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August 15, 2022

VIA ELECTRONIC MAIL

Ms. Shelia M. Hester
Director, Office of Public Housing
1500 Pinecroft Road
Suite 401
Greensboro, North Carolina 27407

RE: Response to Financial Assessment Compliance Review Report

Dear Ms. Hester:

Enclosed you will find the City of Albemarle's response to the Compliance Review Report for the Albemarle Department of Public Housing (ADPH). As you will see, the City has included responses to each Finding and Observation as well as incorporated supporting materials as Exhibits for your review.

While we appreciate the opportunity for substantive and constructive feedback on the ADPH's operations, the City believes that your office has a fundamental misunderstanding about the founding structure of our Public Housing Department. It is also the City's contention that because the review was founded on this misunderstanding, some of the Findings and Observations detailed in your report are erroneously included. We acknowledge that there is always an opportunity for process refinement and have thoroughly considered any applicable suggestions and directives you have provided in your review.

As always, the City will continue its commitment to providing quality and affordable housing to our community. If you have any questions regarding our response, please contact us at 704-984-9400 and we will respond appropriately to your inquiry.

Sincerely,

G. Ronnie Michael, Mayor (Board Chair)
On Behalf of the City Council of the City of Albemarle

Enclosed: Response to the Financial Assessment Compliance Monitoring Report



City of Albemarle Department of Public Housing Response to the Compliance Monitoring Report

Finding Responses

- I. **Finding 1 Response:** The City of Albemarle Department of Public Housing (ADPH) is a department of the City and therefore follows the Procurement Policy established for all City departments. Although all of Housing and Urban Development (HUD) regulatory citations are not incorporated into the City's procurement policy, the ADPH consistently utilizes consultants with specialized HUD expertise to guide its decision-making in a manner that is compliant with all applicable regulations. In the majority of procurement instances, the City's procurement policy is the most restrictive. Consistent with HUD Handbook 7460.8 REV 2 (1.5), the ADPH complies with the regulation that is the most stringent in regards to procurement. Lastly, as stated to your agency in an e-mail dated on June 6, 2022, Finance staff did not verbally authorize work nor did they provide the directive to any City employee or vendor that it was acceptable to disregard the requirements of the City's procurement policy. Our Finance staff has consistently received awards for proper reporting and sound financial standing. Unsubstantiated claims of Finance's noncompliance with procurement policies are grossly inconsistent with both the reputation of the Finance Department and the integrity of the employees therein.
 - a. **Corrective Action Response:** The governing Board of the ADPH (City Council) has already approved the City's Purchasing and Contracting Policy including a statement confirming that all applicable regulations be adhered to in the management of City operations. In the event of a conflict amongst local, state, and federal regulations, the policy states that the most stringent will govern (see *Exhibit I*).

- II. **Finding 2 Response:** CARES Act Funds were used to cover expenses associated with normal operating funds, capital funds and extraordinary Covid-related expenses consistent with PIH Notice 2020-07.
 - a. **Corrective Action Response:** See *Exhibit A* that contains excerpts of the authority from which ADPH followed in the utilization of CARES Act funds along with Payment Vouchers from eLOCCS and supporting invoices from CF Draws.

- III. **Finding 3 Response:** The Finance Department was tasked with the collection of laundry coins following the discovery that collected amounts were not being reported to the Finance Department. Although Finance staff performs the collection of the coins, the collected amount is deposited into ADPH's bank account and ADPH staff is aware of the exact amount collected. Our Finance Department acts as a financial management resource for the ADPH. Finance's involvement with the collection of laundry coins is appropriate regardless of whether ADPH staff is present. The response to Finding 4 further details the role the Finance Department and cites the proper authority for its involvement with the ADPH.
- a. **Corrective Action Response:** ADPH is subject to the Cash Handling and Collection Policy and Procedures Manual *see Exhibit B*.
- IV. **Finding 4 Response:** The City of Albemarle has previously provided the correct statutory citation for the City's structure as well a copy of the founding documents used to establish the ADPH. Once again, North Carolina General Statute § 157-4.1 states that in lieu of creating a housing authority, the **council of any city may itself exercise such powers, duties and responsibilities**. This provision is also reiterated in Statute § 157-4.1A applicable to cities under 250,000, which would include the City of Albemarle. Additionally, pursuant to North Carolina General Statute § 157-4.2(3), the finance officer of the city shall administer and control that portion of the city budget relating to the operations of the department. Consistent with the above referenced statutes, the City Council is authorized to assign the administration of the housing programs, projects and policies to any existing or new department of the city. The financial management of the ADPH is a responsibility shared between the ADPH and the Finance Department while other departments assist the ADPH, as needed.
- a. **Corrective Action Response:** Ultimately, the regulatory citations you referenced are not applicable to the structure of the ADPH. Pursuant to the proper authority, referenced above, we are unaware of a restriction on Council members receiving compensation for his or her services when the housing program is a department of the City. There is no reimbursement of funds for previous Council member compensation required nor will it be performed. However, the City has elected to revise the source of future Council member compensation to eliminate payment from the ADPH's account. In sum, the ADPH will continue to operate in accordance with the proper authority cited above. *See Exhibit C* for the proper regulatory citations and ADPH founding documentation.
- V. **Finding 5 Response:** The ADPH utilized consultants, National Facility Consultants, INC., to perform an Utility Allowance Study and develop utility allowances on March 9, 2020 which was ultimately implemented in 2020. Consultants confirmed that the allowances were developed in compliance with applicable regulations.
- a. **Corrective Action Response:** ADPH has already implemented a utility allowance schedule from a recent 2020 Utility Allowance Study. *See Exhibit D* for a copy of the Utility Allowance Study and Schedules therein.

VI. **Finding 6 Response:** Due to the general nature of your breach of contract allegation, there is not sufficient detail for which we can craft an appropriate response. However, ADPH is aware of the ACC and is committed to following the established procedures therein. The City is unaware of any actions of the ADPH resulting in breach of its contractual obligations. Moreover, the ADPH has engaged an architect to assess the physical condition of its structures and will address all areas needing improvement. Lastly, the Director for the ADPH and the Finance Department will *continue* its proper management of capital funds.

VII. **Finding 7 Response:** Historically, allocations have been assigned to the ADPH based off a “direct cost” method or “nominal cost” method. A direct cost method of allocation is the telephone bill for the City. ADPH is charged the cost for the telephones physically located in their offices. A nominal cost method of allocation is used when the direct cost method is difficult to ascertain yet it is apparent that some level of cost is associated with the ADPH. In this instance, a conservative and informed decision is made to determine an appropriate percentage split. For example, the nominal cost method resulted in the 5% cost allocation to the ADPH for the cost of operating the Information Systems Department. The services provided by the Information Systems Department to Public Housing include:

- i. Routine IT support from 4 specialists.
- ii. Maintenance and replacement of computer equipment.
- iii. Annual software support and upgrades.
- iv. Data backup and disaster recovery.

If the ADPH were a standalone Public Housing Authority it would certainly not have a budget to cover the cost of information technology (IT) staff or third party services. The average cost of hiring one IT professional ranges between \$45,000 and \$60,000 a year. For reference, the original budget for operating the Information Systems Department was \$1,102,080 in fiscal year 2022. The ADPH contributed \$55,104 to the Information Systems Department which is nominal when considering the level of service and expertise the ADPH receives in exchange.

- a) **Corrective Action Response:** A cost allocation study has been approved and is budgeted for in Fiscal Year 2023. Once this study is complete, the City will be able to develop and implement a cost allocation policy consistent with applicable regulations. ADPH funds were not appropriated to conduct this study. *See Exhibit E* for cost allocations applicable to the ADPH.

VIII. **Finding 8 Response:** The ADPH recently completed an inventory of materials, including those routinely used by its maintenance staff, to ensure that it is aware of available items. The citation that you have provided, 2 CFR 200.311, is applicable to real property which is defined in 200.1 as land including land improvements and excludes moveable machinery /equipment. The citation you referenced does not appear to be applicable to the inventory you have listed in your Finding (i.e. air conditioners, refrigerator, doors, and flooring). In any event, please see our corrective action response below.

- a) **Corrective Action Response:** ADPH will conduct an inventory check on an annual basis consistent with an inventory policy anticipated to be presented to City Council at a meeting in the near future. The current inventory has been documented on a spreadsheet by the ADPH Director. *See Exhibit F* for a copy of ADPH's inventory spreadsheet and a placeholder for an inventory policy which will be presented to Council for approval at a future meeting.

IX. **Finding 9 Response:** Capital Asset inventory control procedures that fall under the Finance Department's purview are for individual items with a useful life greater than one year that meet the capitalization rate of costing \$5,000 or more. Items that do not meet the current capitalization rate will not be reflected in the Capital Asset records. Pursuant to section 2.2 of the Capital Assets Policy & Procedures Manual (*See Exhibit G*), it is recommended that a separate department record be maintained in each department including items that are deemed to hold a significant value, but are valued below the current capitalization rate. The Finance Department does not have sufficient levels of staffing to physically audit the capital asset inventory each year for every department and thus rely on each department to report accurate inventory information. For assets that are deemed to hold a significant value yet fall below the capitalization rate, the City has a warehouse operated by its Public Works Department. This warehouse maintains operational inventories using an inventory control system. Assets purchased by the ADPH that need to be stored in a secure location, with proper inventory controls can be stored at this location.

- a) **Corrective Action Response:** The City of Albemarle already has a Capital Assets Policy and Procedure Manual, referenced above, that the ADPH is subject to as it is a department of the City. Furthermore, 2 CFR 200.313(D)(2) simply states that a physical inventory of the property must be taken at least once every two years. This regulation does not state that Finance staff has to be present for such inventory count. The ADPH staff will continue to remain responsible for their visual inventory count and report back to Finance items that are classified as a Capital Asset. For other items that have significant value, but are not subject to the Capital Asset Policy, the ADPH can utilize the City's warehouse for storage.

X. **Finding 10 Response:** The ADPH used CARES Act Funding for allowable cost as the improvements to the ADPH were made to *support and maintain the health and safety of assisted families and individuals (See Exhibit H)* consistent with guidance received from the U.S. Dept. of HUD. The installation of security cameras/pole systems along with speed bumps in the public housing community significantly contributed to the health and safety of the residents therein. The 2003 Ferris Lawn Mower was likely disposed of due to its age and inability to meet the demands of the ADPH. The information regarding any disposal of the mower is not readily accessible, however the mower was consistently used for the ADPH's operations. The ADPH contributed a nominal amount to the purchase of the 2014 Chevy Silverado as it routinely needs access to Public Works fleet maintenance operations. This contribution from the ADPH to the fleet maintenance operations is minimal in exchange for the resources the ADPH receives.

- a) **Corrective Action Response:** The ADPH will reimburse HUD for the depreciated value of the 2003 Ferris Lawn Mower as the paperwork for the disposal of the equipment is not readily accessible. The total reimbursement to HUD is estimated to be valued at less than \$500 dollars. The depreciated value of the 2003 Ferris Lawn Mower will be confirmed at a later date and a HUD reimbursement completed shortly thereafter.

Observation Responses

- I. **Observation 1 Response:** City Council along with City Staff are committed to continuing education to expand their knowledge regarding municipal operations. As additional trainings become available, interested parties will take advantage of such educational opportunities.
- II. **Observation 2 Response:** Prior to the ADPH becoming a department of the City of Albemarle it was a standalone Public Housing Authority. It was ultimately decided that the community would be better served if the Authority was absorbed by the City to allow for better oversight and additional resources. Being a part of the City, the ADPH receives a plethora of benefits it would not otherwise have the financial capacity to afford. This includes the ability to have assistance and resources from Information Systems, Human Resources, Administration, Legal, Public Works, Public Utilities, Planning and Development, Police, Fire, Parks and Recreation and Finance. Although the accountant in Finance is being paid 95% from HUD funds, the ADPH receives assistance from the entire Finance team despite not making significant contributions to other Finance team member's salaries. The ADPH can contact the Finance Department at any point for additional clarification or assistance with their financial needs. Ultimately, the ADPH receives several City resources for which there is no compensation from HUD provided.
- III. **Observation 3 Response:** The ADPH recently presented revisions to its Admissions and Continued Occupancy Policy (AOCP) to the City Council for review and approval. One of the objectives of the revised policy is to enhance enforcement of tenant's lease provisions. With the newly approved policy in place, the ADPH is moving forward with proper lease enforcement when necessary.
- IV. **Observation 4 Response:** The ADPH is responsible for understanding unique regulations that are specific to its operations. The Finance Department provides assistance to each department across the City and expects each department to also familiarize itself with applicable regulations. The accountant assisting the ADPH seeks out guidance and training for HUD items, as needed, to better assist the ADPH. Additionally, the Director of the ADPH is actively working to gain access to eLOCCS. The Finance Director only had access during a period of transition amongst ADPH staff in order to maintain consistency amongst authorized users having access to the system. Lastly, the Director of the ADPH provides frequent updates to HUD regarding the Section 8 program. These updates include the number of HAP payments, number of vouchers, landlord information, repairs, inspections, etc.

- V. **Observation 5 Response:** The ADPH manages its resources in a proper manner and refutes claims that it has engaged in irresponsible spending. Items purchased for the ADPH were determined to be eligible and necessary expenses. More importantly, the door refurbishment was a formally bid project ultimately awarded to a vendor consistent with applicable procurement regulations. The insinuation that the ADPH simply spent 1.265 million dollars on doors without following proper regulations, nor planning this expenditure as part of an overall refurbishment initiative, is completely inaccurate. Lastly, this observation mentions that the ADPH has received a substandard score for its physical condition since 2018. To correct the record, the ADPH passed its most recent 2022 inspection.

This response was presented and adopted by the City Council of the City of Albemarle. The Council also serves as the governing board for the Department of Public Housing pursuant to North Carolina General Statute § 157-4.1.

This on the 15th day of August 2022.

Councilmember _____ read, introduced and moved for the adoption of the foregoing resolution.

Councilmember _____ seconded the motion and those voting for the passage of the motion _____.

Those voting in opposition of the motion _____.

G. Ronnie Michael, Mayor (Board Chair)
*On Behalf of the City Council of the City of
Albemarle*