



U.S. Department of Agriculture
Office of Inspector General
Southeast Region
Audit Report

**RURAL DEVELOPMENT
RURAL RENTAL HOUSING PROGRAM
HOUSING AUTHORITY OF THE CITY OF SHELBY
MANAGEMENT OF PRIDE GARDEN APARTMENTS
SHELBY, MISSISSIPPI**



**Report No.
04004-2-At
MARCH 2001**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL
Southeast Region - Audit
401 West Peachtree Street, Suite 2328
Atlanta, Georgia 30308
TEL: 404-730-3210 FAX: 404-730-3221



DATE: March 30, 2001

REPLY TO
ATTN OF: 04004-2-At

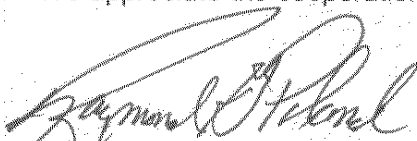
SUBJECT: Rural Development, Rental Housing Program,
Housing Authority of the City of Shelby
Management of the Pride Garden Apartments
Shelby, Mississippi

TO: Nick Walters
State Director
USDA – Rural Development
Suite 831, Federal Building
100 West Capitol Street
Jackson, Mississippi 39269

This report presents the results of our audit of the Housing Authority of the City of Shelby, Mississippi, Management of the Pride Garden Apartments. Your March 14, 2001, response to the draft report is included as exhibit C, along with excerpts and the Office of Inspector General's position incorporated into the relevant sections of this report.

We agree with your management decision for the report's three recommendations. Please note that Departmental Regulation 1720-1 requires final action to be taken within one year of the management decision. Follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

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



RAYMOND G. POLAND
Regional Inspector General

Attachment

cc:
Office of the Chief Financial Officer
Acting Director, Financial Management Division

EXECUTIVE SUMMARY

RURAL DEVELOPMENT RURAL RENTAL HOUSING PROGRAM HOUSING AUTHORITY OF THE CITY OF SHELBY MANAGEMENT OF PRIDE GARDEN APARTMENTS SHELBY, MISSISSIPPI

AUDIT REPORT NO. 04004-2-AT

RESULTS IN BRIEF

This report represents the results of our audit of a Rural Development (RD) Rural Rental Housing (RRH) Project managed by the Housing Authority of the City of Shelby (HACS) located in the State of Mississippi. This audit was conducted in response to a referral from the Mississippi RD State office that alleged misuse of project operating funds by HACS. The objective of the audit was to determine if HACS accurately reported expenses charged to the project and that such expenses were for authorized purposes.

The HACS improperly used project funds to defray its administrative expenses from July 1, 1996, through September 30, 1999.¹ The executive director of HACS attributed her actions to a lack of knowledge of RD's policies and procedures regarding the use of RRH project funds. Our review also disclosed that RD official(s) did not provide adequate oversight of the project's operations. As a result, the Pride Garden Apartments lost project funds totaling \$240,769 for the 3 years in question.

KEY RECOMMENDATIONS

We recommend that RD (1) require HACS to refund the Pride Garden Apartments \$240,769 for misuse of RRH project funds, (2) provide guidance to HACS regarding eligible project expenses, and (3) implement measures to ensure that responsible RD official(s) provide oversight to project operations, as appropriate.

¹ The HACS fiscal year (FY) runs from July 1 of each year through June 30 of the following year. Our review covered July 1, 1996 (FY 1997) through September 30, 1999 (1st quarter of FY 2000).

AGENCY RESPONSE

In its March 14, 2001, written response to the draft report, RD concurred with the report's finding and the amounts listed on exhibit A. Their response is included as exhibit C, along with excerpts included in relevant sections of this report.

OIG POSITION

We agree with RD's response to the report. Based on RD's response, we achieved management decision for the report's three recommendations.

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INTRODUCTION

BACKGROUND

The Rural Rental Housing (RRH) Program was established to provide housing to very-low, low and moderate-income persons, including elderly persons and persons with disabilities in rural areas. The program is administered by the Rural Housing Service National office in Washington, DC; and by the Rural Development (RD) State office in Jackson, Mississippi; and its eight area offices.

Loans to construct RRH projects can be made to individuals, public agencies, cooperatives, and profit and nonprofit corporations. As of December 31, 1999, there were 621 RRH borrowers in Mississippi with outstanding loan balances of approximately \$395 million. After construction, the agency provides assistance to borrowers, management companies, and management agents on the requirements for operating RRH projects. As agents for the borrowers, management agents/companies are responsible for complying with all applicable laws, regulations, and loan covenants of the RRH program. They are required to report on overall project operations by submitting annual reports to the appropriate RD serving (area) office.

Project owners are required to submit annual financial reports for each project to the RD Area office within 90 days following the end of the project's fiscal year. These reports include (1) Form RD 1930-7, Multiple Family Housing Project Budget, which provides actual project income and expenses for the year, (2) Form RD 1930-8, Yearend Report and Analysis, which includes the project's balance sheet information for the current and prior years, and (3) an Independent Auditor's Report (or verification of account balances in lieu of an auditor's report if the project has fewer than 24 units).

RD Instruction 1930-C provides overall guidance to owner/managers and management companies on the duties and responsibilities of reporting the financial activities and maintaining the physical conditions of the projects. RD area office officials review annual financial reports of the projects' operations. RD also conducts triennial supervisory reviews of project operations. The supervisory reviews include physical inspections of

projects and examination of projects' records as they relate to income and expenses reported by the owners/managers or management companies.

The Housing Authority of the City of Shelby (HACS) owns and manages one 48-unit family RRH project (Pride Garden Apartments) located in Shelby, Mississippi. It also manages one U.S. Department of Housing and Urban Development project located in Shelby, Mississippi.

OBJECTIVES

purposes.

The objectives of the audit were to determine if HACS accurately reported expenses charged to the Pride Garden Apartments and that such expenses were for authorized

SCOPE

Mississippi; and HACS located in Shelby, Mississippi.

Fieldwork was performed between April 7, 2000, and June 6, 2000, at the Mississippi RD State office, Jackson, Mississippi; the Greenville RD area office, Greenville,

In March 1999, the Mississippi RD State and area office officials performed a review of the financial records of the Pride Garden Apartments. Their review disclosed instances of unsupported and improper use of project funds by HACS totaling more than \$137,000. As a result of this review, the Mississippi RD State office requested that the Office of Inspector General (OIG) conduct a more in-depth review of HACS and their financial management of the Pride Garden Apartments.

We performed tests of financial transactions for the project's operation beginning from July 1, 1996, through September 30, 1999. The project fiscal year (FY) begins on July 1 of each year and ends on June 30 of the following year.

The audit was performed in accordance with Government Auditing Standards (1994 Revision) issued by the Comptroller General of the United States.

METHODOLOGY

The audit objectives were accomplished through:

- Interviewing officials from the RD Mississippi State and area offices, HACS' vendors and contractors, as necessary;

- Reviewing RRH regulations, instructions, policies, and procedures;
- Examining RRH project records maintained by RD and HACS; and
- Observing the physical condition of the Pride Garden Apartments.

FINDING AND RECOMMENDATIONS

FINDING NO. 1

PROJECT FUNDS WERE IMPROPERLY USED TO DEFRAY HOUSING AUTHORITY RELATED ADMINISTRATIVE EXPENSES

The HACS improperly used project funds to defray its administrative expenses from July 1, 1996, through September 30, 1999. The executive director for the housing authority attributed her actions to a lack of knowledge of RD's policies and procedures regarding the use of RRH project funds. Our review also disclosed that RD official(s) did not provide adequate oversight of the project's operations.

As a result, the Pride Garden Apartments lost project funds totaling \$240,769 for the 3 years in question. See exhibit A.

The Mississippi RD State office provides RRH program guidance through the issuance of periodic administrative notices (AN). Mississippi AN Numbers 812 (1930), dated February 7, 1995, and 901 (1930), dated December 16, 1997, for FY's 1997 through 1999, provide that all administrative expenses (site management payroll, project bookkeeping/accounting, advertising, telephone and answering service, office supplies, training, health insurance and other employee benefits, payroll taxes, workman's compensation, and other administrative expenses) on Form FmHA 1930-7, Multiple Family Housing Project Budget, will be paid from the project's management fee, with the exception of auditing, legal, and office furniture and equipment expenses. The AN's outlined how management fees were to be computed. According to a Mississippi RD State office official, the AN's were disseminated to the borrowers through the responsible area offices.

FmHA Instruction 1930-C requires RD to perform an annual review of each project's Form FmHA 1930-7 to determine borrower compliance with RRH loan and/or grant agreements and to provide followup consultation or supervision to the borrower in meeting program objectives. During the annual review process, the RD servicing official is to consider the overall project's financial and operational activity. Project strengths and weaknesses are to be identified, based on review of various documents, and resultant conclusions will be incorporated into the annual budget planning process that should happen concurrently with the annual review process. Borrowers and management agents/companies are required to

submit their Form(s) FmHA 1930-7 to the area office for review and approval/disapproval at 2 months prior to the end of their project(s) FY. Additionally, within 90 days following the end of the projects FY's, borrowers and management agents/companies are required to resubmit their Form(s) FmHA 1930-7 to the area office disclosing actual expenses incurred.

The HACS served as the management agent for the Pride Garden Apartment's from July 1, 1996, through September 30, 1999. The HACS received a monthly management fee of \$3,016.32 during this period, as compensation for management services as follows.

Table 1

Management Fees					
Project	FY 1997	FY 1998	FY 1999	FY 2000 (1 st Quarter)	Total
Pride Garden Apartments	\$36,196	\$36,196	\$36,196	\$9,049	\$117,637

However, our review of the Pride Garden Apartments operating account from July 1, 1996 through September 30, 1999, disclosed that HACS improperly used project funds totaling \$240,569 to defray housing authority administrative expenses. The administrative expenses in question included salaries and related expenses for housing authority employees, computer consultation services, bookkeeping services, liability insurance for HACS board members, and numerous other administrative expenses. See exhibit B for a detailed listing of unallowable expenses charged to Pride Garden Apartments.

In one instance, the HACS charged the Pride Garden Apartments \$44,624 for computer consultation services as follows.

Table 2

Computer Consultant Services				
FY 1997	FY 1998	FY 1999	FY 2000 (1 st Quarter)	Total
\$11,724	\$16,750	\$14,850	\$1,300	\$44,624

According to the consultant, he performed monthly activities and updates for the HACS that included the (1) Lindsay Accounting Software (end-of-month closeouts and generation of project reports), (2) company's retirement system reports, (3) FmHA reports, (d) credit check software, (4) maintenance and repair of company owned computer systems,

(5) management and update of company's web page, as well as (6) training of company employees for the aforementioned software packages. The consultant stated that he charged HACS \$100 per hour for the services and performed the work after 5 p.m., on weekdays and during weekends. According to the consultant, he did not have a formal agreement with HACS to perform these services. Also, the consultant stated that he did not submit itemized invoices to HACS to show the services rendered or the hours worked. We observed several invoices submitted by the consultant that either listed individual days worked or showed a range of days worked. The executive director stated that the consultant verbally communicated the number of hours worked.

In another instance, HACS charged the Pride Garden Apartments \$138,001 for salaries, payroll taxes, health insurance, and/or retirement contributions from July 1, 1996, through September 30, 1999, for 4 HACS employees as follows.

Table 3

Expenses	FY 1997	FY 1998	FY 1999	FY 2000 (1 st Quarter)	Total
Salaries	\$19,318	\$29,287	\$30,306	\$5,701	\$84,612
Payroll Taxes	5,945	7,633	9,065	2,240	24,883
Health Insurance	2,761	3,457	4,779	1,273	12,270
Retirement Contributions	3,919	5,275	5,628	1,414	16,236
Total	\$31,943	\$45,652	\$49,778	\$10,628	\$138,001

With the exception of the executive director, HACS employees were employed by and performed clerical duties for HACS operations. The employees were not employed by the project.

In yet another instance, HACS charged the Pride Garden Apartments \$1,529 for holiday turkeys and hams distributed to tenants during FY's 1997 and 1998. HACS also charged \$6,461 to Pride Garden Apartments for lunches and cigarettes distributed to prison laborers for FY's 1997 through 1999. According to the executive director, lunches were also provided to HACS employees. The prisoners performed duties such as grounds upkeep services and litter pickup throughout the City of Shelby, including the Pride Garden Apartments. According to the executive director, lunches and cigarettes were provided to the prisoners because monetary compensation was prohibited.

The executive director informed us that she was not aware that the ineligible expenses paid from the project's operating account were unallowable under RD instructions. She also stated that RD never

provided HACS with instructions regarding expenses eligible to be paid with project funds versus those that were the responsibility of HACS. However, a Mississippi RD State program specialist stated that RD instructions were sent to the HACS through the City of Shelby (the borrower). The HACS executive director responded that mail sent to them through the City of Shelby was not being forwarded. A City of Shelby official stated that all mail received by their office for the HACS was forwarded to them as appropriate. Furthermore, RD's program specialist stated that the HACS executive director had to have received the AN's because the documents were necessary to compute management fees for the years in question. The FY 1998 management fee computation document showed that it was completed and signed by the HACS executive director. The program specialist advised that this fact refuted the executive director's statement that RD did not provide HACS with instructions regarding eligible expenses.

The program specialist stated that during their March 1999 review, he overheard HACS officials express concerns that their mail was not being forwarded to their office by the City of Shelby. Therefore, he stated that he changed the mailing address from the City of Shelby to the HACS after their review. In addition, the program specialist stated that during their March 1999 review, he verbally informed the HACS executive director of administrative expenses that were not allowable. However, we found that the HACS continued to charge ineligible administrative expenses to the project. The HACS charged ineligible expenses totaling \$33,256 to the Pride Garden Apartments from April 1, 1999, through September 30, 1999--6 months following RD's March 1999 review.

From FY's 1997 through 1999, an RD area office specialist reviewed the actual expenses submitted on Forms FmHA 1930-7 for the Pride Garden Apartments. Our review of the project's actual expenses disclosed on Forms FmHA 1930-7 showed unallowable expenses for all three FY's. Specifically, the HACS incurred expenses for bookkeeping/accounting, telephone and answering service, office supplies, and other administrative expenses that were not allowed according to Mississippi AN's 812 and 901. The ineligible expenses totaled \$15,754; \$26,978; and \$30,608 for FY's 1997 through 1999, respectively.

An RD area office specialist was unable to explain why RD had not followed up with the HACS regarding the unallowable expenses. He stated that the RD area office had primary responsibility for reviewing and authorizing the project's budget. He further advised that although the Mississippi RD State office received copies of approved budgets for Pride Garden Apartments, State office officials were not required to review

them. He also stated that the budgets are normally placed in the borrower's State office file for record keeping purposes.

We concluded that the HACS improperly used \$240,769 of project operation funds to defray its own administrative expenses. In addition, we concluded that RD did not provide adequate oversight of the project's operations.

RECOMMENDATION NO. 1

Require the HACS to refund to the Pride Garden Apartments \$240,769 for misuse of RRH project funds.

RD Response

In its March 14, 2001, response, RD stated:

The agency will make demand by March 20, 2001, to HACS to refund \$240,769 to Pride Garden Apartments. In addition, if the HACS fails to pay the \$240,769 within the ninety (90) day period, we will consider one of the following actions:

- 1. HAC[S] agrees to establish an acceptable payment plan to recover the cost*
- 2. HAC[S] agrees to new independent management*
- 3. HAC[S] agrees to transfer to an eligible entity*

If the HACS does not comply with any one of the listed actions, the agency will initiate servicing actions to accomplish liquidation.

OIG Position

We accept RD's management decision for this recommendation.

RECOMMENDATION NO. 2

Provide guidance to HACS officials regarding eligible RRH project expenses.

RD Response

In its March 14, 2001, response, RD stated:

Area office and State office representatives will meet with HACS and provide a one-day training on eligible RRH project expenses. This training will be documented on materials covered in accordance with FmHA (RD) Instruction 1930-C, any State Supplements or State Administrative Notices on the subject. All management personnel will be required to attend the training session. This will be conducted within 30 days.

OIG Position

We accept RD's management decision for this recommendation.

RECOMMENDATION NO. 3

Implement measures to ensure that responsible RD official(s) provide oversight to project operations, as appropriate.

RD Response

In its March 14, 2001, response, RD stated:

State office will train the Greenville Area office officials on project operations within thirty (30) days.

The Greenville Area office will provide a monthly report to the State office on all request by HACS for a six (6) month period. An evaluation will be made to determine if the Greenville Area office is providing satisfactory oversight to HACS. If the area office accomplishes satisfactory oversights, the report will be discontinued.

OIG Position

We accept RD's management decision for this recommendation.

EXHIBIT A - SUMMARY OF MONETARY RESULTS

FINDING NO.	DESCRIPTION	AMOUNT	CATEGORY
1	Unallowable Costs	\$240,769	Questioned Costs – Recovery Recommended
TOTAL		\$240,769	

EXHIBIT B - UNALLOWABLE EXPENSES

JULY 1, 1996 THROUGH JUNE 30, 1997

DESCRIPTION	AMOUNT
Salaries – HACS	\$19,318
Payroll Taxes - HACS	5,945
Retirement Program – HACS	3,919
Health Insurance- HACS	2,761
Liability Insurance – HACS	825
Computer Consultant Service	11,724
Bookkeeping/Accounting Service	3,435
Utilities – HACS	148
Telephone Service	1,512
Pager Service	300
Office, Cleaning, Kitchen Supplies	2,311
Bottled Water Service	207
Lunches/Snacks	2,550
Gifts	25
Miscellaneous	132
Gasoline	172
TOTAL	\$55,284

EXHIBIT B - UNALLOWABLE EXPENSES (CONT.)

JULY 1, 1997 THROUGH JUNE 30, 1998

DESCRIPTION	AMOUNT
Salaries – HACS	\$29,287
Payroll Taxes - HACS	7,633
Retirement Program – HACS	5,275
Health Insurance- HACS	3,457
Liability Insurance – HACS	1,238
Training	245
Computer Consultant Service	16,750
Bookkeeping/Accounting Service	3,695
Utilities – HACS	211
Telephone Service	3,686
Telephone Equipment Lease	1,943
Pager Service	759
Cellular Phone Service	741
Office, Cleaning, Kitchen Supplies	3,935
Bottled Water Service	291
Lunches/Snacks	3,294
Gifts	782
Miscellaneous	1,487
Gasoline	720
TOTAL	\$85,429

EXHIBIT B - UNALLOWABLE EXPENSES (CONT.)

JULY 1, 1998 THROUGH JUNE 30, 1999

DESCRIPTION	AMOUNT
Salaries – HACS	\$30,306
Payroll Taxes - HACS	9,065
Retirement Program – HACS	5,628
Health Insurance - HACS	4,779
Liability Insurance – HACS	825
Training	434
Computer Consultant Service	14,850
Bookkeeping/Accounting Service	3,045
Cleaning Service	220
Credit Reporting	702
Utilities – HACS	185
Telephone Service	2,636
Telephone Equipment Lease	2,048
Copy Machine Lease(s)	2,398
Pager Service	375
Cellular Phone Service	1,281
Office, Cleaning, Kitchen Supplies	2,699
Bottled Water Service	224
Lunches/Snacks	2,147
Miscellaneous	1,113
Gasoline	332
<i>TOTAL</i>	\$85,292

EXHIBIT B - UNALLOWABLE EXPENSES (CONT.)

JULY 1, 1999 THROUGH SEPTEMBER 30, 1999

DESCRIPTION	AMOUNT
Salaries – HACS	\$5,701
Payroll Taxes - HACS	2,240
Retirement Program – HACS	1,414
Health Insurance - HACS	1,273
Liability Insurance – HACS	825
Training	276
Computer Consultant Service	1,300
Bookkeeping/Accounting Service	308
Credit Reporting Service	71
Utilities – HACS	39
Copy Machine Lease	124
Telephone Equipment Lease	184
Pager Service	58
Cellular Phone Service	92
Office, Cleaning, Kitchen Supplies	188
Bottled Water Service	65
Lunches/Snacks	190
Miscellaneous	281
Gasoline	135
TOTAL	\$14,764

EXHIBIT C – RURAL DEVELOPMENT RESPONSE



Rural
Development

Suite 831, Federal Building
Jackson, Mississippi 39269
FAX: (601) 965-5384

March 14, 2001

Raymond G. Poland
Regional Inspector General
U.S. Department of Agriculture
Office of Inspector General
401 W. Peachtree Street, Suite 2328
Atlanta, Georgia 30308

SUBJECT: Housing Authority of the City of Shelby
Management of Pride Garden Apartments
Report No. 04004-2-At

This will respond to the draft report that will be incorporated into the final report on the above subject. The following are the corrective actions to be taken or planned with recommendations and timeframes for implementing such planned actions.

Recommendation No. 1.

Require the HACS to refund to the Pride Garden Apartments \$240,769 for misuse of RRH project funds.

Agency's Response

The Agency will make demand by March 20, 2001, to HACS to refund \$240,769 to Pride Garden Apartments.

In addition, if the HACS fails to pay the \$240,769 within the ninety (90) day period, we will consider one of the following actions:

1. HAC agrees to establish an acceptable payment plan to recover the cost
2. HAC agrees to new independent management
3. HAC agrees to transfer to an eligible entity

If the HACS does not comply with any one of the listed actions, the Agency will initiate servicing actions to accomplish liquidation.

Rural Development is an Equal Opportunity Lender. Complaints of discrimination should be sent to:
Secretary of Agriculture, Washington, D.C. 20250

EXHIBIT C – RURAL DEVELOPMENT RESPONSE (CONT)

Recommendation No. 2.

Provide guidance to HACS officials regarding eligible RRH project expenses.

Agency's Response

Area Office and State Office Representatives will meet with HACS and provide a one day training on eligible RRH project expenses. This training will be documented on materials covered in accordance with FmHA (RD) Instruction 1930-C, any State Supplements or State Administrative Notices on the subject. All management personnel will be required to attend the training session. This will be conducted within 30 days.

Recommendation No. 3.

Implement measures to ensure that responsible RD officials (s) provide oversight to project operations, as appropriate.

Agency's Response

State Office will train the Greenville Area Office officials on project operations within thirty (30) days.

The Greenville Area Office will provide a monthly report to the State Office on all request by HACS for a six (6) month period. An evaluation will be made to determine if the Greenville Area Office is providing satisfactory oversight to HACS. If the Area Office accomplish satisfactory oversight, the reports will be discontinued.

Sincerely,



NICK WALTERS
State Director
Rural Development