a weak management control. Furthermore, the Housing Commission's failure to implement procedures and controls to ensure reimbursements are not claimed twice, and the payment of ineligible and unsupported expenses to support the Commission's weak controls.

The Housing Commission's hiring of a new Finance Director and the purchase of new computer software should improve its management controls, if effectively implemented.

Recommendations

We recommend that the Michigan State Office Director of Public Housing Hub assure the Ypsilanti Housing Commission:

3A. Implements procedures and controls to safeguard cash receipts, deposits, disbursements, equipment, procurement, and financial and administrative processes against waste, loss, and misuse. The procedures at a minimum should include:

- Investing excess General Fund money into HUD-approved investment securities;
- Depositing cash receipts in a timely manner;
- Segregating petty cash and disbursement duties so no one person has complete control over the petty cash fund, blank checks, signature plates, bank deposits, and the preparation of accounting records;
- Supporting all purchases with source documents to ensure disbursements were used for their intended purpose;
- Reconciling all checks and the check register with source documents;
- Maintaining a detailed property ledger and take a bi-annual physical inventory to account for all of the Commission's property;
- Conducting procurement transactions in a manner to provide full and open competition, and maintain records to support the rational and justification of the procurement process;
- Establishing a system of records to separate accounting activities for the Commission's activities/programs;
- Ensuring accounting and financial records are current, complete, and accurate; and
- Preventing expenditures in excess of approved budget amounts for controlled accounts.

3B. Provides training to its staff in procedures and controls necessary to safeguard cash and other monetary assets against waste, loss, and misuse.

3C. Executes a collateralization agreement for its bank accounts that exceed the $100,000 Federal Deposit Insurance Corporation coverage.

3D. Executes a Depository Agreement with its financial institution to give HUD authority over all accounts.

3E. Provides documentation to support the $17,281 ($11,850 plus $5,431) worth of unsupported disbursements cited in this finding. If the Housing Commission cannot provide supporting documentation, the Commission should reimburse its appropriate program(s) from non-Federal funds for the applicable amount.

3F. Reimburses HUD $3,327 ($2,827 plus $500) from non-Federal funds for the duplicate and ineligible costs cited in this finding.

Management Controls

In planning and performing our audit, we considered the management controls of the Ypsilanti Housing Commission in order to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

We determined the following management controls were relevant to our audit objectives:

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.

- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- <u>Program Operations</u>

The Housing Commission was not operated according to program requirements. Specifically, the Commission: improperly claimed $98,466 of inflated operating subsidy since it did not adjust its subsidy claim for long-term vacant units and it inflated the number of occupied units; did not maintain an acceptable level of occupancy; failed to collateralize bank balances that exceeded the $100,000 Federal Deposit Insurance Corporation coverage; did not execute a Depository Agreement to give HUD the authority to exercise control over its bank accounts; failed to invest excess funds into HUD-approved investment securities; did not deposit rents and other receipts in a timely manner; failed to segregate duties over its petty cash and check disbursements; could not support $11,850 of Low-Rent Housing Program disbursements and $5,431 in Public Housing Drug Elimination Program disbursements; improperly spent $3,327 of Drug Elimination Program funds for duplicate and ineligible costs; did not safeguard equipment; failed to always conduct procurements in a manner to provide full and open competition; and did not control cost overruns and obtain HUD's approval on the overruns (see Findings 1, 2, and 3).

- <u>Validity and Reliability of Data</u>

The Housing Commission: provided misleading information to HUD regarding the number of long-term vacant units; inflated the number of occupied units it claimed for operating subsidy from July 1, 2000 to June 30, 2001; and did not record computer equipment in its property ledger (see Findings 1 and 3).

- <u>Compliance with Laws and Regulations</u>

The Housing Commission did not follow HUD's regulations regarding operating subsidy requests and safeguarding of assets (see Findings 1 and 3).

- <u>Safeguarding Resources</u>

The Housing Commission: improperly claimed $98,466 in excess operating subsidy; lacked documentation to support $11,850 of Low-Rent Housing disbursements and $5,431 in

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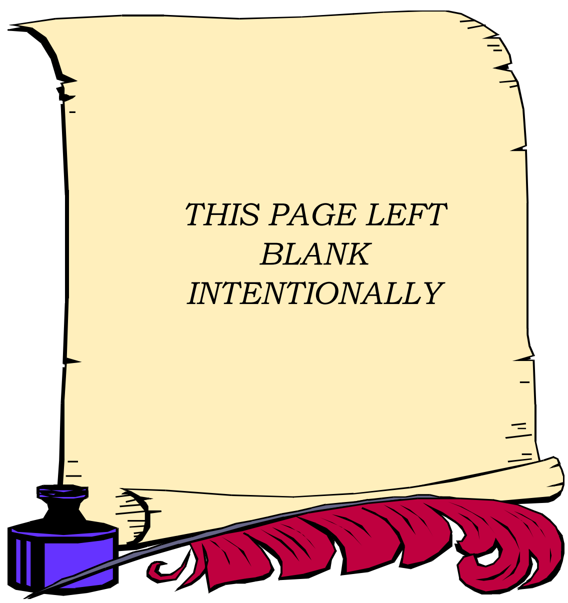
Public Housing Drug Elimination Program disbursements; and inappropriately used $3,327 of Drug Elimination Program funds to pay for duplicate and ineligible costs (see Findings 1 and 3).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Follow Up On Prior Audits

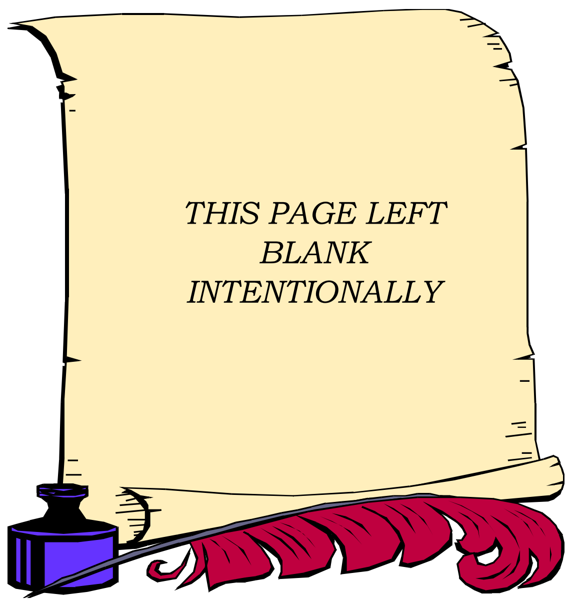
HUD's Office of Inspector General issued two prior audit reports on the Ypsilanti Housing Commission. The first report was issued on May 28, 1982 (Audit Report Number 82-CH-202-1066). The report contained 13 findings. The recommendations for the findings were closed. Seven of the 13 findings are repeated in this report.

Audit Report Number 82-CH-202-1066	This Report
PHA's Vacancy Losses Exceed HUD's Limits (Finding 1).	The Commission Needs To Reduce High Vacancy Rates (Finding 2).
Questionable And Unsupported Maintenance Expenses (Finding 2).	Controls For Safeguarding Assets Need Strengthening (Finding 3).
Deficiencies In Accounting System (Finding 3).	Same As Above.
Lack Of Control Over Purchases Of Materials And Services (Finding 4).	Same As Above.
Weaknesses In Internal Control Over Cash Receipts (Finding 5).	Same As Above.
Nonexpendable Equipment Records Were Inadequate (Finding 9).	Same As Above.
Investment Program Deficiencies (Finding 10).	Same As Above.

The second report was issued on November 30, 1992 (Audit Report Number 93-CH-202-1005). The report contained four findings. The recommendations for the findings were closed. Two of the four findings are repeated in this report.

Audit Report Number 93-CH-202-1005	This Report
The Commission Did Not Maintain An Acceptable Occupancy Level (Finding 2).	The Commission Needs To Reduce High Vacancy Rates (Finding 2).
Controls For Safeguarding Assets Were not Adequate (Finding 3).	Controls For Safeguarding Assets Need Strengthening (Finding 3).

The latest single audit for the Housing Commission covered the fiscal year ended June 30, 2000. The report contained one finding, which was not repeated in this report.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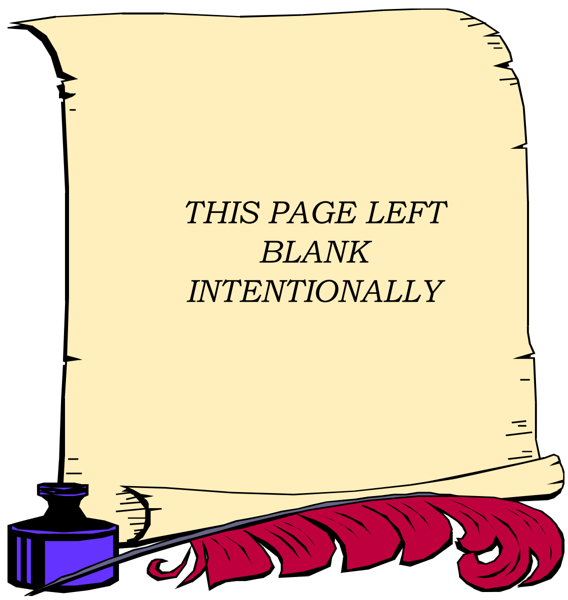
Schedule of Questioned Costs

Recommendation Number	Type of Questioned Costs Ineligible 1/	Unsupported 2/
1A	$98,466	
3E		$17,281
3F	3,327	
Total	$101,793	$17,281

1/ Ineligible costs are costs charged to a HUD-financed or 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 costs charged to a HUD-financed or insured program or activity and eligibility cannot be determined at the time of the audit. The costs are not supported by sufficient documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require future 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.



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Auditee Comments

July 20, 2001

Michael A. Raponi
Assistant District Inspector General for
Audit, Midwest
U.S. Department of Housing and Urban Development
Office of the Inspector General
77 West Jackson Blvd., Suite 2646
Chicago, IL 60604-3507

Re: Response to Draft Findings 1 & 2

Dear Mr. Raponi:

This letter is in response to the draft findings of the Ypsilanti Housing Commission. An Audit has been on-going for the past several months; the Commission has been presented with the first two of three audit findings. The two findings addressed in this letter are:

1) Commission's Operating Subsidy was Inflated; and
2) Commission's Needs to Reduce High Vacancy Rates.

Upon my request to the Office of Inspector General (OIG) to review the workpapers which constituted the aforementioned findings, the OIG arranged for a meeting which included the auditors, HUD staff, the Ypsilanti Housing Commission fee accountant, and myself. OIG provided copies of all relevant workpapers and answered questions posed by the fee accountant and myself. I was afforded as much time as necessary to gain a full understanding of the issues and was granted an extension of time to offer this written response; the auditor and supervisor conducted the meeting in a professional and courteous manner.

I am the Executive Director of the Ypsilanti Housing Commission, and have been charged with the responsibility of completing and submitting forms on behalf of the Board of Commissioners. I make every effort to perform my responsibilities in an accurate and timely manner. I have not knowingly submitted any document to contain false or misleading information to the government; however, some documents submitted may have contained errors due to circumstances beyond my control, out of inadvertence or lack of knowledge of the Rule. I endeavor to maintain all Rules and Regulations in a manner that I review them upon receipt and in a special file for reference. Unfortunately, I was unable to locate the vacancy rule in my file. Considering all of the circumstances, I unequivocally had no knowledge of the Rule.

Specific information concerning the above findings are as follows:

Operating Subsidy Inflated.

The OIG has established that an overpayment of $98,466.00 in operating subsidy occurred for the years 1997-2001 as a result of the Commission failing to accurately report the long term vacancies on HUD form 52723, Calculation of Performance Funding System Operating Subsidy. The recapitulation of the long term vacancies by the OIG appears to be correct; however, the explanation of the Directors knowledge is incorrect. In the first paragraph under Subsidy Not Adjusted for long Term Vacancies, the Draft Finding states, "The Director said she became aware of the long term vacancy rule when the fee accountant reported the long term vacancy adjustment for fiscal year 2001. The Director contradicted herself in a subsequent interview when she said she was unaware of the requirement." OIG claims the exact interview, question and answer, can be established from the auditors notes which support this statement; however, either the auditor or I was mistaken concerning the facts; I was absolutely unaware of the required adjustment until it was questioned by the HUD area office as a result of the submission of the 2001 budget. NO correction has taken place because I was awaiting the results of the OIG audit which is still not complete.

HUD form 52723 is a complicated form which requires input fro the Commission, HUD, and Congress, and is not completed until several months after the subjected budget year. Several lines of information require adjustment after year end when actual data is available. There are 88 lines of data on the HUD forms 52723 for the years 1997-2001, 67 lines were changed by the HUD area office <u>not</u> including the lines changed by the OIG. 75% of the submitted data has been changed by HUD as a result of changes mandated by Congress, HUD, or corrections of errors. The following represents the requested subsidy as originally presented by the Commission and the actual subsidy received after the corrections by HUD (prior to the recommended changed by OIG)

Year End	Requested	Received	(Under)/Over
6/30/97	$364,695	$359,066	$(5,629)
6/30/98	445,147	444,702	(445)
6/30/99	395,366	429,527	34,161
6/30/00	383,573	353,665	(29,908)
6/30/01	398,916	431,756	32,840
	$1,987,697	$2,018,716	$31,019

I did not have knowledge of the mandatory adjustment for long term vacancies, but in my attempt to complete HUD form 52723 for the year ended June 30, 1997, I realized that the Commission had vacancies; I used 90% on line 17, projected occupancy percentage; HUD increased the percentage to 97%. HUD's adjustment increased the original request by $15,539.

In 1996, the Commission requested permission to demolish 20 units which had fallen in disrepair and are located in a high crime area; the units had been unrentable. HUD approved the plan in 1998, and in 1999 the units were razed; in reviewing the HUD form 52723, the approving HUD official did not question the lack of the adjustment for long term vacancies even though having full knowledge of the nature of the units. In addition to the missed adjustment for long term vacancies, both HUD and the Commission failed to adjust the 6/30/97 budget for the FICA adjustment; obviously HUD realized we had employees subject to FICA; once I became aware of that rule the adjustment was made for 1997 on the 1998 HUD form 52723, which reveals my good faith intent to correct known mistakes when information becomes available.

The recommendations by OIG are as follows:

We recommend that the false claims be:

1A Referred to the United States Attorneys Office for consideration of pursuit under the False Claims Act, Title 31 of the United States Code, Section 3729.

1B De-obligate $23, 472 from the Commission's fiscal year 2001 budget to accurately reflect long term vacant units and the number of units occupied.

1C Recover $74,994 worth of excess subsidy payments made for long term vacancies from July 1, 1996 to June 30, 2000.

1D Pursues administrative Action against the Housing Commission's Executive Director based on the continual false certifications as permitted by 24 CFR Part 24.

The Performance Funding System is routinely subjected to corrections and changes; year end adjustments to Investment Income, audit cost and utility expense levels are made annually. It is not uncommon to have the initial submission of the budget altered by HUD before a claim is ever made to the government. Referral to the United States Attorneys' Office under the False Claims Act is without merit; I did not have actual knowledge of the information (Long Term Vacancy Adjustment), or act in deliberate ignorance of the truth or falsity of the information; or, act in reckless disregard or the truth or falsity of the information. Section 3729, False Claims states the following: (a) Liability for Certain Acts. - Any person who...

My intention is not to impugn dedicated persons who work for the Detroit Area Office, but the signature which constitutes a claim for the payment is signed by both the representative of the Commission, and the Authorized Field office Representative; both under the same warning. I have always maintained a cooperative and willing to adhere to Rules and Regulations relationship with the HUD office.

The field office had knowledge of the required adjustment for long term vacancies as evidenced by distributing Public and Indian Housing Notice 96-35 on June 4, 1996. Further, the field office had knowledge of our long term vacancies because of our request to demolish unrentable units submitted to HUD in 1997; the field office did not question the lack of adjustment for long term vacancies, however, did inquire and change 75% of the data submitted. OIG views the 67 lines of changes to be acceptable as correction of an error, but the line for long term vacancies subject to referrals as a false claim; when asked to explain the difference, OIG was unable to differentiate between acceptable errors and/or a false claim. Accordingly, we submit that the line item for long term vacancies should also fall in the category of the correction of an error.

The Commission would agree to repay the $98,466 by either de-obligating the funds from the Commission's 2002 budget, or repayment directly to HUD; in addition, I would welcome assistance from the Area Office either in the form of on site support or oversight. I do not believe referrals or administrative actions are necessary under the circumstances; the cost for both the government and the Commission would be unwarranted and counter productive. Moreover, I should not be held responsible for the actions of other Commission Directors or the Commission actions prior to my becoming the Director.

Commission Needs to Reduce High Vacancy Rates

The OIG has documented that the Commission has had a high vacancy rate for several years. This fact is not being disputed. I do not agree with the statement that I found the vacancy rate to be acceptable.

The Commission took the following actions to reduce the vacancy rate:

1. Applied for and received funding under the Vacancy Reduction Program, 1994;
2. Requested permission to demolish 20 units at Parkridge Homes, 1997;
3. Requested permission to deprogram 4 units at Parkridge Homes to be used for tenant services, 1997. (The Commission never received any correspondence from field office regarding this request);
4. Applied for HOPE VI, 1999 (The Commission was not funded under this grant);
5. After HOPE VI was not funded, the Commission continued dialogue with City of Ypsilanti officials regarding the future of the Parkridge Homes. The issues of high crime and density were discussed, two factors that make renting these units extremely difficult, 1999 to present; and
6. Collaborated with Eastern Michigan University on various grant applications and projects that would ultimately have helped with the improvement of the image of the Gateway community, where the majority of the Commission's units were located, 1995 to present.

There have been several obstacles over the years that have contributed to the Commission's inability to correct the vacancy problem:
1. Available units are often refused by applicants because of location and lack of amenities, i.e. Parkridge Homes, due to criminal activity, age of units, lack of space.
2. One-Strike policy requires eviction for criminal and drug related activities. The Commission has processed a large number of evictions due to this policy. This policy also reduces the number of eligible applicants.
3. Over the past two years several public housing residents moved out because they received Section 8.
4. The Commission has not had complete maintenance staff for several years. The reasons include medical leaves, a transfer to another City department by one maintenance worker, and the inability to retain a competent supervisor.

I agree that the controls over the Maintenance Operations are weak. This problem is due in part to the fact that the department has not had a full time maintenance supervisor. Preparation of a unit status report for review by the Board could be handled by a maintenance supervisor.
The OIG states that the waiting list was sufficient to fill 29 of 34 vacancies. I do not necessarily agree with this statement. There is no way to guarantee that every applicant would have been willing to accept a unit that may have been available at Parkridge Homes.

The recommendations by the OIG are as follows:

We recommend the Michigan State Office Director of Public Housing Hub:

2A. Assures that Ypsilanti Housing Commission hires a full time maintenance supervisor and sufficient staff to reduce the high vacancy rate.

2B. Assure that Ypsilanti Housing Commission fills vacancies form waiting list.

2C. Assure that Ypsilanti Housing Commission prepares vacant units for occupancy within an average of seven calendar days from the date vacated.

The Commissions would agree to hire a full time maintenance supervisor and sufficient staff to reduce the high vacancy rate. The Commission will also hire a finance manager to assist in form preparation, grant writing, and strengthening internal controls. The Commission would agree to revise its policy concerning the number of days required to prepare vacant units. On average, seven calendar days is not sufficient. Recommendations from the maintenance supervisor would be taken into consideration prior to the policy being revised.

In closing, I must reiterate that I had no knowledge of the Vacancy Rule prior to filing the HUD reports and I did not and will not intentionally file a false report for the purpose of increasing the subsidy allowance or any other reason.

I want to assure the OIG and the Detroit Field Office that I have given this matter the most serious consideration. I have been on medical leave during the better part of this audit and have made every effort to cooperate with the OIG and facilitate resolution of the issues raised. Morever, it is my intent to correct any and all problems raised by the audit immediately upon my return.

Respectfully submitted,

/signed/

Janine S. Scott, PHM
Executive Director

Ypsilanti Housing Commission
Response to OIG Audit Finding #3

The Ypsilanti Housing Commission's stated goal is to achieve High Performer status within the next two to three fiscal years. We will have to make significant improvements in many areas to accomplish this task. To that end, we are glad that the audit report points out certain areas that need improvement. However, the Commission disagrees with some of the audit findings, comments and recommendations.

The Commission disagrees with the opening statement in audit finding number three. The OIG states "The Ypsilanti Housing Commission did not safeguard its cash and other assets against possible waste, loss and misuse." The Commission does have safeguards in place to protect its cash and other assets from waste, loss or misuse. Missing cash or assets have not been reported and there are no material weaknesses. The Commission agrees that due to several circumstances some of the controls may have been less than adequate. The following will outline the steps we are taking to assure that any perceived weaknesses are addressed and corrected.

Cash Receipts and Deposits Not Safeguarded

Bank Deposits not Collateralized:

The Commission has discussed this issue with the bank. A new collateral agreement is being addressed by the bank's corporate office. A meeting has been set to review the new agreement to make sure it is in compliance with section 401 of the Annual Contributions Contract. We will secure banking services that meet all of our needs.

Depository Agreement not on File:

The Commission and the bank are researching the missing document. The Board passed a resolution adopting the depository agreement in January 2001. We have been in contact with the bank ever since the auditor inquired about the agreement. It has been very difficult to get this matter resolved and future discussion with HUD is warranted.

Investment of Excess Funds:

This issue will be addressed with the bank at the upcoming meeting. Arrangements for HUD approved investments will be made and in the future all excess funds that are not needed within ninety (90) days will be invested in compliance with section 401 of the Annual Contributions Contract. A new Finance Director has been hired; his start date was September 4, 2001. It is his responsibility to make sure all HUD regulations for cash management are implemented and followed. The "Required HA Cash Management and Investment Policies and Procedures" has been downloaded from the HUD web site. This is being reviewed and necessary adjustments and improvements in internal controls are being implemented on an ongoing basis.

Deposit of Rents in a Timely Manner:

The Commission asserts that the vast majority of deposits were made in a timely manner. The new finance director has reviewed and discussed this issue with the staff, the appropriate internal controls have been implemented and all deposits are being made timely. Policy and procedures will be formalized in writing by June 2002.

Disbursements Not Safeguarded

The OIG suggests that the disbursements were not safeguarded and that management controls were weak. Conversely, the audit report offers very little support for these statements. The Commission asserts that disbursements were safeguarded and management controls were adequate.

Segregation of Duties Over Petty Cash and Check Disbursements

The OIG states that the accounting assistant had complete control over the accounting system including preparation of the accounting records which could lead to misuse. The assistant did not have complete control of the accounting system or of its records. The Executive Director reviewed and supervised activities much of the year and when she was on medical leave there were still adequate controls in place. The fee accountant prepared many financial records including bank reconciliations, cash disbursements and financial statements. The Board of Commissioners were given a detailed record of all disbursements on a monthly basis for their review. Any other segregation of duty issues has been addressed with the addition of the new finance director.

Adequate Support for Disbursements

The audit finding implies that not all expenditures are for reasonable operating expenses and repairs. After reviewing the report, the Commission cannot find any expenditure listed by the OIG that is not appropriate and reasonable. The report only shows that the auditor could not find some of the documentation; he does not document any expenditure that is not legitimate. The Commission states that at the time the listed costs were paid that the proper approval was in place. We contest the statement that $11,850 of general funds was not used for their intended purpose. The repairs and services in question were completed and there is nothing in the audit report that indicates that the money did not go to the named payee or that the services were not performed. We can support all expenditures. With the addition of new computers, better software and new personnel; the internal controls and approval process for expenditures will be restructured and improved. The Commission acknowledges its responsibility for filing and better record keeping and will improve on its ability to provide a detailed audit trail on demand.

The statement about the Drug Elimination expenditures being unsupported and not used for their intended purpose is misleading and incorrect. Again, there is no basis for the statement that these funds were not used for their intended purpose. We can support all expenditures. The new internal controls and improved procedures will apply to Drug Elimination Grant expenditures as well.

Duplicate, Ineligible and Questionable Drug Elimination Grant Expenditures

The report states that some wages and an invoice for signs were funded twice. This was due to a clerical error. The $2,827 of duplicate entries has been corrected. The Finance Director will review the Grant for accuracy before it is closed in December 2001. Our new software, internal controls and procedures will prevent this error in the future.

An ineligible cost of $500 for parking lot repairs was charged to the Grant. This entry has been corrected. The oversight was due to our shortage of staff. As stated above, new procedures and staff have been added and the Commission is committed to preventing these errors in the future.

Controls Over Check Disbursements Were Weak

The only support offered for this statement is that three manual checks (written at the same time) were not recorded in the check register. It does not state in the report how many checks were looked at or what time frame was reviewed. As stated above, the bank reconciliations were performed on a monthly basis by the fee accountant who kept our books. Any unrecorded checks would be detected and recorded through this procedure. It is the Commissions position that adequate internal controls were and are in place.

Equipment Not Safeguarded

The audit report states that equipment was not safeguarded and that computers purchased with grant money were not used for their intended purpose yet the report offers no support or basis for this comment. It is our position that all equipment is safeguarded and the computers are being used for their intended purpose. The grant record keeping requirements are being reviewed and new procedures will be implemented.

The report also states that the Commission does not complete all physical inventory reconciliations or keep detailed property records. The report also states it recommends a bi-annual inventory. It should be noted that HUD requires an annual inventory. It is our position that some asset inventories have been performed and that the asset records do exist. However, the Commission does recognize that this is an area we can improve upon. The Finance Director will be responsible for reviewing the asset procurement and disposal procedures, making sure the annual asset inventory is completed and reconciled to the general ledger and for improving the internal controls. The Commission is in the process of updating its software capabilities with regards to asset tracking. We are also considering going out for bids to have one of the many firms that specialize in asset inventories perform ours in 2002. At that time we will review switching to a bar code system.

Procurement Controls Were Weak

The audit report states that procurements were not always conducted in a manner that provides for full and open competition. The example used in the report is for legal services. The report states that in calendar year 2000 we paid $16,667 for legal services; it further states that this is in excess of the $5,000 threshold for getting competitive bids. It is our position that the procurement policy was and is being followed. The amount of money that will be paid for legal services during any given year is not known or stated in the contract; therefore we were not in excess of the $5,000 limit when we contracted for legal services. We feel the best way to set up this type of service is to know what the hourly rate will be. At the time these services were set up in 1992 and periodically thereafter we have checked the hourly rate and found it to be acceptable. We are being charged a discounted rate of $75 per hour and feel this is a very reasonable fee for legal services. The Commission is very satisfied with our legal representation and would not want to switch firms at this time. The law firm we use qualifies as a minority business so we have the added benefit of MBE participation that HUD also stresses.

The procurement policies and procedures will be reviewed and updated if necessary. Additional staff training is also being planned. This is all part of our ongoing effort to continually improve our housing commission so we achieve our stated goal of High Performer status.

Financial & Administrative Controls Were Weak

The issue raised in this section is budget controls, procedures and cost overruns. The new Finance Director is responsible for reviewing and improving the budgeting and tracking process. New software and spreadsheets are already being used for this process. When the new accounting package is purchased and installed (in January 2002) there will be new management reports that will allow for better and timelier reporting. One such report will show budget to actual comparisons for both current month and year to date. Included in the new software is a purchase order system which will improve our internal controls and approval process. Any potential cost overruns will be detected well in advance and year end budget revisions, if necessary, will be made.

Controls for Safeguarding Assets

References are made to past audit findings and another statement is made about our cash and assets not being safeguarded. This is a repeat comment and the issue has already been addressed earlier in the report, as have our plans for improving on our procedures. It is stated that this is a continuous problem that has not been fixed. It is our position that our cash and assets have been safeguarded and this is not a continuous problem. Again, there are no findings of loss, waste or misuse.

Recommendations

The Commission has taken the necessary steps to resolve all issues. These items have been addressed in more detail in the body of our response but a summary of each recommendation follows:

- Investing excess funds into HUD approved investment securities. The Commission will invest all excess funds in compliance with HUD regulations.

- Depositing cash receipts in a timely manner. New procedures are in place to make sure all deposits are made in a timely manner.

- Segregating petty cash and disbursement duties so no one person has complete control. With the addition of staff there is better segregation of duties.

- Supporting all purchases with source documents to ensure disbursements were used for their intended purposes. New internal controls and procedures are being implemented and a new Maintenance Supervisor has been hired.

- Reconciling all checks and the check register with source documents. This procedure has always been in place however we will review our procedures and internal controls. Improvements will be made where needed.

- Maintaining a detailed property ledger and take a bi-annual physical inventory to account for all Commission assets. An asset inventory will be taken and reconciled to the general ledger on an annual basis. All internal controls relating to asset tracking, additions and deletions will be reviewed and improved where needed.

- Conducting procurements in a manner to provide full and open competition and maintain records to support the rational and justification of the procurement decision. Our current policy will be reviewed and updated where needed. The addition of staff and ongoing training will strengthen these areas.

- Establishing a system of records to separate accounting activities for grant awards, day care center and public housing programs. The addition of new staff, training and new software will resolve this issue.

- Establishing procedures and controls to ensure accounting and financial records are current, complete and accurate. The addition of new staff, training and new software will resolve this issue.

- Preventing expenditures in excess of amounts in approved operating budgets for controlled accounts. The addition of new staff, improved internal controls, training and new software will resolve this issue.

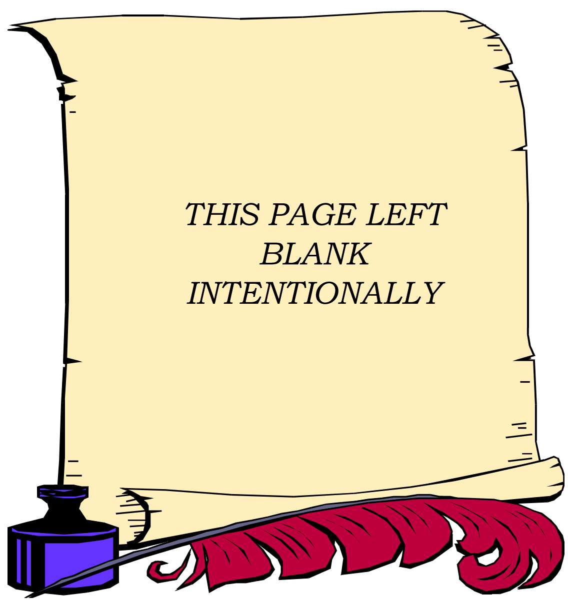
- Ensure staff receives training in procedures and controls necessary to safeguard cash and other assets against waste, loss and misuse. Improved internal controls are being made and staff training is being provided.

- Collateralize all bank balances that exceed the $100,000 FDIC coverage. A meeting has been set with the bank and a new collateral agreement will be implemented.

- Execute a depository agreement with the bank to give HUD authority over all accounts. Ongoing discussions with HUD and the bank will address this issue.

- Provide documentation to support expenditures or refund $17,281 back to HUD from non-HUD sources. Documentation can be provided.

- Reimburse HUD $3,327 for ineligible and duplicate expenditures from non-HUD sources. These items have been corrected therefore no refund is necessary.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