



U.S. Department of Agriculture



Office of Inspector General
Southeast Region

Audit Report

Rural Development Audit of the Housing Authority of the City of Moultrie, Georgia

Report No. 04010-1-AT
January 2004



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL
Southeast Region - Audit
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DATE: January 9, 2004

REPLY TO
ATTN OF: 04010-1-At

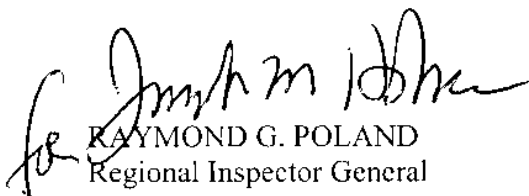
SUBJECT: Rural Development Audit of the Housing Authority
of the City of Moultrie, Georgia

TO: F. Stone Workman
State Director
USDA-Rural Development

This report presents the results of the subject audit. Your December 23, 2003, response to the draft report is included as exhibit A with excerpts and the Office of Inspector General's (OIG) position incorporated in the findings and recommendations section of the report.

We can achieve management decision on Recommendations Nos. 1 and 2 once Rural Development (RD) provides us with the timeframes for implementing the servicing action provided for under RD Instruction 1944-D, paragraph 1944.154(b). In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days. Please note that the regulation requires management decision to be reached on all recommendations within 6 months of report issuance and final action to be completed within 1 year of the date of management decision.

We appreciate the cooperation and assistance your staff provided during the audit.


RAYMOND G. POLAND
Regional Inspector General

Executive Summary

Rural Development – Audit of the Housing Authority of the City of Moultrie, Georgia

Results in Brief

This report presents the results of our audit of the Housing Authority of the City of Moultrie, Georgia, (HACM) management of Rainwater Village Farm Labor Housing (FLH) Project. The scope of our audit covered fiscal year (FY) 2002 project activity and our objective was to determine whether the Housing Authority had expended project funds in accordance with Rural Development (RD) regulations. We also evaluated whether corrective actions were taken on the 19 deficiencies cited in RD's internal review and if the project was properly maintained. For FY 2002, the Housing Authority received \$53,722 in rental income and rental assistance and expended \$28,624 for project operations and maintenance.

We reviewed all project expenditures to determine if they were properly accounted for and were used for authorized purposes. Our review disclosed that the Housing Authority had expended project funds in accordance with RD regulations and properly maintained the project but had not corrected 1 of the 19 deficiencies cited in RD's August 14, 2002, supervisory review.

HACM had not complied with RD's recommendation to find eligible tenants to occupy the FLH project. RD financed this FLH project with a loan for \$1,012,279 and a grant for \$211,721. After more than 3 years of continuous marketing efforts, HACM has not been able to identify or locate a sufficient number of eligible farm laborers to occupy the project. To avoid financial losses due to vacancies, RD allowed HACM to rent to tenants eligible for other Multi-Family Housing (MFH) programs. These tenants occupy a substantial number of the units and at no time since September 2000 has there been more than 6 of the 26 units occupied by eligible farm labor tenants. While the Government's interest has been protected through renting to other MFH qualified tenants, there is no longer a need for the FLH project as originally funded.

Recommendation In Brief

We recommend that RD (1) require HACM to reassess the Need and Demand Analysis to determine why eligible farm labor tenants have not occupied the FLH project and (2) if the reassessment shows there is no longer a need for FLH, require HACM to either request a change in the project's designation or pay off the loan.

Agency Response The agency concurred with Recommendations Nos. 1 and 2, but proposed that instead of changing the project designation or paying off the loan, the agency will service the loan in accordance with RD Instruction 1944-D, paragraph 1944.154(b), which states:

When there is a diminished need for housing by persons of families in the above categories, such units may be made available to persons or families eligible for occupancy under the Section 515, Rural Rental Housing program. Section 515 tenants may occupy the labor housing until such time the units are again needed by persons or families eligible under paragraph (a) of this section. As the basis for the Agency's approval or disapproval of a borrower's determination of diminished need, the borrower must submit to the Agency a current analysis of need and demand, identical to the market survey required of applicants in Exhibit A-1 of this subpart. The borrower's determination and the State Director's recommendation should be forwarded to the National Office for concurrence.

OIG Position To achieve management decision, we will need the timeframes for RD to implement the servicing action in accordance with RD Instruction 1944-D, paragraph 1944.153(b).

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Background and Objectives

Background

Rural Development (RD) works in partnership with State, local, and tribal Governments, private and nonprofit organizations, and member-owned cooperatives, to revitalize rural areas. Their programs are provided across the nation through 47 State offices (SO) and 800 area and local offices. RD's Rural Housing Service administers the Multi-Family Housing (MFH) Program, which includes loans and/or grants for Farm Labor Housing (FLH), Rural Rental Housing (RRH), Rural Cooperative Housing, and rural housing sites.

The FLH Loan and Grant Program, authorized under Sections 514 and 516 of the Housing Act of 1949, provides housing and related facilities for domestic farm laborers. The basic objective of the domestic FLH loans is to provide decent, safe, and sanitary housing for domestic farm labor. FLH grants are made in areas where there is a pressing need for such facilities for farm laborers and there is reasonable doubt that the housing can be provided without the grant assistance. FLH loans and grants are made to eligible borrowers who may be individuals, partnerships, cooperatives, trusts, public agencies, private or public corporations, and other organizations.

RD allows owners to delegate the responsibility of managing projects to management companies. However, the owners are ultimately responsible for managing the property and complying with program objectives and requirements. Local Governments can be owners and/or the management company for owners.

RD Instruction 1930-C provides overall guidance to the owner/manager and management company on the duties and responsibilities for reporting the financial activities and maintaining the physical condition of the projects. The forms manual insert for Form RD 1930-7 provides specific examples of allowable charges that can be made to MFH projects. Loan agreements provide basic requirements for maintaining the physical condition of the project. RD servicing offices review the project's annual reports and perform supervisory reviews of projects on a triennial basis. The supervisory reviews include a thorough physical inspection of both the interior and exterior of the property and an examination of the project's records as they relate to income and expenses reported by the owner/manager or management company.

Objectives

The overall objective of the audit was to evaluate one local Government's management of a MFH project. Specifically, we evaluated whether project funds had been expended in accordance with RD regulations and were used for authorized purposes.

We also evaluated whether adequate corrective actions were taken on deficiencies cited in a prior RD review and if the physical condition of the project had been properly maintained.

Findings and Recommendations

Section 1. Project Management

Finding 1

Non-Farm Tenants Occupied Most Rental Units

Since completion of RD financed Rainwater Village FLH project in September 2000, the Housing Authority of the City of Moultrie, Georgia, (HACM) has primarily rented to non-farm tenants. RD financed this FLH project with a loan for \$1,012,279 and a grant for \$211,721. After more than 3 years of continuous marketing efforts, such as radio and newspaper advertisements, group meetings, and cash incentives, HACM has not been able to identify or locate a sufficient number of eligible farm laborers to occupy the project. To avoid financial losses due to vacancies, RD allowed HACM to rent to tenants eligible for other MFH programs. These tenants occupy a substantial number of the units and at no time since September 2000 has there been more than 6 of the 26 units occupied by eligible farm labor tenants. While the Government's interest has been protected through renting to other MFH qualified tenants, there does not appear to be a need for the FLH project as originally funded.

RD regulations require occupancy of rental units by eligible tenants. Eligible tenants are persons who received a substantial portion of their income as laborers on farms in the United States, and either are citizens of the United States or reside in the United States, after being legally admitted for permanent residency, and may include the immediate families of such persons.¹ Furthermore, the agency may authorize the rental of units to ineligible persons for temporary periods to protect the financial interest of the Government.² RRH projects designated for families, elderly persons with handicaps, including congregate housing, will be used for the original purpose throughout the life of the RD loan. However, if it becomes necessary to change the designation of a project due to housing market changes, which inhibit the borrower's ability to maintain occupancy levels sufficient to sustain the project, the State Director may change the designation. Project design must meet the housing requirements of the target group when changing the designation. The State Director shall consider such requests on a case-by-case basis when specific information has been provided.³

The Rainwater Village FLH Project was built to provide decent and safe housing for domestic farm laborers in Colquitt County, Georgia.

¹ RD Instruction 1944.152-153.

² RD Instruction 1930-E, exhibit V1.D.7

³ RD Instruction 1930.125.

A Need and Demand Analysis, issued in March 1996 for HACM, showed a current and immediate need at that time for FLH in the county. According to HACM officials, in the following years, the farm worker population changed from mostly legal immigrants to mostly temporary agricultural workers. Under current regulations, illegal immigrants and temporary agricultural workers are not eligible for the U.S. Department of Agriculture FLH.

From the project's completion in September 2000 through July 2001, most of the units remained vacant because HACM did not find eligible farm workers to occupy them. HACM estimates it lost over \$22,000 in fiscal year (FY) 2001 due to vacancies. On August 3, 2001, to prevent further losses from vacancies, HACM requested permission to rent to low and moderate income, non-farming tenants. At that time, only 4 of the 26 units were being rented to farm labor tenants. RD's September 26, 2001, response, concurred with HACM's request to rent to non-farm labor tenants for 1 year if certain conditions were met. One of those conditions was that HACM enter into an agreement with a consultant who has experience in leasing and managing FLH properties. HACM did not enter into an agreement as required; and in a January 9, 2002, letter to RD, HACM requested a waiver on hiring a consultant because it did not believe it was necessary to enter into an agreement with a consultant to assist in their marketing efforts. HACM further stated that it was continuously in contact with the entire farm community in Colquitt County in an effort to secure residents for Rainwater Village and strongly believed that hiring a consultant would be a waste of funds.

After the initial waiver to rent to non-farming tenants had expired, HACM asked for an extension but RD denied the request because HACM had not hired the services of a consultant. On November 6, 2002, RD SO officials met with HACM officials to discuss the results of the August 14, 2002, supervisory review and actions needed to bring HACM in compliance with the FLH program regulations. At that meeting, RD officials advised HACM that much more outreach, including the use of a consultant, was needed to make the project work. Otherwise, RD National Office has indicated that if there is no further need for the project as funded, then payoff should be requested. HACM officials said they would make more aggressive contacts with crew leaders, priests, churches, and others in order to seek eligible tenants. HACM officials stated that even though payoff might be possible, the loss of rental assistance to the project would be devastating. HACM made the contacts but achieved little, if any, success in identifying eligible tenants to fully occupy the project units.

During the audit, we contacted local agencies to inquire about the farm labor workforce in Colquitt County, Georgia. They all acknowledged that a vast number of the farm labor workforce is migrant farm workers. For the most part, the officials agreed that there is a need for farm laborer housing in Colquitt County; but many of the farm laborers do not meet eligibility requirements (i.e., they are either not citizens of the United States or have not been legally admitted for permanent residency).

HACM's outreach and marketing efforts, coupled with the community leaders' acknowledgement that many farm laborers do not meet eligibility requirements, give evidence that a change may be needed in the project's labor housing designation.

Recommendation No. 1

Require HACM to reassess the Need and Demand Analysis to determine why eligible farm tenants have not occupied the FLH project.

Recommendation No. 2

If the reassessment shows there is no longer a need for FLH, require HACM to either request a change in the project's designation as FLH to another MFH program, or payoff the loan.

Agency Response. The agency concurred with Recommendations Nos. 1 and 2 but proposed that instead of changing the project designation or paying off the loan, the agency will service the loan in accordance with RD Instruction 1944-D, paragraph 1944.154(b), which states:

*When there is a diminished need for housing by persons of families in the above categories, such units may be made available to persons or families eligible for occupancy under the Section 515, * * * [RRH] program. Section 515 tenants may occupy the labor housing until such time the units are again needed by persons or families eligible under paragraph (a) of this section. As the basis for the Agency's approval or disapproval of a borrower's determination of diminished need, the borrower must submit to the Agency a current analysis of need and demand, identical to the market survey required of applicants in Exhibit A-1 of this subpart. The borrower's determination and the State Director's*

recommendation should be forwarded to the National Office for concurrence.

OIG Position. To achieve management decision, we will need the timeframes for RD to implement the servicing action in accordance with RD Instruction 1944-D, paragraph 1944.153(b).

Scope and Methodology

A prior Office of Inspector General audit (Audit Report No. 04004-2-At, issued March 2001), indicated that there may be problems with local Government managed properties. Accordingly, our concentration for this audit was to evaluate other local Government managed projects in the Southeast. Information provided by RD SO's in the Southeast disclosed that a FLH Project managed by the Housing Authority of Moultrie, Georgia, had issues of audit significance. Fieldwork was performed at the Georgia RD SO located in Athens, Georgia; RD Area Office located in Tifton, Georgia; HACM located in Moultrie, Georgia; and the Rainwater Village FLH Project, from January 29, 2003, through April 30, 2003. The total RD financing for this FLH project was \$1,224,000, which included a loan for \$1,012,279 and a grant for \$211,721. The audit covered the project's FY 2002 operations and other periods as determined necessary. Our audit work was conducted in accordance with generally accepted government auditing standards.

To accomplish our objectives, we performed the following procedures:

- Reviewed program regulations, instructions, policies, and procedures at the SO to become familiar with the FLH Program.
- Reviewed correspondence between RD and the borrower and interviewed RD officials, at the SO and the area office, to determine the status of prior reviews.
- Reviewed the FY 2002 records for Rainwater Village at HACM to determine if it expended project funds in accordance with RD regulations.
- Evaluated corrective actions taken by HACM to determine if deficiencies cited in RD's August 14, 2002, supervisory review, had been properly resolved.
- Interviewed officials from Cooperative Extension Service, Georgia Department of Labor, and Ellenton Clinic to determine whether there were eligible farm laborers to occupy the FLH project in Moultrie, Georgia (Colquitt County).
- Visited and inspected the project to determine if it had been properly maintained.

Exhibit A - Agency Response

Exhibit A - Page 1 of 2



United States
Department of
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Rural
Development

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December 22, 2003

Mr. Raymond G. Poland
Regional Inspector General
401 West Peachtree Street, Suite 2328
Atlanta, Georgia 30308

RE: 04010-1-AT
Housing Authority of the City of Moultrie
Farm Labor Housing Loan and Grant

Dear Mr. Poland:

Reference is made to your memorandum of October 30, 2003 concerning the subject. Reference is also made to subsequent phone conversations between Jeffrey Justis and Wayne Rogers of our office.

We apologize for the delay in the response; however, we have been in contact with the National Office and OGC concerning your recommendations to resolve the finding set out in the audit.

As you are aware, this office concurred with your recommendations with the exception that a transfer of the loan and grant be required in conjunction with change in project designation as per Recommendation No. 2.

In discussions with the National Office, we were referred to RD Instruction 1944-D, paragraph 1944.154(b), which states:

When there is a diminished need for housing by persons or families in the above categories, such units may be made available to persons or families eligible for occupancy under the Section 515, Rural Rental Housing program. Section 515 tenants may occupy the labor housing until such time the units are again needed by persons or families eligible under paragraph (a) of this section. As the basis for the Agency's approval or disapproval of a borrower's determination of diminished need, the borrower must submit to the Agency a current analysis of need and demand, identical to the market survey required of applicants in Exhibit A-1 of this subpart. The borrower's determination and the State Director's recommendation should be forwarded to the National Office for concurrence.

We are attaching a copy of the preamble of the regulation change posted in the Federal Registrar April 13, 1989. You will note that the effect of not "converting" the project to a Rural

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To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, D.C. 20250-9410 or call (202)720-5964 (voice or TDD). USDA is an equal opportunity provider and employer.*

Exhibit A - Agency Response

Exhibit A - Page 2 of 2

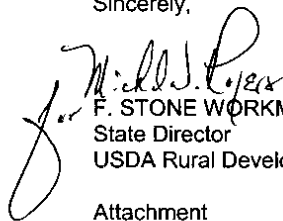
Rental Housing property will be that any domestic farm laborer who applies for occupancy will be provided first priority for occupancy of any future available units.

As per your recommendation No. 1, this regulation requires the borrower to submit a current analysis of need; however, changing the project designation or paying off the loan and grant is not required.

If it meets with your approval, we propose to service the account in accordance with the above referenced regulation.

If additional information is needed, please advise.

Sincerely,


F. STONE WORKMAN
State Director
USDA Rural Development
Attachment

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