



Issue Date June 19, 2006
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Audit Report Number 2006-KC-0003
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TO: Debra L. Lingwall, Program Center Coordinator, Office of Public Housing-  
Omaha Office, 7APH

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FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: HUD Did Not Ensure That the Omaha Housing Authority Repaid Its Public  
Housing Programs \$2.7 Million

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the U.S. Department of Housing and Urban Development's (HUD) efforts to collect a \$2.7 million debt from the Omaha Housing Authority (Authority) of Omaha, Nebraska. We performed this audit in response to a citizen's complaint that the Authority's board of commissioners had not taken steps to pay or resolve the liability.

Our objectives were to determine why the liability existed, to whom it was owed, and what efforts HUD made to collect it.

### **What We Found**

HUD did not ensure that the Authority repaid its public housing programs \$2.7 million, nor did it establish a repayment agreement. As a result, the Authority's programs did not have these funds available for their intended purposes.

## **What We Recommend**

We recommend that HUD establish a repayment agreement with the Authority to resolve the \$2.7 million liability.

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

## **Auditee's Response**

We provided the draft audit report to HUD on May 11, 2006, and received its written response on June 5, 2006. HUD disagreed with classifying the \$2.7 million liability as funds to be put to better use. HUD also provided additional explanations for the conditions we found. Based on these comments, we revised the report.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix C of this report.

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## **BACKGROUND AND OBJECTIVES**

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The U.S. Department of Housing and Urban Development's (HUD) Office of Public and Indian Housing is responsible for administering and managing a number of programs authorized and funded by Congress under the basic provisions of the United States Housing Act of 1937 (Act). The Act created the Public and Indian Housing program, which now provides affordable housing to more than 1.3 million households nationwide.

The Omaha Housing Authority (Authority) administers several public housing programs including the 5(h) program and the low-rent program (operating and capital funds). Under the 5(h) program, the Authority may sell all or a portion of a public housing development to eligible residents for the purpose of homeownership. Under the low-rent program, the Authority may use funds for the development, financing, and modernization of public housing developments. The Authority may also use operating subsidies to cover expenses such as maintenance and utilities for the developments. The Authority's uses of program funds are restricted to particular purposes approved by HUD.

The HUD Omaha Program Center oversees the Authority. However, from 1999 to 2003, HUD transferred oversight from the Omaha Program Center to the Troubled Agency Recovery Center.

The objectives of our audit were to determine why the debt existed, to whom the debt was owed, and what efforts HUD made to collect the debt.

## RESULTS OF AUDIT

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### Finding: HUD Did Not Ensure That the Authority Repaid Its Public Housing Programs \$2.7 Million

HUD did not ensure that the Authority repaid its public housing programs \$2.7 million. The local HUD office was not aware that it needed to address this issue. As a result, the Authority's programs did not have these funds available for their intended purposes.

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HUD required the Authority to record a \$2.7 million liability but did not ensure that the Authority properly recorded or repaid the debt.

In 1998, the Authority's board of commissioners engaged KPMG, an independent public accounting firm, to determine whether the Authority complied with certain rules and regulations from 1991 through 1997. The Office of Inspector General (OIG) also performed an audit of the Authority for the same period. These reviews disclosed major operational and financial issues.

In 1999, HUD deemed the Authority "troubled" and transferred oversight from the Omaha Program Center to the Troubled Agency Recovery Center. The Troubled Agency Recovery Center required the Authority to record a \$2.7 million liability to its HUD programs.

#### **The Authority Accrued a Liability**

The Authority accrued a \$2.7 million liability, based on the Troubled Agency Recovery Center's determination that the following three items represented ineligible program activities:

1. The Authority paid \$653,581 from the HUD low-rent program to its nonprofit affiliate.
2. The Authority used sale proceeds of \$1,326,806 from the 5(h) program for unauthorized purposes.
3. The Authority sold properties for \$770,930 and did not use the proceeds for HUD replacement housing as intended.

### **The Authority Improperly Recorded the Liability**

The Authority improperly recorded the liability as a debt to HUD. According to HUD's Real Estate Assessment Center accounting issue number 7, public housing authorities should record disallowed costs as a liability to the appropriate HUD program(s).

### **HUD Did Not Ensure Repayment**

During its oversight of the Authority, the Troubled Agency Recovery Center attempted to establish a repayment agreement but was unsuccessful (see appendix B for a time line of events).

In April 2003, the Omaha Program Center resumed oversight of the Authority, but did not take action to ensure repayment of the liability. The local HUD office staff told us they believed they did not need to address the issue because the liability was resolved prior to their resuming oversight.

### **HUD's Programs Remain Incomplete**

Because HUD did not ensure immediate repayment or establish a repayment agreement, the Authority's debt to its public housing programs went unpaid. As a result, the Authority's programs do not have these funds available for their intended purposes.

### **Recommendations**

We recommend that the program center coordinator, Office of Public Housing,

- 1A. Ensure that the Authority correctly records the liability.
- 1B. Establish a repayment agreement with the Authority to resolve the \$2.7 million liability.

## SCOPE AND METHODOLOGY

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We reviewed the Authority's financial statements for fiscal years ending December 31, 1998, through December 31, 2004. We interviewed Authority personnel for clarification of the debt.

We reviewed documents and records to support the origination and/or disposition of the liabilities at the HUD Omaha Program Center and the Authority in Omaha, Nebraska. We interviewed their personnel to identify any action taken to collect the debt.

We reviewed documents at HUD's Recovery and Prevention Corps, formerly known as the Troubled Agency Recovery Center, in Cleveland, Ohio. We interviewed personnel who worked with the Authority during its troubled status. We also reviewed documentation from Casterline Associates, an independent accounting firm retained by the Troubled Agency Recovery Center.

We reviewed documents from the Authority's previous and current independent accounting firms. We also interviewed the firms' staff regarding any issues related to the liability.

We reviewed correspondence among the Authority, the Troubled Agency Recovery Center, and the HUD Office of Public Housing concerning the liability.

Our review period was from January 1, 1998, through October 31, 2005. We conducted our audit work from November 2005 to February 2006.

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

# INTERNAL CONTROLS

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

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

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

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## Relevant Internal Controls

We determined the following internal control was relevant to our audit objectives:

- Management control over seeking repayment of program liabilities.

We assessed the relevant control identified above.

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

## Significant Weaknesses

We did not identify any significant internal control weaknesses.



## APPENDIXES

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### Appendix A

#### SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

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Recommendation number	Funds to be put to better use 1/
1B	\$2,751,317

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- 1/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

In this case, the Authority did not have these funds available to administer its HUD programs, and thus were required to draw new funds from HUD. As the funds are repaid to the programs, they will be used for the purposes for which they were originally intended.

## Appendix B

### CHRONOLOGY OF EVENTS

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October 1999	Due to major operational and financial problems, HUD deemed the Authority “troubled” and transferred oversight from the Omaha Program Center to the Troubled Agency Recover Center.
May 2000	Casterline Associates completed a reconstruction of the Authority’s financial records. The Troubled Agency Recovery Center required the Authority to record a \$2.7 million liability based on the reconstruction.
January 2002	The Authority submitted a written request for a waiver of the \$2.7 million liability to the Assistant Secretary of HUD.
February 2002	The Authority submitted a written request for permission to reclassify the \$2.7 million liability from short-term to long-term from the Real Estate Assessment Center.
March 2002	The Authority submitted a repayment plan to the Troubled Agency Recovery Center in which it would repay the \$2.7 million liability over a fifteen-year period using Section 8 administrative fees.
May 2002	The Troubled Agency Recovery Center authorized the Authority to reclassify the \$2.7 million liability from short-term to long-term.
October 2002	The Kansas City Director, Office of Public Housing notified the Troubled Agency Recovery Center that the Authority’s ability to use Section 8 funds to repay the debt was doubtful due to outstanding notices from HUD Headquarters.
April 2003	The Omaha Program Center resumed oversight of the Authority.

# Appendix C

## AUDITEE COMMENTS AND OIG'S EVALUATION

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### Ref to OIG Evaluation

### Auditee Comments



U.S. Department of Housing and Urban Development  
Omaha Field Office  
Executive Tower Centre  
10909 Mill Valley Road  
Omaha, Nebraska 68154-3955

June 6, 2006

MEMORANDUM FOR: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

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FROM: Debra L. Lingwall, Omaha Public Housing Program Center Coordinator, 7DPHO

SUBJECT: Audit of HUD's efforts to collect a \$2.7 million debt from the Omaha Housing Authority

In rebuttal to your May 11, 2006 memorandum regarding the collection of the \$2.7 million debt owed the Omaha Housing Authority (OHA) low-rent public housing program, the Omaha Public Housing Program Center (OPHPC) has the following comments:

Comment 1

Page six - HUD did not ensure repayment. Regarding the second paragraph, the Troubled Agency Recovery Center (TARC) returned OHA to the OPHPC and the lack of payment agreement was never brought up during the discussions and information provided regarding the return. We presumed the TARC had taken all appropriate actions with regard to the repayment and no further action was necessary.

Comment 2

Page eight, Internal Controls – Relevant Internal Controls – Regarding the first bullet, since the Housing Authority was not troubled at the time OHA was transferred back to the OPHPC and has not been troubled since, financials were submitted to the Real Estate Assessment Center (REAC) and were not provided to the OPHPC. Unless there was an exception or finding in the audit, this would never be reviewed by the OPHPC. It is the responsibility of the Housing Authority to ensure proper recording of the liability. This was an error by the Housing Authority in direct conflict with instructions from the TARC.

It should be recognized that this is an internal Housing Authority program-to-program liability and may never be paid back because of a lack of available funds at the OHA.

Internal Controls – Significant Weakness bullet two – Management did not establish a repayment agreement with the Authority. It is our position and understanding, after previous discussion with the Inspector General, that this statement should not be in the audit since there is no program requirement for a repayment agreement, only that the OHA repay the public housing program. We suggest a repayment plan developed by the OHA should have been in place.

Comment 3

2

Page nine – Funds to be put to better use. It is our position this should be reworded since it does not address funds being repaid program to program and it also does not consider the situation at hand that the funds might never be fully repaid.

## **OIG Evaluation of Auditee Comments**

HUD provided additional explanations for the conditions identified in the finding. Based on these comments, we revised the report.

- Comment 1    The auditee presumed that the Troubled Agency Recovery Center took all actions regarding the repayment and that no further actions were needed by the Omaha Program Center. We revised the finding to make that more clear.
- Comment 2    Internal Controls - The auditee explained that REAC is responsible for monitoring the financial statements and that the Authority should have established its own repayment plan. We are removing the significant control weaknesses from the internal control section of the report. We believe this situation was an anomaly that cannot reasonably be addressed by creating more controls.
- Comment 3    We included an additional explanation to Appendix A to better explain our classification of funds to be put to better use. We added that the Authority did not have these funds available to administer its HUD programs, and thus were required to draw new funds from HUD. As the funds are re-paid to the programs, they will be used for the purposes for which they were originally intended.