



U.S. Department of Housing and Urban Development
Office of the Public Housing Director
Los Angeles Field Office, Region IX
611 W. 6th Street, Suite 1040
Los Angeles, CA 90017

OCT 07 2015

Ms. Cynthia Haas
Executive Director
Housing Authority of the
City of Port Hueneme
250 N. Ventura Road
Port Hueneme, CA 93041-3094

Dear Ms. Haas:

Subject: On-Site Financial Compliance Review of the Housing Authority of the City of Port Hueneme; Demand to Repay Unsupported Costs Charged to the Low-Rent Public Housing and Section 8 Housing Choice Voucher Programs

This letter details the results of the on-site financial compliance review conducted by the HUD Departmental Enforcement Center (DEC) at the Housing Authority of the City of Port Hueneme (HAPH) during the period of February 23-26, 2015. Based upon the results of review, it has been determined that funds paid by the HAPH to the City did not meet the criterion of allowability, allocability, and reasonableness in accordance with applicable regulations specified in the content of this letter. Additionally, it was determined that the HAPH lack sufficient documentation to support salary and benefit compensation charged to the Housing Choice Voucher (HCV) and Low Rent Public Housing (PH) Programs. Lastly, the HAPH was found to be in violation of procurement rules governing the PH Capital Fund Program (CFP) in addition to questionable expenses charged to the CFP during the review period.

The following herein is a summary of the results of the review which identifies corrective actions to be undertaken by the HAPH. Please note that the report identifies corrective actions to be completed along with documentation illustrating completion of the corrective actions as well as evidence of the repayment of unsupported costs charged to the Low-Rent Public Housing (PH) and Section 8 Housing Choice Voucher (HCV) programs, with non-Federal funds.

Review Overview and Objectives

The Los Angeles Office of Public Housing (LAOPH) requested that the DEC perform an on-site financial compliance review of the HAPH in order to examine expenses charged by the City of Port Hueneme ("the City") to HAPH. These expenses primarily consisted of allocated indirect expenses and compensation for salaries and benefits.

The objectives of the review were to determine the total amount of funds HAPH paid to the City and the allowability, allocability, and reasonableness of the costs in accordance with the Office of Management and Budget's (OMB) Circular A-87, Circular on Cost Principles, now codified as 2 CFR Part 200 Subpart E (Cost Principles), as well as HAPH's PH Annual

Contributions Contract (ACC), HAPH's HCV Consolidated Annual Contributions Contract (CACC), and other program rules.

Scope of the Review

The DEC reviewed HAPH's general ledger, bank statements, compensation for personnel services documentation, and cost allocation documentation for the period of July 1, 2011 through September 30, 2014. The review team also assessed the FY 2012, 2013 and 2014 Financial Data Schedules (FDS) submitted to the Real Estate Assessment Center-Financial Assessment Subsystem for Public Housing (REAC-FASS PH), the Voucher Management System (VMS) data submissions, and Line of Credit Control System (LOCCS) data.

Additionally, the DEC conducted interviews with the following key HAPH management staff: Executive Director and City Manager, Cynthia Haas; Director of Finance, Robert Bravo; Budget Manager, Juanita Guzman; and Director of Housing and Facilities Maintenance, Joseph Gately.

Review Results

The review assessed the flow of funds from HAPH to the City; HAPH's cost allocation plan; compensation for salaries and benefits; and its use of Capital Fund Program (CFP) funding. The results of the review are discussed below:

HAPH Funds

From July of 2011 to the present, HAPH has maintained five active bank accounts, one of which is a Local Agency Investment Fund (LAIF). HUD deposited the PH and the HCV funds into the Santa Barbara Bank and Trust (SBBT) account number 38007241 from July 2011, through SBBT's transition to Union Bank in April, 2013. The account was entitled "City of Port Hueneme." However, during of the review, the DEC determined the account to act primarily as a pass-through account whereby HUD funds were deposited into the SBBT account and then transferred to HAPH's Wells Fargo account number 619-653-1823. The SBBT account was subsequently closed on June 18, 2013, and a check was made payable to the City in the amount reflecting the a closing balance of \$242,437.81. A corresponding cash deposit was made to HAPH's Wells Fargo account for the amount of \$242,556.81 on June 21, 2013.

The DEC also reviewed the bank statements for HAPH's Wells Fargo account from July 2011 to September 2014. During this period, frequent wire transfers between the HAPH and the City's Wells Fargo account number occurred. From July 1, 2011, to September 30, 2014, \$1,710,079.01 was transferred from the HAPH's bank account to the City's bank account, and \$889,683.29 was transferred from the City's bank account to the HAPH's bank account. Although the HAPH maintained a LAIF account, no funds were deposited or withdrawn with the exception of interest deposits during the scope of the DEC's review.

Redevelopment Agency Funds

Of the \$883,683.29 transferred from the City to the HAPH's bank account number 1823, \$700,755.85 was the result of the dissolution of California's Redevelopment Agency (RDA) program. The \$700,755.85 is considered RDA cash; however, it is commingled with PH funds in the HAPH's general ledger and in the HAPH's bank account. Although it is presented separately as a State/Local asset in REAC-FASSPH, there is a risk that without separate accounting in the HAPH's GL, these funds may be misrepresented at a future point in time.

City Funds

In its Fiscal year-end (FYE) June 30, 2014 Comprehensive Annual Financial Report (CAFR), the City reported a total fund balance of \$31,875,642. Of the total fund balance, \$15,820,100 was unassigned, and the remaining balance was un-spensible or committed. As of September 30, 2013, the City held \$18,119,994.83 cash in the City LAIF account, and \$1,681,182.08 in the City Wells Fargo Account.

Cost Allocation Plan

The City Director of Finance, Robert Bravo, provided the DEC with the City's most recent Cost Allocation Plan (CAP) dated FY 2012. Mr. Bravo stated that the plan reflected actual costs from FY 2012; however, the plan had not been updated since that year, nor was it ever approved or certified by the City. This is a violation of the Cost Principles at 2 CFR Part 200.415 (b), which requires that a CAP or indirect cost rate proposal maintained by a government unit should have costs certified by the government unit using the Certificate of Cost Allocation Plan or Certificate of Indirect Costs.

Based on statements by the City's Budget Manager and the general ledger, for FY 2013 the City used its FY 2012 budgeted expenses plus an inflation factor of 5% to generate the allocation costs charged to HAPH. The City was unable to support its use of the 5% inflation factor. As a result, the City did not use actual expenses incurred to allocate costs to HAPH. In FY 2014, the City used the FY 2013 amounts; however, adjustments were made to reduce the allocation expense for items at the request of the Housing Director. According to the general ledger, in both FYs 2013 and 2014, the City was unable to support the propriety of the costs charged to HAPH under the CAP since they were based on budgeted, not incurred, costs. Secondly, in neither year did the City develop a CAP within six months prior to the beginning of its fiscal year, nor did it develop a CAP at any point in the year. Therefore, the charges to HAPH by the City for cost allocation expenses in FYEs 2013 and 2014 are in violation of the Cost Principles at 2 CFR Part 200, Appendix V, paragraph A(1), 2 CFR Part 200, Appendix V, paragraph D(3), and 2 CFR Part 200, Appendix V, paragraph D(4).

Additionally, the City and the HAPH were unable to provide any documentation or explanation as to how the total HAPH cost allocation expenses were allocated between HCV and PH for FYs 2012, 2013, and 2014. Therefore, the charges to HCV and LRPH are unsupported and in violation of HAPH's ACC and CACC. The chart below provides the total cost allocation expenses charged to HCV and LRPH for the past three full fiscal years along with the percentage allocation charged to each program.

Cost Allocation Expense

FYE	HCV Amount	HCV %	LRPH Amount	LRPH %	Combined
2012	\$51,547.00	26.92%	\$139,953.00	73.08%	\$191,500.00
2013	\$59,200.00	26.75%	\$162,100.00	73.25%	\$221,300.00
2014	\$59,200.00	28.62%	\$147,684.00	71.38%	\$206,884.00
Total	\$169,947.00	27.42%	\$449,737.00	72.58%	\$619,684.00

The DEC found that the City charged HAPH a total of \$619,684.00 in unsupported cost allocation expenses for fiscal years (FY) 2012, 2013, and 2014. Furthermore, the City had not established a cost allocation plan since FY 2012 because the Finance Department did not believe it needed to be done according to interviews. Finally, the City was unable to provide any certifications that plans or charges relating to cost allocation are in accordance with Federal regulations for the scope of the DEC's review.

Compensation For Salaries and Benefits

The City provided the DEC with its organizational chart for City and HAPH staff as well as budgeted salaries, payroll, fund distributions of payroll expenses, and its GL for the scope of the review. The DEC reviewed these documents and found that the City and the HAPH charged HCV a total of \$668,493.45 and PH \$1,080,027.85 between July 1, 2011, and September 30, 2014, for administrative salaries and employee benefits. During this time period, the administrative salaries and employee benefits were either in part or entirely paid for with HCV and PH funds; however, the City and HAPH were unable to provide records that accurately reflected the work performed. The allocation for each position is presented below.

Position	Department	HCV Fund 915	LRPH Fund 912	Other
City Manager	General Fund	2.5%	2.5%	95%
Housing Programs Mgr. Lead	HAPH	45%	45%	10%
Clerical Aide	HAPH	45%	45%	10%
Housing/Facilities Director	HAPH	45%	45%	10%
Housing Customer SVC ASST- HCV	HAPH	47%	47%	6%
Housing Maintenance Worker I	HAPH	0%	100%	0%
Housing Authority Board Members	HAPH	0%	100%	0%

When asked to provide signed periodic certifications for employees who have worked solely on PH and signed monthly personal activity reports or other equivalent documentation for employees who work on multiple activities, the City, who provides all payroll services for HAPH, stated the requested documentation does not exist; however, the City did commit to begin recording labor associated with each housing function effective May 1, 2015. The City and HAPH therefore did not maintain adequate supporting documentation to demonstrate that

salaries and benefits were properly allocated to HCV and LRPB in accordance with the Cost Principles at 2 CFR Part 200.430 (i)(1), 2CFR Part 200.431 (d), and its ACC and CACC.

The DEC also found that the City and the HAPH charged a total of \$1,748,521.30 in unsupported salary and benefit compensation to the Section 8 Housing Choice Voucher (HCV) and Low Rent Public Housing (LRPH) programs. [The City performs payroll services for HAPH, and neither party was able to support salary and benefit expenses in accordance with Federal regulations for the period of July 1, 2011 to September 30, 2014].

Use of Capital Funds

Procurement of Consultant Services

The HAPH procured the services of Borrell Technology Incorporated (BTI) via contract dated April 2, 2014. The scope of the work performed consisted of a review and opinion by BTI on the expenses charged to the HUD-funded programs. The contract was not to exceed \$15,000, and was signed by the HAPH's Housing Director. The actual total expense billed by BTI to HAPH for the work performed, as well as late charges for past due payment, was \$12,011.77. A check was cut to BTI on November 6, 2014, for \$12,011.77 from HAPH's Wells Fargo account number 1823. GL CFP expense accounts 916-9214-892-68-15 "Housing/Management Improvements" and 916-9214-892-68-19 "Housing/Administration" were debited in the amounts of \$8,279.30 and \$3,732.47, respectively. The date the expenses were incurred was booked as June 18, 2014; however, no LOCCS voucher requests were entered into LOCCS until May 27, 2015.

The DEC requested the procurement method and all documentation associated with the BTI contract; however, HAPH was only able to provide a memorandum dated March 2, 2015, from the Housing Director to the City Manager, which identified a summary of the procurement. Per the memorandum, the HAPH contacted three vendors:

- Casterline and Associates—contacted by the Finance Department, and initially selected; however, the contract was reneged.
- National Association of Housing and Redevelopment Officials (NAHRO)—chose not to present a bid.
- BTI—entered into contract for service with HAPH.

No other procurement information or documentation was provided to support the selection of BTI. The HUD Procurement Handbook 7460.8 REV-2, requires that for purchases above \$2,000 and below \$100,000, the HAPH must solicit price quotes from at least three qualified sources. Additionally, when a PHA solicits offers from multiple sources but receives only one, or the competition is determined inadequate, it is considered a noncompetitive proposal and the PHA must follow the process for noncompetitive proposals, which includes performing a cost analysis and submission of proposed contracts to HUD for pre-award review and approval. The HAPH was unable to provide documentation that it followed the required procurement process for the award of the BTI contract, and is therefore in violation of the procurement rules governing CFP funds and its ACC.

The DEC found violations of procurement rules governing the LRPB Capital Fund Program (CFP) in the amount of \$12,011.77, as well as other questionable expenses charged to CFP funds.

Other Expenses Charged to CFP Fund 916

The DEC reviewed the GL for CFP Fund 916, and found expenses charged to management improvements for purchases at “Big Lots” and “Walmart.” We reviewed receipts pertaining to the expenses and found the purchases were primarily for toys and party supplies relating to a holiday party.

Purchase Date	Vendor	Amount
12/10/2014	Big Lots (Credit)	\$(43.20)
12/120/2014	Big Lots	\$399.60
12/10/2014	Walmart	\$123.18
Total		\$479.58

The DEC also found charges to “Henry’s Pub” and “The Beer Company” expensed to the CFP program’s management improvements account.

Purchase Date	Vendor	Amount
5/12/2014	Henry’s Pub	\$50.20
5/12/2014	The Beer Company	\$9.89
Total		\$60.09

Each of these charges was made on HAPH’s Wells Fargo Credit Card. The Cost Principles at 2 CFR Part 200.423 disallow purchases of alcohol, and the HUD Comprehensive Grant Guidebook 7485.3G, defines entertainment, food and beverage, amusements, social activities and food stipends to residents as ineligible activities. Lastly, the DEC found an expense for a “2014 Section 8 Survey” performed by The Nelrod Company dated January 31, 2014, for \$1,798. The activity was expensed to CFP Fees and Costs, as HCV costs are ineligible under the CFP.

Required Corrective Actions and Repayment

Flow of Funds

- The City must reclassify its RDA fund, specifically RDA's equity in pooled cash, to establish separate accounting of RDA assets and liabilities from LRPB assets and liabilities.
- The City must ensure that the RDA funds and accounts be distinctly reclassified in the GL, so that RDA equity in pooled cash is not commingled with LRPB equity in pooled cash. **The City’s evidence that the RDA funds are accounted for separately and not commingled with the LRPB funds, must be submitted to this office.**

Cost Allocation Plan

- The City must develop, implement and enforce a cost allocation plan that complies with the Cost Principles, as well as develop, implement, and enforce written procedures for cost allocations among the HCV and LRPB programs and other Federal and non-Federal programs, to ensure no further violations occur. The City must perform an annual review of the cost allocation plan and have HAPH's Board of Commissioners certify that the plan is in accordance with Federal regulations. A Board resolution should also be filed when the Board approves the cost allocation plan. **The City must send a copy of the cost allocation plan, the written procedures and the Board Resolution to this office.**
- The City must repay the HCV program \$169,947.00 and the LRPB program \$449,737 with non-Federal funds. These amounts represent unsupported and noncompliant cost allocations to the HUD Housing Programs. **The City must submit copies of accounting journal entries and bank statements as evidence that the repayment has been processed, to this office.**

Compensation for Salaries and Benefits

- The City and the HAPH must repay the HCV program \$668,493.45 and the LRPB program \$1,080,027.85 with non-Federal funds. These amounts represent unsupported salary and benefit expenses charged to the HUD Housing Programs. **The City and the HAPH must send copies of accounting journal entries and bank statements as evidence that the repayment has been processed, to this office.**
- The City and the HAPH are to develop and implement salary and benefit allocation methods that comply with the Cost Principles. The City and the HAPH should develop, implement, and enforce written procedures that include internal controls for salary and benefit allocations among the HCV and LRPB programs and other Federal and non-Federal programs, to ensure no further violations occur. This should include documentation requirements for its employees' time and attendance. **A copy of the salary and benefit allocation method and written procedures must be sent to this office.**

Use of Capital Funds

- The HAPH must train all staff tasked with procurement duties on its local and Federal procurement requirements. Please note that this office will place all CFP funds on "auto review" in the Line of Credit Control System (LOCCS) to ensure expenses charged to CFP grants are eligible, allowable, and reasonable.
- The HAPH must repay the LRPB CFP \$12,011.77 for violating HUD procurement requirements. **The HAPH must send copies of accounting journal entries and bank statements as evidence that the repayment has been processed to this office.** The HAPH should train staff tasked with procurement activities on its local and Federal procurement requirements and procedures.

Please complete the required corrective actions and send the requested documentation of repayment by the City and the HAPH, to the HCV and PH Programs in the total amount of \$2,380,217.07 in unsupported costs to the HCV and LRPB programs with non-Federal funds, as identified in this letter, within 30 days of the date of this letter.

Should you have any questions concerning this letter, please contact Gregory Nunn, HUD Financial Analyst, at (213) 534-2457.

Sincerely,



Marcie Chavez
Director
Office of Public Housing