

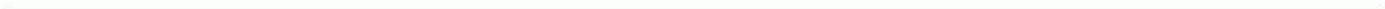


Housing Authority of DeKalb County, Decatur, GA

Rental Assistance Demonstration and Public Housing Capital Fund Program

**Office of Audit, Region 4
Atlanta, GA**

**Audit Report Number: 2017-AT-1006
June 9, 2017**





To: Ada H. Holloway, Director, Public and Indian Housing, 4APH

//signed//

From: Nikita N. Irons, Regional Inspector General for Audit, 4AGA

Subject: The Housing Authority of DeKalb County, Decatur, GA, Generally Administered RAD Appropriately but Did Not Accurately Report on Its Capital Fund Program

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Housing Authority of DeKalb County's Rental Assistance Demonstration (RAD) conversion and Public Housing Capital Fund program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.



Audit Report Number: 2017-AT-1006

Date: June 9, 2017

The Housing Authority of DeKalb County, Decatur, GA, Generally Administered RAD Appropriately but Did Not Accurately Report on Its Capital Fund Program

Highlights

What We Audited and Why

We audited the Housing Authority of DeKalb County's Rental Assistance Demonstration (RAD) conversion and Public Housing Capital Fund program. We selected the Authority for review in accordance with our annual audit plan. Our audit objective was to determine whether the Authority properly administered its RAD conversion and obligated and authorized capital funds in accordance with the U.S. Department of Housing and Urban Development's requirements.

What We Found

The Authority generally administered its RAD conversion in accordance with HUD's requirements for written agreements, project financing sources, reporting of financial data, the expenditure of HUD funding, tenant occupancy, the calculation of contract rents, and physical conditions assessments. However, the Authority failed to accurately report on the obligation and authorization of its capital funds. Specifically, it inaccurately reported its fiscal year 2015 capital funds as obligated when binding agreements were not executed and caused some of its fiscal year 2016 capital funds to be authorized for a previously completed activity. This condition occurred because the Authority lacked (1) an understanding of HUD's requirements and (2) adequate internal controls over its financial reporting. As a result, more than \$940,000 in capital funds was improperly obligated and authorized.

What We Recommend

We recommend that the Director of HUD's Atlanta Office of Public and Indian Housing require the Authority to (1) deobligate more than \$542,000 in capital funds until binding agreements are executed and reclassify more than \$398,000 in capital funds for eligible and reasonable activities, or coordinate with HUD for terminating its capital funds including more than \$217,000 of its current allocation, (2) provide adequate training to its staff, and (3) develop and implement adequate procedures and controls to ensure accurate reporting on capital funds. In addition, we recommend the Authority confirm the replacement of program units was appropriate for the number of units demolished at Johnson Ferry East, and submit a development proposal to construct new public housing units, transfer public housing assistance to another public housing agency, or terminate its annual contributions contract and return all unobligated and unexpended capital funds to HUD.

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Background and Objective

The Housing Authority of DeKalb County was established in December 1955 in accordance with State of Georgia and Federal law. The Authority operates a wide variety of programs designed to provide affordable housing solutions to DeKalb County residents and promote community and economic development. The Authority’s six-member board of commissioners oversees the direction of the Authority. In addition, the board of commissioners is responsible for hiring the Authority’s executive director to manage daily operations and the Authority’s annual operating budget.

The Rental Assistance Demonstration (RAD) was authorized in fiscal year 2012 to preserve and improve public housing properties and address a \$26 billion nationwide backlog of deferred maintenance. RAD’s purpose is to provide an opportunity to test the conversion of public housing and other U.S. Department of Housing and Urban Development (HUD)-assisted properties to long-term, project-based Section 8 rental assistance to achieve certain goals, including preserving and improving these properties by enabling public housing authorities to use private debt and equity to address immediate and long-term capital needs. RAD has two components. The first component allows the conversion of public housing and moderate rehabilitation properties to long-term project-based Section 8 rental assistance contracts. The second component allows rent supplement, rental assistance payments, and moderate rehabilitation properties to convert tenant protection vouchers to project-based assistance at the end of the contract. The Authority executed housing assistance payments contracts and converted its entire public housing portfolio under the first component of RAD to long-term project-based Section 8 rental assistance in 2013 and 2014. Public housing units removed and converted under RAD are listed in table 1.

Table 1

Public housing property name converted under RAD	Public housing units removed	RAD converted property name	RAD development type	RAD converted units
Tobie Grant Manor	200	Forrest Hills	New construction	6
		Hills at Fairington	Rehabilitation	59
		Reserve at Mills Creek	New construction	70
		Mills Creek Crossing	New construction	40
		The View	New construction	25
Ashford Landing	36	Ashford Landing	Not applicable*	36
Ashford Parkside	30	Ashford Parkside	Not applicable*	30
Total	266	Not applicable	Not applicable	266
*The property’s conversion involved only changing the funding source from public housing funds to project-based Section 8 funds.				

The Authority used its nonprofit organization, Housing Development Corporation (HDC), for the RAD conversion. HDC was created in 1988 in response to the shortage of affordable housing opportunities for persons of low-to-moderate income in the County and the State of Georgia. HDC offers development services to the Authority, including but not limited to (1) real estate development, (2) acquisition and disposition of real estate, (3) project management, and (4) securing funding from government and private entities. It also has an ownership stake in three of the Authority's RAD developments (Reserve at Mills Creek, Mills Creek Crossing, and The View).

The Public Housing Capital Fund program provides financial assistance in the form of grants to public housing authorities to carry out capital and management activities. Capital funds can consist of six types of grants, including formula, replacement housing factor, demolition or disposition transitional fund, emergency and non-presidentially declared natural disaster, emergency safety and security, and Capital Fund education and training community facilities. The Authority received replacement housing factor and demolition or disposition transitional funds for fiscal years 2015 and 2016. Replacement housing factor funds provide a formula-based add-on to capital funds for up to 10 years in two 5-year grants after a public housing authority has removed units for HUD-approved demolition or disposition. Replacement housing factor funds may be used only to develop new public housing units. Further, the replacement housing factor funding is being phased out to be replaced by the demolition or disposition transitional funding after a transition period; however, HUD's Capital Fund Guidebook did not provide phase out end date. In addition, accumulation of replacement housing factor funds extends the obligation period of each grant to the obligation end date of the final grant in the accumulation. The Authority currently receives both replacement housing factor and demolition or disposition transitional funds because HUD approved its accumulation request. Demolition or disposition transitional funds began in Federal fiscal year 2014, and provide a formula-based add-on to capital funds for 5 years after a public housing authority has removed units for HUD-approved demolition or disposition. Demolition or disposition transitional funds may be used for rehabilitation, development, or home ownership purposes.

Our audit objective was to determine whether the Authority properly administered its RAD conversion and obligated and authorized capital funds in accordance with HUD's requirements.

Results of Audit

Finding 1: The Authority Generally Administered Its RAD Conversion in Accordance With HUD Requirements

The Authority appropriately administered its RAD conversion in accordance with HUD requirements. Specifically, it generally complied with HUD's RAD requirements for written agreements, project financing sources, reporting of its RAD owner's financial data, the expenditure of HUD funding, tenant occupancy, the calculation of contract rents, and physical conditions assessment.

Generally Appropriate RAD Agreements

The Authority's RAD agreements generally complied with HUD requirements. We reviewed the use agreements, ground lease agreements,¹ and development agreements for five new construction RAD developments. The review identified that the Authority's use agreements contained appropriate provisions for subordination, housing assistance payments contract terms, use restrictions, tenant income, and fair housing that were required in Public and Indian Housing Notice 2012-32 REV-1, paragraph 1.6.B.4. The Authority entered into only five ground lease agreements for five of the seven RAD developments because the Authority had an ownership interest in these properties. But the Authority did not enter into a ground lease agreement for the remaining two of the new construction RAD developments because it did not have an ownership interest in these two properties. Nonetheless, the Authority secured its interest in the two RAD developments by entering into the required housing assistance payment contracts. Therefore, each of the ground lease agreements securing the Authority's interest was properly executed by the Authority and the applicable RAD project owners. In addition, the development agreements appropriately included language restricting the developer fees to not exceed 10 percent for non-low income housing tax credit transactions and 15 percent for tax credit transactions. However, during our review of the development agreements, we noted that the Authority inappropriately allowed its developer fees to be directly deposited into its nonprofit's account as opposed to being invoiced for the payment. We issued a memorandum to inform HUD of this minor deficiency.

Adequate Security of Financing

The Authority adequately secured funding sources for the conversion and complied with relevant financing source criteria. Specifically, it provided the required financing plans for each of its RAD developments. In addition, the financing plans were supplemented with the required financing letters of intent and the required key terms provided at Public and Indian Housing Notice 2012-32 REV-1, Attachment 1A.1.H. Specifically, for all financing providers, the documentation provided by the Authority included the financing amount, repayment terms,

¹ A ground lease agreement is an agreement in which a tenant is permitted to develop property during the lease period, after which the land and all improvements are turned over to the property owner.

interest rate, amortization, maturity, prepayment restrictions, and pay-in schedule as required by the notice.

Adequate Reporting of RAD Owner's Financial Data

The Authority properly reported its RAD owner, Housing Development Corporation's (HDC) financial data. HDC is a not-for-profit affiliate of the Authority. It offers development services to the Authority and also has an ownership stake in three of the Authority's RAD developments. In its financial statements from 2013 through 2015, the Authority reported HDC as a blended component unit. A blended component unit is an entity that is legally separate from a public housing agency. However, the entity's business dealings are so connected to the public housing agency that it is, in substance, the same as the public housing agency and should be and was reported as part of the Authority. The component unit's account balances and transactions are required to be and were reported in a manner similar to the account balances and transactions of the Authority.

Eligible and Supported Expenditures

We reviewed 100 percent of the HUD-funded construction draws totaling more than \$13.8 million and determined that the Authority's RAD expenditures were eligible and supported. Specifically, the HUD funding included replacement housing factor grants from the Capital Fund program, the HOME Investment Partnerships Program funds, and the Neighborhood Stabilization Program 3 funds. The Authority complied with the predevelopment expense limit for RAD converted developments, and construction draws for new construction RAD developments did not include expenses that would be considered inappropriate. In addition, the salaries for the Authority's executive officers were supported.

Adequate Occupancy Implementation

We reviewed a random sample of 27 of 266 RAD residents to determine whether residents were permanently displaced as a result of the RAD conversion. Each resident was provided with the right to return priority and was not rescreened. In addition, the number of units removed from the Authority's public housing inventory was replaced with the same number of units under an annual contributions contract. The annual contributions contract contains the terms under which HUD assists the Authority in providing decent, safe, and sanitary housing for low-income families. Further, the Authority made no inappropriate vacancy payments related to the RAD conversion.

Adequate Contract Rent Implementation

Public and Indian Housing Notice 2012-32 REV-1 paragraph 1.6.C.4 provides that if a tenant's monthly rent increases by more than the greater of 10 percent or \$25 purely as a result of conversion, the rent increase will be phased in over 3 or 5 years. We reviewed a random sample of 26 of 266 RAD residents. None of the residents in our sample experienced increases in tenant payments that would require a phase-in of rents over a 3- or 5-year period.

Adequate Implementation of Physical Conditions Assessment Requirements

HUD Public and Indian Housing Notice 2012-32 REV-1, paragraph 1.4.A requires a physical conditions assessment review to determine both short-term rehabilitation and long-term capital

needs to be addressed through a reserve for replacement account. We determined that a physical conditions assessment was not required for any of the RAD developments due to demolition, recent construction before RAD, and a waiver from HUD. Table 2 identifies these exceptions by property.

Table 2

Property name	Exceptions for not conducting physical conditions assessments:			
	Demolition	New construction	Recent construction before RAD	Waived by HUD
Tobie Grant Manor	X			
Forrest Hills		X		
Hills at Fairington				X
Reserve at Mills Creek		X		
Mills Creek Crossing		X		
The View		X		
Ashford Landing			X	
Ashford Parkside			X	

Conclusion

The Authority generally administered its RAD conversion in accordance with HUD’s requirements for written agreements, project financing sources, reporting of its RAD owner’s financial data, the expenditure of HUD funding, tenant occupancy, the calculation of contract rents, and physical conditions assessments.

Finding 2: The Authority Did Not Accurately Report on Its Capital Fund Program

The Authority did not accurately report on its Capital Fund program. Specifically, it inaccurately reported its fiscal year 2015 capital funds as obligated when binding agreements were not executed, and submitted its 2016 annual statement to HUD with an improper line item causing some of its fiscal year 2016 capital funds to be inaccurately authorized for a previously completed activity known as Rental Assistance Demonstration (RAD). This condition occurred because the Authority lacked (1) an understanding of HUD’s regulations and (2) adequate internal controls over its reporting on grants in HUD’s Line of Credit Control System. As a result, more than \$940,000 in capital funds was improperly obligated and authorized.

Capital Funds Allocated to the Authority

According to HUD’s primary grant disbursement system, more than \$1.15 million in capital funds was allocated to the Authority for fiscal years 2015 and 2016 as replacement housing factor and demolition or disposition transitional funding. In the system, HUD authorizes funds based on budget line items submitted by the Authority in its five year action and annual plans. The Authority then obligates the funds based on binding agreements it has executed. Lastly, the allocated funds are marked as disbursed in the system after draw downs and expenditures. None of the capital funds for fiscal year 2015 and 2016 were drawn down and expended. Table 3 identifies the capital funds allocated to the Authority by funding type and fiscal year.

Table 3

Capital funds allocated to the Authority by funding type	Fiscal year 2015	Fiscal year 2016	Total by funding type
Replacement housing factor	\$386,632	\$217,553	\$604,185
Demolition or disposition transitional fund	155,657	398,022	553,679
Total for fiscal year	542,289	615,575	1,157,864

Inaccurate Obligation of Capital Funds for Fiscal Year 2015

The Authority inaccurately obligated the entire amount of its fiscal year 2015 capital funds in the system. Federal regulations at 24 CFR (Code of Federal Regulations) 905.108 provide that an obligation is a binding agreement for work or financing that will result in outlays, immediately or in the future. However, the Authority had no binding agreements to support the obligation of \$542,289 of its fiscal year 2015 funds. As supporting documentation, Authority officials provided only grant detail printouts from the system. The printouts included handwritten notes, which showed that the Authority planned to use the funds for RAD activities. However, the Authority converted its entire public housing inventory through RAD in 2013 and 2014. Further, the Authority’s 5-year action plan as of July 1, 2015, stated that it did not submit its capital funds annual statements because all of its capital funds had been spent and it was 100 percent RAD. The action plan also stated that the Authority was no longer receiving capital or replacement housing factor funds. However, all fiscal year 2015 capital funds were authorized

for “development” activity in the system. Therefore, we determined that the Authority could use the funds for eligible development purposes other than the previously completed RAD activities.

Section 7.2 of the Capital Fund Guidebook generally requires capital funds to be obligated within 24 months from the obligation start date. However, in the case of replacement housing factor grants, public housing authorities have 24 months from the time they accumulate funding up to 5 years for obligations. Specifically, accumulation of grants extends the obligation period of each grant to the obligation end date of the final grant in the accumulation. For example, on May 2, 2014, HUD approved the Authority’s request to accumulate its replacement housing factor funds, which changed its obligation to October 29, 2019. The fiscal year 2015 capital funds were allocated by HUD in three separate grants with obligation end dates of April 12, 2017, and October 29, 2019 (table 4). Further, if at least 90 percent of funds are not obligated by the applicable obligation end date, the funds are subject to recapture per section 7.2 of the Capital Fund Guidebook. However, according to section 7.3 of the Capital Fund Guidebook, an extension to the obligation end date can be requested.

Table 4

Grant number	Funding type	Fiscal year 2015 capital funds	Obligation start date	Obligation end date
GA06R237502-15	Replacement housing factor	\$220,932	04-13-2015	10-29-2019
GA06R237501-15		165,700	04-13-2015	10-29-2019
GA06P237501-15	Demolition or disposition transitional fund	155,657	04-13-2015	04-12-2017
Total for fiscal year 2015		542,289	Not applicable	Not applicable

Inaccurate Authorization of Some Capital Funds for Fiscal Year 2016

The Authority caused the inaccurate authorization of more than \$398,000 of its fiscal year 2016 capital funds in the system for an inappropriate activity. Specifically, based on documentation provided by the Authority to HUD, an authorization amount of \$398,022 in fiscal year 2016 capital funds was entered into the system for a previously completed activity known as RAD. Specifically, the Authority completed its RAD conversion in 2013 and 2014. The authorization was entered into the system based on the Authority’s 2016 annual statement submission to HUD, which included a budget line item entitled “RAD investment activity.” While HUD’s requirements at paragraph 1.5A of the Public and Indian Housing Notice 2012-32, REV-3 permit the use of capital funds for RAD conversion, the requirements state that capital funds may not be used on a project after conversion. As stated above, the Authority converted its entire public housing inventory through RAD in 2013 and 2014. Therefore, it authorized capital funds for an inappropriate activity.

At the time of our review, none of the fiscal year 2016 funding had been obligated. Table 5 provides the obligation end dates for fiscal year 2016 funding.

Table 5

Grant number	Funding type	Fiscal year 2016 capital funds	Obligation start date	Obligation end date
GA01R237502-16	Replacement housing factor	\$217,553	04-13-2016	04-12-2018
GA01R237501-16	Demolition or disposition transitional fund	398,022	04-13-2016	04-12-2018
Total for fiscal year 2016		615,575	Not applicable	Not applicable

HUD explained that the Authority's capital funds included replacement housing factor and demolition or disposition transitional grant funds, which the Authority received due to the demolition of a prior public housing property, Johnson Ferry East. Federal Register Volume 78, No. 206, Part III, dated October 24, 2013, established that demolition or disposition transitional grants will be included in the regular capital funds to replace the replacement housing factor funding. We discussed the Authority's 2015 and 2016 capital funds with HUD headquarters officials to determine why the Authority received funds after it completed its RAD conversion and whether the obligation and authorization were allowable. HUD agreed that the obligation and authorization entries in the system were improper. HUD explained that demolition or disposition transitional funds could be used only to develop or modernize public housing units. Authority officials also agreed that the funds should not have been obligated and authorized in the system as such. The Authority explained that it would discuss its options for use of the replacement housing factor and demolition or disposition transitional funds with HUD officials, considering that it no longer had a public housing program. The Authority added that it was unaware that it received the demolition or disposition transitional funds as a result of the demolition of Johnson Ferry East, which was before the RAD application and conversion. The Authority also explained that it was unfamiliar with demolition or disposition transitional funding and its requirements. HUD officials stated that they would work with the Authority to determine how the capital funds should be used after RAD conversion.

We reviewed the Authority's procedures for reporting in HUD's system and determined that they were inadequate. Specifically, the procedures did not include language requiring that a binding agreement be executed before an obligation was entered into the system. The procedures also did not discuss the process for entering authorizations into the system.

Conclusion

The Authority inaccurately reported its capital funds as obligated with no executed agreements and caused capital funds to be improperly authorized for a previously completed activity. This condition occurred because the Authority lacked an understanding of HUD regulations and adequate controls over its reporting of grants in HUD's system. As a result, \$948,311 (\$542,289 + \$398,022) in capital funds was improperly obligated and authorized.

In its response to our audit report, the Authority stated that it no longer operates a Low Income Public Housing Program and does not intend to build or purchase public housing units in the future. Therefore, it is requesting that its capital funds be returned to HUD. The Authority's complete response is included in Appendix B.

Recommendations

We recommend that the Director of HUD's Atlanta, GA, Office of Public and Indian Housing require the Authority to

- 2A. Deobligate \$542,289 in fiscal year 2015 capital funds in HUD's system until binding agreements are executed for eligible and reasonable purposes, or coordinate with HUD for terminating its funding.
- 2B. Reclassify \$398,022 in fiscal year 2016 capital funds as authorized in HUD's system to an eligible and reasonable activity, or coordinate with HUD for terminating its funding.
- 2C. Coordinate with HUD for terminating the allocation of the remaining \$217,553 funds given the Authority's current intentions to not build or purchase public housing units.
- 2D. Develop and implement adequate procedures and controls to ensure that the reporting of allocated capital funds in HUD's system is accurate.
- 2E. Provide adequate training to staff responsible for making entries into HUD's system to ensure accurate reporting on allocated funds. The training should include but not be limited to ensuring that its staff understands all of HUD's reporting requirements for obligations and authorizations.
- 2F. Confirm the replacement of program units was appropriate for the number of units demolished at Johnson Ferry East, and submit a development proposal to construct new public housing units, transfer public housing assistance to another public housing agency, or terminate its annual contributions contract and return all unobligated and unexpended capital funds to HUD.

Scope and Methodology

We performed our onsite audit work between October 2016 and December 2016 at the Authority's office located at 750 Commerce Drive, Decatur, GA, and at our office in Atlanta, GA. Our audit period was July 1, 2013, through September 30, 2016.

To accomplish our audit objective, we interviewed HUD program staff and the Authority's employees. In addition, we obtained and reviewed the following:

- Applicable laws; HUD's regulations at 24 CFR (Code of Federal Regulations) Part 905; Office of Public and Indian Housing Notice 2012-32, REV-1; Federal Register Volume 78, No. 206; and the Authority's reporting in HUD's system.
- The Authority's policies and procedures; RAD application; financing sources; cost certifications; construction draws; general ledgers; annual audited financial statements for fiscal years 2013, 2014, and 2015; executed agreements; annual contributions and housing assistance payments contracts; tenant files; and the Authority's nonprofit's bank statements and general ledgers.

Finding 1

The universe consisted of 266 residents: 200 at Tobie Grant Manor, 36 at Ashford Landing, and 30 at Ashford Parkside. Using a random number generator, we selected a 10 percent sample from each of the three projects. We selected a 10 percent sample due to the relatively small number of residents in the universe. We reviewed 27 (20 + 4 + 3) residents to determine whether any of the residents were permanently displaced as a result of the RAD conversion. In addition, we used the same sample of residents to complete our review of rent increases. However, we could not review one resident's rents because the resident had relocated and opted out of the program. As a result, we reviewed rents for 26 residents to determine whether a phase-in of a rent increase was required.

We completed a 100 percent review of the written agreements, financing sources, and the physical conditions assessment for each of the seven RAD developments. We also reviewed 100 percent of the HUD-funded construction draws totaling more than \$13.8 million for five new construction RAD developments.

The results of the review apply only to the specific items reviewed and cannot be projected to the universe of transactions.

Finding 2

We reviewed 100 percent of the more than \$1.15 million in capital funds allocated to the Authority for fiscal years 2015 and 2016 to determine whether funds were obligated and authorized in accordance with HUD's requirements.

The results of the review apply only to the specific items reviewed and cannot be projected to the universe of transactions.

Computer-processed data generated by the Authority was not used to materially support our audit findings, conclusions, and recommendations. Thus, we did not assess the reliability of these computer-processed data. Instead, our conclusions were based on the supporting documentation obtained during the audit, including but not limited to written agreements, drawdown support documents, tenant eligibility files, tenant relocation files, property site visits, expenditure support documents, and bank statements.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Relevance and reliability of information – Policies and procedures that management has implemented to reasonably ensure that operational and financial information used for decision making and reporting externally is relevant, reliable, and fairly disclosed in reports.
- Compliance with laws and regulations – Policies and procedures that management has implemented to reasonably ensure that program implementation is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The Authority did not accurately report on its capital funds in HUD's Line of Credit Control System (finding 2).

Appendixes

Appendix A

Schedule of Funds To Be Put to Better Use

Recommendation number	Funds to be put to better use 1/
2A	\$542,289
2B	398,022
2C	217,553
Totals	1,157,864

- 1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, if the Authority implements our recommendations, it will reclassify, deobligate, or terminate the allocation of more than \$1.15 million in capital funds until it identifies reasonable and eligible activities for the use of the funds.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments



HADC
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May 8, 2017

Ms. Nikita N. Irons
Regional Inspector General for Audit
HUD Office of Audit Region IV
75 Spring Street SW
Room 330
Atlanta, Georgia 30303

RE: Draft Audit Report - Housing Authority of DeKalb County's Rental Assistance Program (RAD)
Conversion

Dear Ms. Irons,

The Housing Authority of DeKalb County (HADC) has prepared the following response to the draft audit report of the U.S. Department of Housing and Urban Development Office of Inspector General's review of HADC's Rental Assistance Program (RAD) conversion and Public Housing Capital Fund program. The OIG selected HADC for review in accordance with their annual audit plan with the objective of determining whether the Authority properly administered its RAD conversion and obligated and authorized capital funds in accordance with the U.S. Department of Housing and Urban Development's requirements.

The audit results are as follows:

- **Finding 1**
HADC general administered its RAD conversion in accordance with HUD's requirements for written agreements, project financing sources, reporting of financial data, the expenditure of HUD funding, tenant occupancy, the calculation of contract rents and physical conditions assessments.

Recommendations:
None for this Finding.

- **Finding 2**
The Authority did not accurately report on its Capital Fund program. Specifically, it inaccurately reported its fiscal year 2015 capital funds as obligated when binding agreements were not executed, and submitted its 2016 annual statement to HUD with an improper line item causing some of its fiscal year 2016 capital funds to be inaccurately authorized for a previously completed activity known as Rental Assistance Demonstration (RAD). This condition occurred because the Authority lacked (1) an understanding of HUD's regulations and (2) adequate internal controls

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Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 1

Comment 2



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over its reporting on grants in HUD's Line of Credit Control System. As a result, more than \$940,000 in capital funds was improperly obligated and authorized.

OIG Recommendations:

- 2A. De-obligate \$542,289 in fiscal year 2015 capital funds in HUD's system until binding agreements are executed for eligible and reasonable purposes.

HADC Response:

The funds in CFP 15 and RHF 15 were obligated based on the regulations of 24 (Code of Federal Regulations) CFR 905.108 on mixed-finance development activities that were projected to be under binding contract and would result in outlays in the future. However, these opportunities did not manifest to fruition based on the lack of availability of tax credits as a component of the affordability quotient. As noted, the HADC did not expend any of the referenced funds from the CFP 15 or RHF 15.

The HADC did state in the Five-Year Action Plan (2015-2019) submitted April 2015, CFP or RHF annual statements would not be submitted with the Five-Year Plan as all received funds to date (which included the CFP and RHF14 Grants) had been obligated and expended. **The CFP/RHF 15 funds were not received until the end of June 2015.** Also, at the time of the Plan submission, the HADC was not sure if they would be receiving any additional CFP funds as they had been converted to 100% RAD.

HADC submitted a written request to HUD to de-obligate the CFP 2015 allotments on March 29, 2017. We received notification from the Atlanta Field Office on 5/1/17 that the request was approved and the funds have been de-obligated until HADC identifies reasonable and eligible activities for the use of the funds as recommended by the OIG.

- 2B. Reclassify \$398,022 in fiscal year 2016 capital funds as authorized in HUD's system to an eligible and reasonable activity.

HADC Response:

The CFP for 2016 were included as a part of the \$1.1M finding in the report. HUD authorized these funds as available. When the FY 2016 CFP was submitted to HUD with the ACC agreement in April 2016, all funds were included in line item 1499 which is classified for Development. The HADC was informed by the Field Office to resubmit the document with all funds listed in line item 1504 (RAD development).

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Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 3

Comment 3

Comment 4



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Furthermore, these funds have not been obligated by HADC as the 24-month period from grant award has not expired and accumulation of RHF funds extends the obligation period of each grant to the obligation end date of the final grant in the accumulation.

2C. Develop and implement adequate procedures and controls to ensure that the reporting of capital funds in HUD's system is accurate.

HADC Response:
Pre-RAD conversion, HADC has always maintained adequate procedures and controls and provided staff training for the CFP grants to ensure that the reporting of these funds in LOCCS was accurate. Regarding post-RAD activities, the HADC CFP policies and procedures have been reviewed and revised to incorporate more stringent language pertaining to drawdowns. These policy and procedure updates included identifying all responsible parties for current implementation. Training was provided to the applicable staff to include, reviewing the parameters for obligation of funds for contract activities. As previously noted, the obligation of CFP funds post-RAD occurred based on contractual items that were initialized (projects) that did not materialize to fruition based on non-closings of development activities.

2D. Provide adequate training to staff responsible for making entries into HUD's system to ensure accurate reporting. The training should include, but not be limited to, ensuring that its staff understands all of HUD's reporting requirements for obligations and authorizations.

HADC Response:
As stated in HADC response to 2C above, training has been provided to the applicable staff to include reviewing the parameters for obligation and authorization of funds for contract activities.

Please note that the following attachments substantiate and verify information provided herein:

Attachment A: Letter to Atlanta HUD Field Office re: De-obligation of Funds for Capital Fund and Replacement Housing Factor Grants dated March 29, 2017

Attachment B: Email to HADC from Ada Holloway, Director, Atlanta HUD Field Office Re: Approval of De-obligation of Funds for Capital Fund and Replacement Housing Factor Grants

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Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1, 2,
3, and 4



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Furthermore, as the RAD Program was new, oftentimes adequate guidance was not received from HUD as to the exact interpretation of the regulations. Therefore, through inadvertent and unintentional error, the HADC may have misinterpreted regulations pertaining to the guidelines for RAD procedures

The HADC no longer operates a Low Income Public Housing (LIPH) Program and does not intend to build or purchase ACC units in the future. Therefore, we are requesting that the remaining CFP funds be returned to HUD and provided to another PHA.

If you have any questions or need clarification of any HADC responses included in this correspondence, please do not hesitate to contact me via email at Pete.Walker@dekalbhousing.org or at 404-270-2503.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Pete Walker, Jr.', is written over the typed name.

E.P. "Pete" Walker, Jr.
President and CEO

Cc: Ada Holloway, Director, Atlanta HUD Field Office

Enclosures

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OIG Evaluation of Auditee Comments

- Comment 1 The Authority stated that it obligated the fiscal year 2015 capital funds based on the projections that it would be used on mixed-finance development activities, but it could not execute any agreements due to a lack of availability of tax credits. Nonetheless, to address our recommendation, per the Authority's request, HUD deobligated the capital funds on May 1, 2017. However, in its comments dated May 8, 2017, issued to us with copy to HUD, the Authority requested that its capital funds be returned to HUD. Specifically, since the Authority converted its entire public housing portfolio under RAD, it does not intend to administer the Public Housing Capital Funds program. Therefore, we revised recommendation 2A and included recommendation 2C for the Authority to coordinate with HUD for terminating all of its funding. The management decision for recommendation 2A and 2C has been reached and will be recorded in the departmental audit resolution tracking system upon issuance of the final audit report.
- Comment 2 The Authority stated that it classified its fiscal year 2016 capital funds under RAD development activity based on HUD's instructions, and that none of the fiscal year 2016 funds have been obligated and the obligation end date has not yet expired. We agree that the obligation deadline has not expired yet; however, the classification for RAD development activity is not appropriate since the Authority has completed its RAD conversion. Nonetheless, as detailed in comment 1 above, the Authority has requested its capital funds to be returned to HUD. Therefore, we revised recommendation 2B to request the Authority to coordinate with HUD for the deallocation of its funding. The management decision for recommendation 2B has been reached and will be recorded in the departmental audit resolution tracking system upon issuance of the final audit report.
- Comment 3 The Authority stated that it has revised its policies and procedures to incorporate more stringent language pertaining to drawdowns of capital funds and training has been provided to the applicable staff. We acknowledge the Authority's proposed actions to address the findings cited in this report. The Authority should work with HUD to ensure that (1) the revisions and updates to its policies and procedures are appropriate and the revisions are fully implemented and (2) sufficient training was provided.
- Comment 4 The Authority provided a copy of its request letter and HUD's approval email regarding the de-obligation of its fiscal year 2015 capital funds as attachments to its response, which were not necessary for understanding the Authority's comments. Therefore, we did not include the two pages of attachments in Appendix B.