



**CUYAHOGA METROPOLITAN HOUSING AUTHORITY, PHASE 2  
CUYAHOGA COUNTY**

**SPECIAL AUDIT REPORT**

**JANUARY 1, 1990 THROUGH MAY 31, 1998**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



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**SCHEDULE OF APPOINTED OFFICIALS AND ADMINISTRATIVE PERSONNEL  
AS OF MAY 31, 1998**

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<b>Appointed Board of Commissioners</b>	<b>Term</b>	<b>Bond</b>
Dwayne Browder	10/24/95 - 10/24/98	(A)
Karen H. Coats	10/24/96 - 06/12/98	(A)
Louise Harris	10/24/95 - 10/24/98	(A)
Emmanuel Onunwor*	01/07/98 - 10/24/00	(A)
Consuelo M. Sousa*	10/24/94 - 01/07/98	(A)
Robert C. Townsend II	10/24/97 - 10/24/00	(A)

\*Although Consuelo Sousa's term officially expired on October 24, 1997, she filled the first portion of Emmanuel Onunwor's term, until he was able to serve on January 7, 1998.

**Administrative Personnel**

Claire E. Freeman, Chief Executive Officer	(A)
Ronnie Davis, Chief Operating Officer	(A)
Ardeshir Agahi, Comptroller	(A)

(A) Aetna Casualty & Surety Company of America was the bonding company from July 1, 1996 through May 31, 1998. The Hartford Company provided coverage for CMHA prior to Aetna Casualty & Surety Company. Coverage amounts were \$750,000 for public employee dishonesty coverage and \$250,000 for forgery/alteration coverage.

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OFFICE OF THE AUDITOR  
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## REPORT OF INDEPENDENT ACCOUNTANTS

Terri D. Hamilton-Brown, Executive Director  
Cuyahoga Metropolitan Housing Authority  
1441 West 25th Street  
Cleveland, Ohio 44113

Pursuant to your request, we have conducted a Special Audit and performed the procedures summarized below, and detailed in our "Supplement to the Special Audit Report," which were agreed to by you, for the period January 1, 1990 through May 31, 1998 (the Period). These procedures were performed solely to identify operational policies, procedures, and practices exercised by the Cuyahoga Metropolitan Housing Authority ("CMHA"); and to determine if certain expenditures were in accordance with applicable State and Federal laws and CMHA policies.

This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of this report. Consequently, we make no representations regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose. The procedures we performed and the results of those procedures are summarized as follows:

1. We reviewed employment contracts and policies regarding the accrual of leave time, conversion of leave time, taxable fringe benefits, and other travel expenditures to determine if benefits were provided in accordance with established CMHA policies.

Significant Results: Findings for Recovery were issued against Claire Freeman and Ronnie Davis in the amount of \$67,919 and \$42,595, respectively for illegal expenditures related to their personal fringe benefits, and in the amount of \$100,148 for fringe benefits paid to other administrators. Federal Questioned Costs totaling \$692,511 were issued for excessive fringe benefits paid to Ms. Freeman, Mr. Davis, and other administrators. Additionally, we issued 4 noncompliance citations and 3 management recommendations.

2. We reviewed the competitive bidding requirements for CMHA and certain non-consulting contracts to determine compliance with bidding requirements and contractual provisions.

Significant Results: We issued a noncompliance citation and 4 management recommendations.

3. We reviewed certain consulting contracts to determine whether applicable competitive bidding requirements and CMHA procurement policies were followed, and to determine whether contracts or payments were authorized and for a purpose related to the operations of a metropolitan housing authority. We reviewed requests for payment of invoices to determine if established procedures were followed and reviewed payments to consultants, based on submitted invoices, to determine whether payments were made in accordance with contract terms. We also attempted to compare contract requirements to the end products received.

Significant Results: We issued Federal Questioned Costs in the amount of \$1,359,974 for unsupported payments and expenditures outside the scope of the HUD Memorandum of Understanding. Additionally, we issued 8 noncompliance citations for various violations of CMHA policy and established State and Federal Laws, as well as 2 management comments related to invoice descriptions and mortgage refinancing.

4. We reviewed the objectives and agreements associated with the “New Town/In Town” project. We reviewed expenditures charged to New Town/In Town to determine whether they were authorized, in accordance with the program objectives and/or agreements, and for a purpose related to the operation of a metropolitan housing authority.

Significant Results: We issued a management recommendation related to organizing and monitoring affordable housing programs.

5. We reviewed certain land acquisitions, land/building lease agreements, and payments made in relation to those properties, to determine if agreements were authorized and for a purpose related to the operations of a metropolitan housing authority.

Significant Results: We issued a Federal Questioned Cost in the amount of \$2,038,076 for using the Title V account in violation of the HUD Memorandum of Understanding and we included one management comment related to the current status of the CMHA warehouse property.

6. We reviewed incentive/bonus payments made to other members of management not reviewed during CMHA’s Phase I Special Audit, to determine if payments were made in accordance with established bonus programs, if any, and whether such payments were authorized.

Significant Results: We issued a Federal Questioned Cost in the amount of \$159,984 for excessive bonuses paid to CMHA administrators and we included a detailed management recommendation to establish a written policy governing bonuses.

7. We reviewed the objectives and procedures associated with T.E.A.M. CMHA, including employee contributions and disbursements for authorization and to determine if T.E.A.M. CMHA was created for a purpose related to a metropolitan housing authority.

Significant Results: We issued Federal Questioned Costs totaling \$53,886 for undocumented expenditures from the general fund and commingled expenditures from the Title V account related to the T.E.A.M. CMHA program. We also included a management recommendation related to monitoring this program.

8. We reviewed capital improvement expenditures incurred for Bohn Tower to determine if payments were authorized and whether expenditures were related to the purpose of a metropolitan housing authority.

Significant Results: We issued Federal Questioned Costs totaling \$226,617 related to undocumented expenditures and expenditures which were inappropriately paid from the Title V account. We also included a management recommendation regarding employees living in public housing units.

9. We reviewed transactions related to expenditures for fixed assets purchased by CMHA to determine if purchases were authorized and for a purpose related to the operations of a metropolitan housing authority.

Significant Results: We issued Federal Questioned Costs of \$642,656 for unsupported expenditures, a noncompliance citation, and a management recommendation related to monitoring fixed assets.

10. We attempted to review the employment contract between CMHA and Ira McCown including any bonuses, leave time accrual, usage, and monetary conversion to determine if Mr. McCown's salary and benefits were authorized.

Significant Results: We issued 3 management recommendations related to maintaining personnel files, monitoring employee time cards, and Board monitoring of personnel activities.

11. We reviewed payments to Kent Stephens and/or Sage Analytics International, Inc., and CEO Sciences L.C., for consulting services from 1992 through 1998 and agreed the payments to the terms of the consulting contracts. We reviewed these contracts to determine whether applicable competitive bidding requirements and CMHA procurement policies were followed, and to determine whether contracts or payments were authorized and for a purpose related to the operations of a metropolitan housing authority. Contract requirements were compared to the end products received. Changes in contract terms and amounts were reviewed for authorization.

Significant Results: We issued a Finding for Recovery of \$47,704 against Kent Stephens, Claire Freeman, and Ronnie Davis for illegally exceeding established travel reimbursement guidelines. We also issued Federal Questioned Costs totaling \$226,252 for undocumented and unauthorized expenditures.

12. We reviewed payments to Tamara Horne, Michelle Hampton-Jones, Bobbie Harrison, and Creative Consulting Management for consulting services and agreed the payments to the terms of the consulting contracts. We reviewed these contracts to determine whether applicable competitive bidding requirements and CMHA procurement policies were followed, and to determine whether contracts or payments were authorized and for a purpose related to the operations of a metropolitan housing authority. Contract requirements were compared to the end products received. Changes in contract terms and amounts were reviewed for authorization.

Significant Results: We issued Federal Questioned Costs of \$912,346 for unsupported expenditures related to this contract. Additionally, we issued 3 noncompliance citations and 3 management recommendations for failing to comply with the contract requirements and CMHA policy.

13. We reviewed payments to Ira McCown and Zukerman Consulting for consulting services and agreed the payments to the terms of the consulting contracts. We reviewed these contracts to determine whether applicable competitive bidding requirements and CMHA procurement policies were followed, and to determine whether contracts or payments were authorized and for a purpose related to the operations of a metropolitan housing authority. Contract requirements were compared to the end products received. Changes in contract terms and amounts were reviewed for authorization.

Significant Results: We proposed a Finding For Recovery against M.E. Zukerman, Claire Freeman, and Ronnie Davis in the amount of \$15,530 for a duplicate payment. On October 22, 2001, M.E. Zukerman repaid CMHA \$15,530 for the duplicate payment. We also issued Federal Questioned Costs totaling \$99,284 for undocumented expenditures, and a management recommendation related to travel reimbursements.

14. We reviewed the Section 8 voucher program to determine whether vouchers were improperly given to landlords after tenants were deceased or had moved.

Significant Results: We issued a management recommendation related to the recovery of funds from Section 8 cases which had previously been identified by the FBI as being fraudulent.

15. On September 17, 2001, we held an Exit Conference with the following Officials and Administrative Staff:

Terri Hamilton-Brown, Executive Director  
LouAnne Chung, Chief Financial Officer  
Bracy Lewis, Chairman, Board of Commissioners  
Dwayne Browder, Board of Commissioners  
Louise Harris, Board of Commissioners  
Mae E. Stewart, Board of Commissioners  
Robert C. Townsend, Board of Commissioners  
Ricardo Teamor, Attorney for CMHA  
LaVerne Nichols-Boyd, Acting General Counsel  
Scenario Burton-Adebesin, Deputy Executive Director  
Renee Drummer, Director, Purchasing and Distribution  
Cathy Pennington, Director, Section 8  
Renee Richards, Audit Committee  
Bill Sargent, Deputy Director, Purchasing and Distribution  
Hayes R. Thomas, Jr., Audit Committee  
Amy Waxman, Director, Internal Audit

The attendees were given thirty days to respond to this Special Audit. On October 17, 2001, we received a response, evaluated its content, and made changes to the report as we deemed necessary.

Our detailed procedures and the results of applying these procedures are contained in the attached "Supplement to the Special Audit Report." Because these procedures do not constitute an examination conducted in accordance with generally accepted auditing standards, we do not express an opinion or limited assurance on any of the amounts or items referred to above. Also, we express no opinion on CMHA's internal control system over financial reporting or any part thereof. Had we performed additional procedures, or had we conducted an examination of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you. This report relates only to transactions relating to the above procedures, and does not extend to any financial statements of CMHA, taken as a whole.

This report is intended for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. Reports by the Auditor of State are a matter of public record and use by other components of state government or local government officials is not limited.

JIM PETRO  
Auditor of State of Ohio

November 2, 2001

# SUPPLEMENT TO THE SPECIAL AUDIT REPORT

## BACKGROUND INFORMATION

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### ORGANIZATION AND RELEVANT INDIVIDUALS

CMHA was organized under Ohio Revised Code Section 3735 to develop, acquire, and operate low-income housing programs. A five-member Board of Commissioners is responsible for monitoring CMHA's operations.

On April 26, 1990, the CMHA Board entered into contract to employ Claire E. Freeman as the Chief Executive Officer for the period May 15, 1990 to May 14, 1995. That document (hereinafter referred to as the "1990 Contract") was signed by 4 of the Board members and Ms. Freeman. On August 30, 1995, Ms. Freeman entered into another employment contract covering the period from August 30, 1995 through August 29, 2000. The document (hereinafter referred to as the "1995 Contract") was signed by 5 Board members and Ms. Freeman.

Section II.A.1.l of the 1990 Contract and Section II.l.8 of the 1995 Contract required Ms. Freeman to insure the integrity of the agency by "making certain that all employees are made aware of the laws, regulations and policies under which CMHA operates and by monitoring the agency's performance to assure compliance with those laws, regulations, and policies." In the 1995 Contract, Section II.A.1.e provided Ms. Freeman with the sole authority to hire, train, supervise, evaluate, reward, discipline, and fire all levels of CMHA staff.

Ms. Freeman was suspended by CMHA's Board on May 20, 1998 and subsequently terminated effective September 2, 1998. On May 27, 1998, Ms. Freeman filed a complaint in Cuyahoga County Common Pleas Court, alleging as later amended, that CMHA and its Board of Commissioners had breached its employment contract with her, unlawfully withheld salary and benefits, intentionally inflicted emotional distress and defamed her. CMHA and its Board then successfully counterclaimed for breach of contract, conversion, fraud and breach of fiduciary duty. On October 26, 2000, the Eighth District Court of Appeals upheld a jury award of \$462,200 for compensatory and punitive damages, attorney's fees and costs, in favor of CMHA and its Board.

Ronnie Davis, the former Chief Operating Officer, was hired by Ms. Freeman on July 30, 1990. On April 13, 1994, Ms. Freeman issued an Interoffice Memorandum to Mr. Davis captioned "Employment Terms and Conditions," effective April 13, 1994. The document was signed only by Ms. Freeman. On November 28, 1994, Ms. Freeman issued another Interoffice Memorandum to Mr. Davis captioned "Terms and Conditions of Employment/Chief Operating Officer," for the period December 1, 1994 through December 1, 1997. Again, this document was signed only by Ms. Freeman. On September 7, 1995, Ms. Freeman issued another Interoffice Memorandum captioned "Terms and Conditions of Employment/Chief Operating Officer," for the period September 7, 1995 through September 7, 1998. This document was signed by both Ms. Freeman and Mr. Davis.

CMHA's Organizational Charts effective during the Period showed Ms. Freeman and Mr. Davis sharing equal oversight of all CMHA employees.

In November 1996, Mr. Davis was loaned to the San Francisco Housing Authority and officially resigned from CMHA on November 24, 1997.

On March 21, 2001, Ms. Freeman and Mr. Davis were indicted by a federal grand jury for the payments on Ms. Freeman's townhouse, interest on a bridge loan related to the townhouse, leave time monetization and bonus/incentive payments. On October 29, 2001, Mr. Davis entered a plea agreement, in which he agreed to plead guilty to the misdemeanor charge of Receiving Unlawful Compensation in a HUD Transaction, in violation of 18 U.S.C. Section 1012. He also agreed to pay restitution to CMHA in the amount of \$5,468, and to cooperate in the prosecution of the pending case against Ms. Freeman, which is now set for trial February 5, 2002.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Mr. Davis also agreed to enter a Voluntary Exclusion Agreement with HUD, which had temporarily suspended him from doing business with HUD pending the outcome of the criminal trial. Under the agreement, which would lift the suspension, he is required to voluntarily exclude himself from participating in certain HUD transactions until March 2003, but could do consulting work for public housing agencies as long as he does not control their affairs. However, the agreement would bar him from work as an employee or consultant to the San Francisco Housing Authority.

### **TITLE V ACCOUNT**

CMHA sold its veteran's housing in 1958 and deposited the proceeds into its Title V account. There was very little activity in CMHA's Title V account until 1990. Starting in 1990, Ms. Freeman and Mr. Davis began paying expenses from the Title V account for items which were not reasonable and necessary low-income housing expenditures or which were inadequately documented.

Between January 1990 and July 1998, CMHA's Title V account consisted of funds from various sources such as veterans housing, Section 8 Program, Low-Income Public Housing Program, Comprehensive Improvement Assistance Program, and excess bond proceeds. The excess bond proceeds resulted from the refinancing of debt associated with Ambleside, Puritas Place, and Rock-Glen Apartments, as follows:

#### Ambleside

Approximately \$2.2 million in refinancing proceeds were deposited in the Title V account. CMHA entered into a Memorandum of Understanding ("MOU") dated December 28, 1994 with HUD which stated that monies received ". . . as a result of the bond proceeds will be used to fund some or all of the following projects (all costs are estimated) in whole or in part: (1) Construction of up to \_\_\_ units for very low income elderly, handicapped and disabled households." The appendix also required affordable rents and allowed for the "land, buildings, property and equipment to be acquired and/or constructed and installed. . . pursuant to the Indenture and as approved by HUD pursuant to this Memorandum of Understanding." The MOU also stated that to the extent that such funds are to be used for any other capital purposes, CMHA agreed to substitute capital programs mutually agreeable and acceptable to both CMHA and HUD, which was to be approved and designated in writing as substitute programs for expenditures of such funds.

#### Puritas Place

Approximately \$1.3 million in refinancing proceeds of HUD mortgages were transferred to the Title V account in early 1994. An MOU was not executed for these proceeds, resulting in no specific restrictions on the use of these funds.

#### Rock-Glen Apartments:

Approximately \$150,000 in refinancing proceeds of HUD mortgages were deposited to the Title V account in early 1994. An MOU was not executed for these proceeds, resulting in no specific restrictions on the use of these funds.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

OMB Circular A-133 (as revised on June 30, 1997)<sup>1</sup>, *Audits of States, Local Governments, and Not-for-profit Organization*, Sub Part C, Section .300 (a) states in pertinent part that an auditee must “identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received.” Subsection (c) requires compliance “with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.” Because the funds in the Title V account were commingled, CMHA could not identify expenditures of the federal programs included in the Title V account or ensure compliance with the requirements of any of the identified programs.

### **HUD AUDIT**

At the request of U.S. Rep. Louis Stokes, HUD began an audit of CMHA’s Title V account in May 1998. The scope of the HUD audit included a 100-percent examination of all expenditures from the Title V account from January 1, 1990 through July 31, 1998.

On March 31, 2000, the HUD’s Office of Inspector General issued an audit report of CMHA Title V account which reported, “Based upon our review of the Housing Authority’s Title V account, we found that the Authority did not follow HUD’s requirements, Office of Management and Budget Circular A-87, State of Ohio law, and the Authority’s policies regarding the use of Title V funds. Between January 1, 1990 and July 31, 1998, the Authority inappropriately used \$11,267,209 of \$16,593,565 from the Title V account. The inappropriate payments included \$10,735,243 in Title V funds without adequate supporting documentation and another \$531,966 for costs that were not reasonable and necessary low-income housing expenses.”

### **AUDITOR OF STATE PHASE 1 REPORT**

In June 1998 the Auditor of State commenced an audit in response to allegations regarding Ms. Freeman’s town home located in Alexandria, Virginia, excessive salary and bonuses paid to Ms. Freeman and Mr. Davis, and questionable expenditures charged to the Title V account. The results of that audit included:

- A Finding For Recovery for \$120,723 issued against Ms. Freeman for illegal payments on her townhouse.
- Findings For Recovery issued against Ms. Freeman and Mr. Davis for \$202,779, and Federal Questioned Costs of \$5,842 for illegal expenditures from the Title V account.
- Federal Questioned Costs regarding Ms. Freeman’s and Mr. Davis’s salary, incentives, and bonus payments in the amount of \$477,770 and \$154,777, respectively.

As a result of our Phase 1 Special Audit, other issues were identified which generated this Phase 2 Special Audit.

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<sup>1</sup>This Circular was effective for audits of entities for fiscal years beginning after June 30, 1996. Prior to issuance of this Circular, OMB Circular A-128 (issued April 12, 1985), *Audits of State and Local Governments* was applicable and contained similar provisions to those cited here in part in Section 8b.(1). OMB Circular A-133 (as revised on June 30, 1997) rescinded OMB Circular A-128.

# SUPPLEMENT TO THE SPECIAL AUDIT REPORT

## APPLICABLE AUTHORITY

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### OMB Circular A-87

Office of Management and Budget (“OMB”) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (revised May 4, 1995, as further amended August 29, 1997) rescinds and supersedes OMB Circular A-87 issued January 15, 1981. This circular governs cost principles, as follows:

### Attachment A - General Principles for Determining Allowable Costs

#### C. Basic Guidelines<sup>2</sup>

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
  - a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
  - b. Be allocable to Federal awards under the provisions of this Circular.
  - c. Be authorized or not prohibited under State or local laws or regulations.
  - d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
  - e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
  - f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
  - g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.
  - h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
  - i. Be the net of all applicable credits.
  - j. Be adequately documented.
2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded. In determining reasonableness of a given cost, consideration shall be given to:
  - a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
  - b. The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.
  - c. Market prices for comparable goods or services.

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<sup>2</sup>OMB Circular A-87(issued January 15, 1981), Attachment A, Section C. did not expressly require costs charged to a federal program to be documented nor contain the additional guidance of Section C.2. for considering whether a cost was reasonable.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.
- e. Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

### Inspector General Act of 1988<sup>3</sup>

This act defined questioned costs as one of the following:

- a. An alleged violation of a provision of law, regulation, contract, grant, cooperative agreement, or other document governing the expenditure of funds.
- b. A finding that, at the time of the audit, such cost is not supported by adequate documentation
- c. A finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

### United States Department of Housing and Urban Development Memorandum of Understanding

Please see Item No. 2, Ambleside, in the "Background Information" portion of this report.

### Ohio Revised Code, Chapter 3735

Rather than quote the Ohio Revised Code in this "Applicable Authority" section of the report, the relevant sections are quoted in the results of each issue we reviewed.

### CMHA Administrative Order Nos. 11 and 20

CMHA Administrative Order No. 11 governs employee fringe benefits and leave types. Administrative Order No. 20 governs purchasing procedures. Each of the Administrative Orders have been quoted in relevant part in the applicable results for each issue.

### Employment Contracts and Memoranda of Employment Terms

Employment contracts for Ms. Freeman and Memoranda of Employment Terms for Mr. Davis are discussed in the "Background Information" portion of this report.

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<sup>3</sup> OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (June 1997 Revision), Section .105 defines questioned costs in similar terms. The standards set forth in OMB Circular A-133 (1997 Revision) are effective July 1, 1996, and apply to audits of fiscal years beginning after June 30, 1996.

# SUPPLEMENT TO THE SPECIAL AUDIT REPORT

## SUMMARY OF RESULTS

### ISSUE 1 - Employment Policies regarding Fringe Benefits

We reviewed employment contracts and policies regarding the accrual of leave time, conversion of leave time, taxable fringe benefits, and other travel expenditures to determine if fringes were provided in accordance with established CMHA policies.

## PROCEDURES

1. We reviewed employment contracts and CMHA policies regarding the accrual, use, and conversion of leave time to determine the authority for each benefit.
2. We interviewed Claire Freeman, former Chief Executive Officer, Ronnie Davis, former Chief Operating Officer, Lena Hayes, the Payroll Manager, and the following CMHA Board Members: Karen Coats-Wilson, Robert Townsend, Consuelo Sousa, Louise Harris, and Dwayne Browder, to determine the procedures followed for payment of leave time.
3. From a review of the payroll ledgers, we selected twelve administrators who received vacation advances, vacation payoffs, or payments for compensatory time, as well as the former Chief Executive Officer and the former Chief Operating Officer. We reviewed their accrual and payment of leave time to determine adherence to employment contracts and CMHA policy.
4. We reviewed Board minutes and resolutions, personnel files, payroll files, W-2 forms, and time cards to locate documentation which supported payroll payments made to the individuals identified in Procedure No. 3.
5. We verified that payments for leave time and any other taxable fringe benefits were included in each employee's income and were accurately reported on Form W-2 for the individuals identified in Procedure No. 3.
6. We reviewed the payroll histories of the employees identified in Procedure No. 3 for payments other than salary and leave time to determine the purpose of such payments and whether the payments were made in accordance with established CMHA policies.

## RESULTS

### 1. GENERAL

Benefits for the administrative employees were established by CMHA Administrative Order No. 11, updated in 1988 and in 1993. Ms. Freeman had employment contracts with the Board of Commissioners which separately discussed her entitlement to certain fringe benefits. Ms. Freeman provided Mr. Davis with Terms of Employment which discussed his entitlement to fringe benefits in excess of established policies. During interviews with CMHA's Board of Commissioners, they stated they did not intend for Ms. Freeman to enter into an employment contract with Mr. Davis, or to offer benefits to employees of CMHA which exceeded established policy.

Although CMHA did have several union agreements, none of the employees we reviewed in Procedure No. 3 were members of those unions. Additionally, except in the case of Mr. Davis, none of the employees we reviewed in Procedure No. 3 were covered by a separate employment agreement.

## **SUPPLEMENT TO THE SPECIAL AUDIT REPORT**

### **VACATION LEAVE**

Administrative employees were entitled to earn vacation at various published rates based on length of continuous service at CMHA. Until October 1993, vacation could be accrued and carried over for up to three years. After that date, vacation accrual could not be carried forward in excess of 240 hours. In either case, once an employee reached the accrual limit, no additional vacation was entitled to be accrued until that employee's balance fell below the maximum. Further, no advance payments for vacation were to be made. Dismissed employees were eligible for payment of accumulated vacation leave. There was no indication of whether employees were eligible for monetizing unused vacation during the course of employment.

In February 1993, Ms. Freeman issued a memo to all CMHA employees notifying them of the change in the maximum vacation accrual. The memo stated employees had until March 1, 1996 to use the excess accumulation of vacation over the new 240 hour limit. On May 8, 1995, Melvyn Patterson, then Vice President of Administration, issued a memo reminding employees they had until March 1, 1996 to use accrued vacation over the 240 hour maximum set by the revised policy. On May 10, 1995, an internal document was distributed which required employees to acknowledge the receipt of certain CMHA memos and policies. Mr. Patterson's memo from May 8, 1995 was included on this acknowledgment.

Section II.D.2 of Ms. Freeman's 1990 and 1995 contracts stated she would be entitled to the same benefits regarding the accumulation and use of vacation as provided to other administrative personnel, except that she would accrue four weeks of vacation during 1990 and 1991 and five weeks per annum thereafter. Additionally, she was authorized to monetize accrued vacation leave.

According to Administrative Order No. 11, Section XXI, Vacation Leave, an employee with the same length of service as Mr. Davis was entitled to receive three weeks of vacation leave per year; however, each of the three "Terms and Conditions of Employment" issued to Mr. Davis by Ms. Freeman allowed him to earn four weeks of vacation per year and also allowed him to monetize unused vacation time.

### **PERSONAL LEAVE**

Regular full-time employees received two personal days each calendar year, which were to be used or forfeited by December 31<sup>st</sup>. Administrative Order No. 11, Section XXII, Personal Leave, also states that personal leave was not entitled to carry-over provisions. Ms. Freeman's employment contracts and Mr. Davis's "Terms and Conditions of Employment" did not specifically address personal leave.

### **SICK LEAVE**

According to Administrative Order No. 11, Section XXIII, Sick Leave, employees earned sick leave credit at the rate of 4.6 hours for each eighty hours in active pay status, entitling each employee to 15 days of sick leave per year. Accrued but unused sick leave could be carried forward each year. If an employee used less than 40 hours of sick leave during the year, a 16-hour bonus check was awarded. Additionally, employees who had over 960 hours of sick leave accumulated were to be paid 1/3 of the excess of 960 hours.

Section II.D.2 of Ms. Freeman's 1990 and 1995 contracts stated she would be entitled to the same benefits regarding the accumulation and use of sick leave as provided to other administrative personnel, except that she would be authorized to monetize accrued sick leave. Both of Ms. Freeman's employment contracts also stated that at no time would she be allowed to accrue sick leave in excess of two years, and any sick time left unused at the end of a two-year period would be forfeited.

The Terms of Employment issued to Mr. Davis by Ms. Freeman stated he could monetize accrued sick leave but he could not accrue sick leave for a period greater than two years.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### COMPENSATORY TIME

CMHA Administrative Order No. 11 provided all personnel employed by CMHA who occupied positions which were exempted from the provisions of the Fair Labor Standards Act of 1938, as amended, were not entitled to the payment of overtime or compensatory time off. On January 27, 1993, Mel Patterson, then Vice President for Administration, issued a memo to CMHA's staff which identified exempt employees who were not entitled to receive compensatory time in accordance with the established policy.

Ms. Freeman's eligibility to receive compensatory time was unclear during the period of the 1990 Contract, which contained language (Article II, Paragraph F(2)) stating, "Any additional job related professional development program may be attended by the Executive Director on her vacation or compensatory time," yet she was also listed as being exempt in Patterson's 1993 memo. Ms. Freeman's 1995 Contract (Section (II)(A)(3)) required her to commit a minimum of forty (40) hours per week to CMHA, which, when combined with Mr. Patterson's 1993 memo, serves to clarify that she was ineligible to receive compensatory time during the period of the 1995 Contract.

Mr. Davis's position of Chief Operating Officer was specifically identified in the memo issued by Mr. Patterson as being exempt from earning compensatory time. Ms. Freeman, in the Terms of Employment issued to Mr. Davis on September 7, 1995, authorized Mr. Davis to monetize one hour for every two hours of any and all compensatory time accumulated through the agreement period ending in 1995. Thereafter Mr. Davis would not be compensated for more than 350 hours of converted compensatory time per annum.

According to the memo issued by Mr. Patterson, each of the administrative positions we reviewed in Procedure No. 3 were identified as being exempted from earning compensatory time.

2. Requests for leave time were documented on each employee's time card, approved by the manager in each department, and sent to the Payroll Department for entry into the computer system. An Employee Request for Leave form was also to be completed by the employee and copies were sent to the Supervisor, the Personnel Department, and the Department Director. Payments for monetized leave time issued to Ms. Freeman and Mr. Davis originated with a letter indicating the amount and type of leave time they wished to monetize.

There was no documentation of Board approval for the Terms and Conditions of Employment assigned to Mr. Davis, and in interviews, both Mr. Davis and Ms. Freeman concurred there was no Board approval for Mr. Davis's employment agreements. Both Ms. Freeman's 1990 Contract and the 1995 Contract, Section II A.1.e, authorized her to hire all levels of Authority staff. Further, Section II H.1 of the 1990 Contract authorized her to establish qualifications for an Executive Assistant and with deliberate speed hire a qualified candidate to fill the position.

Board members, when interviewed, indicated they were unaware of any written agreement that Ms. Freeman may have had with Mr. Davis, and further indicated that her contract did not give her the authority to give Mr. Davis benefits in excess of Board policy.

3. The results of our review of leave time payments are documented below.

### VACATION LEAVE

Although CMHA Administrative Order No. 11 set forth limits on vacation accrual, the computer system was not designed to automatically freeze accumulations once the maximum had been reached and no one was assigned responsibility to oversee implementation of the policy limits. Accordingly, nine of the fourteen administrators we reviewed, including Mr. Davis, exceeded maximum accumulations of vacation hours with cash values ranging from \$168 to \$8,748.

## **SUPPLEMENT TO THE SPECIAL AUDIT REPORT**

We attempted to contact (via telephone) 8 administrators (other than Ms. Freeman and Mr. Davis) to discuss their receipt of vacation benefits in excess of the established policy. Those 8 administrators either refused to speak with us, did not return our calls, or could not be located.

Ms. Freeman issued a memo to all staff informing them of the vacation accrual limits. The Board approved that policy through the Administrative Orders. Ms. Freeman and Mr. Davis, as the Chief Operating Officer, had a duty to ensure employees were paid in accordance with established policies. Therefore, we will issue a Finding for Recovery against Ms. Freeman and Mr. Davis, jointly, in the amount of \$47,089 for these payments.

On March 23, 2001, we contacted Lou Anne Chung, current Chief Financial Officer, who informed us CMHA's system is still not able to establish a cut-off of vacation accruals, but they are aware of the problem and are attempting to correct it. Throughout the Period and currently, the guidelines regarding maximum vacation accrual had not been followed.

Five employees received payments of advanced vacation leave during the Period, contrary to CMHA's established policy. One employee also received a vacation payoff prior to termination contrary to policy.

Mr. Davis monetized 250 hours of accrued vacation leave on December 29, 1994 and 45 hours of accrued vacation leave on March 5, 1997, neither of which were deducted from his established leave balances. Because these payments were not deducted from his leave balances, his balances were overstated by 295 hours, which he eventually monetized again. Due to this double-payment, we will issue a Finding for Recovery against Mr. Davis for 295 hours of vacation valued at \$22,606.

By providing the Terms of Employment to Mr. Davis, Ms. Freeman allowed him to earn vacation leave at the rate of four weeks per year instead of the three weeks allowed by CMHA policy, and also allowed him to monetize unused vacation hours, for which there is no CMHA policy provision. Consequently, Mr. Davis accrued and monetized 173.8 hours of vacation leave in excess of CMHA policy accrual rates at a total cost of \$11,095, and received payments for monetizing vacation leave contrary to CMHA policy in the amount of \$23,247. We will issue Federal Questioned Costs for these payments, as they appear unnecessary and unreasonable.

### **PERSONAL LEAVE**

As stated previously, unused personal leave was to be used or forfeited. However, one employee received payment of unused personal leave in the amount of \$324. We will issue a Federal Questioned Cost as to whether this payment was necessary and reasonable.

There were no other exceptions noted in our review of personal leave payments.

### **SICK LEAVE**

Throughout the Period, Ms. Freeman exceeded the allowable limit on accumulation of sick leave according to her contract and was overpaid in the amount of \$12,476, for which we will issue a Finding For Recovery against her.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

On March 5, 1997, Mr. Davis received a payment for monetizing 25 hours of sick leave; however, these 25 hours were never deducted from his sick leave balances, resulting in an eventual double-payment at separation of 25 hours valued at \$1,953, for which we will issue a Finding For Recovery against Mr. Davis. Additionally, Mr. Davis received payments totaling \$52,886 for monetization of sick leave. Sick leave monetization was a benefit unique only to Mr. Davis through his employment contract which resulted in a large amount of funds being paid directly to Mr. Davis. As a result, we will issue a Federal Questioned Cost of \$52,886 on the basis of the payments being unnecessary and unreasonable.

No exceptions were identified during our review of the other administrators.

### COMPENSATORY TIME

Although Ms. Freeman's 1990 and 1995 Contracts did not contain special provisions which allowed her to accrue compensatory time and her position had been identified as being exempted from earning compensatory time, she accrued and ultimately used compensatory time totaling \$47,658. \$6,613 was paid to Ms. Freeman under the 1990 Contract, for which we will issue a Federal Questioned Cost, and \$41,045 was paid to her under the 1995 Contract, for which we will issue a Finding for Recovery.

Mr. Davis accrued and used compensatory time totaling \$122,835 in accordance with the Terms and Conditions of Employment provided by Ms. Freeman, but in violation of established CMHA policy as his position had been classified as being exempt from earning compensatory time. We will issue a Federal Questioned Cost in the amount of \$122,835, as these payments appear unnecessary and unreasonable.

In addition to Ms. Freeman and Mr. Davis, eight of the twelve other administrators received compensatory time payments totaling \$53,059 and ranging from \$101 to \$19,185. We attempted to contact (via telephone) the other administrators to discuss their receipt of vacation benefits in excess of the established policy. Those 8 administrators either refused to speak with us, did not return our calls, or could not be located.

Ms. Freeman and Mr. Davis had a duty to ensure all CMHA policies were consistently enforced. The payment of compensatory time to these exempt administrators was a violation of CMHA policy and therefore illegal. We will issue a Finding for Recovery against Ms. Freeman and Mr. Davis, jointly, for these payments in the amount of \$53,059, on the basis of being prohibited by CMHA policies.

4. Personnel folders maintained by the Human Resources Department and payroll files maintained by the Payroll Department lacked basic documentation for all individuals reviewed, such as resumes, job applications, documentation for bonuses received, job descriptions, Personnel Transaction Forms<sup>4</sup>, and Request for Leave forms. One personnel folder we requested had been given to an outside legal counsel and CMHA had not maintained any copies of the file. Two of the payroll files reviewed were empty, and one had very limited documentation.

Of 1,400 time cards requested, CMHA provided only 313. Of the 313 time cards received, 35 were not signed by the employee, and 85 were not signed by the employee's supervisor. In an interview with Mr. Davis, he informed us that his secretary completed and signed his time cards for him.

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<sup>4</sup>The Personnel Transaction form is an inter-office document containing details on employee wages and employment status. They were to be completed each time an employee had a change in employment status (i.e., pay raise, transfer).

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Beginning January 1, 1994 CMHA changed their payroll system and began maintaining their payroll files on computer. Payroll files prior to the implementation of the new system were only available to us in paper format rather than on the computer. Due to the volume of paperwork associated with non-computerized payroll, we limited our review to the new payroll system for the period January 1, 1994 through December 26, 1998<sup>5</sup>.

Board Resolutions were signed exclusively by Ms. Freeman, including Resolutions related to her bonuses, salary, and benefits. CMHA's Board Liaison provided us with Resolution No. 178-93 regarding a 1993 bonus for Ms. Freeman which was signed by Ms. Freeman and the amount for the bonus was not stated. Additionally, of 45 Resolutions requested, CMHA only provided 39, and 5 of the 39 were not signed by anyone.

5. For each of the twelve administrators reviewed, payments were processed through CMHA's payroll system, accounting ledgers, and were accurately recorded on the employee's Form W-2.

For Ms. Freeman and Mr. Davis, from 1994 through 1997 they received payments totaling \$219,247 and \$135,815, respectively, for bonuses, monetized leave time, and other benefits which were not reflected in their Form W-2 or W-2C (see Appendix B). This resulted in submitting inaccurate information to federal, state, and local authorities. We will recommend CMHA issue amended Forms W-2 to these employees.

6. Our review of payments other than normal biweekly salary and leave time revealed the following:

### RETROACTIVE PAYMENTS OF SALARY FOR CLAIRE FREEMAN

Ms. Freeman received \$2,416 on January 10, 1997 which was identified on the payroll system as a retroactive salary increase. A Request for Personnel Transaction form completed by Ardeshir Agahi, then Comptroller, and signed by Mr. Davis effective on August 31, 1996. We recalculated this payment and determined Ms. Freeman was overpaid in the amount of \$2,019. Accordingly, we will issue a Finding for Recovery against Ms. Freeman.

On March 27, 1997, Ms. Freeman was paid \$18,229 for another retroactive salary increase. The supporting Request for Personnel Transaction form dated March 7, 1997 was completed by Mr. Agahi in response to Board Resolution No. 39-97, and documented a salary increase effective September 1, 1996. Again, we recalculated this payment and determined Ms. Freeman had been overpaid \$1,947, for which we will issue a Finding for Recovery.

### RETROACTIVE SALARY PAYMENTS FOR RONNIE DAVIS

Mr. Davis received \$11,381 on April 4, 1997 which was identified on the payroll system as a retroactive salary increase. A Request for Personnel Transaction form signed only by Ms. Freeman indicated a new rate effective September 1, 1996 for Mr. Davis. There was no request date identified on this form. CMHA was unable to provide work sheets or other documentation to support how this payment was calculated. We recalculated this payment and determined Mr. Davis had been underpaid in the amount of \$1,000.

In addition to above, on March 7, 1997 Mr. Davis received retroactive salary payments for leave time monetized from September 1, 1996 through March 5, 1997 in the amount of \$4,303. Again, we recalculated this payment and determined Mr. Davis had been overpaid by \$454.

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<sup>5</sup>Although our Period ends on May 31, 1998, we extended our payroll review through the calendar year-end, in order to facilitate a review of the employees' 1998 Form W-2.

## **SUPPLEMENT TO THE SPECIAL AUDIT REPORT**

On December 16, 1997, Mr. Davis received another retroactive salary adjustment of \$3,581 which, according to documentation provided by CMHA and completed by Mr. Agahi, was leave time monetized during the period September 1, 1996 through December 13, 1996. This payment was recalculated and we determined Mr. Davis had been overpaid in the amount of \$3,582.

The sum of all retroactive adjustments paid to Mr. Davis resulted in a net overpayment in the amount of \$3,036, for which we will issue a Finding For Recovery.

### **OTHER PAYMENTS ISSUED TO CLAIRE FREEMAN**

Ms. Freeman received a payment of \$10,432 on April 16, 1996 which was wire transferred to her account from CMHA's Title V account. Documentation prepared by the former Comptroller, Ardeshir Agahi, identified this payment as monetization of leave time; however, there was no leave time deducted from Ms. Freeman's leave balances to reflect this transaction. We will issue a Finding for Recovery against Ms. Freeman in the amount of \$10,432.

On May 1, 1996, Ms. Freeman received a payment of \$3,615, which was also a wire transfer to her account from CMHA's Title V account. There was no documentation provided which identified the reason for this payment, therefore we will issue a Federal Questioned Cost in the amount of \$3,615.

In response to our request for documentation to support the purpose and authorization for these two payments, CMHA indicated they were unable to find specific supporting documentation but indicated that it appeared these payments were for monetizing sick and vacation time. They did not provide details as to how they arrived at this assumption.

These two payments were not reflected in CMHA's payroll system nor were they included in Ms. Freeman's Form W-2 or W-2C. In addition, there was no Resolution by the Board identifying or authorizing these payments, nor was there a work sheet provided by CMHA indicating the gross amount received by Ms. Freeman and related deductions, if any.

### **OTHER PAYMENTS ISSUED TO RONNIE DAVIS**

Mr. Davis received two wire transfers on February 6, 1997 in the amounts of \$12,000 and \$3,000 respectively, for a total of \$15,000. The Funds Transfer Statement from the bank identified these payments as Executive Incentives; however, a work sheet provided by CMHA identifying wire transfers issued to Mr. Davis identified these payments as leave monetization.

Mr. Davis's leave balances were not adjusted at the time these payments were made, therefore we will issue a Finding for Recovery against Mr. Davis in the amount of \$15,000.

### **TAX-DEFERRED RETIREMENT PLAN FOR CLAIRE FREEMAN**

Ms. Freeman's 1990 Contract (Section II C.2) and 1995 Contract (Section II C.3) contained language that provided for a contribution into her tax-deferred retirement plan in an amount equal to any results-oriented bonus, should the Board determine that her performance was outstanding.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The following is a schedule of the bonuses paid to the tax-deferred retirement plan in accordance with Ms. Freeman's contract. Only the net amounts were wire transferred to Ms. Freeman's account, after deductions for federal, state, and local taxes. Additionally, only the gross amount from 1994 was included in Ms. Freeman's year-end Form W-2; the amounts paid in 1995 and 1997 were not included in her Form W-2 for either of those years.

<u>Year</u>	<u>Gross Payment</u>	<u>Net Payment</u>
1994	\$19,342	\$15,000
1995	44,964	25,000
1997	<u>59,181</u>	<u>30,000</u>
<b>Total</b>	<b><u>\$123,487</u></b>	<b><u>\$70,000</u></b>

The payments in 1995 and 1997 were in excess of allowable salary and benefits per HUD as identified in our Phase I Report, but were not reported in our Phase 1 audit which reviewed Ms. Freeman's Form W-2 for each calendar year. The 1994 amount was included in Ms. Freeman's W-2 and therefore included in the Phase I calculations. Therefore, we are issuing a Federal Questioned Cost for the 1995 and 1997 bonuses which had not been previously questioned, in the amount of \$104,145.

In addition to the results-oriented bonuses contributed to Ms. Freeman's tax-deferred retirement plan mentioned above, Section II.D.3 of both the 1990 and 1995 contracts stated CMHA would contribute an additional eight percent (8%) of her compensation into her tax-deferred retirement plan each year.

In accordance with this contract provision, during the period 1994 through 1997, CMHA made payments on behalf of Ms. Freeman to her tax-deferred retirement plan, in addition to payments into CMHA's basic retirement plan. The following is a schedule of payments to her tax-deferred retirement plan:

<u>Year</u>	<u>Payment Amount</u>
1994*	\$51,348
1994	12,785
1995	11,502
1996	15,002
1997	<u>14,861</u>
<b>Total</b>	<b><u>\$105,498</u></b>

\* This amount was for the period 1990 through 1993

We are citing these payments as Federal Questioned Costs totaling \$105,498 for being unnecessary and unreasonable.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### TAX-DEFERRED RETIREMENT PLAN FOR RONNIE DAVIS

Mr. Davis's Terms and Conditions of Employment dated April 13, 1994, and November 28, 1994 stated CMHA would pay, on Mr. Davis's behalf, an amount equal to 8% of his total compensation into a voluntary and tax-deferred retirement savings plan of his choice. As stated previously, Mr. Davis's agreements were not approved by CMHA's Board. The personnel policies adopted by the Board did not authorize this benefit to any of its employees, and none of the other employees which we reviewed received this type of payment.

Although during interviews, both Ms. Freeman and Mr. Davis indicated they "did not believe" that Mr. Davis received these payments, CMHA records document payments made between November 30, 1994 and December 30, 1994, on behalf of Mr. Davis, into a tax-deferred retirement plan via wire transfer to Merrill Lynch. These payments were based on 8% of Mr. Davis's 1994 compensation. We noted no other payments made on behalf of Mr. Davis into this tax-deferred retirement plan. We will issue a Federal Questioned Cost in the amount of \$10,973, as follows:

Date of Wire	For Pay Period Ending	Payroll Amount	Rate	Deferred Amount
12/2/94	12/18/93 through 11/04/94	\$123,221	8%	\$9,857
11/30/94	11/18/94	4,651	8%	372
12/20/94	12/02/94	4,651	8%	372
12/30/94	12/16/94	4,651	8%	372
<b>Totals</b>		<b><u><u>\$137,174</u></u></b>		<b><u><u>\$10,973</u></u></b>

### DISABILITY INSURANCE FOR RONNIE DAVIS

In each of the Terms and Conditions of Employment which Ms. Freeman provided Mr. Davis, CMHA gave Mr. Davis disability insurance coverage equal to 75% of his income and life insurance coverage equal to two times the amount of his base salary.

The following schedule identifies payments related to Mr. Davis's additional life insurance and disability insurance coverage, for which we will issue a Federal Questioned Cost:

Insurance	1994	1995	1996	1997	Total
Canada Life	\$4,239	\$4,507	\$8,733	\$4,507	\$21,986
Hartford Life	3,272	3,463	3,724	3,722	14,181
<b>Totals</b>	<b><u><u>\$7,511</u></u></b>	<b><u><u>\$7,970</u></u></b>	<b><u><u>\$12,457</u></u></b>	<b><u><u>\$8,229</u></u></b>	<b><u><u>\$36,167</u></u></b>

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ANGEL PAY

During the Period, employees received "Angel Pay," which was not identified as a valid leave type in the applicable Administrative Order. We interviewed the Payroll Manager who indicated that employees who had payroll deductions for a charitable organization would receive eight hours of Angel Pay to use at their discretion. We requested documentation supporting the authority for implementing this program and the policies governing it; however, CMHA was unable to locate any documentation. We also reviewed the Board Minutes and Resolutions but were unable to locate any Board authorization for Angel Pay.

In an interview with Ms. Freeman, when asked if she could describe Angel Pay, she replied that if employees did not use an excessive amount of leave time during the year, or if they made contributions to United Way, they were rewarded with a day off under the Angel Pay program. Ms. Freeman also stated this program was in effect before she started at CMHA and she did not recall if it had ever been formally documented.

When asked the same questions, Mr. Davis indicated Angel Pay was an administrative day to encourage contributions to United Way. He did not recall a written policy governing it, and did not remember when it started; however, he said it was Ms. Freeman's way of improving employee morale.

Board members, when interviewed, stated they did not know what Angel Pay was and they were unaware employees were receiving it.

Personnel files and payroll files of the employees reviewed did not contain any documentation authorizing their receipt of Angel Pay or what they did to receive it. Due to our limited review of these 14 administrators (including Ms. Freeman and Mr. Davis), we did not determine the total number of employees at CMHA who received Angel Pay throughout the Period.

During the Period, 11 of the administrators we reviewed (including Mr. Davis) received Angel Pay. A total of \$4,451 was disbursed for these employees, in amounts ranging from \$162 to \$679 per person.

CMHA did not have a written policy authorizing Angel Pay. Accordingly, we will issue a Federal Questioned Cost for these payments as being unauthorized, unnecessary, and unreasonable.

### FINDINGS FOR RECOVERY

#### Claire Freeman

- A. Section II D.2 of Ms. Freeman's 1990 Contract, entered into on April 26, 1990, states in pertinent part, "At no time will the Executive Director be allowed to accrue sick leave for a period greater than two years. Any sick time left unused at the end of a two-year period of time shall be forfeited." Section II D.2 of Ms. Freeman's 1995 Contract, entered into on August 30, 1995, states in pertinent part, "Any sick time left unused at the end of a two year period of time shall not be monetizable."

Throughout the Period, Ms. Freeman exceeded the allowable limit on accumulation of sick leave of 240 hours which resulted in an overpayment of sick leave in the amount of \$12,476.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- B. The 1988 Administrative Order 11, Section 16.C.1, and the 1993 Administrative Order No. 11, Section XV.C.1, provided "all personnel employed by CMHA who occupy positions which are exempted from the provisions of the Fair Labor Standards Act of 1938, as amended, by virtue of Section 7 and Section 13 thereof, and are not otherwise subject to a collective bargaining agreement, shall not be entitled to the payment of overtime or compensatory time off as herein provided." The Vice President for Administration at that time, Mel Patterson, issued a memo dated January 27, 1993 to CMHA staff which identified exempt employees who were not entitled to compensatory time as described in the Administrative Orders noted above. The position of Chief Executive Officer, Ms. Freeman's position, was identified in this memo as exempt; however, Ms. Freeman's 1990 Contract had a provision allowing her to use compensatory time to attend job related professional development programs. The 1995 Contract did not contain this provision; however, it did require her to commit a minimum of 40 hours per week to CMHA.

Ms. Freeman accumulated and used compensatory time from 1995 through 1998 in the amount of \$41,045.

- C. Ms. Freeman had modifications to her salary throughout the Period, resulting in several occasions where retroactive pay adjustments were required to be processed. Our review discovered incorrect rates were used when calculating these retroactive payments, resulting in two overpayments to Ms. Freeman in the amounts of \$2,019 and \$1,947.

The total amount of overpayments to Ms. Freeman due to retroactive salary adjustments was \$3,966.

- D. During the Period, Ms. Freeman received payments of monetized leave time which were not deducted from her leave balances, resulting in an eventual double-payment of those hours.

Ms. Freeman received excess payments of monetized leave time in the amount of \$10,432.

- E. In accordance with the foregoing facts and pursuant to the Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Claire Freeman, Aetna Casualty and Surety Company of America, and the Hartford, her bonding companies, and in favor of the Cuyahoga Metropolitan Housing Authority (CMHA), in the amount of \$67,919.

### **Findings for Recovery Issued against Claire Freeman: \$67,919**

#### **Ronnie Davis**

- A. On December 29, 1994 and March 5, 1997 Mr. Davis monetized 250 and 45 hours of vacation leave, respectively. These payments for unused leave time were not deducted from Mr. Davis's accrued vacation leave balance which eventually led to Mr. Davis being overcompensated during the Period by 295 vacation hours, resulting in an overpayment of \$22,606.
- B. On March 5, 1997, Mr. Davis monetized 25 hours of unused sick leave which was not deducted from his accrued sick leave balance. Upon separation from CMHA, Mr. Davis was overcompensated for those 25 hours in the amount of \$1,953.
- C. Throughout the Period, Mr. Davis received salary increases resulting in several occasions where retroactive pay adjustments were required. Our review discovered incorrect hours were used in calculating those payments resulting in an underpayment of \$1,000 and two overpayments totaling \$4,036, for a net overpayment of \$3,036.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- D. During the Period, Mr. Davis received payments of monetized leave time which were not deducted from his leave balances, resulting in an eventual double-payment of those hours.

Mr. Davis received excess payments of monetized leave time in the amount of \$15,000.

- E. In accordance with the foregoing facts and pursuant to the Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Ronnie Davis, Claire Freeman, Aetna Casualty and Surety Company of America, and The Hartford, their bonding companies, jointly and severally, and in favor of the Cuyahoga Metropolitan Housing Authority (CMHA), in the amount of \$42,595.

### **Findings for Recovery Issued against Ronnie Davis: \$42,595**

#### **Other Administrators**

A. Vacation Leave

Although CMHA Administrative Order 11.21.B.2 set forth limits on vacation accrual, the computer system was not designed to automatically freeze accumulations once the maximum had been reached and no one was assigned responsibility to oversee implementation of the policy limits. Accordingly, Mr. Davis and 7 of the 12 other administrators we reviewed exceeded maximum accumulations of vacation.

In a phone interview with Lou Anne Chung, current Chief Financial Officer, on March 23, 2001, she stated the computer is still not able to establish a cut-off of vacation accruals, but they are aware of the problem and are attempting to correct it. Throughout the audit period and currently, the guidelines regarding maximum vacation accrual had not been upheld. Total over-usage and/or payout resulting from this was \$47,089.

B. Compensatory Time

Administrative Order 11.16.C.1, dated December 8, 1988, and Administrative Order No. 11.15.C.1, dated October 6, 1993, state in pertinent part, "All personnel employed by CMHA who occupy positions which are exempted from the provisions of the Fair Labor Standards Act of 1938, as amended, by virtue of Section 7 and Section 13 thereof, and are not otherwise subject to a collective bargaining agreement, shall not be entitled to the payment of overtime or compensatory time off as herein provided." Also, according to a January 27, 1993 memo from Melvyn Patterson, then Vice President for Administration, to CMHA Staff, the positions held by the 12 employees reviewed were identified as exempt positions. Of the 12 other administrators reviewed, 8 used compensatory time and 2 of these 8 also received pay-outs of unused compensatory time in the total amount of \$53,059.

- C. In accordance with the foregoing facts and pursuant to the Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Claire Freeman, Ronnie Davis, Aetna Casualty and Surety Company of America, and The Hartford, their bonding companies, jointly and severally, and in favor of the Cuyahoga Metropolitan Housing Authority (CMHA), in the amount of \$100,148.

### **Findings for Recovery issued against Claire Freeman and Ronnie Davis for Other Administrators: \$100,148**

### **Total Findings for Recovery, Issue 1, Fringe Benefits: \$210,662**

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### FEDERAL QUESTIONED COSTS

OMB Circular A-87, Attachment A, Section C, Basic Guidelines, requires that to be an allowable cost it must, (a) be necessary and reasonable, (b) be authorized or not prohibited under State or local laws or regulations, (c) conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items, and (d) be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. Accordingly, the previous Findings for Recovery will be questioned, in the amount of \$210,662.

#### **Federal Questioned Cost: \$210,662**

##### **Claire Freeman**

On June 18, 1991 HUD issued a letter to Claire E. Freeman which stated that any salary or fringes in excess of the following could not be paid with federal program-related funds:

- A base salary of \$97,000
- Retirement fund contributions of 13.95% of annual salary
- Maximum life insurance coverage of two times annual salary
- Severance pay of no more than six months
- Purchase of moderately priced auto for use by Executive Director for Authority business
- Salary as of May 1990 to be adjusted for inflation each year on the first of January, using the Employment Cost Index as published by the Bureau of Labor Statistics.

Furthermore, a HUD Memorandum of Understanding (MOU) with CMHA and its appendix dated December 28, 1994, restricts use of monies in the Title V fund to the construction of low income housing and related costs, such as land, buildings, property and equipment.

Concerning the expenditure of federal funds, OMB Circular A-87, Attachment A, Section C(1)(a-e) states that costs must be necessary, reasonable, and directly related to the grant or agreement. In addition, they must be legal, proper, and consistent with the policies that govern the recipient's own expenditures.

Ms. Freeman's 1990 contract Section II.C.2 and her 1995 contract Section II.C.3 states in part, "...if CMHA's Board in its annual evaluation of the Chief Executive Officer determines that performance is outstanding then the Board shall contribute to the Chief Executive Officer's tax deferred savings plan an additional sum equal to the amount of the result-oriented awards."

As stated in our Phase I report, we identified \$477,770 that Ms. Freeman received in salary, benefits, and performance incentive awards/bonuses during the years 1994 through 1997 based on Ms. Freeman's W-2 and W-2C's, that was in excess of the limitations set by HUD. As the Phase I report also indicates, this amount did not include bonuses to Ms. Freeman's deferred compensation program paid in accordance with the contract section noted above and therefore were not used in our calculation of the Questioned Costs issued related to Excess Salary and Benefits paid to Ms. Freeman in Phase I.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The 1988 Administrative Order 11.16.C.1, and the 1993 Administrative Order No. 11.15.C.1, provided all personnel employed by CMHA who occupy positions which are exempted from the provisions of the Fair Labor Standards Act of 1938, as amended, by virtue of Section 7 and Section 13 thereof, and are not otherwise subject to a collective bargaining agreement, shall not be entitled to the payment of overtime or compensatory time off as herein provided. Then Vice President for Administration, Mel Patterson, issued a memo dated January 27, 1993 to CMHA staff which identified exempt employees who were not entitled to compensatory time as described in the Administrative Orders noted above. The position of Chief Executive Officer, Ms. Freeman's position, was identified in this memo as exempt; however Ms. Freeman's 1990 Employment Contract had a provision allowing her to use compensatory time to attend job related professional development programs. The 1995 Employment Contract did not contain this provision. Ms. Freeman accumulated and used compensatory time during the 1990 Employment Contract in the amount of \$6,613.

The total gross amount of \$104,145 (1995 & 1997), for bonuses contributed to a tax deferred savings plan on behalf of Ms. Freeman, was not reflected in her 1995 or 1997 W-2 or W-2C and was in excess of allowable salary and benefits per HUD as identified in the Phase I Report. The 1994 amount was included in Ms. Freeman's W-2 and therefore included in the Phase I calculations whereas the 1995 and 1997 payments were not.

Also, Section II.D.3 of both the 1990 and 1995 contracts provided CMHA to contribute 8% of Ms. Freeman's compensation into a tax-deferred retirement plan on behalf of Ms. Freeman. During the period 1994 through 1997, CMHA made payments in the total amount of \$105,498, on behalf of Ms. Freeman to a tax-deferred retirement plan. These payments were not reflected in the W-2's or W-2C's of Ms. Freeman.

On May 1, 1996, a wire-transfer was made from CMHA's Title V Account into Ms. Freeman's personal account in the amount of \$3,615. CMHA was unable to provide specific documentation as to the purpose of these payments, but speculated that they were the result of monetizing unused leave time. According to CMHA's record of Ms. Freeman's leave time, no deductions were made for monetizing leave at the time this payment was issued. Accordingly, without specific detail as to the purpose of this payment, as well as not having documentation to support the validity of this payment, it is impossible to determine it was directly related to the operation of CMHA.

### **Federal Questioned Cost, Claire Freeman: \$219,871**

#### **Ronnie Davis**

OMB Circular A-87, Attachment A, Section C., Basic Guidelines, requires that to be allowable costs must, (a) Be necessary and reasonable and (b) Be authorized or not prohibited under State or local laws or regulations.

Article II, Section 10 of CMHA's by-laws, adopted January 15, 1971, states in pertinent part, "The selection and compensation of personnel (including the Director), shall be determined by the Authority subject to the laws of the State of Ohio."

Ms. Freeman entered into several agreements with Mr. Davis providing him with fringe benefits in excess of Administrative Order 11 without it being approved by the Board.

- A. Mr. Davis was hired July 30, 1990 and according to CMHA 1988 Administrative Order No. 11.22 and the 1993 Administrative Order 11.21, Mr. Davis was entitled to 120 hours of vacation per year (4.6154 per pay period). The Terms of Employment for Mr. Davis allowed him to receive 160 hours vacation per year (6.1528 per pay period) and Mr. Davis began receiving this amount on the pay period ending April 9, 1994 contrary to these Administrative Orders. This resulted in Mr. Davis earning vacation in excess of established policy for which he received payment throughout the Period in the amount of \$11,095.

Mr. Davis's Terms of Employment also allowed him to monetize accrued but unused vacation, despite the fact that CMHA did not have an established policy for monetizing leave time. During the Period, Mr. Davis monetized vacation leave in the amount of \$23,247.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

As a result of Mr. Davis accruing vacation in excess of established policy and monetizing vacation leave, he received \$34,342 in excessive vacation benefits.

- B. CMHA's 1988 Administrative Order No. 11.24.A. and 1993 Administrative Order No. 11.23 states in part, "All employees shall earn sick leave credit at the rate of 4.6 hours for each 80 hours in an active pay status, entitling each employee to 15 days or 120 hours of sick leave per year. Accrued but unused sick leave credits will be carried forth each year. An employee having more than 960 sick leave hours by the end of any given year will be paid 1/3 of the excess of 960 hours."

Although CMHA policy stated no employee was allowed to monetize accrued sick leave, Mr. Davis's Terms of Employment dated April 13, 1994, November 28, 1994 and September 7, 1995, stated he could monetize accrued sick leave. Throughout the Period, Mr. Davis monetized sick leave in the total amount of \$52,886.

- C. Administrative Order 11.16.C.1. states in part, "All personnel employed by CMHA who occupy positions which are exempted from the provisions of the Fair Labor Standards Act of 1938, as amended, by virtue of Section 7 and Section 13 thereof, and are not otherwise subject to a collective bargaining agreement, shall not be entitled to the payment of overtime or compensatory time off as herein provided." Additionally, according to a January 27, 1993 Interoffice memo from Mel Patterson, then Vice President for Administration, to CMHA Staff, the position of Chief Operating Officer, held by Mr. Davis, was identified as an exempt position.

Mr. Davis's Terms of Employment dated September 7, 1995, allowed him to accrue and monetize compensatory time contrary to Board established policy. Mr. Davis accumulated and ultimately monetized compensatory time from October 2, 1995 through his resignation on November 28, 1997 in the total amount of \$122,835.

- D. In accordance with the Terms of Employment which Ms. Freeman provided to Mr. Davis, he received deposits into a tax-deferred retirement account which no other CMHA employee received.

During the Period, wire transfers were made into Mr. Davis's tax-deferred retirement account at Merrill Lynch, based on 8% of Mr. Davis's 1994 compensation, for a total amount of \$10,973.

- E. Although established policies already existed at CMHA with regard to employee life insurance and accidental death and dismemberment benefits, Ms. Freeman awarded Mr. Davis with additional insurance without the knowledge or approval of CMHA's Board through the Terms of Employment for Mr. Davis.

Payments were made to provide excess life insurance benefits to Mr. Davis in the amount of \$36,167.

- F. As stated previously in our Phase 1 Special Audit Report, Mr. Davis's salary, benefits, incentive awards/bonuses as the former Chief Operating Officer exceeded the salary of the director at the largest public housing authority in the United States, therefore, we deemed these fringe benefits disclosed above as being unreasonable and unnecessary in regard to OMB Circular A-87.

**Federal Questioned Costs, Ronnie Davis: \$257,203**

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### **Fringe Benefits - Other Administrators**

OMB Circular A-87, Attachment A, Section C., Basic Guidelines, requires that to be allowable costs must, (a) Be necessary and reasonable and (b) Be authorized or not prohibited under State or local laws or regulations.

#### A. Personal Leave

Administrative Order No. 11.22 allows employees 16 hours of personal leave per year. It further requires personal leave to be taken by December 31 of the year received, or the time not taken by the employee is lost. Administrative Order No. 11 does not allow for payoff of personal leave at termination; however, one employee received payment of unused personal leave in the amount of \$324.

#### B. Angel Pay

Administrative Order No. 11 identifies the types of leave of absence granted to CMHA employees including holidays, vacation leave, etc. During the Period, employees received "Angel Pay," which was not identified in this Administrative Order as a valid leave type. When we asked CMHA administrators and employees for a written policy or Board authorization establishing Angel Pay, they were unable to provide us with anything. Additionally, when we interviewed the Board members, they each informed us they were not aware of "Angel Pay."

CMHA provided "Angel Pay" to at least 11 employees, in the aggregate amount of \$4,451.

**Federal Questioned Costs, Fringe Benefits, Other Administrators: \$4,775**

**Total Federal Questioned Costs, Issue No. 1, Fringe Benefits: \$692,511**

### **NONCOMPLIANCE CITATIONS**

#### Personnel Files

Administrative Order 11.16.F.1, dated December 8, 1988, and Administrative Order 11 Part II.15.F.1, dated October 6, 1993, state, "A personnel folder shall be maintained for each employee and shall contain all pertinent records concerning wages, written evaluations, employment status and changes thereof, disciplinary actions, and other actions effected by CMHA."

CMHA employee personnel files lacked basic documentation for all individuals we reviewed, such as resumes, applications, documentation for bonuses received, job descriptions, Personnel Transaction Forms and Request for Leave forms. One personnel file requested was with an outside legal counsel and CMHA had not maintained a copy of the file.

Personnel files serve as employees' work histories upon which various benefits are based. Therefore it is crucial that for each employee, CMHA maintain accurate and complete information in an organized manner.

We recommend that all pertinent information be maintained in the employees' personnel file. Any personnel file which is turned over to outside legal council should be copied in its entirety and the copies maintained by the Human Resources Department.

#### Accrual and Use of Vacation Leave

Although Administrative Order No. 11.22 (B) clearly states accrual limits of vacation leave, 8 of the 14 employees reviewed accrued vacation leave in excess of the allowable maximum which caused 6 of those receiving vacation payoffs at termination to be paid in excess of the allowable limit.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

We recommend CMHA review other administrative employees to ascertain that leave accruals are authorized and within limits as outlined in Administrative Order No. 11. Other employees governed by labor agreements should also be reviewed to confirm compliance. Although the current computer payroll system prints leave balances on the employee's payroll stub, it should, if possible and practical, "red flag" employees as they approach Board authorized maximum accrual and it should not be able to accrue in excess of that maximum. Also, personnel files should contain documentation that the employee has read and understands all personnel policies relating to their position including policies regarding leave accrual and usage and should be updated on a regular basis.

### Advance Payment of Vacation

Administrative Order 11.22.D.1, dated December 8, 1988, and Administrative Order 11 Part II.21.D.1, dated October 6, 1993, state, "Vacation leave pay will be paid on the regularly scheduled pay date. No advance payments for vacation will be made."

Contrary to this provision, 3 of 14 employees we reviewed received advanced payments of vacation leave, and one received a pay-off of leave time prior to his termination. Failure to comply with this CMHA policy could result in the over payment of compensation.

We recommend CMHA discontinue the practice of vacation advance payments unless specifically authorized by Board Resolution.

### Accrual and Use of Compensatory Time

Although Administrative Order No. 11.16(C)(1) of the 1988 version and 11.15(C)(1) of the 1993 version clearly state the positions entitled to accrue and use compensatory time, 8 of the 12 other administrators we reviewed received and used compensatory time even though his or her position was exempt from accumulating compensatory time.

We recommend CMHA review other administrative employees to ascertain that compensatory time accruals are authorized as outlined in Administrative Order No. 11. Also, personnel files should identify whether the employee's position is exempt, and should contain documentation that the employee has read and understands all personnel policies relating to their position including policies regarding leave accrual and usage. For those employees who are authorized to accrue and use compensatory time, payroll records should be maintained to accurately reflect such accrual and use.

## MANAGEMENT COMMENTS

### Angel Pay

Administrative Order No. 11 identifies the types of leave of absence granted to CMHA employees including holidays, vacation leave, sick leave, compensatory time, and personal leave. During the Period, employees received "Angel Pay," which was not identified in this Administrative Order.

We requested documentation supporting the authority for implementing this program and policies governing it; however, CMHA administration indicated there was no written policy and no formal authorization from the Board. Through interviews, Board members indicated that they were not aware of the payment of Angel Pay.

Employees were receiving additional compensation for Angel Pay without a written Board policy to authorize such. As in any benefit CMHA wishes to give its employees, the Board should formally adopt a written policy which clearly states the criteria, procedures, and limitations for receiving such a benefit.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### Payroll System Payments

As noted in this report, payments to or on behalf of Ms. Freeman totaling \$219,247 for the period 1994 through 1997 and payments to or on behalf of Mr. Davis totaling \$134,011 for the same period, for bonuses, monetized leave time, and other benefits was not reflected in his and her W-2's or W-2C's. This resulted in submitting inaccurate information to federal, state and local authorities as well as the Public Employee's Retirement System (PERS). Filing inaccurate information with the Internal Revenue Service by failing to include all earned income on an employee's Form W-2 is illegal. Government Auditing Standards require that auditors communicate certain irregularities or illegal acts to their clients so that the client can report those items to the specified external parties as required by law. Should the auditor become aware that the client has not notified the appropriate external party as soon as practicable after the auditor's communication with the client's governing board, then the auditor should report the irregularities or illegal acts directly to the external party specified in the law or regulation.

We recommend CMHA take immediate steps to issue corrected Forms W-2 to both Ms. Freeman and Mr. Davis and submit copies of those Forms W-2 to the Internal Revenue Service. CMHA should also review payments made on Ms. Freeman's and Mr. Davis's behalf to PERS and other retirement programs as well as those made into deferred compensation programs to ascertain the correctness of those payments. We further recommend payments for bonuses, incentives, and monetizing of leave time be paid in compliance with Board policy, with approval, and should be processed through the payroll system to be included on the employee's Form W-2.

### Resolutions

Board Resolutions were signed exclusively by Ms. Freeman, including Resolutions related to her bonuses, salary and benefits. Resolution No. 178-93 regarding a 1993 bonus to Ms. Freeman received from the Board Liaison Officer, was signed by Ms. Freeman; however, amounts for the bonus were left blank. Also, of 45 Resolutions requested, CMHA was unable to find 6, and 5 of the 39 received were not signed. Resolutions, like the Board Minutes, are the only evidence of the acts and intentions of the Board. Failure to authenticate and adequately secure the Board's Resolutions and Minutes could result in inaccurate or false information, contrary to Board intent, to be disseminated to employees and others.

We recommend Board Resolutions and Minutes be signed by the presiding Commissioner and the Secretary after ascertaining their correctness. Original Resolutions and Minutes should be maintained in a secure place with limited access by authorized individuals and only copies should be allowed to be removed.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 2 - Purchasing Procedures

We reviewed the purchasing procedures and competitive bidding requirements for CMHA and certain non-consulting contracts to determine compliance with bidding requirements and contractual provisions.

#### PROCEDURES

1. We reviewed the Ohio Revised Code and the Code of Federal Regulations to determine procurement procedures applicable to a metropolitan housing authority.
2. We reviewed and summarized CMHA's Procurement Procedures Manual and Administrative Order No. 20, "Procurement Policy."
3. We interviewed<sup>6</sup> Bill Sargent, CMHA Deputy Director of Procurement, to obtain an understanding of purchasing practices used by CMHA employees.

#### RESULTS

1. Ohio Rev. Code Chapter 3735 is the applicable State authority governing non-federally regulated receipts and disbursements for metropolitan housing authorities.

Code of Federal Regulations 24 C.F.R. Section 85.22 (b) (2001) requires State, Local, and Indian Tribal governments to follow the Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. 24 C.F.R. Section 85.3 (2001) defines a local government to include any public housing authority.

2. According to CMHA's Procurement Procedures Manual ("the Manual") and Administrative Order No. 20, Procurement Policy ("the Policy") all procurement activity expected to be less than \$25,000 (with the exception of contracts, petty cash, and check request purchases) shall be accomplished by using purchase orders.

For purchases requiring contracts (amounts in excess of \$25,000), CMHA's general purchasing policies dictate the requestor initiate the need for a particular good or service by completing the "Record of Contract Request" form. This form briefly summarizes the product or service requested, including estimated cost, and is routed to various officials for approval (i.e., Department Directors, Budget Department, Fiscal Department, Executive Office), then to the Procurement Department to assign a Contract Administrator and begin the bid solicitation process.

The Policy, issued December 2, 1987 and revised May 4, 1994, states in pertinent part, "all procurements require the written authorization of the Budget Department and a purchase order or a contract prior to commencement of work with the exclusion of emergencies." Section 3.1.2 of the Policy specifically allowed petty cash purchases under \$50 to be processed by use of a Check Request Form.

The Manual Section III, A.1, states, "A properly executed purchase requisition must be physically received in the Procurement Department before a formal procurement action can be taken." Section VII, B.14, states, "The user or originating department shall not accept any invoices from the vendor for payment." Section V, C.1, states, "All contracts with contractors or vendors that relate to a procurement that is in the solicitation, evaluation, negotiation or award phase must be conducted through the Procurement Department."

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<sup>6</sup> Interviews conducted on August 23 and 30, September 1, and December 2 and 3, 1999.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The Contract Administrator (CA) was the person authorized to manage and/or amend the items of the contract. CMHA included a clause in its standard procurement contracts which addressed the CA's responsibilities. Invoices received in response to contract documents were sent to the CA, who prepared the payment sheet, or "Route Approval" form. The Route Approval form was attached to the invoice and was sent to the Accounts Payable Department for processing. For each payment, this Route Approval form was authorized by the Budget Director, Fiscal Director, CA, Procurement Director and Chief Operating Officer. Payments processed through the Route Approval form did not require the approval of the Chief Executive Officer.

Contracts were also assigned a Contract Technical Representative (CTR) who was responsible for technical discussions with vendors and was required to be on-hand to address technical questions. Again, CMHA included a clause in their contracts which identified the CTR and his or her responsibilities. The CTR was responsible for tracking the "end products" received on the contracts. Often, the CTR was the same person as the initial requestor.

The Policy, Section 2.2.3 states, in pertinent part, CMHA "shall advertise for bids a minimum of once each week for two consecutive weeks." Section 2.2.5 states, in pertinent part, "contract awards will be made to the responsive and responsible bidder offering the lowest and best price, or whose proposal offers the greatest value to CMHA considering price, technical, and other factors as specified in the solicitation (for contracts awarded based on competitive proposals)."

3. The Deputy Director of Procurement, Bill Sargent, was hired in October 1994, and provided us with background information regarding purchasing procedures from October 1994 through the end of our audit period.

Mr. Sargent explained that purchase orders were used for the purchase of services or materials less than or equal to \$25,000. For expenditures which exceeded \$25,000, contracts were executed. Mr. Sargent also explained the details of CMHA purchasing practices, which were to be in agreement with the Policy and the Manual.

According to our interview with Mr. Sargent, some departments initiated contracts without going through the Procurement Department and paid for the contract invoices by using a "Check Request" form<sup>7</sup> instead of the Route Approval form. When a department used a Check Request form instead of a purchase order or contract, the Procurement Department was not notified that a potential contract existed, which meant that funds were not encumbered for these expenditures. Additionally, since the Procurement Department was the starting point for the bid process, using Check Request forms meant the potential existed that individual departments may not have followed bidding procedures, as required by the Policy. For instance, expenditures above \$5,000 were required by CMHA policy to have some form of quote solicitation (written); however, if a Check Request form was used, the Procurement Department may not have been aware of such expenditures requiring bids. The Procurement Department would be unable to reconcile the number of contracts outstanding when other departments bypassed the prescribed system of controls.

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<sup>7</sup> The "Check Request" is a form that was used to request authorization for payment. The form specifically stated it is "Not a Purchase Requisition or Purchase Order." It was used to get authorization for payment without going through the Procurement Department.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Mr. Sargent informed us the Check Request forms were used primarily by the Legal Department, Social Services, Construction, and the Executive Office. The form was signed or authorized by the Requestor, Department Director, Budget Director, and the Chief Executive Officer or Chief Operating Officer. After this form was completed, invoices were attached and the packet was sent to the Accounts Payable Department for payment.

According to Mr. Sargent, the Check Request forms were often overlooked for review by CMHA's auditing firm because if the Check Request is related to a contract, the Procurement Department would not have the contract recorded on the cumulative list of contracts.

### NONCOMPLIANCE CITATION

#### Check Request Forms

Procurement Procedures Manual Section III, A.1, states, "A properly executed purchase requisition must be physically received in the Procurement Department before a formal procurement action can be taken." Section V, C.1, states, "All contracts with contractors or vendors that relate to a procurement that is in the solicitation, evaluation, negotiation or award phase must be conducted through the Procurement Department."

The Manual, Section III(A), states that all formal procurement actions require a requisition which must be received in the Procurement Department. There is a lack of oversight control caused by the use of the Check Request form, which permitted transactions to transpire that conflict and/or circumvent the established procurement process. Through our review of established federal guidelines, there was no mention of a form similar to CMHA's Check Request form, and it was mentioned only briefly in the Manual, as follows: "Except for contracts, petty cash, and Check Request purchases, all procurement activity shall be accomplished by purchase order." The Policy, Section 3.1.2, states, in pertinent part, "small purchases under \$50 may be processed through the use of a petty cash account or check request when petty cash is not available."

Departments initiated purchase transactions and attached invoices to a Check Request form for payment. The Check Request form did not require the approval of the Procurement Department, and therefore circumvented the procurement function. During our review of purchasing procedures, we noted Check Request forms attached to invoices for payment rather than a formal purchase order or a contract previously processed through the Procurement Department. The use of the Check Request form prevented contracts from being properly encumbered, and may have resulted in the contract not being competitively bid or properly approved by the Board.

We recommend CMHA discontinue the practice of allowing invoices over \$50 to be processed and paid exclusively through the use of Check Request forms.

### MANAGEMENT COMMENTS

#### Contract Administrator

In the contracts we reviewed, there was language which stated "the Contract Administrator shall be the only individual authorized to direct and/or redirect the efforts, or amend the items of this contract, other than those instances specifically delegated to the Contract Technical Representative." Often, included in the contract section related to fees, it states, "In no event shall the total contract cost exceed [established amount] unless the contract is formally modified in writing by the Contract Administrator."

While the Contract Administrator is referenced in the Procurement Procedures Manual, his/her specific responsibilities are not described. We recommend the Manual be updated to accurately reflect the responsibilities of the Contract Administrator and to include this position title and a definition in the Glossary of the Manual.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### Contract Technical Representative

According to CMHA's Procurement Procedures Manual, the Contract Technical Representative shall have only technical discussions with vendors and shall be on hand to address technical questions as they arise. According to the language contained in most contracts issued by CMHA which we reviewed, the "work to be performed by the contractor under this contract is subject to the surveillance and written technical direction of CMHA's Contract Technical Representative. The Contract Technical Representative shall not commit CMHA to any adjustment of price, cost, fees, or other contract provisions."

The Procurement Procedures Manual does not include all the responsibilities assigned to the Contract Technical Representative, as explained in contract documents. We recommend the Procurement Procedures Manual be updated to include the Contract Technical Representative's full responsibilities and this position title and description be added to the Manual's Glossary.

### Approval of End Products

The Contract Technical Representative was assigned the responsibility for surveying the project and thereby ensuring the contract end products were received. The contracts required invoices to be submitted to the Contract Administrator, who attached them to the Route Approval form, which was then signed by the Contract Administrator, Budget Director, Fiscal Director, Procurement Director, and Chief Executive Officer. The Contract Technical Representative was not a required approval for payment.

Without some formal oversight of invoice payment by the Contract Technical Representative, a control weakness exists in that payments could be made for goods or services which were not received or did not meet the specifications of the contract. We recommend the Contract Technical Representative's signature be added to the Route Approval form to indicate that goods and/or services were received and were within specifications defined in the contract documents.

### Purchasing Forms

CMHA was using forms related to procurement activity which were not specifically addressed in the Procurement Procedures Manual. Forms such as the "Record of Contract Request" and "Route Approval" form were not specifically identified and defined in the Procurement Procedures Manual.

By not having a clear definition of each type of purchasing form available, employees may become confused when selecting the appropriate form to accomplish a specific task. We recommend CMHA revise the Procurement Procedures Manual to include all purchasing forms.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 3 - Consulting Contracts

We reviewed certain consulting contracts to determine whether applicable competitive bidding requirements and CMHA procurement policies were followed, and to determine whether contracts or payments were authorized and for a purpose related to the operations of a metropolitan housing authority. We reviewed requests for payment of invoices to determine if established procedures were followed and reviewed payments to consultants, based on submitted invoices, to determine whether payments were made in accordance with contract terms. We also attempted to compare contract requirements to the end products received.

#### PROCEDURES

1. We reviewed 24 consulting contracts and related 125 payments which were processed during the Period to determine if vouchers were paid in accordance with the terms of the contract and to identify the funds which were charged with respect to these contract payments.
2. We reviewed documentation supporting the payments to determine whether services were provided within the scope of the contracts. Changes to contract terms or amounts were reviewed for applicable authorization and compliance with established policies.
3. We reviewed the reports or “end products” issued by the consultants to determine if contract requirements had been fulfilled, and that established time frames for contract completions had been met.

#### RESULTS

1. CMHA did not have a central listing or filing site for contracts, invoices, and payment documentation related to consulting projects. For this reason, we obtained and reviewed the Minute Records and CMHA’s chart of accounts to identify potential consultants. From these sources, we identified 105 potential consultants and requested CMHA to provide us with detailed vendor histories for each. Based on our review and analysis of the vendor histories, the cost of the contracts, and the type of services to be provided, we selected 23 consultants to review, and requested CMHA provide us with the contracts and related exhibits, requests for proposals, Board Resolutions, end products provided by the vendors, and all related voucher packets including purchase orders, invoices, and copies of canceled checks. There were 125 payments made to the 24 consultants in the amount of \$4,286,899 as shown below:

<b>Fund Name</b>	<b>Expenditures</b>
General Fund	\$1,596,379
CIAP	152,485
Comp Grant	1,116,976
Drug Elimination	22,080
Section 8	916,629
Title V	<u>482,350</u>
<b>Total Expenditures Reviewed</b>	<b><u>\$4,286,899</u></b>

CMHA’s management was unable to provide us with complete contract files (bids, contracts, Board approval, voucher information) for 17 of the 24 consultants reviewed.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

In addition to not providing all contracts, 22 of 125 vouchers could not be located by CMHA. Of the remaining 103 vouchers, 11 lacked an invoice. In total, unsupported expenditures were \$1,012,202, for which we will issue a Federal Questioned Cost.

2. Expenditures totaling \$11,545 were in violation of HUD's MOU, requiring funds from the Title V account to be spent only on low-income housing. We will issue a Federal Questioned Cost for \$11,545.

In addition, of the twenty-four (24) consultants reviewed, numerous violations of Federal Circulars, the HUD MOU, the Ohio Revised Code, CMHA's Procurement Policies and Procedures, and the contract language were noted, as described below:

<b>Noncompliance Description (and type of violation):</b>	
A	Documentation did not exist to show bids were solicited in accordance with CMHA Small Purchases Procedures (CMHA Policy)
B	Payments were not authorized by the Board (CMHA Policy)
C	Records were incomplete (Ohio Revised Code)
D	Contract was not conducted through the Procurement Department (CMHA Policy)
E	Contract documents were not maintained in the Procurement Department (CMHA Policy)
F	Consultant prepared the Request for Proposal, placed a bid, and was awarded the contract (CMHA Policy)
G	Contract was initiated without approval of the CEO or his or her designee (CMHA Policy)
H	Payments were not made within the contract and/or amended contract amount (Contract)
I	Consultant costs/efforts were directed by the Contract Technical Representative (CMHA Policy)
J	Payments were not supported by invoices (Federal Circulars)
K	Payments were not made in accordance with HUD's Memorandum of Understanding (HUD MOU)

The table presented on the following page provides details of noncompliance related to the consultant contracts and payments we reviewed.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Consultant:	Service to be Provided	Total Payments	Costs for Which CMHA Did Not Produce an Invoice	Evidence of End Product Not Provided by CMHA	Payments Outside Scope of HUD MOU	Noncompliance Violations
B.S.R. Consulting	Vehicle Accountability	\$11,828	\$4,956			A, B, C, J
Calfee, Halter, Griswold	Bond Counsel	48,119	17,119			A, C, D, E, J
Group Health Care	Health Program	9,500		\$9,500		A, B, L
Intl. Assoc. of Police	Challenges Study	34,140	140	34,140		A, C, E, J
Jim Cox Associates	Public Relations	14,803			\$3,600	A, K
Mahsua Amos	Audit Report OH3-50	8,750				A, B, C, E
Walter Lowey	Training	7,500	7,500	7,500		B, C, J
Will Davis Mgmt.	Telephone Study	89,484	41,815			B, C, J
Cleveland Real Estate Ptnrs.	Real Estate Options	6,945			6,945	A, C, E, K
Cornerstone Consulting	Police Training	4,500				A
PRADCO	Police Recruiting	13,200				B, G
Opportunity Technologies	Estate Gardens	15,000	15,000	15,000		A, B, C, J
Taskforce on Violent Crime	Crime Analysis	12,380	686		1,000	J, K
Douglas James Securities	Funding Proposals	25,000	25,000	25,000		A, C, J
Kellerman, Guice, Lafebvre	Developed RFP's	52,481	21,201	52,481		A, B, C, J
Commodore Development	Land Consulting	33,655	33,655			C, D, J
Partners Land	Marketing and Sales	50,000	20,217	50,000		B, C, J
Hawkins, Delafield, Wood	Financial Consulting	25,308	25,308	25,308		B, C, F, J
Mortgage Banking	Consulting	26,494		26,494		A, C, D, H
Southern Capital Corp.	Financial Consulting	8,626				C, D
Snavely Company	Unknown	42,432	42,432	42,432		A, J
Patton Boggs LLP	Legal Counsel	35,000		35,000		D, E, G
Coopers & Lybrand	Feasability Study	170,170		170,170		C
Deloitte & Touche	Accounting Services	3,541,584	757,173			A, C, H, J
<b>Total</b>		<b>\$4,286,899</b>	<b>\$1,012,202</b>	<b>\$493,025</b>	<b>\$11,545</b>	

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

3. CMHA's lack of adequate record-keeping compromised our ability to compare the consultants end products to the terms and scope of services as defined by the contract documents. We were only provided with the end products for 10 of the 24 consultants reviewed. Due to either a missing contract or a lack of complete contract documents (for example, an unsigned contract, a draft contract, or only the bid proposal was available), we were only able to review three of the end products received to verify they fell within the scope of services defined by the contract. For these three end products, the end products reviewed supported the contract and/or invoice purpose.

Description	Amount
End Product Provided but not Reconciled to the Contract due to Incomplete Documents <sup>8</sup>	\$3,682,564
Evidence of End Product Received Not Provided by CMHA	493,025
End Product Reviewed and agreed to Contract Requirements	111,310

Of the \$493,025 expenditures for which we were not provided end products, \$156,798 also lacked an invoice and were previously questioned as unsupported in Result No. 1. Therefore, we will issue a Federal Questioned Cost of \$336,227 for expenditures which, although supported by an invoice, were not supported by an end product.

### FEDERAL QUESTIONED COSTS

Fund	Result No. 1	Result No. 2	Result No. 3	Total
	Unsupported Costs	Payments Outside Scope of HUD MOU	Evidence of End Product Not Provided by CMHA	
General Fund	\$215,761		\$78,500	\$294,261
Section 8 General Fund	282,422			282,422
Title V	168,862	\$11,545	257,727	438,134
Other Funds	345,157			345,157
<b>Total</b>	<b>\$1,012,202</b>	<b>\$11,545</b>	<b>\$336,227</b>	<b>\$1,359,974</b>

OMB Circular A-87, Attachment (A), Section C(1)(a), requires that all costs must be necessary and reasonable for proper efficient performance and administration of federal awards. Section C(1)(j) requires that all costs must be adequately documented. In addition, they must be legal, proper, and consistent with the policies that govern the recipient's own expenditures.

The Inspector General Act Amendments of 1988 defines a questioned cost as a finding that, at the time of the audit, such cost is not supported by adequate documentation.

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<sup>8</sup>A review of these expenditures noted these appeared to be expenditures related to the operations of a metropolitan housing authority.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Ohio Rev. Code Section 3735.37 requires metropolitan housing authorities to keep an accurate account of all its activities and of all receipts and expenditures.

From the table above, "Unsupported Costs" represents transactions for which CMHA management was unable to provide us with the voucher, related invoice(s).

**Federal Questioned Cost: \$1,012,202**

From the table above, "Evidence of End Product Not Provided by CMHA" represents transactions for which we were not provided an end product to support the purpose of the contract.

**Federal Questioned Cost: \$336,227**

The Memorandum of Understanding ("the MOU") dated December 28, 1994 between the Office of Housing and Urban Development (HUD) and CMHA regarding the bond refinancing proceed monies from Ambleside Apartments required CMHA to use the monies to fund the construction of housing units for very low income elderly, handicapped, and disabled households.

The MOU further stated that the land, buildings, property and equipment to be acquired and/or constructed and installed and other costs must be approved by the HUD. The MOU also stated, in pertinent part, that "to the extent that such funds are to be used for any other capital purposes, the Authority (i.e., CMHA) agrees to substitute capital programs mutually agreeable and acceptable to both the Authority and HUD, which shall be approved and designated in writing as substitute programs for expenditures of such funds."

We reviewed \$482,350 in expenditures paid to consultants and charged to the Title V fund, (where the Ambleside refinancing proceeds were deposited). Of this amount, \$11,545 represents disbursements which either lacked documented HUD approval or were for services that fell outside the scope of the Ambleside Agreement.

**Federal Questioned Cost: \$11,545**

**Total Federal Questioned Cost, Issue 3, Consulting Contracts: \$1,359,974**

### NONCOMPLIANCE CITATIONS

#### Inadequate Support Documentation

24 C.F.R. Section 85.20 (b)(2)(2001) states "Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income." 24 C.F.R. Section 85.22(b) (2001) requires the State, Local, and Indian Tribal Governments follow OMB Circular A-87. The 24 C.F.R. Section 85.3 (2001) defines a local government to include any public housing authority.

OMB Circular A-87, Attachment (A), Section (C)(1)(j), states, in part, to be allowable under federal awards, costs must be adequately documented.

CMHA was not able to provide us with requested documents to support payments made to the consultants we reviewed. The lack of a documented audit trail prevented us from verifying all transactions were for a purpose related to the operations of a metropolitan housing authority. CMHA was unable to provide supporting documentation for each transaction selected for review. Of 122 vouchers reviewed, 22 could not be located by CMHA and 11 vouchers were not supported by an invoice. Additionally, only 10 of 24 end products were supplied to us by CMHA.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Of the 24 contracts requested from the Procurement Department, 3 were not provided to us. CMHA does not have a structured procedure for locating files which are sometime "borrowed" between departments, or loaned out to individual persons. This lack of record-keeping could lead to misplaced documents.

We recommend CMHA establish a practical and complete method for tracking internal and external requests for documents. For example, CMHA could construct a request log as a shared file on the computer network. The Accounts Payable Department would be responsible for monitoring and maintaining the log. All requests would be posted to the log by the individual departments and an Accounts Payable Clerk would be assigned responsibility for answering all posted requests in a timely manner.

The log should be set up as simply as possible and we recommend fields to include: item requested, department, requestor, party extension, date of request, date returned, and comments. Outstanding items should be monitored on a regular basis. A hard copy of the file should be printed periodically and reviewed by the Accounts Payable Manager.

For vouchers which were not supported by invoices, we recommend invoices be matched to the purchase order (if applicable) and attached to the voucher prior to disbursement of the check. No checks should be disbursed to other departments or mailed to consultants without an invoice to support the transaction.

### HUD Memorandum of Understanding

The Memorandum of Understanding (MOU) dated December 28, 1994 between HUD and CMHA regarding the bond proceed monies from Ambleside Apartments required CMHA to use the monies to fund the construction of housing units for very low income elderly, handicapped, and disabled households. This MOU stated that the land, buildings, property and equipment to be acquired and/or constructed and installed, as well as other costs, must be approved by HUD. Additionally, the MOU stated, in pertinent part, "to the extent that such funds are to be used for any other capital purposes, the Authority (i.e., CMHA) agrees to substitute capital programs mutually agreeable and acceptable to both the Authority and HUD, which shall be approved and designated in writing as substitute programs for expenditures of such funds."

Of \$482,350 expenditures reviewed from the Title V fund, \$11,545 represented services which did not fall within the scope of work permitted to be charged to the Ambleside proceeds, as defined in the HUD MOU and for which we have issued Federal Questioned Costs.

We recommend CMHA management take corrective steps to ensure that employees involved with the coding and authorization of transactions have a thorough knowledge of the restrictions imposed on the funds being charged.

### Destruction of Records

Ohio Revised Code Section 149.351 states records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Sections 149.38 to 149.42 of the Revised Code.

24 C.F.R. Section 85.42 (2001) generally provides that documents be retained for three years from a grantee's last expenditure report, but where an audit is in progress, records must be retained until it is complete and all audit issues are resolved.

Ohio Rev. Code Section 3735.37 requires metropolitan housing authorities to keep an accurate account of all its activities and of all receipts and expenditures.

Further, CMHA Procurement Policies and Procedures, hereafter, "the Policy," Section 2.2.9, states all contracts will be maintained in the Office of Procurement and/or the Office of Construction

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The Procurement Department was unable to locate contracts for 3 of the 24 consultants reviewed. Because CMHA could not provide us with all contract documents, we were unable to verify contractors performed in accordance with the terms, conditions, and specifications of their contracts. Additionally, numerous records related to payments, including vouchers, invoices, Board Resolutions, and contract amendments were not provided for our audit. As a result, we were not able to determine that consulting expenditures of CMHA were for a purpose applicable for a housing authority.

We recommend all contracts be maintained in the Procurement Department. While it is within CMHA's Procurement Policies and Procedures Manual hereafter, "the Manual," to permit a contract to be maintained in the Construction Department, we recommend all source documents be maintained in the Procurement Department. If another department requires specific contract documents, we recommend photocopies be made for that department, while always maintaining original source documents in the Procurement Department.

### Solicitation of Bids

According to the Policy, Section 3.1, "Small Purchases," purchases from \$750.01 - \$5,000, require CMHA to obtain solicitations from three offerors. These solicitations may be obtained orally, by phone, or in writing. For purchases from \$5,000.01 - \$25,000, CMHA is required to obtain no less than three offers, in writing. Section 3.1.5. then refers to 3.1.4 which states, in part, the purchase is to be provided to the lowest offeror.

According to the Policy, Section 3.4, "Exceptions to Sealed or Competitive Bidding," procurement by noncompetitive proposals may be used only when the award of a contract is not feasible using small purchase procedures, sealed bids, or competitive proposals and one of the following applies: sole source, emergency, professional services, state or local purchase agreement, or inadequate competition.

The Policy, Section 2.2.8 states, in part, a quarterly report will be submitted to the Board of Commissioners of all contracts which exceed \$5,000.

For 7 of the 24 consultants reviewed, we were unable to identify the method of solicitation to verify compliance with procurement policies and procedures.

For 10 of the 24 consultants reviewed, we were unable to verify they were presented to the Board for approval via the quarterly report.

Management was unable to provide us with support that established purchasing requirements were met.

We recommend the Procurement Department indicate on the purchase order the method of solicitation (for example, orally, by phone, or in writing), the name of the party contacted, and briefly describe the rationale behind the selection of the consultant. We further recommend CMHA maintain a copy of the applicable quarterly report which is presented to the Board for each contract.

### Board Resolutions

According to CMHA's Procurement Policy, Section 10.1.2, any contracts greater than \$15,000 for labor, professional services, and/or consultants must be approved by the Board.

The Board Liaison and the Procurement Department were unable to locate Board Resolutions approving the award of a contract for 10 of the 24 consultants reviewed. Unsigned and unnumbered draft Resolutions were included within contract files instead of a formalized, final version of such Resolutions. Without a number or date, it was either not possible or difficult to locate Resolutions, and therefore we were unable to determine the Board had full knowledge of all contracts into which CMHA entered.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The Procurement Department should include, within the contract folders, a copy of the actual Resolution or, at a minimum, a reference to the Resolution number. Unsigned and unnumbered agenda Resolutions within the contract files are inadequate. Additionally, loosely maintaining Board Resolutions in filing cabinets is an inadequate method of record-keeping. We would recommend the Resolutions periodically be indexed and permanently bound.

### Preparation of Requests for Proposals

The Manual, Section VI (D) states in pertinent part that "Firms/persons who develop specifications or requirements for CMHA may not bid on the particular procurement, as it may give unfair competitive advantage to said vendor/contractor."

There was one occurrence where the vendor who prepared the request for proposal ("the RFP"), was also awarded the contract. Allowing a vendor to prepare a scope of work in which he or she later places a bid does not lend itself toward fair competition. The consultant who has prepared the RFP has a significant advantage in knowledge of the project and length of time to respond.

We recommend CMHA not permit a contractor who develops the scope of work to propose on the same project.

### Approval of Contracts

The Manual, Section II, Part B, states that all purchase orders and contracts which exceed \$25,000 require review and execution by the Chief Executive Officer or his/her designee.

Of the contracts we received, there was one instance where the payments were made on a contract which was never signed by an official of CMHA. This contract circumvented the Procurement Department and related controls which may have resulted in CMHA being obligated without evidence of the CEO or Board's approval.

We recommend all contracts be initiated through the Procurement Department, who should review the contract and related documents for appropriate signatures. The Accounts Payable Department personnel should be knowledgeable of procurement procedures. Payments made to vendors that do not have the necessary documentation indicating the transaction has been processed through the Procurement Department should be flagged and brought to the CEO's and the Procurement Department's attention. Procedures should exist for disciplinary action to be taken against individuals whom circumvent procurement policies in an attempt to commit or otherwise obligate CMHA.

### Contract Costs

The Manual, Section VII (B)(10), Emergency Procedures, states, in part, "the Contract Technical Representative ("the CTR"), shall have only technical discussions with the vendor/contractors. All terms and conditions regarding pricing shall be referred to the Procurement Department."

There was one instance where the Contract Technical Representative directed the costs of a consulting contract.

Utilizing the Contract Technical Representative to modify contract costs caused both contracts to be administered in violation of procurement policies and procedures.

We recommend the Contract Technical Representative be made aware of all aspects of his or her duties in that position and understand he or she is not responsible for negotiating cost adjustments.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### MANAGEMENT COMMENTS

#### Invoice Descriptions and Contract Language

CMHA processed payments for invoices where the description of services was vague or did not provide enough detail to indicate what portion of the contract or proposal for which CMHA was being billed. CMHA's standard contract language did not include detailed descriptions of end products, dates end products were to be received, or information required to be included on invoices to receive payment. Because of these factors, payments could not be accurately reconciled to the contracts.

We recommend CMHA include standard language within its contracts that provide detailed descriptions of end products and dates on which end products are to be received. The contract language should also provide for a minimum level of description to be included on the invoice when submitted for payment. For example, the invoices should clearly identify what portion of the contract is being billed, enabling management to reconcile the invoice description with the end product and project phases as defined by the contract. They should be structured and descriptive enough to facilitate the Procurement Department's ability to recognize or detect early signs that the vendor may have difficulty performing the service within the contracted and Board authorized award amount. Failure to provide this information could (at CMHA's discretion) result in delay of payment to the vendors.

#### HUD Memorandum of Understanding

On December 28, 1994, HUD issued a Memorandum of Understanding governing the funds received as a result of refinancing previous HUD mortgages on the Ambleside Apartments. As part of the Memorandum of Understanding, HUD gave CMHA specific guidelines that proceeds were to be used to fund construction of housing units for very low income elderly, handicapped, and disabled households. When the HUD mortgages for Puritas Place and Rock Glen Apartments were refinanced, HUD did not provide CMHA with a Memorandum of Understanding. If CMHA had deposited these proceeds into a segregated account without a Memorandum of Understanding to provide specific guidance for CMHA, funds received from the refinancing projects may have been used for expenditures which HUD may not have otherwise approved.

We recommend CMHA negotiate a Memorandum of Understanding on all future refinancing transactions which relate to HUD mortgages.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 4 - New Town/In Town Project

We reviewed the objectives and agreements associated with the "New Town/In Town" project. We reviewed expenditures charged to New Town/In Town to determine whether they were authorized, in accordance with the program objectives and/or agreements, and for a purpose related to the operation of a metropolitan housing authority.

#### PROCEDURES

1. We obtained and reviewed policies, procedures, and agreements associated with New Town/In Town and ascertained the objectives and function of this project.
2. We attempted to obtain a schedule of expenditures charged to this project to determine the purpose of those expenditures.
3. For payments charged to the Title V account related specifically for the Affordable Housing Programs, we determined if payments were made in accordance with grant agreements.

#### RESULTS

1. New Town/In Town was incorporated as a non-profit corporation on February 13, 1995, and was approved by CMHA's Board of Commissioners at the October 5, 1994 regular meeting (Resolution No. 215-94). According to the Articles of Incorporation, it was formed to clear, plan, and rebuild slum areas within Cuyahoga County, in particular within the City of Cleveland; to provide safe and sanitary housing accommodations for low-income families; to enter into contracts for the construction of housing for low-income families; and to aid CMHA in the planning, developing, construction, and operation of such housing. CMHA is registered as the Incorporator, with Karen Coats-Wilson's signature on the Articles of Incorporation. Its trustees included Sharon Birts, Stephanie Reed, and Marilyn McDonald.

Claire Freeman-McCown served as the New Town/In Town Secretary and James VanBergen, then Staff Attorney at CMHA, served as the Statutory Agent.

The New Town/In Town By-Laws described procedural issues, including offices, trustees, meeting requirements, committees, and fiscal years.

New Town/In Town was to implement a new affordable housing program in Cuyahoga County. The program would have provided a minimum of 700 new single-family homes on sites found in the City of Cleveland and other municipalities in Cuyahoga County. The goal was to foster economic and racial diversity in various localities throughout the county by providing quality homes at prices ranging from \$95,000 to \$135,000; however, these homes were never built.

According to documents on file with the Secretary of State, New Town/In Town was dissolved on February 11, 1998.

2. CMHA was unable to differentiate between New Town/In Town expenditures and other general expenditures of the Affordable Housing Program.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

From 1994 through 1998, there were Title V expenditures for the Affordable Housing Programs in the amount of \$1,051,360, of which \$114,814 was charged for a consultant, M.E. Zukerman, who worked on the New Town/In Town program (see Issue No. 13, Zukerman Consulting). Other than the payments to M.E. Zukerman & Co., Inc., CMHA was not able to identify specific payments related to the New Town/In Town program.

3. Using CMHA ledgers, the U.S. Department of Housing and Urban Development's Office of Inspector General (OIG) field auditors prepared schedules of all affordable housing expenditures from the Title V account in 1994 through 1998. They classified each expenditure as to public purpose and whether or not the expenditure was supported. The Affordable Housing Program expenditures (including expenditures to M.E. Zukerman & Co., Inc. which we reviewed in detail in Issue No. 13) were classified by the HUD auditors as serving a public purpose in accordance with federal requirements and as being supported. We scanned these expenditures and reviewed vouchers which the HUD auditors used for their review, and came to the same conclusions.

### MANAGEMENT COMMENT

#### Affordable Housing Projects

CMHA was responsible for designing and implementing various affordable housing programs, including the New Town/In Town project. CMHA did not keep detailed, organized records which supported the New Town/In Town project. Additionally, the expenditure ledgers did not clearly differentiate between specific affordable housing programs, thereby making it impossible to determine a complete population of expenditures for the New Town/In Town project.

We recommend CMHA implement an efficient, effective method of organizing all related files for the various affordable housing programs, and devise a tracking system to monitor the expenditures and other activities from each affordable housing program.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 5 - Land Acquisitions and Lease Agreements

We reviewed certain land acquisitions, land/building lease agreements, and payments made in relation to those properties, to determine if agreements were authorized and for a purpose related to the operations of a metropolitan housing authority.

#### PROCEDURES

1. We reviewed Board policy and Federal guidelines regarding the acquisition of land and entering of lease agreements to determine requirements in effect during the Period.
2. We reviewed the County Recorder's listing of properties owned by CMHA.
3. We reviewed contracts, agreements, and voucher packets for the purchase and/or lease of warehouse property to verify accuracy of payments made and to determine whether payments were authorized and for a purpose related to the operations of a metropolitan housing authority. We also interviewed Board members, the former Chief Executive Officer, the former Chief Operating Officer, the Senior Staff Attorney for CMHA and the attorney for East 79<sup>th</sup> Street Redevelopment Limited Partnership ("the Partnership") to determine their knowledge of land acquisitions.

#### RESULTS

1. CMHA did not have specific policies which addressed procedures for land acquisitions, rather they relied on the general purchasing policies established through Administrative Order No. 20. Any transactions related to the purchase or acquisition of property paid from the Title V account were required to be in compliance with the HUD MOU.
2. Upon reviewing the County Recorder's identification of property owned by CMHA, we noted CMHA's warehouse property was not included as property which was owned by CMHA, yet it was being recorded in CMHA's internal documents as their property. No other discrepancies were noted in our comparison of CMHA property records to those of the County Recorder. Therefore, our review of property transactions focused on this warehouse property.
3. Warehouse Purchase Contract  
On November 27, 1991, Ms. Freeman signed a Real Estate Purchase Agreement for CMHA to purchase the warehouse from the Partnership. The purchase agreement provided that CMHA would purchase 7 ½ buildings with approximately 137,000 square feet, for the sum of \$639,800. The agreement required that on the first business day of each month, beginning December 2, 1991, until closing, CMHA would pay the Partnership \$25,000, which would be credited toward the purchase price at closing.

The agreement also stated, "in the event that the closing hereunder has not occurred prior to March 31, 1992, on the first business day of each month thereafter until closing, commencing with April 1, 1992, buyer shall pay seller the sum of \$4,000 (representing seller's approximate interest expenses in delaying the closing) unless such delay is the direct fault of seller, and the amount of one month's real estate tax proration for the premises, calculated in the manner set forth in Section 9 (representing seller's real estate tax expenses in delaying closing)."

The agreement indicated that prior to closing, the agreement, "shall be appropriately approved by the United States Department of Housing and Urban Development and the Board of Commissioners. Buyer agrees to use its best efforts to obtain such approvals as soon as possible."

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### HUD Disapproval

According to a letter dated December 27, 1991 from HUD to Ms. Freeman, CMHA's record of negotiations indicated that CMHA made its first formal offer to the Partnership on October 7, 1991. An examination of the change of title on this property indicated the Partnership did not own the property at the time of the negotiations and did not take title to it until November 18, 1991.

Additionally, the letter stated the Partnership paid \$600,000 to the Van Dorn Company for the entire 15-acre site, which included approximately 400,000 square feet of gross building space. Nine days later, CMHA executed a purchase agreement to acquire 5 acres of the site (approximately 167,340 square feet<sup>9</sup>) for \$639,800.

Also, according to the HUD letter, they discussed an internal memo dated August 27, 1991 from CMHA which described the search process. The process started in January 1991 when CMHA contacted 4 commercial real estate agents to locate property. Of 70 properties submitted, 10 were inspected and 4 sites were then selected for final consideration. The four were listed with descriptions but a fifth, the warehouse, was also listed and proposed for acquisition. HUD also noted that the memo indicated that CMHA was looking for 50,000 to 70,000 square feet, but the proposed warehouse facility included 167,340 square feet.

HUD auditors provided us with correspondence from HUD to Ms. Freeman dated from December 27, 1991 through June 24, 1992 which indicated that HUD was concerned over possible environmental issues and that they would not approve the purchase of the warehouse until such time as those issues were resolved.

According to the December 27, 1991 correspondence between HUD and Ms. Freeman, the contract provision requiring \$4,000 per month interest expense was unacceptable as the expenditure of federal funds for any penalty charge would not meet the test of efficiency and economy required by the Annual Contributions Contract between CMHA and HUD.

Finally, the letter stated HUD was concerned about CMHA exposing itself to long-term liabilities regarding hazardous waste and other environmental issues associated with this property. On January 23, 1992, CMHA received another letter from HUD which stated the warehouse contained asbestos, underground storage tanks, waste sites, and stored chemicals on the property. Until such time that these issues had been resolved, the project would not be in compliance with HUD requirements. Although further documentation shows environmental studies were approved as valid expenditures, there is no record of whether such a study had been completed or what those results may have been. Accordingly, HUD never gave CMHA approval to purchase the property with HUD funds.

On January 8, 1992 the Board passed Resolution No. 14-92 related to the warehouse purchase, which stated in part, "the contract negotiated by the Executive Director to purchase certain real estate for use as a warehouse, at a price not exceeding \$750,000, plus renovation costs is ratified, approved, and confirmed."

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<sup>9</sup>Based on available documents, it is unclear why HUD was using a different amount for square footage than what was recorded on the original Real Estate Purchase Agreement.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### Documents Requested

In response to our requests, CMHA provided an expenditure report for all payments from the Title V fund and files maintained by the Finance and Construction Departments related to the purchase of a warehouse located at 79<sup>th</sup> Street and Woodland Avenue (“the warehouse”). The following documents were the only items supplied by CMHA: correspondence dated October 22, 1991 which described an appraisal of the warehouse at \$600,000 based on a walk-through of the property prior to any environmental studies being conducted; Resolution No. 197-91<sup>10</sup> dated November 6, 1991; a purchase agreement dated November 27, 1991; and Resolution No.14-92<sup>11</sup> dated January 8, 1992, a 1995 appraisal which estimated the market value of the property at 2 million dollars, and a 1997 appraisal which estimated the market value at \$950,000. CMHA files did not contain any correspondence with HUD, title to the property, or any other documents to indicate the completion of the purchase.

Responding to our requests for records, James Guest, Jr., then Senior Staff Attorney for CMHA, indicated in a memo dated February 3, 2000, that there were “no agreements between CMHA and East 79<sup>th</sup> Street Redevelopment Corporation (a.k.a. Cavatelli Corporation, a.k.a. Anthony Dilorio) other than the original agreement for the amount of \$639,800.”

### East 79<sup>th</sup> Street Redevelopment Limited Partnership

On March 21, 2000, David Abbuhl, attorney for the Partnership, consented to an interview on behalf of Mr. Dilorio and provided documents related to the warehouse purchase. Mr. Abbuhl indicated the following:

- ▶ Mr. Dilorio entered into a Purchase Agreement with the Van Dorn Co., the original owners of the property, on March 26, 1991 to purchase the entire property for \$600,000. The entire property consisted of approximately 400,000 square feet on approximately 10.88 acres of land.
- ▶ After the purchase agreement was signed by Mr. Dilorio, CMHA approached the Van Dorn Co. regarding purchasing the property, who in turn referred CMHA to Mr. Dilorio.
- ▶ CMHA submitted to the Partnership, a preliminary proposal signed by Ms. Freeman dated October 7, 1991.
- ▶ A Limited Warranty Deed from Van Dorn Co. to the Partnership was filed November 18, 1991.
- ▶ After moving into the space identified by the November 27, 1991 purchase agreement signed by Ms. Freeman, CMHA began to expand into and make improvements to other space at the warehouse which was not part of the original agreement. Mr. Abbuhl indicated that CMHA eventually used all the space at the site except for a building that was leased to another business.
- ▶ In 1994, the Partnership and CMHA began negotiations whereby CMHA would purchase the remaining space at the site, which included the area CMHA had already moved into and the building leased to the other business.

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<sup>10</sup>This Resolution authorized the Executive Director to enter into negotiations to purchase the warehouse at a price not to exceed \$750,000.

<sup>11</sup>This Resolution stated in part, “the contract negotiated by the Executive Director to purchase certain real estate for use as a warehouse, at a price not exceeding \$750,000, plus renovation costs is ratified, approved, and confirmed.”

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- ▶ On March 28, 1994, Mr. Abbuhl, on behalf of the Partnership, sent a letter to CMHA which would “confirm recent conversations” and outlined the following terms,

A) “As rent for CMHA’s use of the premises, CMHA shall pay East 79<sup>th</sup> a sum of \$25,000 per month on a month to month lease basis commencing February 1, 1994 (and shall immediately pay \$50,000 rent due for February 1994 and March 1994). Such rent shall hereafter be due on the first business day of each calendar month.”

B) “East 79<sup>th</sup> and CMHA intend to enter into a 12-month lease agreement for the premises, including an option whereby CMHA may purchase the premises.”

The letter requested that CMHA “acknowledge your agreement to the above by signing and returning” this letter. Attorney Guest, Acting Deputy General Counsel for CMHA at that time, signed that he, “acknowledged and agreed” to the terms identified in the letter.

- ▶ Correspondence between the Partnership and CMHA between 1994 and May 1998 indicated that an agreement was never finalized and there was ongoing concern regarding environmental liabilities.
- ▶ In an effort to resolve the issues surrounding the warehouse, Neal Cox, then a staff attorney for CMHA, sent a letter to Mr. Abbuhl dated January 26, 1998, which stated in part, “CMHA’s Board of Commissioners only approved purchase of certain parcels of the East 79<sup>th</sup> Street Facility for a purchase price of \$639,800. Any disbursements beyond that amount are voidable. The Statute of Frauds requires that all contracts relating to real estate be in writing in order to be valid. Any “lease” or “installment land contract” CMHA may have had with Dilorio is invalid because it was never reduced to writing containing specific terms and was not authorized by CMHA Commissioners.”

### Warehouse Payments

From a population of 62 vouchers charged to the purchase agreement, we selected 6 for our review. We chose to review 1 payment from each calendar year between 1991 and 1996. Of the 6 vouchers we requested, CMHA provided us with only 1, which was from 1991. They also provided us with 3 additional vouchers from 1992, which we did not request.

We made a second request for an additional 5 vouchers issued between 1994 and 1997. Of those, CMHA provided only 3, 1 from 1995, 1 from 1996, and the last payment issued in 1997. In total, we reviewed 7 of the 62 vouchers.

Expenditure ledgers for the Title V fund indicated a total of \$650,000 was paid to the Partnership between November 1991 through January 6, 1994 for the lease/purchase of the warehouse. All 4 of the vouchers reviewed for 1991 and 1992 used the November 27, 1991 purchase agreement signed by Ms. Freeman as support for payment.

From March 18, 1994 through January 24, 1997 CMHA paid the Partnership an additional \$975,000 for the lease/purchase of the warehouse. All 3 vouchers reviewed for 1995 through 1997, used the March 28, 1994 letter signed by Attorney Guest as support for payment. Mr. Agahi authorized the 1995 payment, Mr. Davis authorized the 1996 payment, and Ms. Freeman authorized the 1997 payment. Attorney Guest’s signature was on both as the person requesting payment be made. The total amount paid to the Partnership for the lease/purchase of the warehouse from November 1991 through January 1997 was \$1,625,000.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Attorney Guest informed us the March 28, 1994 letter which he signed did not cause the \$25,000 monthly payments to be made, but he offered no explanation as to why these payments occurred. Further, he indicated he did not know how the value of \$25,000 had been determined, but assumes it was a furtherance of the prior agreement and really had no first-hand knowledge the payments were being made, although he stated he would occasionally receive phone calls because the taxes and/or insurance had not been paid. As for the monthly payments, he stated only Ms. Freeman and Mr. Davis could authorize such transactions. According to Attorney Guest, sometime in 1997, Ms. Freeman began meeting with Tony Dilorio and worked at developing a Resolution to address the warehouse issues.

The Title V account ledgers also indicated CMHA paid the Partnership \$88,000 for interest between April 1992 through January 6, 1994, \$308,697 for utilities between April 2, 1992 through August 27, 1993 and a one-time payment for insurance on February 1, 1994 in the amount of \$16,379. As noted in the Background Information of this report, federal funds of several programs were commingled in the Title V account during the Period, contrary to both OMB Circular A-133 (June 1997 Revision) and its predecessor OMB Circular A-128. Due to the commingling, CMHA could not identify the federal program providing the funding for the expenditure and thus not ensure compliance with the applicable federal program allowable cost principles. As a result, we will issue a Federal Questioned Cost for these expenditures which were made from the Title V account, in the amount of \$413,076.

### Transfer of Property

The deed for the property identified under the original purchase agreement dated November 27, 1991 was never transferred to CMHA by the Partnership and there has been no authorized agreement to purchase the remaining property at the warehouse site. During interviews, Board members indicated that they were under the impression that they "owned" the warehouse and they were not aware of CMHA's continued payments to the Partnership. Board members also said they did not receive any communication from HUD regarding HUD concerns about environmental issues at the warehouse site.

During an interview, Ms. Freeman indicated that she assumed the title was transferred to CMHA for the property identified in the original agreement dated November 27, 1991. Ms. Freeman also informed us that she was not aware of any other agreements to acquire additional property at the same location. She indicated that she stopped making payments on the warehouse when Attorney Guest brought the January 4, 1997 payment to her attention.

Ms. Freeman explained to us that CMHA Board members would have received all HUD correspondence related to this transaction.

Mr. Davis indicated he did not participate in the legal negotiations regarding the contract for the warehouse but rather CMHA attorneys did.

## FEDERAL QUESTIONED COSTS

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment A, Section (C)(1)(a) through (j) states that costs must be necessary, reasonable, and directly related to the grant or agreement. In addition, they must be legal, proper, and consistent with the policies that govern the recipient's own expenditures.

As noted in the Background section of this report, federal funds of several programs were commingled in the Title V Account during the Period, contrary to both OMB Circular A-133 (June 1997 Revision) and its predecessor OMB Circular A-128. Due to the commingling, CMHA could not identify the federal program providing the funding for the expenditure and thus not ensure compliance with the applicable federal program allowable cost principles.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The Memorandum of Understanding (MOU) dated December 28, 1994 between HUD and CMHA regarding the bond proceeds from the refinancing of Ambleside Apartments required CMHA to use the monies to fund the construction of housing units for very low income elderly, handicapped, and disabled households.

Resolution 197-91, approved by the Board on November 6, 1991, directed the Executive Director to enter into negotiations to purchase the warehouse at a price not to exceed \$750,000.

Subsequently, on November 27, 1991 Ms. Freeman signed a Real Estate Purchase Agreement to purchase a warehouse from the Partnership. The purchase agreement provided that CMHA would purchase the warehouse, which consisted of approximately 167,340 square feet, for the sum of \$639,800.

From November 1991 through January 1994, CMHA paid the Partnership \$650,000, from Title V funds, toward the lease purchase agreement signed by Ms. Freeman on November 27, 1991.

In 1994, CMHA and the Partnership began negotiations for the remaining space at the warehouse site. On March 28, 1994, Attorney Guest, Acting Deputy General Counsel for CMHA at that time, signed that he "acknowledged and agreed" to the terms offered by the Partnership, which included:

"As rent for CMHA's use of the premises, CMHA shall pay East 79<sup>th</sup> a sum of \$25,000 per month on a month to month lease basis commencing February 1, 1994 (and shall immediately pay \$50,000 rent due for February 1994 and March 1994). Such rent shall hereafter be due on the first business day of each calendar month."

From March 18, 1994 through January 24, 1997 CMHA paid the Partnership an additional \$975,000, from the Title V account, for the lease/purchase of the warehouse. The Board never approved negotiations for the remaining space at the warehouse site nor did they approve the lease/purchase payments.

Also, the Title V account expenditure ledgers also indicated CMHA paid \$88,000 for interest, \$308,697 for utilities, and \$16,379 for insurance related to the warehouse property between April 1992 through January 6, 1994.

We have concluded that all warehouse related payments constitute federal questioned costs. We reach this conclusion because funds in excess of the Board authorized \$750,000 were spent for the warehouse property and related expenses without Board authorization, funds of several federal programs were commingled within the Title V account, and because the property's potential environmental issues precluded HUD approval, which would have allowed CMHA to take title to the property.

**Federal Questioned Costs: \$2,038,076**

**Total Federal Questioned Costs, Issue No. 5, Land and Lease Agreements: \$2,038,076**

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### MANAGEMENT COMMENT

#### Warehouse Property

On March 26, 1991, Tony Dilorio entered into a \$600,000 purchase agreement with the Van Dorn Company to acquire approximately 400,000 square feet of property located on 10.88 acres of land. Eight months later, CMHA executed a purchase agreement to acquire 167,340 square feet of that property from Mr. Dilorio for \$639,800. Then in 1994, negotiations began between CMHA and Mr. Dilorio to purchase the remaining space located on the property and additional payments were made in the amount of \$975,000. In total, CMHA made payments of \$2,038,076 for property which was previously sold for \$600,000; however, to date, CMHA has not received title to the property.

According to the purchase agreement, CMHA was required to obtain HUD approval prior to closing the transaction. Documentation from HUD discussed their refusal to approve the transaction, citing concerns about long-term liabilities regarding hazardous waste and other environmental issues associated with the property. Although payments to Mr. Dilorio for this property ceased in January 1997, CMHA is continuing to use the property for its warehouse facilities and still has not received HUD approval or the title to the property.

A CMHA internal memo dated January 6, 1999 acknowledged environmental concerns were present at the East 79<sup>th</sup> Street warehouse. The memo also stated those concerns were manageable and consisted of asbestos, PCB's, and underground soil and water contamination.

Although we understand CMHA's position on the operational benefits of this property given its central location, we have grave concerns regarding potential long-term liabilities which CMHA may be incurring by not resolving potential environmental issues around the property. CMHA should be concerned not only about possible structural problems with the building, but should also consider hazards which could be passed on to employees or tenants who are working with or using equipment stored in the building.

We recommend CMHA immediately take steps to resolve the environmental issues surrounding this property and, if a clean environmental assessment can be reasonably achieved, request that HUD approve its taking title to the property upon receipt of such an assessment. If an approved environmental assessment cannot be reasonably achieved, we recommend CMHA move its warehouse operations to a new location.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 6 - Incentive and Bonus Payments

We reviewed incentive/bonus payments made to other members of management not reviewed during CMHA's Phase I Special Audit, to determine if payments were made in accordance with established bonus programs, if any, and whether such payments were authorized.

#### PROCEDURES

1. We identified, requested, and obtained supporting documentation for bonuses and/or incentive awards not previously addressed in our Phase 1 Special Audit Report. We prepared schedules of bonuses/incentive awards for CMHA administrative staff and we attempted to trace such bonuses to applicable authorizations.
2. We attempted to verify that bonuses/incentive awards were included and reported on employee Forms W-2 or W-2C.

#### AUTHORITATIVE GUIDANCE

CMHA Administrative Order No. 11, effective December 8, 1988, Section 11.24, "Sick Leave," and the revised Administrative Order No. 11, effective October 6, 1993, Part II, Section XXIII, "Sick Leave," state, "When less than 40 hours of sick leave have been used by an employee by the end of the year, a 16-hour bonus check will be issued." These sections also provide that "an employee having over 960 sick leave hours by the end of any given year will be paid 1/3 of the excess of the 960 hours."

For purposes of our review of bonuses, we reduced the amount of total bonuses paid by the amount of payments for the 2 allowable administrative bonuses described above and the remaining amount of bonuses/incentive awards were reviewed for authorization.

#### RESULTS

1. A. The Phase 1 Special Audit Report documented Federal Questioned Costs for salary/bonus/incentive awards against Claire Freeman and Ronnie Davis in the amount of \$477,770 and \$154,777 respectively.  
B. On April 30, 1999, we interviewed Lena Hayes, Payroll Manager, regarding the payment of bonuses to CMHA employees. Ms. Hayes informed us that her department would receive a list of names to receive a bonus. The Payroll Department would not receive employee evaluations or any other evidence to support the reason these employees were entitled to a bonus. Ms. Hayes said the list of employees to receive bonuses usually originated from the Executive Office.  
C. Section II A.1.e of Ms. Freeman's 1990 and 1995 Contracts approved her authority to hire, train, supervise, evaluate, reward, discipline and fire all levels of staff.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- D. The following table reflects the amount of bonuses paid to all CMHA employees (including the sick leave bonus) from January 1, 1994 through May 31, 1998.<sup>12</sup>

Calendar Year Ended December 31	Bonus Payments to CMHA Employees
1994	\$324,960
1995	307,182
1996	318,850
1997	477,090
1998	<u>26,574</u>
<b>Total</b>	<b><u>\$1,454,656</u></b>

- E. Sick leave bonuses which we reviewed were paid in accordance with the established policy. However, during the Period, 11 of the 12 other administrators reviewed in Issue No. 1 received bonuses and/or incentive payments in addition to the established sick leave bonus policy totaling \$159,984 and ranging from \$500 to \$59,391. Although Ms. Freeman's contract authorized her to reward employees, the bonus payments in excess of the sick leave bonus policy in the amount of \$159,984 were unsupported and therefore we question the reasonableness of these payments.

Neither Ms. Freeman nor Mr. Davis were included in our review of bonuses, since they were previously reported in our Phase 1 Special Audit Report.

2. The total amount of bonus and/or incentive payments received was included on each of the 11 administrator's respective Form W-2.

### FEDERAL QUESTIONED COSTS

OMB Circular A-87, Attachment (A), Section C(1)(a) requires that all costs must be necessary and reasonable for proper efficient performance and administration of federal awards. Section (C)(1)(j) requires that all costs must be adequately documented. In addition, they must be legal, proper, and consistent with the policies that govern the recipient's own expenditures.

The Inspector General Act Amendments of 1988 defines a questioned cost as a finding that, at the time of the audit, such cost is not supported by adequate documentation.

Section 3735.37 of the Ohio Revised Code requires metropolitan housing authorities to keep an accurate account of all its activities and of all receipts and expenditures.

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<sup>12</sup>CMHA did not maintain computerized payroll records from 1990 through 1993.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Eleven of CMHA's administrators selected for review received bonuses in excess of that authorized by the sick leave bonuses discussed in Administrative Order No. 11. These excessive bonuses were paid without documented support or approval. Because of this, we are also questioning whether these bonuses were necessary and reasonable.

**Federal Questioned Cost: \$159,984**

**Total Federal Questioned Costs, Issue No. 6, Incentive and Bonus Payments: \$159,984**

### MANAGEMENT COMMENT

#### Bonuses

CMHA does not have a written policy or objective criteria for the awarding of employee performance bonuses. Further, the justifications for paying employee performance bonuses were not documented in employee payroll or personnel files. During the period January 1, 1994 through May 31, 1998, CMHA awarded \$1,454,656 for employee bonuses. From this amount, we reviewed \$159,984, and CMHA was unable to provide documentation to support the justification for these bonuses.

Without the Board objectively reviewing the amount of the bonus proposed and the reason for the bonus proposal, excessive and unearned bonuses may be given. Favorite employees of the top administrators may be given bonuses without any reason to support the reward and excessive bonuses could be detrimental to CMHA's financial condition.

We recommend the Board of Commissioners review and approve all bonus proposals. Prior to the payment of a bonus, the responsible administrator proposing the bonus should adequately document the reasons for the reward, and the amount to be rendered. Also, and most importantly, objective criteria should be developed so that administrators are able to effectively evaluate employees in order to conclude which employees are most deserving of receiving such a bonus. This could help prevent the appearance of "favorite" employees receiving bonuses. We also recommend the Board of Commissioners implement a policy which states a limit on bonuses for each department or position during each calendar year, giving further assurance that excessive bonuses could be prevented.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 7 - T.E.A.M. CMHA

We reviewed the objectives and procedures associated with T.E.A.M. CMHA, including employee contributions and disbursements for authorization and to determine if T.E.A.M. CMHA was created for a purpose related to a metropolitan housing authority.

(Note: T.E.A.M. CMHA is an acronym for "Tenants and Employees Altogether Managing CMHA.")

#### PROCEDURES

1. We attempted to review policies and/or contractual agreements associated with T.E.A.M. CMHA. We were provided with a Mission Statement and Articles of Incorporation for T.E.A.M. CMHA, and used this to determine the objectives and purpose of the program.
2. We inquired whether T.E.A.M. CMHA was authorized by CMHA's Board, and whether it was included in CMHA's financial statements or ledgers.
3. We determined the sources of revenues for T.E.A.M. CMHA, and requested supporting documentation for wire transfers into its account to determine the origin of such deposits. We reviewed payroll withholdings for contributions to T.E.A.M. CMHA and determined whether withholdings were consistent with individual authorizations.
4. We requested support for expenditures of T.E.A.M. CMHA funds. We also requested support for expenditures from CMHA's Title V account which had previously been identified by the U.S. Housing and Urban Development (HUD) auditors as possible T.E.A.M. CMHA-related activities.
5. We determined which CMHA employees were responsible for managing T.E.A.M. CMHA, and reviewed their payroll records to determine if T.E.A.M. CMHA was responsible for payment of allocated portions of these employees' salaries.
6. We provided Lou Anne Chung, Chief Financial Officer, with the taxpayer identification number for T.E.A.M. CMHA and requested she contact the Internal Revenue Service to determine if federal Form 990's had been filed by T.E.A.M. CMHA.

#### RESULTS

1. On November 2, 1992, T.E.A.M. CMHA was incorporated under Ohio Revised Code §1702.01 as a Nonprofit Corporation. Filing fees to incorporate were paid from the T.E.A.M. CMHA bank account (separate from other CMHA bank accounts). According to a National Corporations Comprehensive Report compiled in May 2001, T.E.A.M. CMHA was registered as a "Domestic Non-Profit Corporation, In Good Standing." Additionally, the Ohio Secretary of State's Office reported T.E.A.M. CMHA was a nonprofit corporation in active status.

The Articles of Incorporation stated that T.E.A.M. CMHA was organized for the purpose of "promoting social welfare of residents in CMHA facilities." According to the mission statement of T.E.A.M. CMHA, the mission was to "promote change and enhance the lifestyles of both tenants and employees of CMHA by improving the environments in which they live and work." There were no policies or contractual agreements which governed the operations of T.E.A.M. CMHA.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The Trustees for T.E.A.M. CMHA were comprised of CMHA employees Sherri Poore, CMHA Cash Manager, Karen Coats, CMHA Commissioner, and CMHA residents Mary Ellen Williams and Maydelle Howard. We were unable to determine whether a fifth Trustee, James Elliot, was an employee of CMHA or a resident of one of its estates. T.E.A.M. CMHA's Registered Agent was Clarence Holmes.

The balance in the T.E.A.M. CMHA bank account at May 3, 2001 was \$104,502.

2. T.E.A.M. CMHA was never included in the financial statements of CMHA. Additionally, there were no agreements or contracts between T.E.A.M. CMHA and CMHA and no indication it was approved by the Board.

T.E.A.M. CMHA and CMHA were intertwined, both in purpose and in financial matters. All documents related to T.E.A.M. CMHA were located in an unorganized box in the Cash Management Office. There was no method of determining if these boxes were a complete history of T.E.A.M. CMHA activities. Our review of boxed records noted the following:

- ▶ All T.E.A.M. CMHA correspondence was written on CMHA letterhead. This occurred on 25 occasions.
- ▶ CMHA or T.E.A.M. CMHA was used on liquor permit applications for 2 T.E.A.M. CMHA events; however, there was no supporting documentation to show these events ever took place or that related purchases were made.
- ▶ There were 19 check requests for T.E.A.M. CMHA expenditures which were prepared on CMHA Check Request Forms. CMHA purchase requisitions were used on 5 occasions for T.E.A.M. CMHA transactions.
- ▶ We reviewed 89 checks issued through the T.E.A.M. CMHA account. Seventy-three (73) of these checks were signed by Mr. Davis and the remaining checks were signed by Ardeshir Agahi, former Comptroller. The incorporation papers for T.E.A.M. CMHA did not identify a fiscal officer for the entity.

According to the Minute Record of the Board of Commissioners for the Period, the first reference to T.E.A.M. CMHA during a Board meeting was on November 11, 1997, when then-Chairman Karen Coats asked whether T.E.A.M. CMHA was considered a formal component of CMHA. Ms. Freeman responded by stating "T.E.A.M. CMHA is an over-arching umbrella for scholarship funds and other items." She provided no definition of "over-arching umbrella." The Board Minutes contained no further reference to the authorization or approval of the formation of T.E.A.M. CMHA.

3. Revenues were received into the T.E.A.M. CMHA bank account through routine donations from CMHA employees and from individuals and/or corporations outside CMHA. Employees of CMHA were able to choose a payroll deduction to make contributions to T.E.A.M. CMHA during CMHA's annual Charities of Choice Campaign.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

Payroll deductions through the Charities of Choice Campaign began in 1998. We received a computerized printout of those employees who had deductions taken from their payroll for T.E.A.M. CMHA (203 employees in total) and we selected 20 of these employees to review for authorization of deduction amounts. Of the 20 employees reviewed, 17 had payroll deductions taken which agreed to the authorization forms signed by the employee and maintained in his/her payroll file. The deduction amounts for 2 employees were less than the amounts authorized by the employees, and in one instance, the employee had designated a charity other than T.E.A.M. CMHA, yet payroll withholdings were processed for T.E.A.M. CMHA. In the latter case, CMHA provided us with documentation that an adjustment was made from the T.E.A.M. CMHA payroll deduction account to the appropriate agency, as requested by the employee's signed payroll deduction authorization form.

The payroll deductions which were processed for T.E.A.M. CMHA were never transferred from CMHA's payroll withholding account to the T.E.A.M. CMHA bank account. Instead, the total amount withheld via payroll deduction through May 3, 2001, \$7,321, was still held in CMHA's payroll withholding account.

4. We used ledgers of T.E.A.M. CMHA activity (provided to us by CMHA) to select all checks issued greater than \$1,000. We also scanned the bank statements for the Period.

Of 27 expenditures reviewed, CMHA could provide us with support for only 8 of those expenditures. The remaining 19 expenditures were unsupported (lacked invoices, purchase orders, voucher packets).

On August 11, 1994, there was a \$35,200 wire transfer credit into the T.E.A.M. CMHA bank account which originated from CMHA's general fund. When we requested CMHA provide us with support to document the purpose of this transaction, Lou Anne Chung, current Chief Financial Officer, stated no supporting information could be located. We also asked Amy Waxman, current Director of Internal Audit, to provide us with documentation; however, she could not.

HUD auditors provided us with a list of 5 expenditures from CMHA's Title V account (total of \$13,686) and 1 expenditure from CMHA's general fund (\$5,000), which they believed to be payments related to T.E.A.M. CMHA. From the Title V account expenditures, CMHA provided us with support for \$5,934 related to a CMHA Charities of Choice Christmas party held in 1997 and \$8,252 for a CMHA Police Banquet also held in 1997. As noted in the Background Information of this report, federal funds of several programs were commingled in the Title V account during the Period, contrary to both OMB Circular A-133 (June 1997 Revision) and its predecessor OMB Circular A-128. Due to the commingling, CMHA could not identify the federal program providing the funding for these expenditures and thus not ensure compliance with the applicable federal program allowable cost principles. As a result, we will issue a Federal Questioned Cost for \$13,686. Further, CMHA was unable to provide documentation to support the \$5,000 expenditure from the general fund. For this expenditure, we will issue a Federal Questioned Cost due to lack of supporting documentation.

5. We were informed by John Danis, former Chief Financial Officer, that Mr. Davis, Ardeshir Agahi, and Sherri Poore administered the T.E.A.M. CMHA program. Based on our review of available T.E.A.M. CMHA documents, a considerable amount of correspondence related to T.E.A.M. CMHA was written between Sherri Poore and other individuals. Ms. Poore's signature was on check requests and invoices were sent to her attention. She was listed as a Trustee on the Articles of Incorporation and her name appeared on Check Request forms and correspondence related to T.E.A.M. CMHA. Due to the multitude of correspondence with Ms. Poore and the numerous CMHA forms used for T.E.A.M. CMHA activities, it is likely that much of T.E.A.M. CMHA activity was conducted during Ms. Poore's regular work hours at CMHA.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

During our review of payroll records for Mr. Davis, Mr. Agahi, and Ms. Poore, we were told by CMHA Payroll Clerk Mechelle Samples that if an employee was to be paid from more than one cost center, it would be indicated in the employee's respective payroll file with a Personnel Transaction Form. There were no Personnel Transaction Forms in any of these three employees' payroll files which indicated they were being paid from more than one cost center (i.e., having their salary charged in some way to the T.E.A.M. CMHA project). The cost center designated for these employees was each one's assigned CMHA department.

6. Ms. Chung contacted the Internal Revenue Service which indicated that no federal tax forms had ever been filed under the T.E.A.M. CMHA taxpayer identification number.

### FEDERAL QUESTIONED COSTS

OMB Circular A-87, Attachment (A), Section (C)(d) requires that to be allowable under a grant program, costs must be adequately documented.

The Inspector General Act Amendments of 1988 defines a questioned cost as a finding that, at the time of the audit, such cost is not supported by adequate documentation.

During 1997, CMHA issued a check in the amount of \$5,000 from the General Fund for expenditures allegedly related to T.E.A.M. CMHA activities. When asked to provide supporting documentation for this expenditure, CMHA was unable to do so. Accordingly, there is no record to show the purpose of this expenditure.

#### **Federal Questioned Cost: \$5,000**

On August 11, 1994, CMHA wire-transferred \$35,200 in general fund monies to T.E.A.M. CMHA. When asked to provide support or reasoning for this transfer, CMHA officials were unable to do so. There is no documentation to support the purpose of this wire transfer from CMHA to this nonprofit corporation. We recommend T.E.A.M. CMHA transfer the full amount of \$35,200 back to CMHA.

#### **Federal Questioned Cost: \$35,200**

During 1997, CMHA issued checks from the Title V account totaling \$13,686 for expenditures related to Christmas parties and Police Department banquets. These expenditures represent payments of commingled funds from the Title V account for which CMHA could not identify the federal program providing the funding for the expenditure and thus not ensure compliance or allowability with the applicable federal program cost principles.

#### **Federal Questioned Cost: \$13,686**

#### **Total Federal Questioned Costs, Issue 7, T.E.A.M. CMHA: \$53,886**

### MANAGEMENT COMMENT

#### Monitoring and Oversight

T.E.A.M. CMHA was a nonprofit entity set up to promote the social welfare of residents in CMHA facilities. Although the T.E.A.M. CMHA Articles of Incorporation specifically referenced CMHA, there is no evidence of CMHA's Board being involved with or approving this corporation. Because CMHA and T.E.A.M. CMHA were so intertwined in both purpose and financial matters, it is possible CMHA could be held liable for activities related to T.E.A.M. CMHA.

## **SUPPLEMENT TO THE SPECIAL AUDIT REPORT**

We recommend CMHA's Board of Commissioners review the purpose of T.E.A.M. CMHA, giving consideration that T.E.A.M. CMHA is registered as a not-for-profit organization. A determination should be made as to whether T.E.A.M. CMHA is actually operating as a nonprofit entity. CMHA's Board of Commissioners should review the type and amount of revenues and expenditures processed through the T.E.A.M. CMHA accounts, then conclude whether or not the purpose of the organization makes good business sense for CMHA. A decision should be reached as to whether T.E.A.M. CMHA should be dissolved or if it should be reorganized in a manner which more effectively meets the purpose of the organization. Consideration should be given to the amount of funds being held in the T.E.A.M. CMHA bank account, as well as the amount of payroll withholdings being held by CMHA.

CMHA should contact the Internal Revenue Service to determine whether the existence or dissolution of T.E.A.M. CMHA raised any tax issues for CMHA or T.E.A.M. CMHA contributors. We also recommend CMHA consider having an attorney review the possible liability CMHA could be incurring while T.E.A.M. CMHA is in existence.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 8 - Bohn Tower

We reviewed capital improvement expenditures incurred for Bohn Tower to determine if payments were authorized and whether expenditures were related to the purpose of a metropolitan housing authority.

#### PROCEDURES

1. Using the General Ledger Report from 1994 through 1998, we selected capital expenditures exceeding \$500 related to Bohn Tower and identified the source of funds used to pay for these improvements. We attempted to determine whether services or goods were received and whether the expenditure was for a purpose related to the operations of a metropolitan housing authority.
2. Using CMHA Board Minutes, we identified three contracts related to Bohn Tower which were issued during the Period and determined if bidding procedures were followed in accordance with CMHA policy and whether goods and/or services had been received.
3. Through inquiry of HUD and other MHA Executive Directors, we identified standard procedures for maintaining and renting model suites in these types of buildings. We analyzed CMHA's annual Reports on Occupancy which are filed with HUD each year to determine whether fluctuations of housing units occurred.
4. We interviewed the manager of Bohn Tower and reviewed her files to determine the procedures in place for collecting rent from employees and/or consultants of CMHA. We arranged two site visits to tour the building, specifically to view the model suites. We reviewed certain expenditures related to cable television service and maid services at Bohn Tower to determine if these payments were authorized and for a public purpose.

#### RESULTS

1. Expenditures related to Bohn Tower were paid from the General Fund and the Comp Grant Funds.

Our review of capital expenditures for Bohn Tower (including the payment of expenditures related to the specific contracts we reviewed in Procedure No. 2) disclosed the following:

Calendar Year	Expenditures Reviewed	Unsupported Expenditures
1994	\$293,893	\$130,096
1995	16,657	15,120
1996	16,497	16,497
1997	1,458,542	61,202
1998	116,260	
<b>Total</b>	<b>\$1,901,849</b>	<b>\$222,915</b>

For those expenditures which were supported by voucher packets and invoices, each packet contained signatures of CMHA employees stating that goods were received. However, due to CMHA's lack of fixed asset inventory records (see Issue No. 9), we were unable to trace purchased items into CMHA's records.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

2. Contracts were issued to Koch Corporation for exterior rehabilitation of Bohn Tower, and to Alphonso & Sons for emergency repair of the main sanitary line at Bohn Tower. Documents provided by CMHA showed applicable bidding requirements were followed and services were received for both of these agreements.

A contract was issued to Roof Craft Systems to replace the roof at Bohn Tower. Although CMHA provided documents to support applicable bidding requirements had been followed, we were only provided with documentation that services had been rendered on two of five voucher packets for this project.

3. Our interviews with other metropolitan housing authorities and HUD officials noted the practice of using model suites within a public housing complex to show prospective residents the interior of the units. We were informed that allowing employees to live in a model suite would be appropriate, provided the employee was offering a benefit to the residents of the property.

Metropolitan housing authorities have the right to request apartment units be taken "off line" as no longer being a unit used for dwelling. This means these units would no longer be calculated as available units when HUD is determining the amount of subsidy it will grant the housing authority.

Public Housing Authorities are required to complete Form HUD-51234: Report on Occupancy on an annual basis and submit such reports to the U.S. Department of Housing and Urban Development. According to PHA Circular No. 97-23, annually, immediately after the mid-point of the fiscal year, public housing authorities are required to prepare and submit Form HUD-51234 to the HUD Washington State Office.

The first three columns of the report, Project Name, Project Number, and Total Project Units, are completed by HUD for the housing authority. The housing authority is responsible for completing the remaining columns, Total Employee Units, Total Non-Dwelling Units, Total Units Available for Occupancy, Total Vacant Units, Total Units Occupied by Low-Income Tenants, and Total Units Occupied by Elderly Low-Income Tenants.

We requested and received CMHA Forms HUD-51234 for 1990 through 1999 and reviewed the data recorded for Bohn Tower. We noted the following:

- ▶ From fiscal year ended 6/30/90 through fiscal year ended 6/30/92, data recorded on Form HUD-51234 for Bohn Tower documented one employee unit and one non-dwelling unit for each fiscal year.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- ▶ Beginning in fiscal year ended 6/30/93 and continuing through 6/30/98, the number of employee units and non-dwelling units at Bohn Tower increased significantly, then abruptly decreased at 6/30/99 as the new administration nearly finished their first year at CMHA, as follows:

Fiscal Year Ending	Total Employee Units*	Total Non-Dwelling Units**	Total
6/30/93	8	3	11
6/30/94	8	3	11
6/30/95	4	4	8
6/30/96	2	9	11
6/30/97	2	12	14
6/30/98	2	14	16
6/30/99	1	5	6

\* Employee Units should be occupied by employees who are required to live in public housing as a condition of their job. These employees are not considered public housing tenants and are not subject to the same requirements (e.g., qualification as lower-income).

\*\* Non-dwelling units are units that have been formally converted, with HUD approval, to non-dwelling use (e.g., different occupancy type or use) and therefore receive no HUD subsidy.

4. A. Based on our interviews with Chris Drenski, Certified Public Housing Manager at Bohn Tower, several CMHA employees were identified as living at Bohn Tower during the Period. Ms. Drenski explained some employees lived at Bohn Tower rent-free while others were responsible for paying rent. For those who did pay rent, they were not processed through CMHA rent rolls, but were instead assigned "Client Numbers" through which CMHA would issue invoices and receive rent payments.

On October 6, 1999, we requested a printout of those employees identified by Ms. Drenski as residing at Bohn Tower. Specifically, we asked for Client Numbers and rent payment histories of each individual. Of the 8 employees included in our records request, CMHA provided Client Numbers and rent histories for the following 6 employees:

- ▶ Ronald Potts, Resident Trainee: CMHA provided us with his Client Number and rent payment history from July 1, 1993 through October 1, 1999. These records show Mr. Potts paid rent on a sliding scale, from \$39 to \$211 per month for the rental of Bohn Tower unit 1710.
- ▶ Marion Neal Cox, Staff Attorney: CMHA provided us with his Client Number and rent payment history from January 3, 1994 through April 21, 1995. From these records, it appeared Mr. Cox paid \$300 per month for the rental of Bohn Tower unit 707.
- ▶ Sharron Birts, Construction Project Manager: CMHA provided us with her Client Number and rent payment history from November 1, 1994 through March 11, 1997. Ms. Birts paid \$300 per month for the rental of Bohn Tower unit 1008.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

- ▶ Leland Johnson, Elevator Operator: CMHA provided us with his Client Number and rent payment history from July 1, 1994 through October 6, 1999. These records document Mr. Johnson paid between \$217 and \$261 per month for the rental of Bohn Tower unit 2104.
- ▶ Floyd Morgan, Program Analyst: We were provided with his Client Number and rent payment history, which was dated December 30, 1992 through November 1, 1998. Mr. Morgan paid \$150 per month to rent Bohn Tower unit 2213.
- ▶ Mary Ellen Williams, Resident Council President: CMHA provided us with her Client Number and rent payment history from July 1993 through March 2000. During this time, Ms. Williams paid between \$70 and \$133 per month for the rental of Bohn Tower unit 2204.

The following two employees were not identified in the Client Number/Vendor History files: Ira McCown, Director of Affordable Housing and Carlos Guice, Special Assistant to the Chief Operating Officer. For these employees who allegedly lived at Bohn Tower without making rent payments, the value of such rental payments should have been added to each of their Form W-2 as a fringe benefit. However, our review of employee W-2's disclosed no additional amounts were reported for this type of fringe benefit. We will recommend CMHA file amended Forms W-2 for the fair value of rent received by these employees.

The personal files of Ms. Drenski contained invoices for cable service and maid services. Using the vendor names as a guide, we requested and received vendor histories from CMHA for these particular expenditures.

During the Period, expenditures in the amount of \$1,472 were paid for cable services provided in various units at Bohn Tower. Additionally, payments were made to a resident of Bohn Tower to provide maid service in the model units. According to CMHA vendor histories, this resident was paid \$2,230 during the Period to provide cleaning services.

- B. According to Ronnie Davis, CMHA used model suites to make families comfortable in an emergency. For instance, if they lived in another housing unit and there was a fire or flood, CMHA would allow the family to live in a model suite. Mr. Davis stated he did not know how the maid service was obtained, but he believed it was provided by a resident who lived at Bohn Tower.

Mr. Davis also informed us that he was not aware of any CMHA employees living at Bohn Tower rent-free. However, there was an exception in that there was an agreement for Ira McCown to live there rent-free, as part of his termination agreement which Mr. Davis was responsible for negotiating. Mr. Davis stated Carlos Guice also should have an agreement similar to Mr. McCown's and Floyd Morgan was a Night Manager at Bohn Tower which entitled him to reduced rent. He went on to state CMHA's Legal Department should have these agreements; however, to date, documents to support Mr. Davis's claims have not been produced by CMHA.

On January 26, 2001, Mr. Davis forwarded to us a copy of a "Separation by Mutual Agreement" document dated October 31, 1995 and signed by Mr. Davis and Mr. McCown. That agreement allowed Mr. McCown to "remain in the apartment currently occupied at Bohn Tower rent free for a period of time not to exceed 3 months beginning October 31, 1995 and ending January 30, 1996." In addition, CMHA would "waive and forgive any delinquent rental amounts due and owing for the months of September and October."

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

According to an interview conducted with Claire Freeman, CMHA encouraged consultants and visitors to stay at Bohn Tower versus staying at a hotel. CMHA was incurring huge expenses for consultants staying at Reserve Square. A decision was made to begin using Bohn Tower since it was located directly across from Reserve Square, therefore still in the heart of downtown Cleveland. According to Ms. Freeman, this was likely an administrative decision, and the Board of Commissioners probably did not know about it.

Ms. Freeman further stated she did not know of the cable bills or the maid service; however, she assumed a resident was performing the maid service. She informed us the Board probably was not specifically aware of these expenses, but common sense may have told them that these services were required. Ms. Freeman also said although it was likely that some employees may have been behind on their rent payments, she does not recall any names of these individuals. She also stated that she was not aware of any employee who stayed at Bohn Tower for extended periods of time without paying rent.

### FEDERAL QUESTIONED COSTS

#### Expenditures related to Bohn Tower

OMB Circular A-87, Attachment A, Section (C)(1)(j), requires that to be allowable under a grant program, costs must be adequately documented.

The Inspector General Act Amendments of 1988 defines a questioned cost as a finding that, at the time of the audit, such cost is not supported by adequate documentation.

We selected all expenditures over \$500 for review, in the aggregate amount of \$1,901,849. Of these, \$222,915 were not supported by a voucher package or a packing slip providing evidence that purchased goods were received, as follows:

Calendar Year	Expenditures Reviewed	Unsupported Expenditures
1994	\$293,893	\$130,096
1995	16,657	15,120
1996	16,497	16,497
1997	1,458,542	61,202
1998	116,260	
<b>Total</b>	<b>\$1,901,849</b>	<b>\$222,915</b>

By not obtaining and maintaining supporting invoices for all services or goods received, CMHA may inadvertently issue duplicate or inappropriate payments. We recommend CMHA obtain supporting documents, such as vendor invoices and packing slips, prior to issuing any payments for goods or services received. These supporting documents should be attached to a copy of the corresponding check and purchase order and should be maintained in an appropriate filing system.

**Federal Questioned Cost: \$222,915**

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### Cable Television and Maid Services

OMB Circular A-87, Attachment A, Section (C)(1)(a), requires that all costs must be necessary and reasonable for proper efficient performance and administration of federal awards, adequately documented, and legal, proper, and consistent with the policies that govern the recipient's own expenditures.

The Memorandum of Understanding ("the MOU") dated December 28, 1994 between the Office of Housing and Urban Development ("the HUD") and CMHA regarding the bond refinancing proceed monies from Ambleside Apartments required CMHA to use the monies to fund the construction of housing units for very low income elderly, handicapped, and disabled households.

The MOU further states that the land, buildings, property and equipment to be acquired and/or constructed and installed and other costs must be approved by the HUD. The MOU also states, in pertinent part, that "to the extent that such funds are to be used for any other capital purposes, the Authority (i.e., CMHA) agrees to substitute capital programs mutually agreeable and acceptable to both the Authority and HUD, which shall be approved and designated in writing as substitute programs for expenditures of such funds."

Using the Title V account, CMHA paid for cable television services at Bohn Tower totaling \$1,472, and for maid services at Bohn Tower totaling \$2,230.

These expenditures do not represent the types of transactions considered allowable in accordance with OMB Circular A-87, nor was the process of allowing for these types of services at a public housing complex documented as being authorized by CMHA's Board of Commissioners. As noted in the Background Information of this report, federal funds of several programs were commingled in the Title V account during the Period, contrary to both OMB Circular A-133 (June 1997 Revision) and its predecessor OMB Circular A-128. Due to the commingling, CMHA could not identify the federal program providing the funding for the expenditures and thus not ensure compliance with the applicable federal program allowable cost principles.

**Federal Questioned Cost: \$3,702**

**Total Federal Questioned Costs, Issue 8, Bohn Tower: \$226,617**

### **MANAGEMENT COMMENT**

#### Employees Living in Public Housing

Payroll records (specifically Form W-2) did not indicate employees were receiving a fringe benefit of housing, while Bohn Tower records indicated several individuals lived at Bohn Tower without making rental payments. Allowing employees to live "rent-free" in public housing could cause CMHA to lose revenue, as these units could otherwise be used in the calculation of HUD subsidies if they are available for rent to low-income individuals.

We recommend CMHA maintain detailed documentation regarding the employees who are living in public housing units, to include the amount of rent to be paid, or, in the absence of rent, the value of the housing, which would then be added to the employee's Form W-2 at year-end. CMHA should compile a list of known employees who lived at Bohn Tower without paying rent, determine a fair value for the rent, and file amended Forms W-2 with the Internal Revenue Service.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 9 - Expenditures for Fixed Assets

We reviewed transactions related to expenditures for fixed assets purchased by CMHA to determine if purchases were authorized and for a purpose related to the operations of a metropolitan housing authority.

#### PROCEDURES

1. Using the General Ledger Reports prepared from CMHA's computer system, we identified and selected all fixed asset expenditures greater than \$500. We reviewed the source of funds used to pay for these expenditures, determined whether applicable bidding procedures were followed, and identified if the expenditure was for a purpose related to the operations of a metropolitan housing authority. We also attempted to determine whether purchased products had been received. For those purchases which CMHA did not have supporting documentation, we sent letters to the applicable vendors, asking them to provide support for the transaction.
2. Separate from our review of fixed asset expenditures in Procedure No. 1, above, we attempted to review the volume of stove and refrigerator purchases in 1997 to determine if the number of items purchased correlated to the number of housing units owned by CMHA. In performing this review, we reviewed the 1997 Appliance Movement Report, which employees of CMHA prepare based on packing slips received (to document purchases of goods), and receiving documents prepared when the appliances are shipped to the various estates. We also attempted to contact CMHA's primary vendors for refrigerators and stoves to review their record of sales to CMHA.

#### RESULTS

1. Expenditures for fixed assets were made from multiple funds and account codes.

We reviewed 5 contracts issued for the purchase of air conditioners, refrigerators, and stoves. CMHA provided documentation to support that 3 of the 5 contracts were issued to the lowest or best bidders, and 2 of 4 contracts were documented as having been advertised in accordance with CMHA policy. The fifth contract was an emergency contract and was supported by a CMHA Board Resolution.

Our selection of all fixed asset expenditures greater than \$500 included 341 vouchers for review. Of these, 81 were not supported by an invoice or a packing slip providing evidence that purchased goods were received. Additionally, of the remaining 260 expenditures which were supported by voucher packets, 3 of those transactions did not include a packing slip designating goods were received by CMHA.

From the list of 81 unsupported expenditures, we sent letters to all of the vendors requesting they provide support for these transactions. We received 4 responses with supporting documentation for 25 expenditures. Fifty-six (56) expenditures selected for review remained unsupported.

CMHA does not have a detailed fixed asset inventory listing, so we were unable to trace the purchase of goods into CMHA's inventory. All expenditures for fixed assets appeared to be for a purpose related to the operations of a metropolitan housing authority.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

2. CMHA has 40 estates with a total of approximately 9,980 units. The Appliance Movement Report for 1997 documented the receipt of 706 refrigerators and 600 stoves in 1997. Our review of fixed assets purchased noted 757 refrigerators and 171 stoves. The volume of purchases included in our review were only those purchases which were supported by voucher packets.

Two letters sent to the refrigerator vendor were returned by the Post Office marked "Return to Sender." However, we did receive a response from the stove vendor, along with photocopies of invoices to CMHA for 596 stoves sold to them in 1997.

### FEDERAL QUESTIONED COST

OMB Circular A-87, Attachment (A), Section (C)(1)(j), requires that to be allowable under a grant program, costs must be adequately documented.

The Inspector General Act Amendments of 1988 defines a questioned cost as a finding that, at the time of the audit, such cost is not supported by adequate documentation.

Our selection of all fixed asset expenditures greater than \$500 included 341 vouchers for review. Of these, 56 were not supported by an invoice or a packing slip providing evidence that purchased goods were received, as follows:

Year	Number of Unsupported Vouchers	Costs
1994	17	\$92,133
1995	21	450,602
1996	7	33,777
1997	<u>11</u>	<u>66,144</u>
<b>Total</b>	<b><u>56</u></b>	<b><u>\$642,656</u></b>

By not obtaining and maintaining supporting invoices for all services or goods received, CMHA may inadvertently issue duplicate or inappropriate payments. We recommend CMHA obtain supporting documents, such as vendor invoices and packing slips, prior to issuing any payments for goods or services received. These supporting documents should be attached to a copy of the corresponding check and purchase order, and should be maintained in an appropriate filing system.

**Federal Questioned Cost: \$642,656**

**Total Federal Questioned Costs, Issue No. 9, Expenditures for Fixed Assets: \$642,656**

### NONCOMPLIANCE CITATION

#### Advertisements for Bids

CMHA Administrative Order No. 20, Procurement Policy, Section 2.2.3, states that CMHA shall advertise for bids a minimum of once each week for two consecutive weeks.

Of the five contracts selected for review, CMHA provided documentation to show that two contracts were advertised for bids. Two of the remaining contracts were not supported by proof of the required advertising. The final contract was an emergency contract with Board approval and therefore was not subject to the advertisement requirements.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

By not advertising Requests for Proposals, CMHA could be limiting itself with regard to vendor and pricing options. We recommend CMHA advertise all bid proposals in the appropriate newspaper, and retain the documentation of such advertisement in its contract files.

### MANAGEMENT COMMENT

#### Fixed Assets

CMHA does not maintain a complete listing of all fixed assets to substantiate the amounts as recorded on CMHA financial statements. Further, CMHA has not implemented internal controls to ensure fixed assets are accurately recorded for financial reporting purposes. CMHA also has no procedure in place to formally add or delete fixed assets from CMHA inventories.

The lack of a complete fixed asset listing and the absence of internal controls could result in a loss from errors and/or misappropriation of CMHA assets without management's detection.

We recommend CMHA implement the following procedures:

- ▶ Designate an individual(s) to be responsible for the preparation and recording of CMHA's fixed assets;
- ▶ CMHA review and periodically update the fixed asset policy;
- ▶ A physical inventory of all fixed assets be performed and updated annually;
- ▶ Based on the physical inventory, a fixed asset listing be assembled to include, but not be limited to, the following: location, tag number, description, date of acquisition, cost (or estimated historical cost), source of funding, depreciation, and accumulated depreciation;
- ▶ Implement procedures to record fixed asset additions as they are acquired, preferably through the use of fixed asset addition forms. When a fixed asset addition form is completed, the information should then be recorded on CMHA's fixed asset listing;
- ▶ Implement procedures to ensure deleted assets are removed from the fixed asset listing, preferably through the use of fixed asset disposal forms. The forms should be completed each time a fixed asset is sold or disposed. When the form is completed, the fixed asset should subsequently be removed from CMHA's fixed asset listing;
- ▶ At or near the end of each fiscal year, a summary of fixed assets purchased and disposed should be prepared. The amounts recorded on the fixed asset listing should be reconciled (prior period fixed assets, plus current year additions, less current year deletions), and then be recorded on CMHA's financial statements; and
- ▶ Progress reports should be made on a monthly basis (or more frequently, if necessary) to CMHA's Board Members regarding the preparation and completion of CMHA's fixed asset listing.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 10 - Employment of Ira McCown

We attempted to review the employment contract between CMHA and Ira McCown including any bonuses, leave time accrual, usage, and monetary conversion to determine if Mr. McCown's salary and benefits were authorized.

#### PROCEDURES

1. On March 19, 1999, we requested that CMHA provide us with Ira McCown's complete personnel file.
2. Using CMHA payroll ledgers, computer-generated "Check Inquiries," and Mr. McCown's time cards, we prepared a schedule of all payroll checks issued to Mr. McCown, including all bonus payments he received. We verified that all payroll payments (including bonus payments) were included and reported on Mr. McCown's Form W-2 or W-2C.
3. We requested supporting documentation for bonuses paid to Mr. McCown.
4. We obtained payroll policies regarding the use of time sheets.
5. We conducted interviews with Ronnie Davis on March 15, 2000, with Claire Freeman on March 28, 2000, and with Ira McCown on September 7, 2000 to determine the circumstances surrounding Mr. McCown's employment with CMHA.

#### RESULTS

1. According to CMHA's Payroll Master File Update, Ira McCown was employed with CMHA from May 22, 1995 through October 6, 1995.

On April 8, 1999, we received a memo from John P. Fox, Acting Director of CMHA Human Resources Office, which stated the personnel file of Ira McCown was removed from the Human Resources Office by someone in the Executive Office in April of 1997 and was never returned. Mr. Fox also stated he was unable to find Mr. McCown's personnel file anywhere at CMHA.

On April 9, 1999, we received a memo from James W. Guest, Jr., Senior Staff Attorney at CMHA, which stated the legal department had only one employment contract in its possession, that being for Claire Freeman, not Ira McCown.

On October 1, 1999, we made an additional request of Lou Anne Chung, CFO, to locate the personnel file of Ira McCown. Ms. Chung provided us with a payroll file for Mr. McCown, but neither a job application, nor an employment contract were contained within that file.

The only information regarding Ira McCown's salary documented in his payroll file was a Request for Personnel Transaction form dated October 6, 1995. This form stated Mr. McCown's temporary assignment as Director of Affordable Housing was to end at 5:00 p.m. on 10/6/95. The salary documented on this form was \$75,000 annually or \$36.0577 per hour. The form was signed by James VanBergen, Staff Attorney, Ardeshir Agahi, Comptroller, and Ronnie Davis, Chief Operating Officer.

Without a personnel file or employment contract, we were unable to determine whether CMHA's Board of Commissioners had authorized the salary and benefits Mr. McCown received during his tenure with CMHA.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

2. With the exception of one pay period, CMHA provided us with all of Ira McCown's time sheets during his employment at CMHA. We recalculated his salary payments based on the number of hours documented on these time sheets and the salary rate on the Request for Personnel Transaction form referred to in Result No. 1, above. Although CMHA was not able to provide us with Mr. McCown's authorized salary rates during his employment, he was paid \$36.0577 per hour for each payroll check issued to him. Based on the hours recorded on his time sheet, we calculated his salary at the rate of \$36.0577 per hour and agreed his bi-weekly payroll to CMHA payroll ledgers with no discrepancies.
3. In a memo dated June 28, 1995, Claire E. Freeman directed CMHA employees James VanBergen, Attorney, and Ardeshir Agahi, Comptroller, to pay Mr. McCown a \$5,000 signing bonus. In this interoffice memo, Ms. Freeman stated "In accordance with the Memorandum of Agreement between CMHA and Ira McCown, we owe him a signing bonus of \$5,000." Through all of our document requests to date, we have not been provided with this Memorandum of Agreement.

On October 15, 1999, we forwarded a copy of Ms. Freeman's memo to Terri Hamilton-Brown, Executive Director, requesting her to locate the Memorandum of Agreement between CMHA and Mr. McCown. We received a response from LaVerne Nichols-Boyd, Acting General Counsel for CMHA, dated December 10, 1999 which stated a search had been conducted of the various departments at CMHA and a Memorandum of Agreement for Mr. McCown could not be located.

On July 6, 1995, payroll check number 037161 was issued to Ira McCown, for the signing bonus referred to above. On October 6, 1999, we requested the canceled check for this payment; however, on October 13, 1999, Samuel Williams, Jr., Deputy Comptroller, responded the check did not clear the bank.

Lou Anne Chung provided us with a photocopy of this bonus check, which was processed in the gross amount of \$5,000. After taxes and withholdings, the net amount of check number 037161 was \$3,662.71. At the bottom of the check copy, someone had written "Void off W-2 wages for 1995....check never received....re-issue W-2C for 1995." There is no documentation of who wrote these comments; however, Mr. McCown's payroll file contained a copy of his W-2, which included the \$5,000 bonus, as well as a copy of Form W-2C, an amended W-2 which deducted the \$5,000 bonus.

In addition to the \$5,000 signing bonus, CMHA issued payroll check number 059220 on October 31, 1995 to Ira McCown. This check was issued 25 days after Mr. McCown's employment with CMHA ceased. According to CMHA payroll ledgers, the gross amount of this payment was \$17,307.72, for a "special pay" of 480 hours at \$36.0557 per hour.

On October 6, 1999, we requested Lou Anne Chung provide us with supporting documentation for this payroll check. In a response dated October 13, 1999, Mr. Williams stated the actual check and support could not be located at CMHA. He then ordered a copy of this check from the National City Bank, which was received a few days later. The check was endorsed by Mr. McCown. The net amount of this check was \$12,870.90, and it was included on Mr. McCown's W-2 for 1995.

4. The back of the time sheets contained two signature blocks, one for the employee and one for the supervisor. All of Mr. McCown's time sheets reflected his signature. On six occasions, J. Scott Pollack, Executive Assistant, signed on behalf of Claire Freeman. Roxanne Lopez, Timekeeper, signed in the place of the supervisor on 2 occasions, and Sherri Poore, Cash Manager, signed 1 time sheet.

CMHA Administrative Order 11, Part II states, in pertinent part, the responsibility of proper time card submission and accurate attendance records is a direct management/supervisory function; however, it does not require the supervisor's signature on time cards.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

5. On January 26, 2001, Mr. Davis forwarded to us a copy of a "Separation by Mutual Agreement and Release" document dated October 31, 1995 and signed by Mr. Davis, Mr. McCown, and two witnesses. That agreement allowed Mr. McCown to "be paid an amount equal to 3 months salary representing payment for services rendered for the periods of April 1, 1995 to May 22, 1995 and October 6, 1995 to October 31, 1995."

Ms. Freeman was uncertain whether there was a written settlement agreement with Mr. McCown.

Mr. McCown stated that as part of a verbal employment agreement between himself, Ms. Freeman, and Mr. Davis, he was to receive a salary of \$75,000, an apartment at Bohn Tower paid for by CMHA, and \$5,000 to cover his expenses of moving from New York City.

When questioned as to the existence of a Memorandum of Agreement (MOA) between himself and CMHA, Mr. McCown said he was not aware of such a document.

According to Mr. McCown, at the end of his employment with CMHA, Mr. McCown was directed by Mr. Davis to create a "comprehensive report" on the status of his work to assist with his transition from CMHA. Mr. Davis provided Mr. McCown computer equipment at his apartment in Bohn Tower and he was to work on the comprehensive report there, so as not to be on CMHA premises. Mr. McCown had verbally estimated to Mr. Davis that it would take eight or ten weeks to complete the project. According to Mr. McCown, he met that deadline and moved out of Bohn Tower once the project was completed.

Mr. McCown explained the "special pay" of 480 hours, paid on October 31, 1995, as the culmination of four or five weeks he worked in the beginning of his employment without pay and the time spent after he left the premises while working on the comprehensive report. This reconciled to the "Separation by Mutual Agreement" document which Mr. Davis provided to us.

### MANAGEMENT COMMENTS

#### Maintenance of Human Resource Personnel Files

CMHA officials were unable to locate the personnel file of Ira McCown. Without a personnel file, there may be no documentation to support the basis or authority for salary and benefits paid to employees. It is important to maintain proper controls of employee documents, contracts and personal information.

We recommend CMHA develop a filing system to track current personnel files, purged files, and files which have been loaned out to other departments or officials. Developing a system of tracking employee personnel files will reduce the risk of files being misplaced or lost. We also recommend CMHA's Human Resources Department maintain original personnel files in their offices at all time. Should another department require personnel information, a formal request should be made to the Human Resources Department, who should then provide photocopied documents for review. This will help ensure that an employee's original personnel file is not lost or misplaced. A Human Resources Department employee should be responsible for monitoring photocopied files.

#### Time Card Policies

The current CMHA policy on time cards (included in Administrative Order No. 11) does not address the required signatures on time cards. The time cards have signature blocks for the employee and the supervisor. Of nine time cards reviewed, none of them were signed by the employee's supervisor.

We recommend CMHA's time card policy be revised to require a supervisor's signature as support that time recorded is accurate. The policy should also address alternate signature procedures, if the employee's immediate supervisor is unable to sign the employee's time sheet.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### Employment Contracts and Separation Agreements

During interviews, Board members indicated they were unaware of employment contracts or separation agreements for any employees with the exception of Ms. Freeman. Ms. Freeman's employment contracts provided her with the authority to hire, train, supervise, evaluate, reward, discipline, and fire all levels of CMHA staff. Thereafter, Ms. Freeman entered into contracts with CMHA employees which provided employment and separation benefits in excess of established Board policy.

The CMHA Board of Commissioners is ultimately responsible for the efficient and economical operations of the CMHA. By vesting broad authority for employing and dismissing employees exclusively in the CEO without providing limitations to such agreements, they are forfeiting their ability to ensure established benefits are not being exceeded.

We recommend the Board limit the authority of the CEO to enter into employment contracts and separation agreements which conform to established benefits. Further, we recommend all employment contracts and separation agreements be authorized by Board Resolution.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 11 - Sage Analytics International and CEO Sciences

We reviewed payments to Kent Stephens and/or Sage Analytics International, Inc., and CEO Sciences L.C., for consulting services from 1992 through 1998 and agreed the payments to the terms of the consulting contracts. We reviewed these contracts to determine whether applicable competitive bidding requirements and CMHA procurement policies were followed, and to determine whether contracts or payments were authorized and for a purpose related to the operations of a metropolitan housing authority. Contract requirements were compared to the end products received. Changes in contract terms and amounts were reviewed for authorization.

#### BACKGROUND INFORMATION

Records on file with the Utah Secretary of State showed that Sage Analytics International, Inc. was a for-profit company which originally incorporated on September 15, 1986. According to a "Sage Analytics International's Sole Source Technology Justification" faxed to CMHA in January 1991 (after the first contract dated November 1990 and before the second contract dated March 1992), Dr. Kent Stephens is "the founder" of Sage.

CEO Sciences L.C. is a limited liability company incorporated on September 1, 1994 with the Utah Secretary of State. According to a "CEO Sciences Proposal to CMHA for Policy Review and Formulation Services," Dr. Stephens is the founder and Chief Executive Officer of CEO Sciences L.C. and is the co-founder of its affiliate, Sage Research.

#### PROCEDURES

1. Through inquiry and review of CMHA's Minute Records and financial statements, we identified the consulting contracts entered into with Sage Analytics International, Inc. and CEO Sciences, L.C.
2. We reviewed the consulting contracts entered into to determine if vouchers were paid in accordance with the terms of the contract. We also determined the funds which were charged with respect to these consulting contracts.
3. Changes to contract terms or amounts were reviewed for applicable authorization.
4. We attempted to review the reports or "end products" issued by the consultant to determine if contract requirements had been fulfilled and that established time frames for contract completions had been met. We also reviewed documents which supported that the payments were made within the scope of the contracts into which CMHA entered.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### RESULTS

1. The following contracts were entered into with Sage Analytics and CEO Sciences L.C.:

Description	Authorized Amount		Purpose
Sage 1990 <sup>13</sup>	\$101,000	a	Strategic Plan
Sage 92-320-10	84,100	a	Strategic Plan, Section 8 Program
CEO 95-700-10	74,900	a	Update of Previous Strategic Plan
CEO 95-700-65	124,000	a	CMHA Strategic Plan
CEO 97-700-01	12,800	b	Train Board Members on Policy Review
CEO 97-700-15	72,000	b	Board Policy Review
<b>Total</b>	<u><u>\$468,800</u></u>		

- a The authorized contract amount was a fixed price for all expenses related to the project.  
 b Travel expenses were not included in the contract costs and were to be reimbursed separately.

2. Expenditures related to these contracts were made from the following funds:

Fund Name	Expenditures
General Fund	\$432,447
Drug Elimination	90,232
Section 8	152,772
Title V	3,865
Unknown *	9,832
<b>Total Expenditures</b>	<u><u>\$689,148</u></u>

\* Per CMHA's expenditure ledgers, these expenditures were paid from Fund 755 in 1991. CMHA was unable to provide us with the title of the fund, its source of monies or any related grant agreements. Management was also unable to identify the source of the monies deposited to the Drug Elimination Fund and any related grant agreements, if such existed.

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<sup>13</sup>The actual contract document was not provided for our review. The authorized amount is based on a Board Resolution.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

For those contracts where the authorized amount included all costs and expenses related to the project, CMHA exceeded the authorized amount of the contracts as follows:

Contract	Contract Amount	Amount Paid on Contract	Amount paid in Excess of Contract Amount
Sage 1990	\$101,000	\$259,927	\$158,927
Sage 92-320-10	84,100	84,894	794
CEO 95-700-10	74,900	93,155	18,255
CEO 95-700-65	124,000	162,748	38,748 <sup>14</sup>
<b>Totals</b>	<b>\$384,000</b>	<b>\$600,724</b>	<b>\$216,724</b>

We will issue a Federal Questioned Cost for exceeding authorized contract amounts in the amount of \$216,724. We will also issue a Finding for Recovery in the amount of \$47,704 for travel expenditures which were not included in the authorized contract costs for CEO 95-700-10 (\$18,255) and CEO 95-700-65 (\$29,449).

Reimbursement for travel expenses repeatedly lacked receipts, date or purpose of travel, or the dates on the Expense Reports did not correspond with the dates on the receipts. The following schedule identifies the travel expense reimbursed which lacked support:

Contract	Travel Reimbursed	Unsupported Travel
Sage 1990	\$ 40,710	\$40,710
Sage 92-320-10	14,721	8,895
CEO 95-700-10	18,255	2,045
CEO 95-700-65	29,449	6,657
CEO 97-700-01	8,856	1,343
CEO 97-700-15	1,693	84
<b>Totals</b>	<b>\$113,684</b>	<b>\$59,734</b>

Although \$59,734 of travel reimbursements were unsupported, \$50,206 has already been included in the amount of Federal Questioned Costs we will issue based upon exceeding authorized contract amounts (see the previous table). Therefore, we will issue a Federal Questioned Cost in the amount of \$9,528 for unsupported travel reimbursements.

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<sup>14</sup>This amount includes \$29,449 in travel costs.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

3. CMHA was unable to provide 1 of 6 contracts identified, contract amendments for 2 of the 6 contracts, and 3 of 12 Resolutions pertaining to these contracts. Due to the lack of documents provided by CMHA, we were unable to determine if all changes to contract terms or amounts were authorized.
4. The following table describes the results of our detailed review:

Contract No.	End Products Provided	Payments Within Contract Scope	Services Within Time-frame
Sage 1990	*	*	*
Sage 92-320-10	No	Yes	Yes
CEO 95-700-10	No	No ①	No
CEO 95-700-65	No	Yes	No
CEO 97-700-01	Partial	Yes	Yes
CEO 97-700-15	No	Yes	No

\* We were unable to determine these criteria because CMHA could not provide us with the contract documents.

① The scope of contract 95-700-10, called for an evaluation and update of a previous Sage Analysis, to evaluate remediation efforts and report findings and recommendations at a cost of \$24,900. An amendment was approved simultaneously to prepare a comprehensive Section 8 analysis, evaluation of results and recommendations for an additional \$50,000, increasing the contract award to \$74,900. Of the amounts budgeted, \$14,000 was billed for services in relation to the Sage Analysis evaluation and \$28,500 was billed for Section 8 Analysis. Also charged to this contract was \$32,400 for Section 8 job descriptions, which was not identified in the contract.

### FINDING FOR RECOVERY

#### Travel Reimbursement

For contracts CEO 95-700-10, and CEO 95-700-65, contract costs were to include travel expenses. Actual contract costs exceeded the Board authorized award and contract amounts by \$18,255 and \$29,449, respectively, due to reimbursement of travel, for a total amount of \$47,704.

Therefore, in accordance with the foregoing facts and pursuant to the Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against CEO Sciences, L.C., Dr. Kent G. Stephens, Claire Freeman, Ronnie Davis, The Hartford (in the amount of \$36,570) and Aetna Casualty & Surety (in the amount of \$11,134), Ms. Freeman and Mr. Davis's bonding companies, jointly and severally, and in favor of the Cuyahoga Metropolitan Housing Authority (CMHA), in the amount of \$47,704.

**Finding for Recovery: \$47,704**

**Total Findings for Recovery, Issue No. 11, Sage International and CEO Sciences: \$47,704**

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### FEDERAL QUESTIONED COSTS

OMB Circular A-87, Attachment (A), Section (C)(1)(a) and (c), requires that to be allowable costs must, (a) be necessary and reasonable and (b) be authorized or not prohibited under State or local laws or regulations.

CMHA issued payments to consultants which exceeded approved contracts in the aggregate amount of \$216,724 (including the payment of travel noted in the Finding for Recovery above).

#### **Federal Questioned Costs: \$216,724**

OMB Circular A-87, Attachment (A), Section (C)(j) requires that all costs must be adequately documented. In addition, they must be legal, proper, and consistent with the policies that govern the recipient's own expenditures.

The Inspector General Act Amendments of 1988 defines a questioned cost as a finding that, at the time of the audit, such cost is not supported by adequate documentation.

Ohio Rev. Code Section 3735.37 requires metropolitan housing authorities to keep an accurate account of all its activities and of all receipts and expenditures.

CMHA was unable to provide support for \$59,734 of \$113,684 in payments made to contractors for travel reimbursement. Of the \$59,734 of unsupported expenditures, \$50,206 has already been included in the amount of Federal Questioned Costs we issued above. Therefore, the remaining \$9,528 will be questioned as undocumented.

#### **Federal Questioned Cost: \$9,528**

#### **Total Federal Questioned Cost, Issue 11, Sage Analytics International and CEO Sciences: \$226,252**

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 12 - Creative Consulting Management Group

We reviewed payments to Tamara Horne, Michelle Hampton-Jones, Bobbie Harrison, and Creative Consulting Management (CCMG) for consulting services and agreed the payments to the terms of the consulting contract. We reviewed these contract to determine whether applicable competitive bidding requirements and CMHA procurement policies were followed, and to determine whether the contract or payments were authorized and for a purpose related to the operations of a metropolitan housing authority. Contract requirements were compared to the end products received. Changes in contract terms and amounts were reviewed for authorization.

#### PROCEDURES

1. Through inquiry of CMHA personnel and a review of CMHA Minute Records and expenditure ledgers, we identified the approval and relevant terms of the consulting contract entered into with CCMG.
2. Changes to contract terms or amounts were reviewed for applicable authorization.
3. We verified the accuracy of the payments made as a result of the contract agreements. We also reviewed the documents supporting the payments were made within the scope of the contract entered into, and determined the funds which were charged with respect to these consulting contract.
4. We reviewed selected reports or "end products" issued by the consultants to determine if contract requirements had been fulfilled, and established time frames for contract completions had been met.
5. We contacted HUD auditors to determine if CCMG had entered into contracts with other metropolitan housing authorities during the same time period as it had contracted with CMHA and also to determine if there was any overlapping of activity.

#### BACKGROUND INFORMATION

Tamara Horne and Michelle Hampton-Jones were employed by Deloitte & Touche (D&T) until April 1995. While employed with D&T, both Ms. Horne and Ms. Hampton-Jones were assigned to CMHA. In January 1995 they resigned from D&T and started their own company, CCMG.

#### RESULTS

1. Contract 95-701-08 was approved by Resolution No. 71-95 for \$285,000 on April 5, 1995 and issued to CCMG on April 21, 1995 authorizing CCMG to act in the capacity of Customer Service Administrator for CMHA.

The term of the contract was for one year, beginning April 21, 1995 with an option to extend for an additional year. The contract called for Ms. Michelle Hampton-Jones, Ms. Tamara D. Horne and Mr. Stephen Lunkins to dedicate at least 40 hours per week to CMHA. There was no specific requirement to be on-site at CMHA. \$20,004 was to be paid on the contract award date, followed by 12 monthly payments of \$22,083. Invoices or vouchers for payments were to be certified by an approved and responsible official of CCMG.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The contract "Scope of Work" defined the contractor's responsibilities to include customer service management for CMHA. In addition to overseeing the efficient and effective management of CMHA properties on a day to day basis, the contractor was responsible for recommending changes to existing procedures and customer service where necessary. The contractor's primary focus was to improve PHMAP indicators<sup>15</sup>.

The contract guaranteed there would be a significant measurable improvement on Maintenance and Housing PHMAP indicators to the "High Performance" grade during the one year term of contract. The contractor was to sustain an "A" score on all PHMAP indicators where currently achieved and increase other maintenance scores such that CMHA receives a score at the high performing level for PHMAP. This is predicated on no adverse change in the indicators not directly under the contractor's jurisdiction.

In the event the improvement did not occur, CMHA had the option to withhold payment for the final monthly billing.

### 2. **Amendment No. 1**

CMHA exercised its option to extend the contract via Resolution<sup>16</sup> on May 1, 1996 and Amendment No. 1 was then signed.

The contract fee clause was modified to replace Mr. Lunkins with Ms. Maureen Brown. Ms. Hampton-Jones and Ms. Horne remained on the contract, and all three were to dedicate at least 40 hours per week to CMHA, but again without a specification to be on-site. The contract allowed for a \$16,668 signing bonus in addition to 12 monthly payments of \$23,055.67. Finally, a \$41,668 performance bonus was payable upon certification of "High Performance" PHMAP status by HUD for CMHA's 1996 performance year. The contract guarantee remained substantially the same.

### **Amendment No. 2**

On May 22, 1997, CCMG and CMHA exercised the option to extend the contract for an additional year with the signing of Amendment No. 2. There was no record of a Resolution being passed by the Board during 1997 which authorized the amendment or execution of the option. Amendment No. 2 did not contain an additional option to extend the contract.

The contract fee clause remained the same as Amendment No. 1, except that it was modified to reflect the 1997 performance year and increased the 12 monthly payments to \$23,750. The contract guarantee remained the same.

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<sup>15</sup> The Public Housing Management Assessment Program (PHMAP) was developed by HUD to conduct yearly assessments of public housing agencies in all major areas of management operations. PHMAP was used to designate high-performing, standard, troubled, and modernization-troubled PHAs (as shown in Table 1, page 80) and to aid these agencies in improving their services to public housing residents. Grades were assigned (as shown in Table 2, page 80) with A being the highest grade and F being the lowest.

<sup>16</sup> Board Resolution No. 70-96 approved the exercising of the current contract option year and added a second option year (at the end of the first option year) to "provide continuity to the maintenance program." There was no language within the Resolution identifying the cost of the exercised option or the cost for the additional option year.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### **Amendment No. 3**

On April 16, 1998, CMHA's Board approved Resolution No. 57-98 authorizing CMHA to extend the customer service contract with CCMG from May 1, 1998 to July 31, 1998, and then required CCMG to monitor CMHA's customer service operations from August 1, 1998 through April 30, 1999. During the latter 9-month period, the amendment specifically called for Michele Hampton-Jones to be on-site at CMHA for 3 days each week, 8 hours per day, and Tamara Horne to be on-site for 5 days each month, 8 hours per day. The total cost of the contract was not to exceed \$201,000. Amendment No. 3 was subsequently enacted on May 28, 1998, in compliance with Resolution No. 57-98.

The PHMAP responsibilities were reduced to monthly monitoring and performing field audit/file review to ensure HUD PHMAP compliance.

### **Amendment No. 4**

Amendment No. 4, signed August 10, 1998, modified the language within Amendment No.3 to include setting the monthly payments at \$23,750 for May 1998 through July 1998. For the period August 1, 1998 through September 30, 1998 it reduced the monthly payment to \$22,400 and required Ms. Michelle Hampton-Jones to dedicate at least 32 hours per week and Ms. Tamara Horne to dedicate at least 80 hours per month to CMHA (with no requirement for on-site work). For the remaining 7 months October, 1, 1998 through April 30, 1999 it only required CCMG to monitor the Customer Service Administration. During this 7-month period, the amendment required Michele Hampton-Jones to be on-site at the Agency for 3 days each week, 8 hours per day, and Tamara Horne to be on-site for 5 days each month, 8 hours per day and set a total cost not to exceed \$216,000. We were not provided a Resolution authorizing these changes.

PHMAP responsibilities remained the same as in Amendment No. 3.

3. There were 46 vouchers paid under the contract and various amendments during the Period which totaled \$914,754<sup>17</sup>. Expenditures charged to the General Fund totaled \$914,673 and Title V Fund totaled \$81.

The contract required invoices or vouchers for payments to be certified by an approved and responsible official of the contractor's organization and were to be supported by a summary of the cumulative costs, as well as a description of the services provided.

Of the 46 vouchers requested, 5 could not be located. With the exception of 5 payments totaling \$2,409, none of the invoices attached to the vouchers were certified, provided a summary of cumulative costs or provided detail to support the time spent or work performed. Twelve were not approved by Board Resolution. Our review of these vouchers disclosed the following:

Contract or Amendment	No Invoice	Invoice, but no Detailed Support	No Board Resolution and no Detailed Support	Total
95-701-08		\$285,000		\$285,000
Amendment No. 1	\$40,678	\$261,250		\$301,928
Amendment No. 2			\$301,668	\$301,668
Amendment No. 3 & 4		\$23,750		\$23,750
<b>Total</b>	<b>\$40,678</b>	<b>\$570,000</b>	<b>\$301,668</b>	<b>\$912,346</b>

4. The contract and each of the amendments required CCMG's employees to dedicate time to CMHA's project; however, CCMG's invoices did not identify the actual time spent by these employees nor did CCMG submit nor CMHA maintain any type of time record.

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<sup>17</sup> The total payments identified as being made to CCMG from 5/95 through 6/99 were \$1,110,150. Of this amount, \$195,396 was paid outside the Period and therefore was not subject to our review.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

The following two tables summarize our review of the contract “guarantees” from 1995 through 1997.

Table 1: CMHA Overall PHMAP Scores:

Description	1991	1992	1993	1994	1995	1996	1997
Score	52.70%	59.70%	73.70%	81.00%	85.30%	86.82%	87.50%
Rating	Troubled	Troubled	Standard	Standard	Standard	Standard	Standard

**Rating:**

High Performance, a final Score of 90.5 percent, (90.5%).

Standard Performer (non-troubled), a final score of 60 percent (60%).

Troubled Performer, a final score of less than 60 percent (60%).

Table 2: PHMAP Indicator Scores 1994 through 1997.

CCMG's Affected PHMAP Indicators	1994	1995	1996	1997
Vacancy Number and Percentage	C	C	C	C
Rents Uncollected	A	A	A	D
Unit Turnaround	F	F	F	(combined)*
Outstanding Work Orders	A	A	A	A
Annual Inspection- Condition of Units / Systems	D	B	A	A
Tenants Accounts Receivable	A	A	A	(dropped)*
Routine Operating Expenses	A	A	A	(dropped)*

\* In 1997 the structure of the PHMAP indicators changed. Unit Turnaround was combined with the Vacancy Number and Percentage Indicator. Also, the categories for Tenants Accounts Receivable and Routine Operating Expenses were eliminated.

As shown in Table 1, CMHA never received a “High Performance” certification from HUD. Consequently and in accordance with the contract, we did not observe any performance bonuses paid.

Table 2 documents that “Rents Uncollected” fell adversely from an “A” to a “D” in 1997. According to Amendment No. 2, CMHA had the option of withholding CCMG’s final payment of \$23,750; however, they did not.

5. HUD auditors provided us with contracts between CCMG and San Francisco Housing Authority (SFHA). One contract was for management consulting from September 22, 1997 through September 21, 1999. The contract did not require a specific number of hours to be worked by CCMG employees; however, we were provided documents which showed Tamara Horne and Michele Hampton-Jones billed a total of 408 hours of service from February 1997 (prior to the contract effective date) through May 1998 to SFHA while they were simultaneously under contract with CMHA. Additionally, HUD auditors working in San Francisco informed us that CCMG had also contracted to provide consulting services to the Buffalo Municipal Housing Authority; however, we were not provided with specific documentation to support the contract or any payments which may have been made.

A second agreement between CCMG and the SFHA, also for management consulting, was for the period May 2, 1998 through May 2, 2000. Both contracts were signed by Ronnie Davis in his capacity as Acting Executive Director of SFHA for the first contract, and as Executive Director of SFHA for the second.

Although these contracts were within the same time period as contracts CCMG had with CMHA, we were unable to determine if there was any overlapping of activity due to the failure of CMHA to require time records identifying work performed by its consultants.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### FEDERAL QUESTIONED COSTS

Office of Management and Budget Circular A-87, Attachment A, Paragraph C(1)(a), requires that all costs must be necessary and reasonable for proper efficient performance and administration of federal awards. Paragraph C(1)(j) requires that all costs must be adequately documented. In addition, they must be legal, proper, and consistent with the policies that govern the recipient's own expenditures.

The Inspector General Act Amendments of 1988 defines a questioned cost as a finding that, at the time of the audit, such cost is not supported by adequate documentation.

Section 3735.37 of the Ohio Revised Code requires metropolitan housing authorities to keep an accurate account of all its activities and of all receipts and expenditures.

As reported above CMHA was unable to provide us with a Board Resolution and/or adequate support detailing the time spent or work performed for \$912,346 of the reviewed expenditures.

**Total Federal Questioned Costs, Issue No. 12, Creative Consulting Management Group: \$912,346**

### NONCOMPLIANCE CITATIONS

#### Inadequate Support Documentation

24 C.F.R. Section 85.20(b)(2)(2001) states "Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income." 24 C.F.R. Section 85.22(b) (2001) requires the State, Local, and Indian Tribal Governments follow OMB Circular A-87. 24 C.F.R. Section 85.3 (2001) defines a local government to include any public housing authority.

OMB Circular A-87, Attachment A, Section C(1)(j), states, in part, to be allowable under federal awards, costs must be adequately documented.

CMHA was unable to provide supporting documentation for each transaction selected for review. Of the 46 vouchers requested, 5 could not be located. The lack of a documented audit trail prevented us from verifying all transactions were for a purpose related to the contract specifications.

We recommend CMHA establish a practical and complete method for tracking internal and external requests for documents. For example, CMHA could construct a request log as a shared file on the computer network. The Accounts Payable Department could be responsible for monitoring and maintaining the log. All requests would be posted to the log by the individual departments, and an Accounts Payable Clerk could be responsible for answering all posted requests in a timely manner.

#### Invoicing

According to Section 5 of the CCMG contract, "invoices or vouchers will be certified by an approved and responsible official of the Contractor's organization. Each invoice or voucher will, at a minimum, be supported by a summary of the cumulative costs and a description of the service provided."

Of the 46 vouchers reviewed, none of the invoices attached to the vouchers were certified, provided a summary of cumulative costs or provided enough detail to support the time spent or work performed.

We recommend the Procurement Department review all invoices and voucher packets for required certifications and demonstrate such review by adding the date and the reviewer initials.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### Board Authorization

CMHA Procurement Policy, Section 10.1.2 states, in pertinent part, any contracts greater than \$15,000 for labor, professional services, and/or consultants must be approved by the Board. The Procurement Manual Section XV, Part (D)(5) states amendments greater than 10% or \$10,000 (whichever is less) must be approved by the Board.

The Board authorized Amendment No. 1 to include the option of adding a second year of services; however, the Board did not approve the option when it was exercised. We also noted that rather than issue new Requests for Proposals (RFP), contract options were executed. Without Board approval, it is possible for contracts to be executed which had not been authorized. Additionally, by continually renewing contract options, CMHA may not have obtained the lowest and best price for required services.

We recommend the Board approve all contracts as required by established policy. Further, we recommend CMHA consider issuing new RFP's for services, rather than continually renewing contract options.

### **MANAGEMENT COMMENTS**

#### Other Consulting Commitments

Amendment No. 2, and No. 3 required Ms. Michelle Hampton-Jones and Ms. Tamara D. Horne to dedicate at least 40 hours every week to CMHA. We observed both of these individuals billing their services to SFHA while simultaneously under contract with CMHA. The contract called for "overseeing the efficient and effective management of CMHA properties on a day to day basis." Failure to require consultants (with "day to day" oversight responsibilities as defined in the contract) to perform CMHA's duties on-site, permits consultants to take on additional commitments that, if substantial enough, could impair their abilities to perform these duties effectively.

We observed from Table 2 that "Rents Uncollected" fell adversely from a score of an "A" to a "D" in 1997. This was the same year Ms. Tamara Horne and Michele Hampton-Jones were simultaneously billing hours to SFHA while under contract with CMHA.

We recommend CMHA take corrective steps to ensure that consultants with day to day oversight responsibilities spend enough time on sight to perform their duties effectively. This may be accomplished by including language within the contract requiring the consultants to perform CMHA duties on-site, as well as to document the time CMHA duties were performed on their invoices. Failure to submit invoices with adequate detail should result in a postponement of payment until the contractor is in full compliance with the contract.

#### Providing Limits in Board Resolutions for Contract Awards or Amendments

We observed Amendment No. 1 approved the exercising of the current contract option year and added a second option year to "provide continuity to the maintenance program." There was no language within the Resolution identifying the cost of the exercised option or the cost of the additional option year.

This could potentially result in a contract award exceeding the Board's intended amount.

We recommend the Board set limits to contract spending by specifying costs of contract awards or amendments within the Resolutions.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### Contract Guarantee

The contract guaranteed there would be a significant measurable improvement on Maintenance and Housing PHMAP indicators to the high performing grade during the one year term of the contract. The contractor was to sustain an "A" score on all PHMAP indicators where currently achieved and increase other maintenance scores such that CMHA receives a score at the "High Performance" level for PHMAP. This was predicated on no adverse change in the indicators not directly under the contractor's jurisdiction. In the event the improvement did not occur, CMHA had the option to withhold payment for the last monthly billing.

We observed from Table 2 that "Rents Uncollected" fell adversely from an "A" to a "D" in 1997, which violated the guarantee of the contract. Even though CMHA had the option of withholding the final payment of \$23,750 on Amendment No. 2, they did not.

We recommend the Procurement Department devise a system to verify that documentation exists to support that end products were obtained, reviewed, and found to be in compliance with contracted guarantees. For example, create an internal document which lists the specific contract guarantees and requires sign-off by individuals involved with the contract.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 13 - Zukerman Consulting

We reviewed payments to Ira McCown and Zukerman Consulting for consulting services and agreed the payments to the terms of the consulting contracts. We reviewed these contracts to determine whether applicable competitive bidding requirements and CMHA procurement policies were followed, and to determine whether contracts or payments were authorized and for a purpose related to the operations of a metropolitan housing authority. Contract requirements were compared to the end products received. Changes in contract terms and amounts were reviewed for authorization.

#### PROCEDURES

1. Through inquiry and review of CMHA Minute Records and expenditure ledgers, we identified and reviewed the consulting contract entered into with M.E. Zukerman & Co., Inc.
2. Changes to contract terms or amounts were reviewed for applicable authorization.
3. We attempted to verify the accuracy of the payments made as a result of the contract agreement. Additionally, we selected one CMHA check which had been issued to M.E. Zukerman & Co., Inc., and attempted to reconcile the consultants' receipts with his invoices, which were paid by CMHA. In reviewing this expenditure, we attempted to verify that documents supporting payments were made within the scope of the contract, and determined the funds which were charged with these payments. For all other documented expenditures made to M.E. Zukerman & Co., Inc., we obtained the voucher packets from CMHA, and reconciled the consultants' invoice totals to the checks which were issued.
4. We attempted to review the reports or "end products" issued by the consultant to determine if contract requirements had been fulfilled and that established time frames for contract completions had been met.

#### RESULTS

1. CMHA entered into contract No. 93-701-99 with M.E. Zukerman & Co., Inc. on January 19, 1994. The contract was signed by Ms. Freeman and was authorized by Resolution No. 24-94. Mr. Davis was listed as the Contract Technical Representative and his signature was included on the payment approval documents.

The scope of work defined in the contract required the contractor to work with CMHA in designing and implementing a bond program for funding the development, construction, and mortgage funding of scattered site, single family housing.

The contract fee provided for 4 monthly payments of \$12,500, plus expenses. Additionally, the contractor was to receive 1% of the principal amount of the bonds issued by CMHA, less the amount of the 4 monthly payments; however, the bonds were never issued.

2. The term of the contract was originally for one year, effective as of January 5, 1994 and ending on January 4, 1995. On January 4, 1995, the contract term was officially amended to end on June 30, 1995. Contract costs were not modified; therefore, Board approval was not required.
3. According to a letter dated July 10, 1995 signed by Ms. Freeman, M.E. Zukerman & Co., Inc. was paid a total of \$120,857 on this contract which included the four monthly payments of \$12,500 and travel expenses. However, CMHA's general ledger documented only \$114,814 for all payments. CMHA was not able to provide us with documentation to reconcile these amounts.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

During the term of this consulting contract, Ira McCown was an employee of M.E. Zukerman & Co., Inc. According to CMHA's expenditure ledgers, Mr. McCown did not receive any direct payments from CMHA as a result of this contract, rather all expenses Mr. McCown incurred as a result of this contract were paid by CMHA to M.E. Zukerman & Co., Inc. Mr. McCown was hired as an employee of CMHA on May 22, 1995.

There were 9 documented payments to M.E. Zukerman & Co., consisting of 4 fixed payments of \$12,500 and 5 payments of travel expenses. The ledgers document \$6,547 expenditures charged to the General Fund and the remaining expenditures were charged to the Title V account.

We reviewed CMHA check no. 001717, issued to M.E. Zukerman & Co., Inc. on September 9, 1994, in the amount of \$24,746. This check was supported by three invoices provided by M.E. Zukerman & Co., Inc. for a total of \$25,352. Although the CMHA payment approval form authorized a payment of \$25,352, the actual amount paid was only \$24,746. There was no documentation to support the reason why CMHA only paid \$24,746. The invoices included dates of travel by the consultant's employees; however, none of the documentation included with the invoices and receipts provided support for the purpose of these trips, which were to New York City, Charlotte, Baltimore, Knoxville, Newark, Memphis, and Chicago.

Using the consultant's receipts attached to the invoices for this expenditure, we attempted to reconcile the receipts to the invoices. Of the items for which M.E. Zukerman & Co. requested reimbursement, \$12,500 was the standard fixed payment, \$8,776 was supported by receipts from hotels and airline companies, and \$455 consisted of miscellaneous supported expenditures (e.g., transportation). The remaining amount was unsupported.

Each of the remaining payments on this contract was supported by an invoice from M.E. Zukerman & Co., Inc. However, there was one invoice, dated May 2, 1994, in the amount of \$15,530, which was paid twice by CMHA. We will issue a Finding for Recovery for this duplicate payment.

4. On September 29, 1999, we sent a letter to M.E. Zukerman & Co., Inc., requesting they provide us with time sheets and other detailed documentation to support time spent by their employees on this contract, detailed documentation for all reimbursable expenditures charged to this project, and the final work product which was generated as a result of the contract. Our letter was returned on October 12, 1999, unopened, marked "Return to Sender, Moved, Forwarding Order Expired."

CMHA was not able to provide us with any time sheets or an end product for this contract.

### FINDING REPAID UNDER AUDIT

CMHA issued check no. 001717 to M.E. Zukerman & Co., Inc. on September 9, 1994, in the amount of \$24,746. This check was supported, in part, by an invoice dated May 2, 1994 for \$15,530 which had previously been paid by CMHA on May 20, 1994 with check no. 001575, resulting in a duplicate payment.

In accordance with the foregoing facts and pursuant to the Ohio Revised Code Section 117.28, a Finding for Recovery for public money illegally expended was proposed against M. E. Zukerman & Co., Inc., Claire E. Freeman, Ronnie Davis, and The Hartford, their bonding company, jointly and severally, and in favor of the Cuyahoga Metropolitan Housing Authority (CMHA), in the amount of \$15,530.

On October 22, 2001, M.E. Zukerman & Co., Inc. issued a check to CMHA in the amount of \$15,530.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### FEDERAL QUESTIONED COSTS

OMB Circular A-87, Attachment (A), Section (C)(1)(a), requires that all costs must be necessary and reasonable for proper efficient performance and administration of federal awards. Section C(1)(j) requires that all costs must be adequately documented. In addition, they must be legal, proper, and consistent with the policies that govern the recipient's own expenditures.

The Inspector General Act Amendments of 1988 defines a questioned cost as a finding that, at the time of the audit, such cost is not supported by adequate documentation.

Section 3735.37 of the Ohio Revised Code requires metropolitan housing authorities to keep an accurate account of all its activities and of all receipts and expenditures.

As noted in the Background Information section of this report, federal funds of several programs were commingled in the Title V account during the Period, contrary to both OMB Circular A-133 (June 1997 Revision) and its predecessor OMB Circular A-128. Due to the commingling, CMHA could not identify the federal program providing the funding for the expenditure and thus not ensure compliance with the applicable federal program allowable cost principles.

For the M.E. Zukerman & Co., Inc. contract, CMHA was unable to provide us with documents to verify payments were made within the scope of contracted services (i.e., the purpose of travel outside of the City of Cleveland, and a final end product produced by the consultant). This prevented us from verifying payments were necessary and reasonable. Additionally, since the payments were issued out of the Title V account, the purpose for these expenditures were not in compliance with the HUD MOU.

**Federal Questioned Costs: \$99,284**

**Total Federal Questioned Costs, Issue No. 13, Zukerman Consulting: \$99,284**

### MANAGEMENT COMMENT

#### Travel Expenditures Reimbursed to Consultants

CMHA routinely paid travel expenditures to this consultant without complete documentation to support alleged travel expenses. During the Period, M.E. Zukerman & Co., Inc. received travel reimbursements of approximately \$70,000 for trips to New York City, Charlotte, Baltimore, Knoxville, Newark, Memphis, and Chicago. Without receipts to support invoice billings, CMHA cannot ensure payments are being made to consultants for actual travel incurred in the course of contract completion, or that travel was reasonable and necessary in fulfilling the requirements of the contract. From our review of this contract, the purpose or reason for this extensive travel is unclear.

We recommend CMHA require its consultants provide receipts which support expenditures related to travel. When it is expected that a consultant will be required to travel out of state, we recommend CMHA include specific requirements related to that travel in the contract language, including but not limited to the following: 1) proposed destination; 2) number of days expected to stay in each location; 3) a tentative budget for expenses; and 4) justification as to why out-of-state travel is required. When approving contracts, the CMHA Board should give careful consideration as to whether travel to locations outside of Cleveland is truly necessary to complete the goal of the contract. The Board should provide its authorization of costs only when it determines travel is reasonable and necessary.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 14 - Section 8 Voucher Program

We reviewed the Section 8 voucher program to determine whether vouchers were improperly given to landlords after tenants were deceased or had moved.

#### PROCEDURES

1. We reviewed requirements related to the Section 8 voucher program with CMHA management and the office of the United States Department of Housing and Urban Development (HUD) Inspector General. We obtained copies of relevant policies and procedures to gain an understanding of how the Section 8 program operated.
2. We met with the CMHA official responsible for managing the Fraud and Recovery Unit at CMHA. We obtained the results of the Federal Bureau of Investigations (FBI) and HUD investigations which documented the amount of Section 8 vouchers inappropriately paid to landlords during the Period to determine the volume of potential fraud cases identified.
3. We obtained CMHA-prepared documentation of the amount of recoveries assessed and collected during the Period, and the amounts outstanding and recovered to date.

#### RESULTS

1. The Section 8 program was established under the United States Housing Act of 1937, as amended by the Housing and Community Development Act of 1974.

The HUD rental voucher program provides subsidies so eligible families can afford rent for decent, safe, and sanitary housing. The voucher program is administered by local metropolitan housing authorities. HUD provides funds to CMHA for rent subsidy on behalf of eligible families, and to cover administrative costs of the program. Families participating in the program will select and rent units which meet program housing quality standards. If the metropolitan housing authority approves a family's unit and lease, the metropolitan housing authority contracts with the property owner to make rent subsidy payments on behalf of the family.

CMHA administers its Section 8 tenant-based programs in accordance with 24 Code of Federal Regulations (C.F.R.) 982, Unified Rule for Tenant-Based Assistance under Section 8 Rental Certificate and Voucher Program. As required by 24 C.F.R. 982, CMHA adopted and maintained an Administrative Plan which established the local policies for the administration of the Section 8 program in accordance with HUD requirements.

2. In August 1996, the FBI initiated a fraud investigation stemming from allegations that CMHA Section 8 employees were setting up "ghost" landlords and tenants and certificate numbers were being deleted, withdrawn, or reused from deceased tenants.

CMHA employee Joe Fouché is the sole person charged with maintaining records of all fraud cases identified, amounts to be recovered, and the volume of delinquencies at any given point in time. He had not received any documented guidance of procedures to be followed or any formal oversight by CMHA management.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

According to Mr. Fouché, CMHA Landlord/Tenant Compliance and Recovery Specialist, the FBI identified 100 of 1,200 tenant/landlord relationships as cases of potential fraud. Of these 100 cases, CMHA worked with the FBI and CMHA's Computer Department to extrapolate "high risk" cases, of which 8 cases were slated as "top priority," and resulted in lawsuits being filed and recovery action to begin. (See Result No. 3, below.)

Upon the recommendation of the FBI to engage the services of an outside agency, HUD contracted with Orion Consulting Group, which was charged with overseeing the entire Section 8 program administered by CMHA, including implementation of relevant changes in organization, staffing, the issuance of certificates and vouchers, and reconciling financial information.

3. Originally, there were 8 cases documented by the FBI for which CMHA is recovering funds against landlords and/or tenants (see Result No. 2, above). CMHA provided court records to support guilty pleas entered in 4 cases and in each of these cases, the defendant was ordered to pay restitution. In addition to the original 8 cases identified in conjunction with the FBI, Mr. Fouché has continued to review other potential fraud cases, resulting in recovery amounts being assessed and collected against the tenants and/or landlords. As of April 30, 2001, Mr. Fouché has documented collections on 87 cases.

According to the FBI investigation results, the total amount of fraud recoveries available to CMHA from the original eight cases was \$115,149. The remaining cases identified to date will result in CMHA recoveries in the amount of \$318,933 (total recovery amount identified to date is \$434,082). CMHA began recovery efforts prior to 1998, and as of April 30, 2001, CMHA has collected \$193,085.

The amount of outstanding collections at April 30, 2001 was \$301,799.

### MANAGEMENT COMMENT

#### Recovery of Funds from Section 8 Fraud Cases

CMHA is responsible for maintaining records of all fraud cases identified, amounts to be recovered, and the volume of delinquencies at any given point in time. CMHA employee Joe Fouché is the sole person charged with this task; however, has not received any documented guidance of procedures to be followed, or any formal oversight of the process in which he is engaged.

Having no formal oversight, monitoring, or additional tracking of Mr. Fouché's efforts, CMHA has no firm grasp of the ongoing status of these cases which could hinder recovery of funds. We recommend CMHA design a procedure manual to be followed in tracking these fraud cases, documentation of specific steps to be followed in the event of a delinquency, and a mechanism whereby the Board is periodically notified of the status of these fraud recoveries.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### APPENDIX A

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#### Summary of Audit Findings

	Findings for Recovery	Federal Questioned Costs	Non-Compliance Citations	Management Comments
Issue 1	\$210,662	\$692,511	4	3
Issue 2	0	0	1	4
Issue 3	0	1,359,974	8	2
Issue 4	0	0	0	1
Issue 5	0	2,038,076	0	1
Issue 6	0	159,984	0	1
Issue 7	0	53,886	0	1
Issue 8	0	226,617	0	1
Issue 9	0	642,656	1	1
Issue 10	0	0	0	3
Issue 11	47,704	226,252	0	0
Issue 12	0	912,346	3	3
Issue 13	0	99,284	0	1
Issue 14	0	0	0	1
<b>Total</b>	<b>\$258,366</b>	<b>\$6,411,586</b>	<b>17</b>	<b>23</b>

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### APPENDIX B

#### Summary of Adjustments to Forms W-2

Claire Freeman

<b>Benefit</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>Total</b>
Bonuses		\$44,964		\$59,181	\$104,145
Retirement	\$51,349	11,502	\$15,002	14,862	92,715
Life Insurance	1,012			(1,043)	(31)
Health Insurance				(2,326)	(2,326)
Disability Insurance	1,656	1,760	1,841	1,875	7,132
Monetized Leave Time			987		987
Relocation Expenses	5,605			(3,027)	2,578
Unidentified			14,047		14,047
<b>Total</b>	<b>\$59,622</b>	<b>\$58,226</b>	<b>\$31,877</b>	<b>\$69,522</b>	<b>\$219,247</b>

Ronnie Davis

<b>Benefit</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>Total</b>
Bonuses			\$8,232	\$46,890	\$55,122
Disability Insurance	\$3,272	\$3,463	3,724	3,722	14,181
Monetized Leave Time	14,537		(8,732)	40,321	46,126
Retroactive Payments				7,885	7,885
Salary Adjustments				(2,499)	(2,499)
Unidentified				15,000	15,000
<b>Total</b>	<b>\$17,809</b>	<b>\$3,463</b>	<b>\$3,224</b>	<b>\$111,319</b>	<b>\$135,815</b>

While attempting to reconcile Ms. Freeman and Mr. Davis's payroll records to their Form W-2 for each calendar year, we noted these adjustments which had not been processed for inclusion on the respective Form W-2. These adjustments are a combination of items we noted during our audit procedures and items recorded on CMHA Form W-2 adjustment sheets, which were never carried over to Ms. Freeman or Mr. Davis's Form W-2.





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**CUYAHOGA METROPOLITAN HOUSING AUTHORITY**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 8, 2001**