



**CUYAHOGA METROPOLITAN  
HOUSING AUTHORITY**

**Financial Statements  
and Supplemental Schedules  
for the Year Ended  
December 31, 1997  
and Independent Auditors' Reports**

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# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

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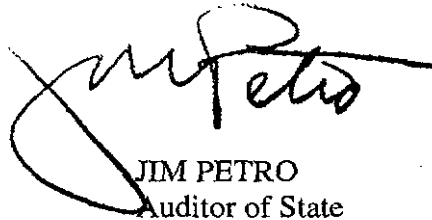
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Board of Commissioners  
Cuyahoga Metropolitan Housing Authority

We have reviewed the independent auditor's report of the Cuyahoga Metropolitan Housing Authority, Cuyahoga County, prepared by Deloitte & Touche LLP for the audit period January 1, 1997 through December 31, 1997. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Cuyahoga Metropolitan Housing Authority is responsible for compliance with these laws and regulations.



JIM PETRO  
Auditor of State

February 22, 2000

**INDEPENDENT AUDITORS' REPORT**

Board of Commissioners  
Cuyahoga Metropolitan Housing Authority  
Cleveland, Ohio

We were engaged to audit the accompanying balance sheets of the Cuyahoga Metropolitan Housing Authority (the "Authority") as of December 31, 1997 and the related statements of revenues and expenses and changes in surplus for the year then ended. These financial statements are the responsibility of the Authority's management.

As described in Note 2 to the financial statements, the Authority's policy is to prepare its financial statements on the basis of accounting practices permitted by the U.S. Department of Housing and Urban Development ("HUD"). These practices differ in certain respects from generally accepted accounting principles. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

We were unable to obtain a letter of representation from the Authority's management.

We believe the system of internal accounting and administrative controls at the Authority is deficient, and, as a result, there can be no reasonable assurance that the accompanying financial statements reflect the results of all transactions requiring financial statement recognition. We have identified material weaknesses in internal controls related to the general control environment and in the areas of expense and cash disbursements, revenues and cash receipts, budget, land, structures and equipment, accounts payable, posting to the general ledger and compliance with HUD-funded programs.

There are significant inadequacies in the Authority's accounting records for land, structures and equipment. As a result, we were unable to satisfy ourselves concerning the amounts of land, structures and equipment at December 31, 1997 or the amounts of certain related expenses for the year then ended.

There are significant inadequacies in the Authority's accounting records for accounts payable, accounts receivable from HUD and accounts payable to HUD. As a result, we were unable to satisfy ourselves concerning the amounts of accounts payable, accounts receivable from HUD and accounts payable to HUD at December 31, 1997 or the amounts of related revenues and expenses for the year then ended.

Because of the matters described in paragraphs three through six of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to above.

As described in Note 11 to the financial statements, we developed certain findings regarding the Authority's compliance with requirements applicable to its federal financial assistance programs as a result of procedures performed under provisions of the Single Audit Act Amendments of 1996. The outcome of such compliance findings is not presently determinable, and no provision has been made in the financial statements for the effect, if any, of such contingencies.

As described in Note 11 to the financial statements, the Authority is a defendant in several lawsuits. In addition, certain matters related to the Authority are currently under investigation by outside law enforcement and regulatory agencies, the outcome of which remain unresolved. The ultimate outcome of these matters cannot presently be determined. Accordingly, no provision for any loss that may result from the resolution of these matters has been made in the accompanying financial statements.

The year 2000 required supplementary information on page 29 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that the Authority is or will become year 2000 compliant, that the Authority's remediation efforts will be successful in whole or in part, or that the parties with which the Authority does business are or will become year 2000 compliant.

We were engaged to audit the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose 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 financial statements. The schedule is the responsibility of management of the Authority. Because of the matters listed in paragraphs three through six of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the schedule of expenditures of federal awards.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 1999 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations, contracts and grants. That report is an integral part of 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. As a result of the issues discussed in paragraphs three through six of this report, we have documented material weaknesses in internal control and material noncompliance.

*Deloitte & Touche LLP*

November 4, 1999

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## BALANCE SHEETS - CONVENTIONAL LOW-RENT HOUSING PROGRAM AND HOMEOWNERSHIP PROGRAM DECEMBER 31, 1997

ASSETS	Annual Contributions Contract Number C-5003	
	Conventional Low-Rent Housing Program	Homeownership Program
Cash and unrestricted investments (Notes 3 and 4)	\$ 8,550,150	\$ 842,252
Restricted investments (Note 4)	1,213,814	500,313
Escrow funds	7,264,271	
Deferred compensation investments (Note 7)	4,553,013	
Accounts receivable:		
HUD annual contribution	4,762,579	
HUD - other	13,918,030	
Tenant, net of allowance for doubtful accounts of \$16,116 and \$84,035, respectively	112,488	(37,026)
Interprogram	3,218,086	(23,433)
Other	29,787	13,341
Inventory	1,796,669	
Deposits	480,098	
Prepaid and other assets	379,489	6,074
Debt amortization funds	27,360	
Land, structures and equipment (Note 5)	680,302,639	3,016,427
<b>TOTAL ASSETS</b>	<b>\$ 726,608,473</b>	<b>\$4,317,948</b>
<b>LIABILITIES AND SURPLUS</b>		
Accounts payable:		
Trade	\$ 9,842,867	
HUD	2,239,348	
Accrued liabilities	4,175,643	\$ 27,449
Tenant deposits (Note 6)	735,813	435,864
Deferred compensation (Note 7)	4,553,013	
Debt obligations (Note 8)	7,290,314	
Other	5,381,923	
Total liabilities	34,218,921	463,313
Surplus (Note 2)	692,389,552	3,854,635
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b>\$ 726,608,473</b>	<b>\$4,317,948</b>

See notes to the financial statements.

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## STATEMENTS OF REVENUES AND EXPENSES - CONVENTIONAL LOW-RENT HOUSING PROGRAM AND HOMEOWNERSHIP PROGRAM YEAR ENDED DECEMBER 31, 1997

	Annual Contributions Contract Number C-5003	
	Conventional Low-Rent Housing Program	Homeownership Program
<b>OPERATING REVENUES:</b>		
Dwelling rental	\$ 9,217,790	\$ 141,597
Non-dwelling revenue	87,749	
Excess utilities	91,460	
Earnings on investments	382,030	2,933
Proceeds from home sales		152,988
Other	523,948	7,899
<b>Total operating revenues</b>	<b>10,302,977</b>	<b>305,417</b>
<b>OPERATING EXPENSES:</b>		
Administrative	11,755,802	172,455
Tenant service	492,533	
Utilities	17,337,463	1,192
Ordinary maintenance and operations	13,364,630	801
General	7,411,980	161,478
Nonroutine maintenance	441,556	1,450
Protective services	901,019	
Prior period adjustment affecting residual receipts	160,134	(537)
<b>Total operating expenses</b>	<b>51,865,117</b>	<b>336,839</b>
<b>DEFICIENCY OF REVENUES OVER EXPENSES</b>	<b>\$ (41,562,140)</b>	<b>\$ (31,422)</b>

See notes to the financial statements.



# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## STATEMENTS OF CHANGES IN SURPLUS - CONVENTIONAL LOW-RENT HOUSING PROGRAM AND HOMEOWNERSHIP PROGRAM YEAR ENDED DECEMBER 31, 1997

	Conventional Low-Rent Housing Program		Homeownership Program		Total
	ACC Contract Number C-5003	Debt	ACC Contract Number C-5003	Debt	
	Non-Debt Component of Surplus	Component of Surplus	Non-Debt Component of Surplus	Component of Surplus	
ACCUMULATED SURPLUS (DEFICIT), JANUARY 1, 1997	\$ 479,505,429	\$ 168,642,690	\$ 648,148,119	\$ 9,059,155	\$ 3,927,481
NET BOOK VALUE OF HOMES CONVEYED			(160,398)		(160,398)
DEFICIENCY OF REVENUES OVER EXPENSES	(41,562,140)		(41,562,140)		(31,422)
INTEREST ON HUD FUNDED DEBT	(2,876,178)	2,876,178			
HUD OPERATING SUBSIDY	47,153,323		47,153,323		118,974
HUD CONTRIBUTION FOR DEBT SERVICE	5,363,038		5,363,038		
REPAYMENT OF PRINCIPAL AND INTEREST		(4,723,907)	(4,723,907)		
PROPERTY CONTRIBUTED BY HUD	63,540		63,540		
URBAN REVITALIZATION DEVELOPMENT GRANT	13,310,487		13,310,487		
VACANCY REDUCTION GRANT PROGRAM	180,803		180,803		
COMPREHENSIVE GRANT PROGRAM	21,337,820		21,337,820		
MAJOR RECONSTRUCTION OF OBSOLETE PROPERTIES GRANT	1,135,356		1,135,356		
EMERGENCY FUNDING GRANT	1,983,113		1,983,113		
BOND PREMIUM AMORTIZATION	(73,143)	73,143			
ACCUMULATED SURPLUS (DEFICIT), DECEMBER 31, 1997	<u>\$ 525,521,448</u>	<u>\$ 166,868,104</u>	<u>\$ 692,389,552</u>	<u>\$ 9,701,391</u>	<u>\$ 3,854,635</u>

See notes to the financial statements.

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## BALANCE SHEET - SECTION 8 VOUCHER, CERTIFICATE AND MODERATE REHABILITATION PROGRAM DECEMBER 31, 1997

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	Annual Contributions Contract Number C-5015
<b>ASSETS</b>	
Cash	\$ 6,410,027
Accounts receivable:	
HUD	563,901
Other	72,957
Land, structures and equipment (Note 5)	<u>693,178</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 7,740,063</u></u>
<b>LIABILITIES AND SURPLUS</b>	
Accounts payable:	
Trade	\$ 82,816
HUD	9,264,757
Interprogram	76,115
Accrued liabilities	112,151
Tenant escrow	<u>178,637</u>
Total liabilities	9,714,476
Accumulated deficit (Note 12)	<u>(1,974,413)</u>
<b>TOTAL LIABILITIES AND ACCUMULATED DEFICIT</b>	<u><u>\$ 7,740,063</u></u>

See notes to the financial statements.

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## STATEMENT OF REVENUES AND EXPENSES - SECTION 8 VOUCHER, CERTIFICATE AND MODERATE REHABILITATION PROGRAM YEAR ENDED DECEMBER 31, 1997

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	Annual Contributions Contract Number C-5015
OPERATING REVENUES - Interest and other	\$ 139,478
OPERATING EXPENSES:	
Administrative	3,136,446
Tenant service	231,556
Ordinary maintenance and operations	40,043
General	534,876
Housing assistance payments	40,390,073
Prior period adjustment affecting residual receipts	<u>1,978</u>
Total operating expenses	<u>44,334,972</u>
DEFICIENCY OF REVENUES OVER EXPENSES	<u>\$ (44,195,494)</u>

See notes to the financial statements.

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## STATEMENT OF CHANGES IN SURPLUS - SECTION 8 VOUCHER, CERTIFICATE AND MODERATE REHABILITATION PROGRAM YEAR ENDED DECEMBER 31, 1997

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	Annual Contributions Contract Number C-5015
ACCUMULATED DEFICIT, JANUARY 1, 1997	\$ (1,900,972)
DEFICIENCY OF REVENUES OVER EXPENSES	(44,195,494)
HAP SUBSIDY FROM HUD	<u>44,122,053</u>
ACCUMULATED DEFICIT, DECEMBER 31, 1997	<u>\$ (1,974,413)</u>

See notes to the financial statements.

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## BALANCE SHEETS - SECTION 8 NEW CONSTRUCTION HOUSING ASSISTANCE PAYMENT PROGRAMS DECEMBER 31, 1997

ASSETS	Contract Programs		
	C-77-242 Ambleside	C-78-089 Severance	C-77-330 Quarrytown
Cash and unrestricted investments (Notes 3 and 4)	\$ 250,049		\$ 16,939
Restricted investments (Note 4)	684,927	\$ 575,773	688,341
Accounts receivable - tenant	4,040	1,376	1,407
Interprogram	5,801		
Debt amortization funds (Note 8)	825,495	874,472	
Prepaid and other assets			15,192
Land, structures and equipment (Note 5)	6,241,040	15,689	21,804
Other (Note 8)	263,489		
<b>TOTAL ASSETS</b>	<b><u>\$8,274,841</u></b>	<b><u>\$1,467,310</u></b>	<b><u>\$ 743,683</u></b>
<b>LIABILITIES AND SURPLUS</b>			
Accounts payable:			
Trade	\$ 3,811	\$ 10,880	\$ 1,344
Interprogram		153,530	12,647
Tenant deposits (Note 6)	28,036	25,831	33,083
Debt obligations (Note 8)	7,489,361		
Accrued liabilities	88,157	3,316	1,201
Total liabilities	7,609,365	193,557	48,275
Surplus	665,476	1,273,753	695,408
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b><u>\$8,274,841</u></b>	<b><u>\$1,467,310</u></b>	<b><u>\$ 743,683</u></b>

See notes to the financial statements.

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## STATEMENTS OF REVENUES AND EXPENSES - SECTION 8 NEW CONSTRUCTION HOUSING ASSISTANCE PAYMENT PROGRAMS YEAR ENDED DECEMBER 31, 1997

	Contract Programs		
	C-77-242 Ambleside	C-78-089 Severance	C-77-330 Quarrytown
<b>OPERATING REVENUES:</b>			
Dwelling rental	\$ 403,297	\$ 390,138	\$ 399,163
Housing assistance payments	919,057	872,523	797,218
Earnings on investments	89,937	81,713	17,526
Other	84	95	80
<b>Total operating revenues</b>	<b>1,412,375</b>	<b>1,344,469</b>	<b>1,213,987</b>
<b>OPERATING EXPENSES:</b>			
Administrative	206,466	150,694	161,929
Tenant service	176	661	
Utilities	219,947		
Ordinary maintenance and operation	93,875	84,592	73,946
General	35,547	144,095	28,506
Nonroutine maintenance	576	9,250	
Interest expense	553,130		
Rent to owners		1,050,827	843,465
Prior period adjustment affecting residual receipts	3,665	3,176	833
<b>Total operating expenses</b>	<b>1,113,382</b>	<b>1,443,295</b>	<b>1,108,679</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	<b>\$ 298,993</b>	<b>\$ (98,826)</b>	<b>\$ 105,308</b>

See notes to the financial statements.

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## STATEMENTS OF CHANGES IN SURPLUS - SECTION 8 NEW CONSTRUCTION HOUSING ASSISTANCE PAYMENT PROGRAMS YEAR ENDED DECEMBER 31, 1997

	Contract Programs		
	<u>C-77-242</u> Ambleside	<u>C-78-089</u> Severance	<u>C-77-330</u> Quarrytown
SURPLUS, JANUARY 1, 1997	\$ 466,483	\$1,372,579	\$ 590,100
EQUITY TRANSFER	(100,000)		
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>298,993</u>	<u>(98,826)</u>	<u>105,308</u>
SURPLUS, DECEMBER 31, 1997	<u>\$ 665,476</u>	<u>\$1,273,753</u>	<u>\$ 695,408</u>

See notes to the financial statements.

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## BALANCE SHEETS - LOCAL PROGRAM AND OTHER PROGRAMS DECEMBER 31, 1997

	Local	Title VI/ New Town - In Town	Grants Consolidated
<b>ASSETS</b>			
Cash and unrestricted investments (Notes 3 and 4)		\$ 428,223	\$ 142,738
Accounts receivable - HUD and other federal and state agencies		137,528	1,160,852
Land, structures and equipment (Note 5)		<u>3,421,307</u>	<u>278,525</u>
<b>TOTAL ASSETS</b>	<u>\$ -</u>	<u>\$3,987,058</u>	<u>\$1,582,115</u>
<b>LIABILITIES AND SURPLUS</b>			
<b>LIABILITIES:</b>			
Accounts payable:			
Trade		\$ 55,095	\$ 478,496
Interprogram		2,192,185	765,977
Accrued liabilities		38,216	
Note payable	<u>\$ 34,805</u>		
Total liabilities	34,805	2,285,496	1,244,473
Surplus (deficit) (Note 12)	<u>(34,805)</u>	<u>1,701,562</u>	<u>337,642</u>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<u>\$ -</u>	<u>\$3,987,058</u>	<u>\$1,582,115</u>

See notes to the financial statements.



# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## STATEMENTS OF REVENUES AND EXPENSES - LOCAL PROGRAM AND OTHER PROGRAMS YEAR ENDED DECEMBER 31, 1997

	Local	Title VI/ New Town - In Town	Grants Consolidated
<b>OPERATING REVENUES:</b>			
Earnings on investments		\$ 9,698	
Grants		34,429	\$4,489,215
Other		516,724	
Total operating revenues	\$ -	560,851	4,489,215
<b>OPERATING EXPENSES:</b>			
Administrative		1,087,719	703,241
Travel expenses		13,042	
Consulting fees		34,600	
Other expenses			
Tenant service		44,600	2,457,817
Utilities		205,498	
Ordinary maintenance and operation		232,929	
General		42,225	924
Protective services			1,198,972
Write-off of property	34,805		
Prior period adjustments affecting residual receipts		(1,395)	
Total operating expenses	34,805	1,659,218	4,360,954
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	<b>\$ (34,805)</b>	<b>\$ (1,098,367)</b>	<b>\$ 128,261</b>

See notes to the financial statements.

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## STATEMENTS OF CHANGES IN SURPLUS - LOCAL PROGRAM AND OTHER PROGRAMS YEAR ENDED DECEMBER 31, 1997

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	Local	Title VI/ New Town - In Town	Grants Consolidated
SURPLUS, JANUARY 1, 1997		\$2,699,929	\$ 209,381
EQUITY TRANSFER		100,000	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$ (34,805)	(1,098,367)	128,261
SURPLUS (DEFICIT), DECEMBER 31, 1997 (Note 12)	<u>\$ (34,805)</u>	<u>\$1,701,562</u>	<u>\$ 337,642</u>

See notes to the financial statements.

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 1997

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### 1. DEFINITION OF THE ENTITY

The Cuyahoga Metropolitan Housing Authority (the "Authority") is a political subdivision organized under the laws of the State of Ohio. The Authority is responsible for operating certain low-rent housing programs in Cuyahoga County under programs administered by the U.S. Department of Housing and Urban Development ("HUD"). These programs provide housing for eligible families under the United States Housing Act of 1937, as amended.

The Authority's financial statements include all programs that are considered to be within its administrative control. The Authority generally maintains separate accounting records for each grant program or annual contribution contract, as required by HUD. A list of the various programs, including HUD Annual Contributions Contract Number (ACC#), if applicable, is as follows:

*Conventional Low-Rent Housing Program (ACC C-5003) ("Conventional Program")* - Under this program, the Authority develops, modernizes and manages low-rent housing projects. This program accounts for housing operations primarily funded under ACC C-5003 which also includes the Comprehensive Grant Program ("CGP"), Major Reconstruction of Obsolete Property Program ("MROP"), Urban Revitalization Development Grant ("URD"), Vacancy Reduction Program ("VRP") and the Lead Assessment Grant ("LAG").

*Homeownership Program (ACC C-5003)* - Under this program, ownership equity is realized by the family tenant through monthly payments into an earned home payments account and through regular maintenance of the home. A family achieves ownership when the equity increases to a point where it is equal to a predetermined amount based upon the unamortized purchase price of the home. A family may also purchase the home by obtaining financing or otherwise paying the amount by which the purchase price exceeds the family's equity.

*Section 8 Voucher, Certificate and Moderate Rehabilitation Programs (ACC C-5015)* - Under these programs, the Authority contracts with private landlords and subsidizes the rental for dwelling units. Payments are made to the landlord on behalf of the tenant for the difference between the contract rent amount and the amount that the tenant is required to pay under HUD established guidelines.

*Section 8 New Construction Housing Assistance Payment Programs (Ambleside Contract C-77-242, Severance Contract C-78-089 and Quarrytown Contract C-77-330)* - These programs account for the operation of low-income housing developments where the Authority or private developers contract directly with HUD to develop low-income housing. The Authority manages all developments and handles all HUD funding and reporting. The Authority owns the Ambleside development. The Annual Contribution Contracts for Severance Housing Corporation ("Severance") and the Cuyahoga County Housing Corporation ("Quarrytown") are between HUD and the Authority. In these cases, the Authority leases the housing projects from a private developer. The activities related to these programs are included in the financial statements of the Authority.

*Local Program* - This fund is to be used for expenditures necessary for the accomplishment of the Authority's mission but do not fall within HUD guidelines. All expenditures from the local fund must be approved by the Board of Commissioners. The fund is currently being utilized to make payments on the mortgage assumed for donated property.

**Title V/New Town - In Town** - Assets in the Title V program represent the proceeds and investment of the proceeds from the sale of World War II Title V housing projects that were given to the Authority by the U.S. Government at the end of the Title V program and other funds transferred to the program by the Authority. In 1994, the Authority transferred \$2,538,638 into Title V from the Ambleside program. This amount represented the excess proceeds on the bond refinancing of the Ambleside property. These assets are subject to the terms of a Memorandum of Understanding between HUD and the Authority. All activity within this program must comply with the laws of the State of Ohio and the Administrative Orders (AO) issued by the Board of Commissioners of the Authority.

The New Town - In Town program was established to provide safe and sanitary housing accommodations within Cuyahoga County, particularly within the City of Cleveland, to low income families through the construction of housing in conformity with federal "turnkey rules" promulgated by HUD.

**Grants Consolidated** - During 1997, the Authority received federal, state and local funding under the Transitional Housing Program, Public Housing Drug Elimination Grant Program, Youth Violence Grant, Youth Apprenticeship Program, Youth Sports Grant, Model Comprehensive Drug Treatment Program for Critical Populations, Cleveland Foundation URD Administration and Evaluation Grant, Prevention Program, Service Coordinators Grant Program for Public Housing, Ameritech Woodruff Foundation Grant, COPS Grant, and Comprehensive Summer Youth Program. Expenditures for these programs and grants must be made in accordance with the rules and regulations established by the grantor.

**Excluded Entities** - Certain entities that conduct activities for the benefit of the Authority or its residents are excluded from the financial statements. These entities are:

**Nonprofit Corporations** - In accordance with housing subsidy contracts, the Authority has designated several Section 8 nonprofit corporations (Severance Housing Corporation, Cuyahoga Housing Corporation, Cuyahoga-Puritas Housing Corporation, Rosalind-Amesbury Housing Assistance Corporation, Cleveland-Rock Glen Housing Assistance Corporation, and Chester Village Housing Incorporated) to serve as instrumentalities of the Authority to assist in the development and financing of housing projects. The Board of the Authority appoints the Board of Trustees of the Severance Housing Corporation, Cuyahoga-Puritas Housing Corporation, Rosalind-Amesbury Housing Assistance Corporation, Cleveland-Rock Glen Housing Assistance Corporation, and Chester Village Housing Incorporated, the members of which are all the same. The Authority's Board of Commissioners must approve all actions of the instrumentalities and, upon their dissolution, all assets and residual receipts are to be distributed to the Authority. These Section 8 nonprofit corporations have no employees and perform no day-to-day functions, and the officers thereof serve in a non-paid status.

The Annual Contribution Contracts for Cuyahoga-Puritas Housing Corporation, Rosalind-Amesbury Housing Assistance Corporation, Cleveland-Rock Glen Housing Assistance Corporation, and Chester Village Housing Incorporated are between HUD and the applicable instrumentalities. The financial statements of the Authority do not reflect any activity for these instrumentalities in accordance with HUD accounting practices (see Note 2).

**Property Management Organization** - During 1997 the Authority provided financial assistance through the Conventional Program to the Hough Area Partners in Progress ("HAPP").

In August of 1989, the Authority and HAPP entered into a contract which transferred responsibilities for the operations of Addison Townhouses to HAPP. The Authority provides HAPP with a portion of the Authority's operating subsidy in consideration for these services. The financial statements of the Authority do not include any financial activity, balances, or other information related to HAPP.

*Joint Venture* - The Authority is a member of the Housing Authority Risk Retention Group ("HARRG") and the Housing Authority Property Insurance, Inc. ("HAPI"). HARRG and HAPI are nonprofit, tax exempt mutual insurance companies that are wholly-owned by their public housing authority members. HARRG operates under the Federal Liability Risk Retention Act. It provides liability insurance solely to public housing authorities and public housing and redevelopment agencies throughout the United States. HAPI is a captive insurance company formed pursuant to the Vermont Captive Insurance Companies Act. It provides property insurance to public housing authorities and public housing and redevelopment authorities throughout the United States. The Board of Directors is elected by HARRG's approximately 500 members. The number of votes granted to each member is based upon premiums paid and is limited to a maximum of 10 percent of the total votes available. Due to the lack of significant oversight responsibility and accountability of the Authority's Board of Commissioners for actions, operations, and fiscal matters of HARRG and HAPI, the degree of financial interdependency is considered insufficient to warrant inclusion of these organizations within the Authority's reporting entity. See Note 10 for additional information.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Authority has prepared its financial statements in conformity with accounting practices prescribed by HUD ("HUD accounting"). These practices are, in certain respects, at variance with generally accepted accounting principles.

The significant accounting policies under which the financial statements have been prepared are as follows:

- a. *Investments* - Investments are stated at cost, which approximates market.
- b. *Land, Structures and Equipment* - Land, structures and equipment are capitalized at original cost, including the capitalization of all indirect costs incurred during project development and certain repairs and maintenance expenditures funded by HUD under modernization programs. Replacements are capitalized at cost and retirements are removed from the accounts at cost. In accordance with HUD accounting, structures and equipment are not depreciated.
- c. *Debt Obligations* - Debt obligations in the Conventional and Homeownership Programs are comprised of federal financing bank notes, bonds payable to third-parties and project notes payable to HUD. These obligations were issued by HUD to finance the acquisition, construction and rehabilitation of housing. HUD is responsible for making all debt service payments on the third party obligations. These debt service payments were reflected as HUD contribution for debt service in the accompanying financial statements.

Debt obligations (and the related debt service requirements) of the Ambleside program are the responsibility of the Authority, and are classified as a liability in the accompanying financial statements.

- d. *Debt Component of Surplus* - HUD is responsible for making the debt service payments on all bonds and notes payable of the Conventional and Homeownership Programs. Additionally, the projected notes of the Conventional and Homeownership Programs are payable to HUD. HUD is in the process of forgiving the principal and interest owed on project notes of public housing authorities. Therefore, Conventional and Homeownership Program bonds and notes payable are classified as a component of surplus in the accompanying financial statements.

- e. *Accrued Leave* - In accordance with HUD accounting, the Authority does not record a liability for the annual accrued vacation and sick leave of its employees. Sick leave is charged to expense as it is taken. Sick leave is earned at a rate of 4.6 hours for each 80 hours worked and can be carried forward from year to year up to a maximum of 960 hours. Employees accumulating over 960 hours of sick leave are paid for one-third of those hours exceeding 960 hours. At retirement, employees are paid for one-half of the total hours of accumulated sick leave up to 960 hours. Employees who are terminated or otherwise separated from the Authority do not receive payment for unused accumulated sick leave.

Vacation leave is earned at a rate ranging from 4.6 hours to 20 hours per month based upon years of service. Vacation leave can be carried forward from year to year up to a maximum of three years. Accumulated vacation amounts are paid to employees upon separation from the Authority. As of December 31, 1997, the Authority's liability for earned but unused vacation is approximately \$1.4 million.

- f. *HUD Contributions* - Contributions, including operating subsidies, are made by HUD to offset certain expenditures of the Authority. These contributions are credited directly to surplus and are more fully described as follows:
- Housing Assistance Payment ("HAP") subsidies and Administrative Fees are received by the Authority, subject to certain limitations, for operation of the Section 8 Voucher, Certificate and Moderate Rehabilitation Program. The amount of the HAP is determined based upon numerous criteria, including dwelling and family size, tenant income, and market rent.
  - HUD contributions for debt service to meet the Authority's annual principal and interest payments for certain debt obligations are made directly to the authorized fiscal agents by HUD. Interest expense related to this debt is reflected in the accompanying financial statements as a component of surplus.
  - Basic annual contributions are received from HUD to cover the excess of expenditures over receipts for its Conventional Program, not to exceed maximum amounts stipulated in the Annual Contribution Contract. The Authority is required to remit excess residual receipts from operations and investment income to HUD as defined in ACC C-5003 to reduce the annual HUD contributions.
- g. *Debt Amortization Funds* - Debt amortization funds consist of cash and investments held by fiscal agents. These funds are used to retire current installments of debt and to pay interest accrued thereon. Debt amortization funds are required for the Conventional, Ambleside and Severance Programs.
- h. *Recognition of Revenues, Expenditures and Contributions to Surplus* - Contributions and subsidies received from HUD are generally recognized as contributions to surplus in the Annual Contribution Contract year to which the contribution and subsidy pertains. Tenant rental revenues are recognized during the period of occupancy. Contributions under the CGP, MROP, URD, and VRP are recognized when the related expense or capital expenditure is incurred.

Expenses are recognized in conformity with HUD accounting practices, which generally reflect accrual accounting with the exceptions indicated in Notes 2b, 2d, 2e and 11.

- i. *Amortization of Costs Associated with Ambleside Refinancing and HUD Bonds Payable* - Bond premiums, original issuance discounts and bond issuance discounts are amortized over the life of the underlying debt using the interest method.

- j. *Indirect Costs* - Certain indirect costs are charged to programs under a HUD approved cost allocation plan. These indirect costs are accumulated in and allocated from the Conventional Low-Rent Housing Program.
- k. *Inventory* - Inventory is valued using an average costing method.

### 3. DEPOSITS AND INVESTMENTS

**Legal Requirements** - The investment and deposit of the Authority's monies are governed by the provisions of the Ohio Revised Code and the Authority's written investment policy. Only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. The Authority is also generally permitted to invest its monies in certificates of deposit, savings accounts, money market accounts, certain highly rated commercial paper, the State Treasurer's investment pool ("STAR Ohio"), and obligations of certain political subdivisions of Ohio and the United States government and its agencies. These investments must mature within five years of their purchase. The Authority may also enter into repurchase agreements with any eligible depository or any eligible dealer for a period not exceeding thirty days.

Under Ohio law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC"), or may pledge a pool of government securities valued at at least 110 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific qualifying securities upon which the repurchase agreements are based. These securities must mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2 percent and be marked to market daily. State law does not require security for public deposits and investments to be maintained in the Authority's name.

The Authority is prohibited from investing in any financial instrument, contract, or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself (commonly known as a "derivative"). The Authority is also prohibited from investing in reverse purchase agreements.

To demonstrate its custodial credit risk with deposits and investments and compliance with the Ohio Revised Code, the Authority follows Governmental Accounting Standards Board Statement No. 3 (GASB No. 3), which has established custodial credit risk categories for deposits and investments as follows:

**Deposits:**

- Category 1 Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.
- Category 3 Uncollateralized as defined by the GASB (securities pledged with the pledging financial institution's trust department or agent, but not in the Authority's name).

**Investments:**

- Category 1 Insured or registered, or securities held by the Authority or its agent in the Authority's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Authority's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name.

*Deposits* - At year-end, the carrying amount of the Authority's deposits was \$723,545 and the bank balance was \$15,926,227, the difference representing outstanding checks and other in-transit items. Of this amount, \$357,576 was covered by FDIC insurance, and \$15,568,651 was collateralized with securities held at the Federal Reserve Bank in the Authority's name.

*Investments* - The Authority's investments are identified by risk category as follows:

Description	Risk Category			Carrying Amount	Market Value
	1	2	3		
Management Funds		\$ 7,307,328		\$ 7,307,328	\$ 7,307,328
Escrow Funds			\$7,264,271	7,264,271	7,264,271
Deferred compensation investments (Note 7)				<u>4,553,013</u>	<u>4,553,013</u>
				<u>\$19,124,612</u>	<u>\$19,124,612</u>

A reconciliation of cash and investments as shown on the Balance Sheets follows:

	Conventional Low-Rent Housing Program	Home-Ownership Program	Section 8 Voucher, Certificate and Moderate Rehabilitation Program	Ambleside	Severance
Cash and unrestricted investments	\$ 8,550,150	\$ 842,252	\$6,410,027	\$ 250,049	
Restricted investments	1,213,814	500,313		684,927	\$ 575,773
Escrow funds	7,264,271				
Deferred compensation investments	4,553,013				
Debt amortization funds	<u>27,360</u>			<u>825,495</u>	<u>874,472</u>
Total	<u>\$21,608,608</u>	<u>\$1,342,565</u>	<u>\$6,410,027</u>	<u>\$1,760,471</u>	<u>\$1,450,245</u>
Carrying amount of deposits	\$ 6,891,348	\$ 842,252	\$6,410,027	\$ 250,049	
Carrying amount of investments	<u>14,717,260</u>	<u>500,313</u>		<u>1,510,422</u>	<u>1,450,245</u>
Total	<u>\$21,608,608</u>	<u>\$1,342,565</u>	<u>\$6,410,027</u>	<u>\$1,760,471</u>	<u>\$1,450,245</u>



	Quarrytown	Title V/ New Town - In Town	Grants Consolidated	Total
Cash and unrestricted investments	\$ 16,939	\$ 428,223	\$ 142,738	\$ 16,640,378
Restricted investments	688,341			3,663,168
Escrow funds				7,264,271
Deferred compensation investments				4,553,013
Debt amortization funds				1,727,327
<b>Total</b>	<b>\$ 705,280</b>	<b>\$ 428,223</b>	<b>\$ 142,738</b>	<b>\$ 33,848,157</b>
Carrying amount of deposits	\$ 16,939	\$ 170,192	\$ 142,738	\$ 14,723,545
Carrying amount of investments	688,341	258,031		19,124,612
<b>Total</b>	<b>\$ 705,280</b>	<b>\$ 428,223</b>	<b>\$ 142,738</b>	<b>\$ 33,848,157</b>

#### 4. RESTRICTED CASH AND INVESTMENTS

The cash and investment balances for the Conventional Low-Rent Housing Program, and the Section 8 New Construction Housing Assistance Payment Programs (Ambleside, Severance, and Quarrytown) include tenant security deposits of \$713,658, \$17,000, \$20,000, and \$56,101, respectively.

HUD regulations require that nonroutine maintenance reserves be maintained for Section 8 New Construction projects. Ambleside, Severance, and Quarrytown's ending cash and investment balances include nonroutine maintenance reserves of \$283,116, \$515,659, and \$543,947, respectively.

The Title V investment of \$258,031 consists of a prorata share of money market accounts and U.S. Treasury Bills in a Merrill Lynch investment account. Title V investment is unrestricted. The Conventional Program investment of \$14,717,260 includes a \$500,156 certificate of deposit which is restricted as collateral for a letter of credit required by the Industrial Commission of Ohio (Workers' Compensation) to maintain its self-insured status under this program, and an unrestricted \$1,658,802 prorata share of money market accounts and U.S. Treasury Bills.

The Homeownership Program investment balance of \$500,313 consists of investments in a certificate of deposit that was purchased to secure the Non-Routine Maintenance Reserve ("NRMR") and Earned Home Payment Account ("EHPA") reserves for program participants.

## 5. LAND, STRUCTURES AND EQUIPMENT

The Authority does not maintain detailed records that track fixed assets by category. The following schedule lists fixed asset balances for individual programs.

Description	Balance, January 1, 1997	Net Change	Balance, December 31, 1997
Conventional Low-Rent Housing Program	\$641,329,867	\$38,972,772	\$680,302,639
Homeownership Program	3,172,335	(155,908)	3,016,427
Section 8 Voucher, Certificate and Moderate Rehabilitation Program	690,077	3,101	693,178
Section 8 New Construction Housing Assistance Payment Programs:			
Ambleside	6,234,631	6,409	6,241,040
Severance	13,892	1,797	15,689
Quarrytown	19,404	2,400	21,804
Title V	2,601,423	819,884	3,421,307
Grants Consolidated	243,763	34,762	278,525
Total (Memorandum only)	<u>\$654,305,392</u>	<u>\$39,685,217</u>	<u>\$693,990,609</u>

## 6. TENANT DEPOSITS

Tenant deposits in the Conventional Program and Section 8 New Construction Programs consist of security deposits. Tenant deposits in the Homeownership Program are to be used by tenants for the purchase of their home and are held in reserve for nonroutine maintenance.

## 7. DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Authority is part of a multiple-jurisdiction plan administered by the Ohio Public Employees Deferred Compensation Board (the "Board"). The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Authority (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Authority's general creditors. Participants' rights under the plan are equal to those of general creditors of the Authority in an amount equal to the fair market value of the deferred account for each participant.

At December 31, 1997, the Authority had \$4,553,013 on deposit with the Board. This amount, which represents the fair market value of the investments as of December 31, 1997, is recorded as an asset and a corresponding liability in the balance sheet of the Conventional Program.

## 8. DEBT OBLIGATIONS

Debt obligations and accrued interest charges for the Conventional Low-Rent Housing and Homeownership Programs consist of the following:

Description	Balance January 1, 1997	Retirement (Debt) Accrued Interest (Net Change)	Balance December 31, 1997
<b>CONVENTIONAL LOW-RENT HOUSING:</b>			
HUD Project - principal:			
Notes	\$ 78,913,789		\$ 78,913,789
Bonds	40,895,000	\$ (2,760,000)	38,135,000
Subtotal	<u>119,808,789</u>	<u>(2,760,000)</u>	<u>117,048,789</u>
HUD Project - accrued interest:			
Notes	42,388,300	1,297,860	43,686,160
Bonds	1,028,563	(62,738)	965,825
Subtotal	<u>43,416,863</u>	<u>1,235,122</u>	<u>44,651,985</u>
Federal Financing:			
Bank Notes - principal	5,355,422	(247,002)	5,108,420
Bank Notes - interest	61,616	(2,706)	58,910
Subtotal	<u>5,417,038</u>	<u>(249,708)</u>	<u>5,167,330</u>
<b>TOTAL CONVENTIONAL LOW-RENT HOUSING</b>	<b><u>\$ 168,642,690</u></b>	<b><u>\$ (1,774,586)</u></b>	<b><u>\$ 166,868,104</u></b>
<b>HOMEOWNERSHIP:</b>			
HUD project:			
Notes - principal	\$ 5,041,416		\$ 5,041,416
Notes - interest	4,017,739	\$ 642,236	4,659,975
<b>TOTAL HOMEOWNERSHIP</b>	<b><u>\$ 9,059,155</u></b>	<b><u>\$ 642,236</u></b>	<b><u>\$ 9,701,391</u></b>

HUD bonds consist of the following:

Issue	Interest Rate	Maturity Date	Amount
Third	3.875 percent	Serially to 1999	\$ 617,000
Fourth	3.500 percent	Serially to 2001	203,000
Fifth	3.125 percent	Serially to 2002	1,260,000
Sixth	3.375 percent	Serially to 2003	2,690,000
Seventh	3.675 percent	Serially to 2006	590,000
Eighth	5.125 percent	Serially to 2011	13,370,000
Ninth	5.250 percent	Serially to 2010	19,405,000
			<u>\$ 38,135,000</u>

HUD project notes bear interest at rates determined by HUD, ranging from 5.25 percent to 7 percent. No maturity date has been established by HUD for these notes and the Authority is not required to make any principal or interest payments. The Authority is in the process of applying to HUD for the forgiveness of the project notes.

Federal Financing Bank project notes bear interest at 6.6 percent and require annual principal and interest payments of \$600,460 through 2012.

HUD provides annual contributions to fund required principal and interest payments on Federal Financing Bank notes and HUD bonds.

Bond premiums totaling \$915,000 on the HUD bonds (Third issue through Ninth issue) are being amortized over the life of each bond issue.

**Capital Lease:**

In 1997, the Authority entered into a Tax Exempt Installment Purchase Agreement for the purchase of equipment to upgrade the heating and energy efficiency of several estates. The balance sheet of the Conventional Program reflects the total principal obligations under the agreement as debt. The agreement expires in September 2010.

Payments under the agreement are as follows:

1998	\$ 206,921
1999	827,684
2000	827,684
2001	827,684
2002	827,684
Thereafter	6,414,552
	<u>9,932,209</u>
Less: amount representing interest	<u>(2,641,895)</u>
<b>Total</b>	<b><u>\$7,290,314</u></b>

**Section 8 New Construction:**

In December of 1994, the Authority, through the Cleveland-Rock Glen Housing Assistance Corporation, an instrumentality of the Authority, issued \$8.3 million in Multifamily Housing Revenue and Revenue Refunding bonds to retire the mortgage on the Ambleside Section 8 New Construction project. The Authority has entered into a Memorandum of Understanding with the U.S. Department of Housing and Urban Development that states that the remaining proceeds of this transaction shall be used for the construction of housing for low income elderly, handicapped and disabled people.

The bonds are secured by a pledge of all revenues of the Ambleside project, including the housing assistance payment from HUD, and by a mortgage on the Ambleside property. The serial bonds mature in June and December of each year through December 2005 and bear interest at rates ranging from 4.75 percent to 6.75 percent. The \$5.955 million term bond matures June 1, 2018 and bears interest at a rate of 7 percent.

The following is a summary of Ambleside's future debt service requirements for bonds payable as of December 31, 1997:

<b>Serial</b>	
1998	\$ 180,000
1999	195,000
2000	205,000
2001	225,000
2002	235,000
Thereafter	820,000
<b>Term</b>	
2018	5,955,000
Less Unamortized Bond Discount	<u>(325,639)</u>
<b>Total</b>	<u><b>\$7,489,361</b></u>

At the Authority's option, the Bonds are subject to redemption after June 1, 2006, in whole or in part at a redemption price equal to the principal amount plus accrued interest through the redemption date, plus a premium.

Under the terms of the agreement, the Authority is required to maintain certain deposits with a trustee. The balances of the various accounts include:

	<b>1997</b>
Debt Service Reserve Fund	\$ 727,001
Bond Fund	98,494
Maintenance and Replacement Fund	285,760
Tax and Insurance Escrow	37,578
Surplus Account	344,589

## 9. PENSION PLAN

**Employees and Plan** - Employees of the Authority belong to the Public Employees Retirement System of Ohio ("PERS"), a state-wide and state administered defined benefit, cost-sharing multi-governmental employer pension plan, as required by the Ohio Revised Code.

**PERS** - The Public Employees Retirement System of Ohio elected early adoption of Statement No. 27 of the GASB, "Accounting for Pensions by State and Local Governmental Employers," which has an effective date of 1998. Accordingly, this section of the footnote disclosure has been prepared in accordance with GASB No. 27. The early adoption of GASB No. 27 has no impact on the Authority's financial statements.

PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information. Interested parties may obtain a copy by making a written request to the Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085.

The Ohio Revised Code provides statutory authority for employee and employer contributions. Employees are required to contribute 8.5 percent of their annual covered salary to PERS. The employer contribution rate for local government employer units is 13.55 percent of covered payroll, including 5.11 percent that is used to fund postretirement health care benefits. The Authority's total contributions to PERS for pension benefits (excluding the amount relating to postretirement benefits) for the years ended December 31, 1997, 1996 and 1995 were \$4,137,645, \$3,728,229 and \$4,332,727, respectively, equal to the required contributions for each year.

*Postretirement Health Care Benefits* - PERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit ("OPEB") as described in GASB Statement No. 12.

A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. The portion of the employer contribution rate used to fund health care for 1997 was 5.11 percent of covered payroll. During 1997, \$1,560,396 of the Authority's total contribution to PERS was used for postretirement benefits.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

During 1997, PERS adopted a new calculation methodology for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions equal to 4.2 percent of member covered payroll are set aside to fund health care expenses. Under the prior method, which was actuarially based, accrued liabilities and normal cost rates were computed to determine the amount of employer contributions necessary to fund OPEB.

Total PERS expenditures for OPEB during 1997 were \$394 million. As of December 31, 1997, the unaudited estimated net assets available for future OPEB payments were \$8.3 billion. The number of PERS benefit recipients eligible for OPEB at December 31, 1997 was 113,906.

## **10. INSURANCE COVERAGE AND RISK RETENTION**

The Authority is self-insured for workers' compensation. An excess liability policy provides coverage for individual claims that are greater than \$350,000 per individual and \$10,000,000 in the aggregate. The Authority has recorded a liability for self-insured workers' compensation of \$1,265,900 in its Conventional Program, of which \$500,000 has been funded. The Authority carries coverage for certain property losses and employee health care through various insurance carriers.

As described in Note 1, the Authority is a member of HARRG which is a comprehensive general liability insurance group operated as a joint venture by its public housing authority members. Through HARRG, the Authority carries \$5,000,000 of general liability coverage, with a \$25,000 deductible, as well as \$1,000,000 of law enforcement liability, with a \$5,000 deductible, and \$2,000,000 of public officials' errors and omissions coverage, with a \$10,000 deductible.

The Authority is also a member of HAPI, which is a property insurance group operated as a joint venture by its public housing authority members. Through HAPI, the Authority carries building and landlords' contents coverage with a \$20,000 deductible.

A summary of financial information for HARRG and HAPI is as follows:

	HARRG (Unaudited)	HAPI (Unaudited)
As of December 31, 1997		
Total assets	\$ 139,607,098	\$ 29,846,568
Liabilities and members' equity:		
Liabilities	104,861,725	17,102,766
Members' equity	<u>34,745,373</u>	<u>12,743,802</u>
Total liabilities and members' equity	<u>\$ 139,607,098</u>	<u>\$ 29,846,568</u>
Operating results for the year ended December 31, 1997:		
Total income	\$ 28,139,821	\$ 12,506,000
Total expenses including policyholder dividends and income tax	<u>24,716,601</u>	<u>12,032,763</u>
Net income	<u>\$ 3,423,220</u>	<u>\$ 473,237</u>
Members' equity at beginning of year	\$ 32,899,377	\$ 12,195,640
Net income	3,423,220	473,237
Members' equity contributions (withdrawals) for the year - net	(1,642,789)	125,175
Change in net unrealized gain on investments available for sale	126,156	(50,250)
Dividends and other	<u>(60,591)</u>	<u>                    </u>
Members' equity at end of year	<u>\$ 34,745,373</u>	<u>\$ 12,743,802</u>

## 11. CONTINGENCIES

The Authority participates in a number of federally assisted grant programs, including the Conventional Low-Rent Housing Program, Section 8 Programs, and Comprehensive Grant Program. The Authority has been audited in accordance with the provisions of the Single Audit Act Amendments of 1996, and certain compliance findings and questioned costs have resulted.

The Authority resolved questioned costs resulting from audits for the period 1985 through 1995 during 1996 through the administrative appeal process provided under 24 CFR 85.436. There were additional compliance findings and questioned costs arising from the Authority's 1996 audit. The ultimate resolution of the additional compliance findings and questioned costs is not presently determinable. No provision has been made in the financial statements for the effect, if any, of such contingencies.

The Authority is a defendant in several lawsuits. In addition, certain matters related to the Authority are currently under investigation by outside law enforcement and regulatory agencies. The outcome of these matters is not presently determinable. No provision has been made in the financial statements for the effects, if any, of such contingencies.

## **12. DEFICITS IN SURPLUS**

The Section 8 Voucher, Certificate and Moderate Rehabilitation Program has an overall deficit in surplus at December 31, 1997. It is management's plan to eliminate the Section 8 deficit by reducing administrative and overhead costs of the program. Management will also re-evaluate the cost allocation plan. Management believes that the administrative fees earned in excess of the costs to operate this Section 8 program will be sufficient to reduce the deficit. Management plans to take a more structured and aggressive approach toward reduction of the deficit.

The Local Program has an overall deficit in surplus at December 31, 1997. The deficit was eliminated in 1998 through a transfer of equity from the Title V Fund.

## **13. SUBSEQUENT EVENTS**

Effective September 1, 1998, the amounts of compensation deferred under the plan became the property of each participant in the program and their beneficiaries. The plan agreement states that the Authority has no liability for losses with the exception of fraud or wrongful taking. Therefore, for 1998, no amounts will be reflected in the accompanying financial statements. This change will have no effect on surplus in 1998.

In 1998, the Section 8 program repaid the \$9,264,757 over-reimbursement from HUD through a reduction in its 1998 drawdowns.

\* \* \* \* \*



## **REQUIRED SUPPLEMENTARY SCHEDULE OF YEAR 2000 ISSUES (UNAUDITED)**

The year 2000 issue is the result of shortcomings in many electronic data processing and other equipment that may adversely affect the Authority's operations as early as 1999.

The Authority has identified computer systems that are critical to conducting operations and is subjecting these systems to the following stages of work to address year 2000 issues:

- Awareness stage – Establishing a budget and project plan for dealing with year 2000 issues.
- Assessment stage – Identifying the systems and components for which year 2000 compliance work is needed.
- Remediation stage – Making changes to systems and equipment.
- Validation stage – Validating and testing the changes that were made during the remediation stage.

The Authority has completed an inventory of computer systems and other equipment necessary to conducting operations. Following are the systems and stage of work completed:

- Financial and Inventory Management Systems – The Authority has contracted with the software vendor to remediate this system. Remediation of the system and testing has been completed.
- Building and Estate Security Systems – The Authority has fully upgraded the system and has completed testing and validation of the system's compliance.
- Heating, Ventilation, and Air-conditioning Systems – All systems have been remediated and tested for compliance. In addition, emergency generators are being installed at all estate locations should the utility companies experience problems.
- Elevator Systems – Changes in programming have been identified. Currently, the decision has to be made to do the changes internally or use an outside vendor. The remediation, testing and validation of the system remain to be done.
- Police and Safety Radio System – All new systems have been installed. These systems have been fully tested for compliance.
- The Authority has completed testing and validation on all electronic equipment it identified as necessary to conducting Authority operations.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Authority is or will be year 2000 ready, that the Authority's remediation efforts will be successful in whole or in part, or that parties with whom the Authority does business will be year 2000 ready.

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 1997

Federal Grantor/Program Title	CFDA/Contract Number	Federal Revenues	Other Revenues	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (DIRECT PROGRAMS)				
Conventional Low-Rent Housing Program				
Subsidy	14.850	\$ 47,153,323	\$ 10,299,089	\$ 51,817,156
Contribution for Debt Service	14.850	5,363,038		1,775,587
Major Reconstruction of Obsolete Properties	14.850	1,135,356		1,289,108
Vacancy Reduction Program	14.850	180,803		223,267
Subtotal CFDA #14.850		<u>53,832,520</u>	<u>10,299,089</u>	<u>55,105,118</u>
Section 8 Voucher, Certificate and Moderate Rehabilitation Program				
New Construction - Ambleside	14.156	919,057	493,318	1,109,716
New Construction - Severance	14.156	872,523	471,946	1,440,118
New Construction - Quarrytown	14.156	797,218	416,769	1,107,846
Voucher, Certificate and Moderate Rehabilitation	14.177	44,122,053	139,478	44,332,995
Subtotal CFDA #14.156/177		<u>46,710,851</u>	<u>1,521,511</u>	<u>47,990,675</u>
Comprehensive Improvement Assistance Program/ Comprehensive Grant Program				
Comprehensive Improvement Assistance Program	14.859	24,750		51,901
Comprehensive Grant Program - 1993	14.859	160,384		110,760
Comprehensive Grant Program - 1994	14.859	842,131		911,847
Comprehensive Grant Program - 1995	14.859	869,253		939,684
Comprehensive Grant Program - 1996	14.859	9,825,419		10,319,764
Comprehensive Grant Program - 1997	14.859	9,615,882		9,159,794
Emergency Funding	14.859	1,983,113		2,344,890
Subtotal CFDA #14.859		<u>23,320,932</u>		<u>23,838,640</u>
Urban Revitalization Development Grant	14.866	13,310,487		16,388,714
Youth Apprenticeship Program	0812YAP00300195	139,186		139,186
Urban Youth Corps Grant	OH12UYC00300195	107,878		108,651
Youth Sports Grant	14.863	64,629		66,293
Homeownership Program	14.851	118,974	300,927	332,886
Transitional Housing Program	14.235	523,976		523,976
Service Coordinators Grant - 1995	14.861	278,021		283,618
Drug Elimination Grant - 1994	14.854	254,615		124,235
Drug Elimination Grant - 1995	14.854	1,522,110		1,538,541
Drug Elimination Grant - 1996	14.854	685,557		695,688
Youth Violence Grant	14.854	58,838		72,842
Subtotal CFDA #14.854		<u>2,521,120</u>		<u>2,431,306</u>
PASS THROUGH PROGRAM				
Community Development Block Grant received through the Ohio Department of Development	14.218	41,095		41,095
Total U.S. Department of Housing and Urban Development		<u>\$140,969,669</u>	<u>\$ 12,121,527</u>	<u>\$147,250,158</u>

(Continued)

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 1997

Federal Grantor/Program Title	CFDA/Contract Number	Federal Revenues	Other Revenues	Federal Expenditures
U.S. DEPARTMENT OF JUSTICE				
PASS THROUGH PROGRAM				
COPS Grant Cuyahoga County Department of Justice	16.550 or 16.726	\$ 704,680		\$ 719,093
Total U.S. Department of Justice		\$ 704,680		\$ 719,093
U.S. DEPARTMENT OF LABOR				
PASS THROUGH PROGRAM				
Summer Youth Employment Program passed through Cuyahoga County	17.246/ 17.250	\$ 4,696		\$ 4,696
TOTAL FEDERAL FINANCIAL ASSISTANCE		\$ 141,679,045	\$ 12,121,527	\$ 147,973,947

See the accompanying notes to supplementary schedule of expenditures of federal awards.

(Concluded)

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## NOTES TO SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 1997

### 1. GENERAL

The accompanying supplemental Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Cuyahoga Metropolitan Housing Authority (the "Authority"). The Authority reporting entity is defined in Note 1 to the Authority's financial statements. All expenditures of federal awards received directly from federal agencies as well as expenditures of federal awards passed through other government agencies are required to be included on the supplemental schedule. "Other Revenues" and "Federal Expenditures" categories include transfers in and transfers out between federal programs.

### 2. BASIS OF ACCOUNTING

The accompanying supplemental Schedule of Expenditures of Federal Awards is presented using a comprehensive basis of accounting other than generally accepted accounting principles, which is described in Note 2 to the Authority's financial statements.

### 3. CLASSIFICATION AND PRESENTATION OF RECEIPTS OF FEDERAL AWARDS IN THE FINANCIAL STATEMENTS

Receipts of federal awards are reported as either a component of the statements of revenues and expenses or the statements of changes in surplus as follows:

	Statements of Revenues and Expenses	Statements of Changes in Surplus	Total
Conventional Low-Rent Housing		\$ 55,634,830	\$ 55,634,830
Homeownership		118,974	118,974
Section 8 Voucher, Certificate and Moderate Rehabilitation		44,122,053	44,122,053
Section 8 New Construction Housing Assistance Payment Programs:			
Ambleside	\$ 919,057		919,057
Severance	872,523		872,523
Quarrytown	797,218		797,218
Modernization Programs		34,829,109	34,829,109
Other Grants	4,385,279		4,385,279
<b>TOTAL</b>	<b><u>\$6,974,077</u></b>	<b><u>\$134,704,966</u></b>	<b><u>\$141,679,043</u></b>

Expenditures are reported as a component of the statements of revenues and expenses for all programs except the Comprehensive Grant Program (“CGP”), Major Reconstruction of Obsolete Properties Program (“MROP”), Urban Revitalization Development Grant (“URD”), and Vacancy Reduction Program (“VRP”), which record expenditures as additions to land, structures, and equipment.

\* \* \* \* \*

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners  
Cuyahoga Metropolitan Housing Authority

We were engaged to audit the financial statements of the Cuyahoga Metropolitan Housing Authority (the "Authority"), as of and for the year ended December 31, 1997, and have issued our report thereon dated November 4, 1999. Our report states that we are unable to express, and do not express, an opinion on such financial statements due to limitations on the scope of our audit, inadequacies in the Authority's records and material weaknesses in the Authority's internal control structure. Our report also contains explanatory paragraphs concerning uncertainties relating to various matters. The report disclaims an opinion on the required supplementary information relating to the year 2000 issue. Accordingly, we were unable to perform an 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.

**Compliance**

As part of obtaining reasonable assurance about whether Authority's financial statements are 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 an 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as follows.

<b>Finding Number</b>	<b>Description</b>
97-2	Compliance with Memorandum of Agreement and Allowable Costs
97-3	Fixed Assets
97-4	Section 8 Deficit
97-5	Modernization Programs
97-6	Investment in Mutual Fund
97-11	Family Self Sufficiency
97-12	Title V/New Town - In Town Deficit
97-13	Self-Insured Workers' Compensation Program

## Internal Control Over Financial Reporting

In planning and performing our engagement referred to above, we considered the Authority'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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as follows.

Finding Number	Description
97-1	Control and Financial Reporting Environments
97-3	Fixed Assets
97-5	Modernization Programs
97-7	General Ledger Account Support and Reconciliations
97-8	Oversight of Payroll Personnel
97-9	Internal Controls Over Accounts Payable
97-10	General Ledger Entries
97-11	Family Self Sufficiency

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe all of the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of the Board of Commissioners, the audit committee, management of the Authority and officials of the U.S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLP*

November 4, 1999

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL  
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM**

Board of Commissioners  
Cuyahoga Metropolitan Housing Authority

**Compliance**

We were engaged to audit the compliance of the Cuyahoga Metropolitan Housing Authority (the "Authority") 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, 1997. The Authority'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 Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

Except as discussed in paragraph four of this report, we conducted our audit of compliance in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. As discussed in the following paragraph, we were unable to perform an 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. 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 Authority's compliance with those requirements and performing such other procedures as we considered 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 Authority's compliance with those requirements.

We were also engaged to audit the financial statements of the Authority as of and for the year ended December 31, 1997 and have issued our report thereon dated November 4, 1999. Our report states that we are unable to express, and do not express, and opinion on such financial statements due to limitations on the scope our audit, inadequacies in the Authority's records and material weaknesses in the Authority's internal control structure. Our report also contains explanatory paragraphs concerning uncertainties relating to various matters. Accordingly, we were unable to perform an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States.



We were unable to obtain sufficient documentation supporting the compliance of the Authority with the requirements described in the accompanying Schedule of Findings and Questioned Costs, nor were we able to satisfy ourselves as to the Authority's compliance with those requirements by other auditing procedures.

The following list of compliance citations relating to major programs is detailed in the accompanying Schedule of Findings and Questioned Costs. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to the major programs.

<b>Finding Number</b>	<b>Description</b>
97-3	Fixed Assets
97-4	Section 8 Deficit
97-5	Modernization Programs
97-11	Family Self Sufficiency
97-12	Title V/New Town - In Town Deficit
97-13	Self-Insured Workers' Compensation Program
97-14	Section 8 Procedures
97-15	Quality Control Review of Section 8 and Conventional Program Admissions
97-16	Multifamily Tenant Characteristic System Submissions
97-17	Conventional Program Utility Allowance
97-18	Annual Reexaminations of Conventional Tenants
97-19	Construction Delay Log
97-20	Public Housing Management Assessment Program
97-21	Section 8 New Admissions
97-22	Section 8 Compliance
97-23	Section 8 Quality Control
97-24	Drug Elimination Program

As further described in the accompanying Schedule of Findings and Questioned Costs, because of the matters described in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Authority's compliance with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 1997.

## Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective 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 Authority'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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Authority's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as follows:

Finding Number	Description
97-1	Control and Financial Reporting Environments
97-3	Fixed Assets
97-5	Modernization Programs
97-7	General Ledger Account Support and Reconciliations
97-8	Oversight of Payroll Personnel
97-9	Internal Controls Over Accounts Payable
97-10	General Ledger Entries
97-11	Family Self Sufficiency
97-14	Section 8 Procedures

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe all of the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of the Board of Commissioners, the audit committee, management of the Authority and officials of the U.S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLP*

November 4, 1999

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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### Part I – Summary of Auditors' Results

1. The independent auditors' report on the financial statements disclaimed an opinion. We were unable to obtain a letter of representation from the Authority's management; we believe the system on internal accounting and administrative controls at the Authority is deficient; there are significant inadequacies in the Authority's accounting records for land, structures and equipment; and there are significant inadequacies in the Authority's accounting records for accounts payable, accounts receivable from HUD and accounts payable to HUD.
2. Reportable conditions in internal control over financial reporting were identified; all of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by our work.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal awards programs were identified; all of which are considered to be material weaknesses.
5. The independent auditors' report on compliance with requirements applicable to major federal awards programs disclaimed an opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Authority's major programs were:

Name of Federal Program or Cluster	CFDA Number
Conventional Low-Rent Housing Program	14.850
Section 8 Voucher, Certificate and Moderate Rehabilitation Program	14.156/ 14.177
Drug Elimination Grant/Youth Violence Grant	14.854

8. A threshold of \$3,000,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Authority did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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### Part II – Financial Statement Findings Section

FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-1	<b>Control and Financial Reporting Environments</b>  <i>Condition</i> - We noted the following matters related to the internal control and financial reporting environment:  Formal budgets are not prepared, presented to, or adopted by the Board of Commissioners for most programs. For example, we were unable to obtain budgets for the Title V or Affordable Housing programs.  Executive management overrides internal control procedures and initiates/authorizes transactions without adequate support.  The housing authority frequently adjusts and transfers expenses between programs, both within the same calendar year and between calendar years. The procedures to code expenditures to the proper program at the time of the transaction are inadequate.  There are inadequate communications between operating departments and the financial department. There are no procedures to identify matters that could have financial implications.  Significant deficiencies in applying accounting practices permitted by the U.S. Department of Housing and Urban Development were noted, and the fiscal department at the housing authority did not appear to have an understanding of basic accounting requirements. For example: <ul style="list-style-type: none"><li>• accounts payable were not established consistently and cut-off procedures were inadequate</li><li>• no procedures were in place to ensure that the liability was correctly recorded for retained risks associated with workers' compensation benefits</li><li>• no cut-off analysis of amounts due to the housing authority from HUD (for capital grants) and other granting agencies was performed until at least one year after year-end</li></ul> The HUD basis of accounting does not currently nor has it ever provided exceptions to generally accepted accounting principles for matters such as these. In addition: <ul style="list-style-type: none"><li>• Account reconciliations were not always prepared on a timely basis, and adjustments that resulted from reconciliations were not always posted.</li></ul>	

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
	<ul style="list-style-type: none"><li>• Supporting documentation for balance sheet accounts was not readily available and was often presented in a form that did not provide the detail supporting the general ledger balances. This required the accounting staff of the housing authority to do a significant amount of research and analysis during the course of the audit to support balances.</li><li>• Management could not readily provide explanations for significant fluctuations in its financial statements. This required the accounting staff of the housing authority to do a significant amount of research and analysis during the course of the audit to explain these fluctuations.</li><li>• In many instances, journal entries did not have adequate support.</li><li>• A significant number of adjusting journal entries were identified by us that were apparent to a knowledgeable reader of the financial statements. These items were not identified by the housing authority in the normal course of business.</li></ul> <p><i>Criteria</i> - Adequate knowledge of accounting, internal control and financial reporting requirements, along with analysis, monitoring and oversight should be in place to ensure that financial statements are complete and accurate and to safeguard the housing authority's assets.</p> <p><i>Effect</i> - Errors or omissions may occur that could result in inaccurate financial reporting or misappropriation of assets. These errors or omissions would not be detected in the normal course of performing duties in the accounting and financial reporting departments. As a result, financial reports and information relied on by management in operating the Authority may not be accurate.</p> <p><i>Recommendation</i> - The management of the accounting and reporting department should be upgraded to provide the necessary leadership, training, monitoring and analysis that is necessary to prepare accurate financial reports. Procedures should be developed and enforced to maintain appropriate supporting documentation for account balances and journal entries and to prepare timely account reconciliations. Methods and guidelines for interdepartmental communications of matters that could have financial accounting or reporting implications should be developed.</p>	None

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS				
97-2	<p><b>Compliance With Memorandum of Agreement and Allowable Costs</b></p> <p><i>Condition</i> - The Authority did not comply with the terms of its Memorandum of Agreement with HUD related to use of net proceeds from refinancing its Ambleside Apartments. The Authority spent \$934,167 in 1997 on its Affordable Housing Program without producing any homes. The Authority spent \$726,445 in 1997 from its Title V Program for items unrelated to construction of homes for very low income elderly and disabled people. The net proceeds received on the refinancing were commingled with other agency funds in the Title V Program.</p> <p>Certain disbursements from the Title V fund did not have adequate support, did not meet the criteria of allowable costs as defined by OMB Circular A-87 or did not meet the criteria of a valid public purpose under guidelines established by the State of Ohio. For example, of expenditures tested totaling \$351,419, the following conditions were noted:</p> <table border="0" data-bbox="331 1052 1149 1136"> <tr> <td>Unsupported journal vouchers</td> <td style="text-align: right;">\$ 125,990</td> </tr> <tr> <td>Sixteen unsupported payments totaling</td> <td style="text-align: right;">\$ 173,776</td> </tr> </table> <p>In addition, our testing indicated that the housing authority made rental payments of \$50,000 during 1997 from its Title V program for a warehouse. The U.S. Department of Housing and Urban Development prohibited the use of federal funds to pay for this warehouse due to questions regarding the environmental safety of the facility and the reasonableness of the cost.</p> <p><i>Criteria</i> - The Authority entered into a Memorandum of Agreement with HUD in connection with net proceeds received when it issued \$8.3 million Multifamily Housing Revenue and Refunding Bonds to refinance its Ambleside Apartments. The Memorandum of Agreement stipulated that \$2,538,638 of net proceeds generated by the refinancing should be used by the Authority for the construction of housing for very low income elderly or disabled people.</p> <p><i>Effect</i> - Improper expenditures were made.</p> <p><i>Recommendation</i> - The Authority should implement procedures to ensure that all funds are spent on allowable items and in accordance with restrictions placed upon them.</p>	Unsupported journal vouchers	\$ 125,990	Sixteen unsupported payments totaling	\$ 173,776	<p>\$1,660,612</p>
Unsupported journal vouchers	\$ 125,990					
Sixteen unsupported payments totaling	\$ 173,776					

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-3	<p data-bbox="337 422 496 453"><b>Fixed Assets</b></p> <p data-bbox="337 485 1157 550"><i>Condition</i> - We noted the following matters regarding accounting for fixed assets:</p> <ul data-bbox="337 583 1198 848" style="list-style-type: none"><li data-bbox="337 583 1198 651">• There were no asset records that reconcile to or support the general ledger balances of land, structures and equipment.</li><li data-bbox="337 682 1198 848">• The Authority had no systems in place to identify and account for the disposal of fixed assets. Disposals could occur as a result of transactions such as retirement, sale or trade, theft, loss, destruction or obsolescence. No fixed asset disposals were recorded during the audit period.</li></ul> <p data-bbox="337 882 1198 1146"><i>Criteria</i> - OMB Circular A-133 requires that organizations maintain equipment and real property fixed asset inventory and accounting systems and requires that organizations conduct an inventory of its fixed assets every two years. Accounting records should exist to support all general ledger balances, including fixed assets. Adequate internal controls should exist over the management of fixed assets and to provide information for the accurate and timely recording of fixed asset transactions.</p> <p data-bbox="337 1180 1114 1211"><i>Effect</i> - Fixed assets may be misstated in the financial statements.</p> <p data-bbox="337 1245 1157 1377"><i>Recommendation</i> - The Authority should develop fixed asset records and values. These records should be reconciled to the general ledger. Procedures should be developed to identify fixed asset disposals and record these transactions on the general ledger.</p>	None
97-4	<p data-bbox="337 1398 545 1430"><b>Section 8 Deficit</b></p> <p data-bbox="337 1461 1198 1726"><i>Condition</i> - The Authority drew funds from HUD that significantly exceeded its program requirements, resulting in an amount payable to HUD at December 31, 1997 of \$9,264,757. In addition, funds from the low income public housing program have been used to cover costs of the Section 8 program. At December 31, 1997 the Section 8 program had an overall fund balance deficit of \$1,974,413, an interfund payable balance due to the low income public housing program of \$76,115, and a non-liquid asset balance in land, structures and equipment of \$693,178.</p> <p data-bbox="337 1759 1198 1894"><i>Criteria</i> - The Annual Contributions Contract for the low income public housing program requires that all funds provided to the Authority under this contract be spent to administer its low income public housing program.</p>	

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-5	<p><i>Effect</i> - The Section 8 Program has made expenditures that significantly exceed its revenues. The Section 8 program does not have the ability to repay its obligations to HUD, the Conventional Program or other vendors.</p> <p><i>Recommendation</i> - The Authority should spend funds from each program in accordance with the specific contract or grant requirements and within its budgetary and funding constraints.</p> <p><b>Modernization Programs</b></p> <p><i>Condition</i> - The Authority did not have adequate systems to control costs charged to its CGP, MROP and URD grant programs to ensure that all costs charged to the programs were reimbursable and reimbursed by HUD. We noted the following matters related to reimbursements from HUD for modernization programs:</p> <ul style="list-style-type: none"><li>• Costs were charged to the program where there was no availability for reimbursement by HUD.</li><li>• Duplicate reimbursements from HUD were received.</li><li>• These overpayments have not been settled with HUD almost three years later.</li></ul> <p><i>Criteria</i> - Only costs reimbursable from HUD under the CGP, MROP and URD programs should be charged to these programs. The general requirement for cash management requires the Authority to minimize the time elapsed between the transfer of funds from the U.S. Treasury and the disbursement of funds by the Authority. Only allowable costs as defined by OMB Circular A-87 can be reimbursed.</p> <p><i>Effect</i> - The Conventional Program overstated its operating reserve in its reports to HUD by \$1,526,208 for costs that are not reimbursable from HUD. The Authority has received \$1,468,109 from HUD representing duplicate reimbursements from the CGP and URD programs. Financial reports submitted to HUD were not accurate.</p> <p><i>Recommendation</i> - The Authority should implement procedures to ensure that only costs reimbursable under specific programs are charged to those programs. In addition, procedures should be implemented to ensure that duplicate requests for reimbursement do not occur and that any differences are settled timely.</p>	



# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-6	<b>Investment in Mutual Fund</b>  <i>Condition</i> - The Authority has an investment in a government securities mutual fund held by a brokerage that does not qualify as a public depository. At December 31, 1997, the Authority had over \$1.9 million invested in this fund.  <i>Criteria</i> - Ohio Senate Bill 81 and Ohio Revised Code Section 135.03 require that interim deposits of public monies, including investments in money market mutual funds, be held only at public depositories. Public depositories are defined by Ohio Revised Code Section 135.03 as national banks and domestic building and loan associations.  <i>Effect</i> - The Authority is not in compliance with Ohio Senate Bill 81 and Ohio Revised Code Section 135.03.  <i>Recommendation</i> - The Authority should develop procedures to ensure that it invests in qualified investments held by public depositories.	None
97-7	<b>General Ledger Account Support and Reconciliations</b>  <i>Condition</i> - We noted the following matters concerning account support and reconciliations: <ul style="list-style-type: none"><li>• All bank reconciliations were not completed on a timely basis. Instances were noted where reconciling items were not investigated or adjusted on the books in a timely fashion.</li><li>• The Authority did not complete the reconciliation of accounts payable until over one year later, and could not explain an unreconciled difference between the detail and the general ledger.</li><li>• Adequate support for accounts was not readily available. In many instances, journal entries had no support and check copies with support for payments could not be located.</li></ul> <i>Criteria</i> - Adequate internal controls and monitoring should exist over accounting and financial reporting to safeguard the assets of the Authority and ensure the preparation of accurate financial statements.	

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-8	<p><i>Effect</i> - If sufficient internal controls and oversight are not implemented over the maintenance of account detail, timely preparation of account reconciliations, and recording adjustments to the accounting records, errors or improper transactions may not be detected on a timely basis and erroneous financial reporting could occur.</p> <p><i>Recommendation</i> - The Authority should maintain supporting detail for all accounts. Monthly reconciliations of all accounts should occur on a timely basis, and adjustments should be recorded in the general ledger on a timely basis.</p>	None
	<p><b>Oversight of Payroll Personnel</b></p> <p><i>Condition</i> - During 1997 there were no procedures for reviewing the amounts paid to and vacation earned and taken by employees in the payroll department or to parties related to employees in the payroll department.</p> <p><i>Criteria</i> - Adequate internal controls should exist over the disbursement of payroll.</p> <p><i>Effect</i> - If sufficient internal controls are not implemented in this area, improper cash disbursements made on behalf of the housing authority may not be detected on a timely basis.</p> <p><i>Recommendation</i> - Management should review the amounts paid to employees in payroll and related parties for propriety each pay period.</p>	None

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-9	<p data-bbox="321 422 850 453"><b>Internal Controls Over Accounts Payable</b></p> <p data-bbox="321 485 1175 621"><i>Condition</i> - Accounts payable personnel have the ability to enter the receipt of inventory, add a vendor, and enter invoices into the computer system. These incompatible functions could result in an improper disbursement.</p> <p data-bbox="321 653 1175 716"><i>Criteria</i> - Adequate internal controls should exist over the disbursement of funds for the housing authority.</p> <p data-bbox="321 747 1101 810"><i>Effect</i> - Improper cash disbursements could occur and may not be detected.</p> <p data-bbox="321 842 1166 947"><i>Recommendation</i> - The accounts payable department should not have the ability to enter inventory receipts into the system or to create a new vendor.</p>	None
97-10	<p data-bbox="321 978 626 1010"><b>General Ledger Entries</b></p> <p data-bbox="321 1041 1175 1146"><i>Condition</i> - The general accounting manager and senior accountants have the ability to enter and post entries into the general ledger without any review or support for entries.</p> <p data-bbox="321 1178 1175 1241"><i>Criteria</i> - Adequate internal controls should exist to prevent improper or unauthorized entries to the general ledger.</p> <p data-bbox="321 1272 1122 1335"><i>Effect</i> - Improper or erroneous entries could be made to the general ledger that would not be detected.</p> <p data-bbox="321 1367 1175 1472"><i>Recommendation</i> - Personnel who are responsible for preparing general ledger entries should not have the ability to release and post entries in the general ledger system.</p>	None

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-11	<b>Family Self Sufficiency</b>  <i>Condition</i> - The Authority is not performing periodic reconciliations between the detail of each family's escrow balance and the balance in the escrow bank account balance. At December 31, 1997, the escrow bank account balance should have been \$178,487. In addition, the Authority could not provide any support to ensure that each family was sent an annual statement of its escrow account balance.  <i>Criteria</i> - The Family Self Sufficiency ("FSS") program is intended to help families living in housing projects achieve economic independence. Upon satisfactory completion of their FSS contract, or meeting specific interim goals, the family receives a distribution from its escrow account.  <i>Effect</i> - The Authority is required to maintain an escrow account for each family based upon an income formula. The detail of each family's escrow account should equal the amount in the escrow bank account. In addition, each family is required to receive an annual statement of its escrow balance.  <i>Recommendation</i> - Management should reconcile the detail of each family's escrow balance to the escrow bank account balance on a regular basis to ensure that there is adequate cash to pay out on all contracts. In addition, the Authority should ensure that it is sending each family its annual statement of escrow balance and maintaining support that this was done.	None
97-12	<b>Title V/New Town - In Town Deficit</b>  <i>Condition</i> - Funds from the low income public housing program have been used to cover the costs of the Title V/New Town - In Town programs. At December 31, 1997, the Title V/New Town - In Town programs had an overall surplus of \$1,701,562, a non-liquid asset balance in land, structures, and equipment of \$3,421,307, and an interprogram payable balance of \$2,192,185.  <i>Criteria</i> - The annual contributions contract for the low income public housing program requires that all funds provided to the Authority under this contract be spent to administer its low income public housing program.	

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-13	<p><i>Effect</i> - The Title V/New Town - In Town program does not have the ability to repay its obligation to the low income public housing program. The Authority used low income public housing funds to operate its Title V/New Town - In Town programs.</p> <p><i>Recommendation</i> - The Authority should spend funds from each program in accordance with the specific grant or program requirements. In addition, if funds are borrowed by any fund, the ability to repay the obligation should be apparent based on expected future receipts.</p> <p><b>Self-Insured Workers' Compensation Program</b></p> <p><i>Condition</i> - The Authority does not fund its self-insured workers' compensation program. As of December 31, 1997, the Authority had an actuarial review performed for the self-insured liability but has not recorded the actuarially determined liability nor funded the estimated liability.</p> <p><i>Criteria</i> - The annual contributions contract with HUD requires the Authority to maintain insurance for workers' compensation. HUD requires the Authority to establish a liability on its books for the self-insured risks under such a program based upon an actuarial valuation and further requires the Authority to fund the liability.</p> <p><i>Effect</i> - The Authority's financial statements could be misstated. The Authority may not have adequate funds on hand to administer its workers' compensation program.</p> <p><i>Recommendation</i> - The Authority should record a liability for its self-insured risk based upon the actuarial valuation. It should also fund its liability under the self-insured program.</p>	None

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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### Part III – Federal Award Findings and Questioned Costs Section

FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-1	<b>Control and Financial Reporting Environments</b> See complete comment in Part II of this schedule.	None
97-2	<b>Compliance with Memorandum of Agreement and Allowable Costs</b> See complete comment in Part II of this schedule.	\$1,660,612
97-3	<b>Fixed Assets</b> See complete comment in Part II of this schedule.	None
97-4	<b>Section 8 Deficit</b> See complete comment in Part II of this schedule.	\$2,667,591
97-5	<b>Modernization Programs</b> See complete comment in Part II of this schedule.	\$1,486,109
97-7	<b>General Ledger Account Support and Reconciliations</b> See complete comment in Part II of this schedule.	None
97-8	<b>Oversight of Payroll Personnel</b> See complete comment in Part II of this schedule.	None
97-9	<b>Internal Controls Over Accounts Payable</b> See complete comment in Part II of this schedule.	None
97-10	<b>General Ledger Entries</b> See complete comment in Part II of this schedule.	None
97-11	<b>Family Self Sufficiency</b> See complete comment in Part II of this schedule.	None
97-12	<b>Title V/New Town - In Town Deficit</b> See complete comment in Part II of this schedule.	\$5,122,869
97-13	<b>Self Insured Workers' Compensation Program</b> See complete comment in Part II of this schedule.	None

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-14	<p data-bbox="329 415 594 436"><b>Section 8 Procedures</b></p> <p data-bbox="329 478 1192 541"><i>Condition</i> - We noted the following matters regarding the administration of the Section 8 programs:</p> <ul data-bbox="329 562 1192 1409" style="list-style-type: none"><li data-bbox="329 562 1192 625">• Staff determinations of eligibility and rent were not subject to the required five percent supervisory review.</li><li data-bbox="329 646 1192 814">• There was inadequate security on the computer system. The same individuals had the access capabilities to set up a vendor (landlord), set up a client (tenant), build a contract, enter adjustments, and generate checks. This combination of incompatible functions could allow an individual to set up fictitious transactions.</li><li data-bbox="329 835 1192 898">• The Authority did not have controls in place to assure that reexaminations of income are made at least every twelve months.</li><li data-bbox="329 919 1192 1171">• The Authority did not have controls in place to assure that adequate documentation to support the determination of family composition, income and other adjustments occurred. Instances were noted where supporting documentation was missing from the file at the time of our review and where annual reexaminations were not completed or where documentation supporting the annual reexaminations was not contained in the file at the time of our review.</li><li data-bbox="329 1192 1192 1318">• The Authority did not have controls in place to ensure that housing assistance payments are made on behalf of valid tenants currently occupying a unit. Instances were noted where HAP payments were made on behalf of tenants who had moved.</li><li data-bbox="329 1339 1192 1409">• The Authority did not have procedures in place to ensure that an owner is not receiving a double subsidy.</li></ul> <p data-bbox="329 1444 1192 1507"><i>Criteria</i> - Adequate internal controls over the Section 8 program should exist.</p> <p data-bbox="329 1541 1192 1640"><i>Effect</i> - The lack of adequate internal controls could result in improper disbursements and a failure to comply with the federal regulations that govern the program.</p> <p data-bbox="329 1675 1192 1904"><i>Recommendation</i> - The Authority should assess computer security over its Section 8 system. Procedures should be adopted to ensure that all tenants are reexamined on a timely basis, that HAP payments are made only on behalf of currently eligible tenants, and that all necessary supporting documentation is obtained and maintained. Additionally, procedures to update the market rent database on an on-going basis should be adopted.</p>	None

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-15	<p><b>Quality Control Review of Section 8 and Conventional Program Admissions</b></p> <p><i>Condition</i> - Determinations of eligibility, order of selection, income and rent were not subject to a quality control process during 1997.</p> <p>Numerous items were missing from tenant files.</p> <p><i>Criteria</i> - The Authority must assure that it is admitting eligible families for public housing and Section 8 in the order prescribed by its policies, correctly computing income and rent, and maintaining current and accurate records, in accordance with the applicable provisions and requirements of 24 CFR Parts 813, 913, 882, 887, 960 and 982 and HUD Handbooks 7465.1 REV-2.</p> <p><i>Effect</i> - Errors and noncompliance may occur if sufficient quality controls are not implemented over the admissions cycle.</p> <p><i>Recommendation</i> - The Authority should implement quality control procedures to ensure it is admitting eligible families for public housing and Section 8 in the order prescribed by its policies, correctly computing income and rent, and maintaining current and accurate records.</p>	None
97-16	<p><b>Multifamily Tenant Characteristics System Submissions</b></p> <p><i>Condition</i> - We noted the following matters regarding the Multifamily Tenant Characteristics System ("MTCS") submissions:</p> <ul style="list-style-type: none"> <li>• Only approximately 25% of the MTCS submission of Form 50058 for Section 8 occurred.</li> <li>• Only approximately 65% of the MTCS submission of Form 50058 occurred for the conventional program.</li> </ul> <p><i>Criteria</i> - The Authority is required to report accurate and timely data to HUD on Form 50058.</p> <p><i>Effect</i> - The Authority was not in compliance with regulations to submit Form 50058 to HUD.</p> <p><i>Recommendation</i> - The Authority should implement procedures to ensure the timely and accurate submission of Form 50058 for MTCS.</p>	None



# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-17	<p><b>Conventional Program Utility Allowances</b></p> <p><i>Condition</i> - The basis on which utility allowances are established has not been reviewed since the early 1990's.</p> <p><i>Criteria</i> - The rent payable by a tenant includes an allowance for any tenant-paid utilities. HUD requires that average utility allowances be adjusted whenever there is an increase of at least 10%. Additionally, housing authority Administrative Order Section 35.04 requires the basis on which the utility allowances are established be reviewed at least annually.</p> <p><i>Effect</i> - The Authority may overcharge its tenants for rent.</p> <p><i>Recommendation</i> - The Authority should review its utility allowances annually.</p>	None
97-18	<p><b>Annual Reexaminations of Conventional Tenants</b></p> <p><i>Condition</i> - In addition to testing of the tenant reexaminations in general, we selected 25 tenant transactions for testing and noted the following matters regarding annual reexaminations of conventional tenants:</p> <ul style="list-style-type: none"> <li>• There were three instances where tenant reexaminations did not occur.</li> <li>• There were nine instances where a tenant reexamination was started, but not completed.</li> </ul> <p><i>Criteria</i> - HUD regulations require the housing authority to make a redetermination of the family's income and rent at least every twelve months.</p> <p><i>Effect</i> - Incorrect rents may be charged to tenants or ineligible individuals may be living in the Authority's properties.</p> <p><i>Recommendation</i> - The Authority should have internal controls in place to ensure that all tenants are reexamined at least every twelve months.</p>	None

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-19	<p><b>Construction Delay Log</b></p> <p><i>Condition</i> - The Authority does not maintain a construction log of potential delays on its construction projects.</p> <p><i>Criteria</i> - HUD requires housing authorities to enforce contracts with its architects, engineers, contractors and developers. HUD instructs housing authorities to use construction logs to monitor potential delays on its construction projects.</p> <p><i>Effect</i> - The terms of its construction contracts may not be adequately monitored.</p> <p><i>Recommendation</i> - The Authority should maintain a construction log of potential delays.</p>	None
97-20	<p><b>Public Housing Management Assessment Program</b></p> <p><i>Condition</i> - We have the following observations regarding the Public Housing Management Assessment Program ("PHMAP") self-assessment program:</p> <ul style="list-style-type: none"> <li>• PHMAP indicator #1, vacancy rate and unit turnaround - There appears to be a lack of a central source of knowledge within the housing authority regarding modernization vacancies, in particular units taken off-line for modernization. During its confirmatory review, HUD determined that the vacancy rate for the Authority is 25.3 percent. This resulted in an adjusted grade of "F" for this indicator. The Authority computed its average turnaround time of 132.6 days, which resulted in a grade of "F".</li> <li>• PHMAP indicator #3, rents uncollected - The Authority computed its rents uncollected percentage as 6.9%, resulting in a grade of "D" for this indicator.</li> <li>• PHMAP indicator #6, financial management - For component A, cash reserves, the Authority certified to a grade of A, with cash reserves stated to be in the range of 12.4% to 13.6% of expenses and total cash reserves available of \$6,821,207. During HUD's confirmatory review, the Authority modified the total cash reserves calculation five times. In addition, HUD determined that Authority staff had an unfortunate lack of understanding of the PHMAP process. Since the HUD review team could not rely on evidence supported by the Authority, and based on 1996 audit results, HUD changed the grade to "F" for this component and an overall grade of "E" for this indicator.</li> </ul>	

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-21	<p><i>Criteria</i> - PHMAP allows the Authority, its Board of Commissioners, its residents, and HUD to assess its performance and identify areas that need improvement. The Authority is required to certify PHMAP indicators to HUD after the end of each year, and is required to maintain supporting documentation.</p> <p><i>Effect</i> - Inadequate sources of knowledge and methods for calculating PHMAP indicators can result in erroneous calculations that may not present the actual condition of the housing authority.</p> <p><i>Recommendation</i> - The Authority should adopt procedures for the accurate preparation of the PHMAP indicators. An independent internal review of the PHMAP calculations should be performed, including all supporting documentation for the calculations.</p>	None
	<p><b>Section 8 New Admissions</b></p> <p><i>Condition</i> - We selected 25 tenants for new admission testing and noted the following matters regarding compliance with Section 8 regulation:</p> <ul style="list-style-type: none"><li>• Twelve instances where the supporting documentation for preferences was not presented.</li><li>• Eleven instances where the tenant certificate could not be located.</li></ul> <p><i>Criteria</i> - HUD regulations required the Authority to keep adequate records to document its determinations of eligibility.</p> <p><i>Effect</i> - The Authority could make housing assistance payments on behalf of ineligible tenants.</p> <p><i>Recommendation</i> - Control procedures should be implement to ensure that documentation is included in all files supporting the eligibility.</p>	

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-22	<b>Section 8 Compliance</b>  <i>Condition</i> - We selected 25 tenants for compliance testing and noted the following matters regarding compliance with Section 8 regulation: <ul style="list-style-type: none"><li>• Eleven instances where the application form could not be located.</li><li>• Thirteen instances where the third party income verification was not present in the file.</li><li>• Five instances where birth certificates, social security cards or other documentation supporting family composition and other allowances could not be located.</li><li>• Five instances where HUD 9886 was missing.</li><li>• Nineteen instances where HUD 50058 was not present in the file.</li><li>• Eighteen instances where the Authority is unable to provide evidence that the total tenant payment and tenant rent were properly calculated.</li><li>• Eighteen instances where the Authority is unable to provide support for deductions for any medical or child care expenses, required by 24 CFR 813.102.</li><li>• Ten instances where there was no evidence that an annual income re-examination occurred.</li><li>• Thirteen instances where the tenant certification could not be located.</li><li>• Twenty-five instances where the rent determination worksheet was missing.</li><li>• Eight instances where a HAP contract was not presented in the file.</li><li>• Seven instances where there is no evidence that an annual re-inspection of the unit occurred.</li><li>• One instance where the annual re-inspection of the unit failed. No subsequent reinspection was noted in the tenant file. The landlord received a rent payment in December 1997, with no evidence of a clearance of the "failed" status noted in February 1997.</li></ul>	

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-23	<p><i>Criteria</i> - HUD regulations require the Authority to keep adequate records to document its determinations of eligibility, income, rent and annual inspection.</p> <p><i>Effect</i> - The Authority could make housing assistance payments on behalf of ineligible tenants or landlord, or in incorrect amounts.</p> <p><i>Recommendation</i> - Control procedures should be implemented to ensure that documentation is included in all files supporting the eligibility and calculation of rent subsidies. Procedures should be implemented to ensure that all program participants are re-examined once every twelve months.</p> <p><b>Section 8 Quality Control</b></p> <p><i>Condition</i> - The Authority only performed 4% of the re-inspection for quality control purposes in 1997. In addition, the Authority was unable to provide documentation supporting its re-inspection.</p> <p><i>Criteria</i> - HUD regulations require the Authority to perform re-inspections of a sample of 5% of approved units for quality control purposes, as required by Handbook 7420.7, CHG-3.</p> <p><i>Effect</i> - The Authority is not meeting the quality control standards required by HUD.</p> <p><i>Recommendation</i> - Management should implement procedures to ensure 5% of the units are re-inspected for quality control purposes. In addition, the Authority should implement procedures that require maintenance of detailed support for re-inspection.</p>	None

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 1997

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FINDING NO.	INTERNAL CONTROL STRUCTURE AND COMPLIANCE COMMENTS	QUESTIONED COSTS
97-24	<b>Drug Elimination Program</b>  <i>Condition</i> - We noted the following matters regarding internal control and compliance with the Drug Elimination Program: <ul data-bbox="326 579 1182 978" style="list-style-type: none"><li>• Of the 30 expenditures selected for testing, the Authority was unable to provide supporting documentation for five transactions.</li><li>• The Authority did not adequately monitor its subrecipients' activities to provide reasonable assurance that subrecipients administered the grant in compliance with federal requirements. In addition, the Authority did not request or review the audit reports from subrecipients that were subject to audit under OMB Circular A-133.</li><li>• The Authority could not provide information to allow us to test the provisions of Cash Management or Period of Availability of Federal Funds.</li></ul> <i>Criteria</i> - <ul data-bbox="326 1077 1170 1293" style="list-style-type: none"><li>• Adequate supporting documentation for all expenditures and transactions associated with federal programs should exist and be maintained.</li><li>• Adequate monitoring should exist to provide reasonable assurance that subrecipients administer federal awards in compliance with federal requirements.</li></ul> <i>Effect</i> - Improper cash disbursements could be made and not detected.  <i>Recommendation</i> - The Authority should implement policies to maintain grant information and detailed support for transactions. In addition, the Authority should establish monitoring objectives and plans that ensure that subrecipients administer federal awards in compliance with federal and grant awards.	\$ 37,875

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## STATUS OF PRIOR YEAR FINDINGS YEAR ENDED DECEMBER 31, 1997

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Finding	Still Applicable	Comments
96-1) Control and Financial Reporting Environments	Yes	Still applicable for the current year. See finding #97-1 for current year comment.
96-2) Compliance With Memorandum of Agreement and Allowable Costs	Yes	Still applicable for the current year. See finding #97-2 for current year comment.
96-3) Fixed Asset Inventory Accounting	Yes	Still applicable for the current year. See finding #97-3 for current year.
96-4) Section 8 Deficit	Yes	Still applicable for the current year. See finding #97-4 for current year comment.
96-5) Lack of Internal Controls Over Section 8 Procedures	Yes	Still applicable for the current year. See finding #97-14 for current year comment.
96-6) Quality Control Review of Section 8 and Conventional Program Admissions	Yes	Still applicable for the current year. See finding #97-15 for current year comment.
96-7) Multifamily Tenant Characteristics System Submissions	Yes	Still applicable for the current year. See finding #97-16 for current year comment.
96-8) Modernization Programs - Systems to Control Costs	Yes	Still applicable for the current year. See finding #97-5 for current year comment.
96-9) Conventional Program Utility Allowances	Yes	Still applicable for the current year. See finding #97-17 for current year comment.
96-10) Investment in Mutual Fund	Yes	Still applicable for the current year. See finding #97-6 for current year comment.
96-11) Collateralization of Deposits	No	The cash manager is responsible for coordinating with the bank to ensure compliance. On a quarterly basis, collateralization reports are submitted to the CFO.
96-12) General Ledger Account Support and Reconciliation	Yes	Still applicable for the current year. See finding #97-7 for current year comment.

(Continued)

# CUYAHOGA METROPOLITAN HOUSING AUTHORITY

## STATUS OF PRIOR YEAR FINDINGS YEAR ENDED DECEMBER 31, 1997

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Finding	Still Applicable	Comments
96-13) Oversight of Payroll Personnel	Yes	Still applicable for the current year. See finding #97-8 for current year comment.
96-14) Annual Reexaminations of Conventional Tenants	Yes	Still applicable for the current year. See finding #97-18 for current year comment.
96-15) Section 8 Compliance	Yes	Still applicable for the current year. See finding #97-22 for current year comment.
96-16) Internal Controls over Accounts Payable	Yes	Still applicable for the current year. See finding #97-9 for current year comment.
96-17) General Ledger Entries	Yes	Still applicable for the current year. See finding #97-10 for current year comment.
96-18) Construction Delay Log	Yes	Still applicable for the current year. See finding #97-19 for current year comment.
96-19) Performance Funding System	No	The Budget department is responsible for the gathering of all data necessary to complete PFS forms. Binders containing all supporting documentation have been prepared.
96-20) Public Housing Management Assessment Program	Yes	Still applicable for the current year. See finding #97-20 for current year comment.
96-21) Self Insured Workers' Compensation Program	Yes	Still applicable for the current year. See finding #97-13 for current year comment.

(Concluded)





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CUYAHOGA METROPOLITAN HOUSING AUTHORITY  
1997

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.

By: Susan Babbitt

Date: MARCH 2, 2000