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HOUSING AUTHORITY OF THE TOWN OF BERWICK, LOUISIANA

**REPORT ON EXAMINATION OF
FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA**

TWELVE MONTHS ENDED DECEMBER 31, 1999

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 08-02-00

MIKE ESTES, P.C.
A PROFESSIONAL ACCOUNTING CORPORATION

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HOUSING AUTHORITY OF THE TOWN OF BERWICK

SUMMARY OF AUDITOR'S RESULTS AND SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditor's Results

- A. We issued an unqualified opinion on the Housing Authority of the Town of Berwick, Louisiana for the audit of its financial statements for the year ended December 31, 1999.
- B. The financial statements are prepared on the Enterprise Method. See Auditor's Report and Note A.
- C. *No reportable conditions in internal control were disclosed by our audit of the financial statements*
- D. The audit did not disclose any noncompliance which is material to the financial statements.
- E. No reportable conditions in internal control were disclosed by our audit over major programs.
- F. We issued an unqualified opinion on compliance for major programs.
- G. Our audit disclosed four audit findings that we are required to report under 510(a) of OMB Circular A-133.
- H. Major programs are as follows, and see Schedule of Federal Expenditures for CFDA numbers and amounts:
 - 1. Low Income Housing
 - 2. CIAP
- I. The dollar threshold to distinguish Type A and Type B programs is \$ 300,000.
- J. *The Housing Authority of the Town of Berwick, Louisiana did not qualify for the year ended December 31, 1999 as a low-risk auditee.*

Schedule of Findings and Questioned Costs

- K. There are eight findings in these financial statements that is required to be reported in accordance with GAGAS.
- L. There are four audit findings and questioned costs for Federal awards which shall include audit findings as described in 510a of OMB Circular A-133.

MIKE ESTES, P.C.
A PROFESSIONAL ACCOUNTING CORPORATION
4200 AIRPORT FREEWAY - SUITE 100
FORT WORTH, TEXAS 76117

(817) 831-3553

METRO (817) 654-4063

FAX (817) 831-3560

e-mail: estes3@flash.net

MIKE ESTES, CPA/PFS, CFP

MEMBER
AMERICAN BOARD CERTIFIED
PUBLIC ACCOUNTANTS

Independent Auditor's Report

Board of Commissioners
Housing Authority of the
Town of Berwick
Berwick, Louisiana

Regional Inspector General for Audit
Office of Inspector General
Department of Housing and Urban
Development

We have audited the accompanying general-purpose financial statements of the Housing Authority of the Town of Berwick, Louisiana at and for the year ended December 31, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Housing Authority of the Town of Berwick, Louisiana's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and provisions of the Louisiana Governmental Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of the Town of Berwick, Louisiana as of December 31, 1999, the results of its operations, *changes in its total net assets and statement of cash flows* for the year then ended, in conformity with generally accepted accounting principles.

As described in Note A to the financial statements, the PHA has changed from the Governmental Funds to the Enterprise Funds method for the year ended December 31, 1999.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 13, 2000 on our consideration of Housing Authority of the Town of Berwick's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part on an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements of the Housing Authority of the Town of Berwick, Louisiana taken as a whole. The accompanying Financial Data Schedule and other supplementary schedules are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information had been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general-purpose financial statements taken as a whole.

Mike Estes, P.C.

Fort Worth, Texas

June 13, 2000

HOUSING AUTHORITY OF THE TOWN OF BERWICK
BALANCE SHEET - ENTERPRISE FUND
DECEMBER 31, 1999

FW - 2010

Assets

Current assets

Cash - Note B	\$ 399,737.00
Investments	106,652.00
Accounts receivable - HUD	7,684.00
Accounts receivable - tenants, net of allowance for bad debts, \$343	1,274.00
Inventories	3,883.00
Prepaid insurance	6,778.00

Total current assets

526,008.00

Fixed Assets

Land	179,085.00
Buildings	3,557,979.00
Furniture, equipment & machinery	144,978.00

3,882,042.00

Less: Accumulated depreciation

3,007,362.00

Net fixed assets

874,680.00

Total assets

\$ 1,400,688.00

The Notes to Financial Statements are an integral part of these statements.

HOUSING AUTHORITY OF THE TOWN OF BERWICK
BALANCE SHEET - ENTERPRISE FUND BASIS
DECEMBER 31, 1999

FW - 2010

Liabilities

Current liabilities

Tenant's security deposits	\$	13,328.00
Accounts payable - other		16,794.00
Accrued wages, compensated absences		1,986.00

Total current liabilities		<u>32,108.00</u>
----------------------------------	--	------------------

Fund equity

Long-term debt - HUD guaranteed		958,084.00
Net HUD contributions		793,794.00

Total contributed capital		<u>1,751,878.00</u>
----------------------------------	--	---------------------

Retained earnings - Exhibit B		<u>(383,298.00)</u>
-------------------------------	--	---------------------

Total Net Assets		<u>1,368,580.00</u>
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Total Liabilities and Net Assets	\$	<u><u>1,400,688.00</u></u>
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The Notes to Financial Statements are an integral part of these statements.

HOUSING AUTHORITY OF THE TOWN OF BERWICK
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 1999

FW - 2010

Revenues

Tenant revenue	\$	197,898.00
HUD subsidy - Low Rent		121,494.00
HUD CIAP soft costs grant		29,137.00
Interest income		20,129.00
Other revenue		201.00
		<hr/>
Total Operating Revenue		368,859.00
		<hr/>
Operating expenses		
Administrative		112,802.00
Tenant services		240.00
Utilities		50,917.00
Maintenance		118,849.00
General expense		61,646.00
Depreciation		118,766.00
CIAP soft costs		29,137.00
		<hr/>
Total operating expenses		492,357.00
		<hr/>
Net operating loss		(123,498.00)
		<hr/>
Retained earnings (operating reserve), 12/31/98		300,239.00
Prior year GAAP adjustments		(560,039.00)
		<hr/>
Retained earnings (deficit)	\$	(383,298.00)
		<hr/>
Contributed Capital, 12/31/98		3,738,467.00
Current year addition and GAAP adjustments		(1,986,589.00)
		<hr/>
Contributed Capital, 12/31/99		1,751,878.00
		<hr/>
Total Net Assets - Exhibit A	\$	1,368,580.00
		<hr/> <hr/>

The Notes to Financial Statements are an integral part of these statements.

HOUSING AUTHORITY OF THE TOWN OF BERWICK
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 1999

FW - 2010

Cash flows from operating activities:

Tenant revenue	\$ 197,898.00
Other operating revenue	201.00
Operating expenses	<u>(492,357.00)</u>
Net cash (used) in operating activities	<u>(294,258.00)</u>

Cash flows from noncapital financing activities

Operating subsidies received	<u>357,466.00</u>
Net cash provided by noncapital financing activities	<u>357,466.00</u>

Cash flows from capital and related financing activities

HUD CIAP hard cost advances	140,524.00
Equipment and CIAP additions	<u>181,193.00</u>
Net cash provided (required) by capital and financing activities	<u>(40,669.00)</u>

Cash flows from investing activities

Interest income	<u>20,129.00</u>
Net cash provided (used) from investing activities	<u>\$ 20,129.00</u>

The Notes to Financial Statements are an integral part of these statements.

HOUSING AUTHORITY OF THE TOWN OF BERWICK
 STATEMENT OF CASH FLOWS - ENTERPRISE FUND (continued)
 YEAR ENDED DECEMBER 31, 1999

FW - 2010

Adjustments

Depreciation		118,766.00
NET HUD - REAC adjustments - noncash		7,776.00
Changes in assets and liabilities:		
Increase in accounts receivable	\$	(603.00)
Increase in inventories		(3,883.00)
Decrease in prepaid insurance		4,941.00
Decrease in accrued wages and payroll taxes		1,986.00
Increase in security deposits		1,871.00
Increase in accounts payable		1,093.00
		<u>131,947.00</u>
Change in cash and equivalents		174,615.00
Cash and equivalents beginning of year		<u>331,774.00</u>
Cash and equivalents end of year - Exhibit A	\$	<u>506,389.00</u>

The Notes to Financial Statements are an integral part of these statements.

HOUSING AUTHORITY OF THE TOWN OF BERWICK
COMPARISON OF ACTUAL HUD REVENUE AND
EXPENSES TO HUD BUDGETED
YEAR ENDED DECEMBER 31, 1999

FW - 2010

	<u>HUD Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues			
Tenant revenue	\$ 201,070.00	\$ 197,898.00	\$ (3,172.00)
HUD subsidy - Low Rent	121,494.00	121,494.00	0.00
HUD CIAP soft costs grant	29,137.00	29,137.00	0.00
Interest income	15,490.00	20,129.00	4,639.00
Other revenue	1,470.00	201.00	(1,269.00)
	<u>368,661.00</u>	<u>368,859.00</u>	<u>198.00</u>
Operating expenses			
Administration, net of CIAP soft cost:	117,648.00	112,802.00	(4,846.00)
Tenant services	0.00	240.00	240.00
Utilities	51,150.00	50,917.00	(233.00)
Maintenance	150,292.00	118,849.00	(31,443.00)
General expense	65,690.00	61,646.00	(4,044.00)
Depreciation		118,766.00	118,766.00
CIAP soft costs	29,137.00	29,137.00	0.00
	<u>\$ 413,917.00</u>	<u>\$ 492,357.00</u>	<u>\$ 78,440.00</u>
Excess (deficient) revenues	(45,256.00)	(123,498.00)	(78,242.00)
Add:			
Depreciation - not budgeted by HUD	0.00	118,766.00	118,766.00
Deduct:			
Capital expenditures - budgeted by HUD	<u>12,500.00</u>	<u>0.00</u>	<u>(12,500.00)</u>
Excess (deficiency) of budgeted revenues over expenses	<u>\$ (32,756.00)</u>	<u>\$ (4,732.00)</u>	<u>\$ 28,024.00</u>

The Notes to Financial Statements are an integral part of these statements.

HOUSING AUTHORITY OF THE TOWN OF BERWICK

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES AND CHANGE OF ACCOUNTING PRINCIPLE

The Housing Authority of Berwick, Louisiana (the Authority), a public corporate body, was organized for the purpose of providing decent, safe, and sanitary dwelling accommodations for persons of low income.

The Authority is engaged in the acquisition, modernization, and administration of low-rent housing. The Authority is administered by a governing Board of Commissioners (the Board), whose members are appointed by the Mayor of the Town of Berwick, Louisiana. Each member serves a five-year term on a rotating basis. Substantially all of the Authority's revenue is derived from subsidy contracts with the U.S. Department of Housing and Urban Development (HUD). The Annual Contributions Contracts entered into by the Authority and HUD provide operating subsidies for Authority-owned public housing facilities for eligible individuals.

(1) Financial Reporting Entity

Generally accepted accounting principles require that the financial statements present the accounts and operations of the Authority and its component units, entities for which the Authority is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Authority's operations and data from these units, if any, are combined with data of the Authority. Each discretely presented component unit, if any, would be reported in a separate column in the combined financial statements to emphasize that it is legally separate from the Authority. As of December 31, 1999, and for the fiscal then ended, the Authority had no discretely presented component units or any component units required to be blended in these financial statements.

HOUSING AUTHORITY OF THE TOWN OF BERWICK

NOTES TO FINANCIAL STATEMENTS

(continued)

DECEMBER 31, 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES AND CHANGE OF ACCOUNTING PRINCIPLE (continued)

(2) Change in Accounting Principle

For the year ended December 31, 1999, the PHA has changed from the Government Funds Method to the Enterprise Method. This change was strongly recommended by the Real Estate Assessment Center (REAC) of The Department of Housing and Urban Development.

The Enterprise Funds Method accounts for operations in a manner similar to a private business. Under this method, all assets, including fixed assets, and all liabilities are in one fund, and one financial statement.

The Enterprise Fund recognizes revenues and expenses on the full accrual basis. Revenues are recognized when earned and become measurable. Expenses are recognized in the period incurred, if measurable. In the prior method used, the Governmental Funds Method, the modified accrual method was necessary.

Depreciation expense must be recognized for the Enterprise Fund. Under the Governmental Funds Method, depreciation was optional and the PHA elected not to recognize it.

The PHA elected to close depreciation on contributed assets to contributed capital. Using this "addback" option, the full amount of depreciation is still reported on the income statement, and reduces the net income reported.

REAC suggests that soft costs from development and modernization be deleted from fixed assets and charged to HUD Capital Contributions.

REAC also allows PHA's to reclassify outstanding debt owed to Contributed Capital.

HOUSING AUTHORITY OF THE TOWN OF BERWICK

NOTES TO FINANCIAL STATEMENTS

(continued)

DECEMBER 31, 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES AND CHANGE OF ACCOUNTING PRINCIPLE (continued)

(3) Budgetary Data

The Authority is required by its HUD Annual Contributions Contracts to adopt annual budgets for the Low-Rent Housing Program. Annual budgets are not required for CIAP grants as their budgets are approved for the length of the project.

The Authority is under a limited budget review from HUD with the control category of total operating expenditures. If there are no overruns of the total operating expenditures, then HUD does not require budget revisions other than when there are substantial additions to nonroutine expenditures.

The budget is prepared on a statutory (HUD) basis and does not contain a provision for uncollectible tenant receivables, or depreciation. The budget does reflect furniture and equipment additions from operations.

(4) Cash and Cash Equivalents

The entity defines cash and cash equivalents to include certificates of deposit, money market funds, savings accounts, and demand deposits.

HOUSING AUTHORITY OF THE TOWN OF BERWICK

NOTES TO FINANCIAL STATEMENTS

(continued)

DECEMBER 31, 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES AND CHANGE OF ACCOUNTING PRINCIPLE (continued)

(5) Tenant Receivables

Receivables for rentals and service charges are reported in the General Fund, net of allowances for doubtful accounts.

NOTE B - CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

It is the entity's policy for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The entity's deposits are categorized to give an indication of the level of risk assumed by the entity at December 31, 1999. The categories are described as follows:

- Category 1 - Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3 - Uncollateralized, uninsured and unregistered, but with securities held by the bank, its trust department, or its agent, pledged to the PHA, but not in the PHA's name.

HOUSING AUTHORITY OF THE TOWN OF BERWICK

NOTES TO FINANCIAL STATEMENTS

(continued)

DECEMBER 31, 1999

NOTE B - CASH DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)

Cash Deposits, categorized by level of risk, (at cost, which approximates market) are:

Total Bank Balances	Category		
	1	2	3
\$ <u>506,389</u>	\$ <u>100,000</u>	\$ <u> </u>	\$ <u>406,389</u>

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the Housing Authority that the fiscal agent has failed to pay deposited funds upon demand.

NOTE C - ACTIVITIES OF THE PHA

At December 31, 1999, the PHA was managing 127 units of low-rent in three projects under Program FW - 2010.

NOTE D - CONTINGENCIES

The entity is subject to possible examinations by federal regulators who determine compliance with terms, conditions, laws and regulations governing grants given to the entity in the current and prior years. These examinations may result in required refund by the entity to federal grantors and/or program beneficiaries.

HOUSING AUTHORITY OF THE TOWN OF BERWICK

NOTES TO FINANCIAL STATEMENTS
(continued)
DECEMBER 31, 1999

NOTE E - FIXED ASSETS

As noted in Note A, soft costs formerly capitalized have been written off and fixed assets are now depreciated on the straight-line method over their estimated useful lives as follows:

Site improvements	15 Years
Buildings	33 Years
Buildings improvements	15 Years
Nondwelling structures	15 Years
Equipment	3 to 7 Years

	06/30/00 Cost	06/30/99 Accumulated Depreciation	Current Depreciation	06/30/00 Accumulated Depreciation
Land	\$ 179,085			
Buildings and Improvements	3,557,979	2,792,554	104,267	2,896,821
Equipment	144,978	96,042	14,499	110,541
	<u>\$ 3,882,042</u>	<u>2,888,596</u>	<u>118,766</u>	<u>3,007,362</u>

All land and buildings are encumbered by a Declaration of Trust in favor of the United States of America as security for obligations guaranteed by the government and to protect other interests of the government.

HOUSING AUTHORITY OF THE TOWN OF BERWICK

NOTES TO FINANCIAL STATEMENTS

(continued)

DECEMBER 31, 1999

NOTE F - LONG-TERM DEBT

As noted in Note A, long-term debt owed to HUD has been closed to Contributed Capital. For the year ended December 31, 1999, long-term debt outstanding of \$ 958,084 were closed to capital contributions.

NOTE G - RETIREMENT PLAN

The entity provides benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate after a six months exclusionary period. The entity's contributions for each employee (and interest allocated to the employee's account) are vested 20 % annually for each year of participation. An employee is fully vested after 5 years of participation.

NOTE H - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Investments

The carrying amount approximates fair value because of the short maturity of these instruments.

HOUSING AUTHORITY OF THE TOWN OF BERWICK

NOTES TO FINANCIAL STATEMENTS

(continued)

DECEMBER 31, 1999

NOTE I - ACCOUNTING FOR THE IMPAIRMENT OF LONG - LIVED ASSETS

The full amount of the carrying value of buildings and land improvements are deemed recoverable from future cash flows.

NOTE J - USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE K - COMPENSATED ABSENCES

Employees earn annual leave based upon years of service, and may accrue up to **300** hours. Sick time is earned but not accrued since it is dependent upon a future event. Upon termination all accrued vacation time is paid. At 9/30/99 the PHA had a liability of \$1,986.00. Of the aforementioned amount, \$1,456.00 pertained to the prior year. Only the \$530.00 increase is recognized as a current year expense in these financial statements.

NOTE L - FUND EQUITY AND RETAINED EARNINGS

As a result of changing from the HUD statutory method of accounting to the enterprise fund-type of proprietary accounting, 9/30/98 fund equity and 9/30/98 retained earnings has been restated. The prior period adjustments are for soft costs written off, accumulated depreciation and compensated absences.

SUPPLEMENTARY INFORMATION

HOUSING AUTHORITY OF THE TOWN OF BERWICK

STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST

ANNUAL CONTRIBUTION CONTRACT
FW - 2010

1. The Actual Modernization Costs are as follows:

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1999</u>
Funds Approved	\$ 360,000	\$ 3,000	\$ 225,000	\$ 200,000	\$ 206,385
Funds Expended	<u>360,000</u>	<u>3,000</u>	<u>225,000</u>	<u>200,000</u>	<u>206,385</u>
Excess of Funds Approved	\$ <u>0.00</u>	\$ <u>0.00</u>	\$ <u>0.00</u>	\$ <u>0.00</u>	\$ <u>0.00</u>
Funds Advanced	\$ 360,000	\$ 3,000	\$ 225,000	\$ 200,000	\$ 206,385
Funds Expended	<u>360,000</u>	<u>3,000</u>	<u>225,000</u>	<u>200,000</u>	<u>206,385</u>
Excess of Funds Advanced	\$ <u>0.00</u>	\$ <u>0.00</u>	\$ <u>0.00</u>	\$ <u>0.00</u>	\$ <u>0.00</u>

2. The distribution of costs by project as shown on the Final Statements of Modernization Costs submitted to HUD for approval are in agreement with the PHA's records. The AMCC's are dated as follows: 1994-5/22/98, 1995-5/22/98, 1996-9/22/99, 1997-11/4/99, 1999-1/12/00.
3. All modernization costs have been paid and all related liabilities have been discharged through payment.

The Notes to Financial Statements are an integral part of these statements.

HOUSING AUTHORITY OF THE TOWN OF BERWICK

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

YEAR ENDED DECEMBER 31, 1999

FEDERAL GRANTOR PROGRAM TITLE	CDFA NO.	<u>PROGRAM EXPENDITURES</u>
U.S. Department of Housing and Urban Development		
Direct Programs:		
Low-Income Housing		
Operating Subsidy	14.850	121,494.00
Major Program Total		<u>121,494.00</u>
Comprehensive		
Improvement		
Assistance Program	14.852	376,496.00
Major Program Total		<u>376,496.00</u>
Total HUD		\$ <u><u>497,990.00</u></u>

MIKE ESTES, P.C.
A PROFESSIONAL ACCOUNTING CORPORATION
4200 AIRPORT FREEWAY - SUITE 100
FORT WORTH, TEXAS 76117

(817) 831-3553

METRO (817) 654-4063

FAX (817) 831-3560

e-mail: estes3@flash.net

MIKE ESTES, CPA/PFS, CFP

MEMBER
AMERICAN BOARD CERTIFIED
PUBLIC ACCOUNTANTS

Report on Compliance with Requirements Applicable to Each
Major Program and Internal Control Over Compliance in
Accordance with OMB Circular A-133

Housing Authority of the
Town of Berwick
Berwick, Louisiana

We have audited the compliance of the Housing Authority of the Town of Berwick, Louisiana with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 1999. The Housing Authority of the Town of Berwick, Louisiana's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Authority of the Town of Berwick, Louisiana's Management. Our responsibility is to express an opinion on the Housing Authority of the Town of Berwick, Louisiana's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Authority of the Town of Berwick, Louisiana's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Housing Authority of the Town of Berwick, Louisiana's compliance with those requirements. Our audit disclosed four instances of A-133 non-compliance. They are audit findings #9 through 12.

In our opinion, the Housing Authority of the Town of Berwick, Louisiana complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 1999.

Internal Control Over Compliance

The management of The Housing Authority of the Town of Berwick, Louisiana is responsible for establishing and maintaining internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Authority of the Town of Berwick, Louisiana's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Mike Estes, P.C.

Fort Worth, Texas
June 13, 2000

The Notes to Financial Statements are an integral part of these statements.

MIKE ESTES, P.C.
A PROFESSIONAL ACCOUNTING CORPORATION
4200 AIRPORT FREEWAY - SUITE 100
FORT WORTH, TEXAS 76117

(817) 831-3553

METRO (817) 654-4063

FAX (817) 831-3560

e-mail: estes3@flash.net

MIKE ESTES, CPA/PFS, CFP

MEMBER
AMERICAN BOARD CERTIFIED
PUBLIC ACCOUNTANTS

Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in
Accordance with Governmental Auditing Standards

Housing Authority of the
Town of Berwick
Berwick, Louisiana

We have audited the financial statements of the Housing Authority of the Town of Berwick, Louisiana as of and for the year ended December 31, 1999, and have issued our report thereon dated June 13, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, and provisions of the Louisiana Governmental Audit Guide.

Compliance

As part of obtaining reasonable assurance about whether the Housing Authority of the Town of Berwick, Louisiana's financial statements fare free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing a opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed eight instances of noncompliance that are required to be reported under *Governmental Auditing Standards*, or the Louisiana Governmental Audit Guide. They are audit findings #1 through 8.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Authority of the Town of Berwick, Louisiana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is a matter of public record and its distribution is not limited.

Mike Estes, P. C.

Fort Worth, Texas
June 13, 2000

The Notes to Financial Statements are an integral part of these statements.

HOUSING AUTHORITY OF THE CITY OF BERWICK

GENERAL COMMENTS

DECEMBER 31, 1999

James Vidos was the Executive Director from April 10, 1995 until he resigned, August 31, 1999. James Dunagin was Executive Director from September 1, 1999 until he resigned, October 11, 1999.

Mary Nunn was hired January 3, 1994 and resigned September 30, 1999. She returned, and was interim Executive Director from October 12, 1999 until approximately November 1, 1999. She has been permanent Executive Director since approximately November 1, 1999.

Kristie Carriere was hired June 1, 1997 and resigned September 30, 1999. She was hired on an interim basis from October 12, 1999 until approximately November 1, 1999. She has been a permanent employee since approximately November 1, 1999. For Civil Service, Carriere has always been classified.

In August 1996, by Board resolution, the PHA agreed "to adopt the Civil Service Personnel Manual as the Housing Authority Personnel Manual." Thus, for annual leave purposes, Vidos and Nunn were subject to the same rules as civil service employees.

All of the employees have always been salaried. It appears the entire present Board of Commissioners has been appointed by the Mayor since October, 1999. As stated above, Nunn and Carriere were first brought back on an interim basis. A written record of exactly when they were hired again on a permanent basis is not available. The first payments coded to administrative salaries for both is for the November 1-15 payroll. Thus, November 1 is considered their permanent re-start date.

For the Civil Service computations, I consulted with the Louisiana Department of Civil Service in Baton Rouge.

HOUSING AUTHORITY OF THE TOWN OF BERWICK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 1999

Prior Audit Findings and Questioned Costs

There were no prior audit findings or questioned costs.

Current Audit Findings

1) ANNUAL LEAVE, SALARY AND PAYROLL TAX ISSUES

Mary Nunn

As stated in the General Comments, unclassified employees are treated like classified Civil Service employees. Nunn had worked long enough to earn 300 hours of annual leave at her 9/30/99 resignation date.

However, Civil Service rule 11.10(e) says that when someone is rehired, they must repay the difference in the number of hours earned, and the number of hours that intervened. Civil Service says there are 173 working hours per month. Nunn was not a permanent employee for October 1999. Thus, she was overpaid 127 hours (300 earned and originally paid, less 173 working hours in October).

In addition, Nunn was paid for four additional weeks of vacation, two on check #10162 and two on check #10163 that she was not entitled to, since she had already been paid for the 300 hours maximum. The annual leave and vacation payments were not listed on her earnings records. Neither was October check #10189 for an interim contract payment. Evidently these payments are not on her 1999 W-2.

Recommendation for Mary Nunn

Nunn's payback, 1999 revised W-2, 1099 and payroll tax report revisions are computed as follows:

Check # - Paid to Nunn

10166	300 hours x \$9.18	2,754.00
10166	2 weeks vacation	632.00
10176	2 weeks vacation	632.00
		<u>632.00</u>
A>		\$ 4,018.00

HOUSING AUTHORITY OF THE TOWN OF BERWICK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 1999

Recommendation for Mary Nunn (continued)

1> <u>Computed Payback and Questioned Cost</u>	
127 hours x \$9.18	1,165.00
4 weeks' vacation	<u>1,264.00</u>
	B> \$ 2,429.00
Employee portion of FICA plus estimated penalties for revised 4th quarter 941's	<u>200.00</u>
Total Payback	<u>\$ 2,629.00</u> - Due from Ms. Nunn
2> Revised 1999 W-2 to be done by fee accountant	
A minus B =	<u>1,589.00</u> - increase in 1999 W-2
3> 1999 1099 to be issued for check #10189 for interim contract work	<u>1,590.58</u>

Reply

I will review this with the Board.

HOUSING AUTHORITY OF THE TOWN OF BERWICK
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 (CONTINUED)
 JUNE 30, 1999

ANNUAL LEAVE, SALARY AND PAYROLL TAX ISSUES (Continued)

Kristie Carriere

As stated in the General Comments, Carriere was a classified Civil Service employee. At her 9/30/99 resignation, she had worked 28 months. Civil Service considers 173 working hours per month. Rule 11.5(b) 1. credits an employee with Carriere's service length at .0461 per hour of service. $28 \times 173 \times .0461 = 225$ annual leave hours Carriere had earned.

Before even considering her rehire, Carriere was overpaid 75 hours. As in the case of Nunn noted above, when Carriere was rehired on November 1, she owed also the difference between the 225 hours she earned and the 173 working hours in October, a total of 52 additional hours.

In addition, Carriere was paid for two additional weeks of vacation that she was not entitled to, since she had already been paid for the 225 annual leave hours earned. The annual leave and vacation payments were not listed in her earnings records. Neither was her October 1999 interim, contract payment. Evidently these payments are not on her 1999 W-2.

Recommendation for Kristie Carriere

Carriere's payback, 1999 revised W-2 , 1099, and payroll tax report revisions are computed as follows:

Check # - Paid to Carriere

10162	300 hours x \$6.29	1,887.00
10163	2 weeks vacation	419.00
		A> \$ 2,306.00

1> Computed Payback and Questioned Cost

75 hours x \$6.29	471.00
52 hours x \$6.29	327.00
2 weeks vacation	419.00
	B> \$ 1,217.00

Employee portion of
 FICA plus estimated
 penalties for revised
 4th quarter 941's

	136.00
Total Payback	\$ 1,353.00 - Due from Carriere

HOUSING AUTHORITY OF THE TOWN OF BERWICK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 1999

ANNUAL LEAVE, SALARY AND PAYROLL TAX ISSUES (Continued)

Recommendation for Kristie Carriere (continued)

- 2> Revised 1999 W-2 to be done
by fee accountant
A minus B = \$ 1,089.00 increase in 1999 W-2

- 3> 1999 1099 to be issued for
check #10190 for interim contract work \$ 1,088.80

Reply

I will review this with the Board.

Neal Goulas

Neal Goulas was a maintenance man who was a permanent employee throughout 1999. When Nunn and Carriere were brought back in October 1999 on an interim basis, Goulas was paid an amount that was above his normal salary to help "catch up" the PHA. No taxes or FICA was withheld, and the payment was not listed on the earnings record.

Recommendation for Neal Goulas

The fee accountant needs to review Goulas' 1999 W-2 for check #10171 for \$1,670.45 and revise the W-2 and quarterly payroll tax reports, if necessary. Goulas needs to be advised of the total federal and state withholding and IRS penalties he owes the PHA after the fee accountants computes it. It approximates \$250, or 15% of \$1,670.45.

HOUSING AUTHORITY OF THE TOWN OF BERWICK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 1999

ANNUAL LEAVE, SALARY AND PAYROLL TAX ISSUES (Continued)

James Dunagin

James Dunagin was Executive Director from September 1, 1999 until October 11, 1999. In a 10/11/99 letter addressed to the Co-Chairman of the Board, Dunagin submitted his resignation, "per your request".

Dunagin was paid a gross salary of \$5,000 and a net of \$3,984.84 on 10/11/99 for, per the check voucher, "pay for period October 1 through November 30".

No employment contract has been made available to me between Dunagin and the PHA. Reasonable, termination settlements are sometimes approved by HUD in lieu of a written employment agreement. But, Dunagin only worked 41 days. The current Board was not in place then.

Recommendation for James Dunagin

Federal or state authorities may review this further. At a minimum, the current Board is advised to not make any future severance payments to any employees that are not in accordance with a HUD-approved agreement, personnel policy, or other approval from HUD.

Additional Recommendations

An annual leave payment was also paid to James Vidos, former Executive Director. Vidos had earned the 300 hours of annual leave he was paid, based on length of service.

Neither Vidos, Nunn nor Carriere had posted, accrued annual leave records as required by Civil Service. All three represent they had not taken any vacation time, but this cannot be proven or disproved from any annual leave records.

The Louisiana Department of Civil Service has advised me that while a lack of posted, accrued, well maintained annual leave records is a severe violation of civil service law, the lack of such records does not by itself invalidate payment of annual leave.

The PHA should immediately determine what type of leave record should be maintained for Civil Service if it has not already been done. State Employee Performance Forms (SF15) need to be prepared annually and kept on file.

HOUSING AUTHORITY OF THE TOWN OF BERWICK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 1999

2) Travel Not Supported

- A) The Executive Director traveled to Washington, D.D. for an awards ceremony. Her meal per diem, hotel and plane charges are properly supported. On check #10267, dated 11/17/99, she also drew a \$400 travel advance. The only support for this is a \$30 airport parking receipt.
- B) The Executive Director traveled to a HUD meeting in Albuquerque, New Mexico. Two tickets, one for the E.D. and one for her minor daughter, were purchased on the PHA's charge card. The tickets cost \$218 each.

Recommendation (Questioned Cost)

The \$588 (\$400 less \$30 and \$218) should be repaid by the Executive Director. In the future, travel advances need to be properly supported, and any unused funds promptly be remitted to the PHA.

Reply

Regarding the Washington trip, I returned with \$200 that I placed in an envelope and used for petty cash-type purchases for the PHA. I thought I had reimbursed the PHA for the \$218 plane ticket, but I have been unable to locate the reimbursement in the accounting records.

I will review this with the Board.

3) Clothes Purchased by the Executive Director and Assistant

By their representation, Mary Nunn and Kristi Carriere purchased matching or coordinating clothes to be worn at the PHA office, from PHA funds. One of them represented to me that HUD-New Orleans okayed this type of purchase, although total dollars were not discussed. One of them represented they purchased the following clothes:

For Winter time:	8 pairs of pants 10 blouses
For Summer time:	4 2-piece outfits

HOUSING AUTHORITY OF THE TOWN OF BERWICK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 1999

Clothes Purchased by the Executive Director and Assistant (continued)

Per Nunn and Carriere, the clothes purchased are suitable for everyday wear. None bear the PHA logo.

A reasonable estimate for this cost would be \$1,800 (\$900 x 2). From a review of PHA records, I noted purchases from Dillard's and The Limited of a lesser amount. I'm not certain that I identified all clothes purchased. I audited only costs through 12/31/99.

In addition, a \$179.00 suit was purchased from Dillard's that had a note of the documentation, "suit for Washington travel". HUD encouraged many PHA's in 1999 to travel to Washington D.C. for an awards conference.

To finalize this audit, I checked with two HUD Management Specialists on what HUD okays currently in the way of work clothes purchased with federal money. Both specialists said PHA's could purchase modest, coordinating or matching clothes. A PHA's logo is not required. I did not discuss dollar amounts with HUD.

Recommendation

In my opinion, clothes of \$900 per employee is excessive.

In my opinion, the Board, at a minimum, should require two things:

- A) Require a BHA (Berwick Housing Authority) logo be embroidered on all tops and blouses purchased by these two employees, except the suit purchased for the Washington trip.
- B) Carefully examine any requests for clothes' reimbursement by PHA employees in the future.

Reply

We will talk to the Board about this.

HOUSING AUTHORITY OF THE TOWN OF BERWICK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 1999

4) Payment of Meals for Board Members

It appears the PHA sometimes pays meals for Board members in conjunction with periodic Board meetings. I note that the Board members are not compensated. Also, HUD notes in available correspondence the national problem of recruiting and retaining Board members for PHAs.

However, a strict reading of state law prohibits these types of expenditures.

Recommendation

The PHA should discontinue the practice of purchasing meals for Board members.

Louisiana Revised Statutes (LRS) 40:401.8 enacted by the Legislature on June 12, 1995 allows the Board members up to \$75.00 per diem for attendance at Board meetings.

If this is an option the Board wants to pursue, it should check with an attorney regarding whether the above statute has been amended. Also, the Board should obtain in writing from the attorney exactly what the Board must do for the per diem, and particularly what the record-keeping requirements are.

Also, once the letter from the attorney is obtained, HUD - New Orleans needs to be consulted.

Reply

We will review this.

5) Louisiana Compliance Questionnaire

The PHA did not complete the Louisiana Compliance Questionnaire for the year ended 12/31/99. I did obtain a listing of old and new Board of Commissioners and their occupations, which is an integral part of the questionnaire.

Recommendation

The Questionnaire should be completed annually and available for the auditor.

Reply

I will comply with the above.

HOUSING AUTHORITY OF THE TOWN OF BERWICK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 1999

6) Board of Commissioners Meetings

The Board of Commissioners apparently violated state law in the Board meetings as follows:

- A) Minutes of the 1/27/99 Board meeting says "Chairperson (name withheld) opened meeting by saying that the Board was going into Executive Session." Louisiana R.S. 42.7 states the Board must vote to go into Executive Session.

While the minutes imply the Board voted to go into Executive Session, this vote is not explicit. A roll call vote should have been recorded.

However, the Board did go into Executive Session for one of the proper reasons, per Louisiana R.S., 42.6 - "investigative proceedings regarding allegations of misconduct."

- B) The Minutes of the 10/8/99 meeting had the following deficiencies:
- 1) No evidence that the meeting time was properly posted for public notice.
 - 2) Minutes were not typed and appear to be rough notes.
 - 3) Minutes were not witnessed by the Board secretary.

I note the Board of Commissioners and the Executive Director position was in a state of flux at this time. (See the above time-line in the General Comments).

- C) HUD requires that the PHAS submission be certified by Board Resolution. The 1999 PHAS certification was not available.
- D) Both HUD and state law requires that annual operating budgets be approved by Board Resolution. A copy of this resolution was not available to me that approved the year 2000 operating budget (budget was prepared in 1999).

Recommendation

Each member's vote should be recorded when a vote is taken to go into Executive Session. Meeting dates and times should always be posted for public notice. Minutes should be properly prepared and witnessed. The annual PHAS should be approved by Board resolution. The annual operating budgets (and revisions) should be approved by Board Resolution.

Reply

We will comply with the above.

HOUSING AUTHORITY OF THE TOWN OF BERWICK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 1999

7) Poor Control Over Gasoline Purchases

Three gasoline credit cards were used in 1999. Often times, the monthly disbursement was supported by only a statement, instead of the signed gas tickets. No mileage logs were kept.

Recommendation

The PHA should do three things, with consideration given to the relatively small size of the PHA:

- A) Destroy all but one credit card. This credit card should be kept by the Executive Director or the Maintenance Chief.
- B) All gasoline tickets signed by the Maintenance Chief should also be signed by the Executive Director.
- C) The Board should review a list of incurred charges each month.

Reply

We will comply with the above.

8) Use of Visa Cards

Several purchases were charged on the Visa card for Wal-Mart and Sam's that did not have a detail attached. The purchases were minor in amount. From experience, I realize many PHAs purchase various types of operating and maintenance supplies from Wal-Mart and Sam's Wholesale.

Recommendation

Detailed invoices and descriptions should be kept whenever possible. When not possible, an item description should be written beside each charge. The Board should review monthly all charges to the Visa card (as well as the gas card noted in another audit finding).

HOUSING AUTHORITY OF THE TOWN OF BERWICK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(CONTINUED)

JUNE 30, 1999

9) Non-Compliance for Tenant Tracking for De-concentration Policy

The Quality Housing and Work Responsibility Act of 1998 requires the PHA to adopt income targeting, to target 40% of its new admissions for families whose incomes do not exceed 30% of the area median income (area's rates provided by HUD).

The PHA properly adopted income targeting, (also known as a de-concentration policy) by Resolution #667 and also on page 14 of its FY 2000 Annual Plan.

However, the income range of applicants is not noted on the waiting list. Therefore, it is not evident how PHA personnel are skipping "extremely low income - below 30% of median" or applicants with higher incomes. It is a moot point if no applicants apply that have higher incomes. But, this cannot be determined if notations are not noted on the waiting list.

Recommendation

Income classification as per the Multi-Family Tenant Characteristics System (MTCS) should be noted for each applicant on the waiting list. Preference should be given to applicants with higher incomes until no more than 40% of the tenants have income less than 30% of the area's median income.

PHA personnel should also consult their HUD Management Specialists about how to adhere to this de-concentration policy.

Reply

We will comply with the above. However, we pointed out that the PHA has a chronic vacancy problem. Much of the time when someone applies, we do not have any eligibles on our waiting list. Thus, the recommendation will usually, if not always, be a moot point.

10) Current Board Resolution Needed

During 1999, three PHA employees, consisting of the Executive Director and two maintenance employees, were also residents of the PHA. All were charged and paid a monthly rent of \$40.00.

HUD allows, even prefers, that PHA employees also be residents. The employees are also allowed to pay minimum rents.

The only requirement is that periodically the Board pass a resolution to that effect. Currently, the PHA has a newly appointed Board.

HOUSING AUTHORITY OF THE TOWN OF BERWICK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
JUNE 30, 1999

Current Board Resolution Needed (continued)

Recommendation

The Board of Commissioners should pass a resolution that states PHA employees are allowed to live on-site. The Board should specify the rent to be charged.

Reply

We will comply with the above.

11) PHAS

The PHA did not have the documentation available for the answers the PHAS Component 1 or Component 4. The given answers appear reasonable.

Recommendation

The PHA is required by HUD to keep workpapers or notes that supports the answers to PHAS.

Reply

We have the documentation for these answers but have misplaced them. We will keep the support in the future.

12) Utility Allowances

HUD requires the PHA to annually check its utility rates. If any one category has changed more than 10%, the utility allowances must be revised. The utility allowances were not revised for 1999. Documentation was not provided that the rates were checked.

Recommendation

The PHA should check its rates each year and revise the utility allowances if necessary. The PHA should also document its review of annual rates.

Reply

We did this in 1999. I have misplaced the proof for the auditor. No rate change was necessary. We will comply in the future.