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August 11, 2015

HUD Representative  
City of Gary Housing Authority  
578 Broadway  
Gary, IN 46402

We have reviewed the audit report prepared by Velma Butler & Company, LTD. Certified Public Accountants and Consultants, for the period April 1, 2012 to March 31, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. The Independent Public Accountant disclaimed an opinion on the financial statements included in the report due to inadequate accounting records and insufficient internal controls.

Furthermore, we call your attention to the findings in the report on pages 46 through 56. These findings consisted of material weaknesses and significant deficiencies in internal control over financial reporting; noncompliance with provisions of laws, regulations, contract and grant agreements which could have a direct and material effect on the determination of financial statement amounts; noncompliance with requirements for CFDA 14.850 Public and Indian Housing and CFDA 14.871 Section 8 Housing Choice Vouchers programs of such a magnitude that the opinions on these programs were modified; noncompliance with other requirements for major federal programs; and material weaknesses and significant deficiencies in internal control over compliance.

The Independent Public Accountant's report is filed with this letter in our office as a matter of public record.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA  
State Examiner

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**THE HOUSING AUTHORITY OF THE  
CITY OF GARY, INDIANA  
INDEPENDENT AUDITORS' REPORT,  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION,  
INCLUDING SINGLE AUDIT REPORTS  
FOR THE YEAR ENDED  
MARCH 31, 2013**

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**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA**

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**INDEPENDENT AUDITOR'S REPORT**

**INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
Housing Authority of the City of Gary, Indiana  
Gary, Indiana

U.S. Department of Housing and Urban  
Development  
Cleveland Office  
Renaissance on Playhouse Square  
1350 Euclid Avenue, Suite 500  
Cleveland, Ohio 44115-1815

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities, which include the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Housing Authority of the City of Gary, Indiana (the Authority), as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

***Basis for Disclaimer of Opinion***

The Authority did not maintain adequate accounting records to provide sufficient information for the preparation of the basic financial statements. The Authority's accounting records did not contain all the information necessary to produce complete financial statements.

Internal controls over recording of financial transactions were not sufficient to allow us to place reasonable assurance on the completeness of accounting records. Accordingly, it was not practicable for us to extend our audit procedures beyond the records available to us.

#### ***Disclaimer of Opinion***

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to attain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, and we do not express an opinion of these financial statements.

#### ***Other Matters***

##### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

##### ***Other Information***

Our audit was conducted for the purpose for forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanied financial data schedules and the schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* are presented for purpose of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information such as financial data schedules and schedule of expenditures of federal awards is the responsibility of management and was derived from the relation directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for

Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the accompanying supplementary information.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013 on our consideration of the Housing Authority of the City of Gary, Indiana (the Authority)'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Velma Butler / Company Ltd." The signature is fluid and cursive, with a vertical line separating "Velma Butler" from "Company Ltd."

Velma Butler & Company, Ltd.  
Chicago, Illinois

December 13, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**HOUSING AUTHORITY of the CITY  
of GARY, INDIANA  
578 Broadway  
Gary, Indiana 46402**

To the Board of Commissioners of the  
The Housing Authority of the City of Gary, Indiana  
Gary, Indiana

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Housing Authority of the City of the Gary, Indiana's (the Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year that ended on March 31, 2013.

We are pleased to submit the financial statements of the Housing Authority of the City of Gary, Indiana for the year ended March 31, 2013. The accuracy of the data presented in the financial statements, as well as its completeness and fairness of presentation, is the responsibility of management. All necessary disclosures to enable the reader to gain an understanding of the Authority's financial affairs have been included in the footnotes accompanying the general purpose financial statements. The purpose of the financial statements is to provide complete and accurate financial information, which complies with reporting requirements of the U.S. Department of Housing and Urban Development (HUD) and the Governmental Accounting Standards Board.

*FINANCIAL HIGHLIGHTS*

- Net assets at March 31, 2013, were \$75.7 million a decreased of \$5.1 million from the March 31, 2012 total of \$80.8 million.
- Revenue decreased by \$2.6 million for fiscal year 2013. The decrease was primarily due to a decrease in HUD Operating Subsidy and a lack of receipts from Capital Grants.
- Operating expenses, excluding depreciation, increased by \$367 thousand or by 1.6%, from \$22.8 million at March 31, 2012 to \$23.2 million at March 31, 2013.
- Net fixed assets were \$63.7 million at March 31, 2013, representing a decrease of \$1.7 million from the March 31, 2012, balance of \$65.4 million due primarily to depreciation.
- Total liabilities decreased by \$2.9 million or 28.1% from \$10.2 million at March 31, 2012 to \$7.3 million at March 31, 2013.

*OVERVIEW OF THE FINANCIAL STATEMENTS*

The Authority's basic financial statements are presented as an enterprise fund. Operations include two separate and distinct housing programs and various other affordable housing

programs. The enterprise funds include the low rent housing program, the housing choice voucher program and financing mechanism of low and moderate income housing programs. The Low Rent Housing program is funded by income-based rents received from residents and operating subsidies and capital funds from HUD.

Under the housing choice voucher program, the Authority enters into housing assistance payment contracts with eligible landlords. HUD pays housing assistance payments, which includes tenant rents and management fees for operating the program.

The Authority also issued resources or provided loans for the construction of low income housing.

The financial statements are presented in three sections: management's discussion and analysis (this section), the basic financial statements and supplementary information.

The management's discussion and analysis section includes information on the past and future accomplishments of the Authority. It focuses on analysis of the financial statements and the improvements in the Authority's management.

The financial section provides both long-term and short-term information about the Authority's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

The Authority's financial statements were prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. Enterprise Funds are used to account for the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All assets and liabilities associated with the operation of these funds are included on the balance sheet.

The bottom of the Statement of Revenue, Expenses and Changes in Net Assets reports on the Authority's net assets and how they have changed from the previous year. Net assets are the difference between the Authority's assets and liabilities, which is one way to measure the Authority's financial health or position.

Additionally, the Authority is required to undergo an annual single audit in conformity with the provisions of the Single Audit Amendments of 1996 and the United States Office of Management and Budget's (*OMB*) *Audits of States, Local Governments, and Non-Profit Organizations* as provided in OMB Circular A-133. Information related to this single audit, including a schedule of expenditures of federal awards, the independent auditor's reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs will be issued with this report.

## FINANCIAL ANALYSIS OF THE AUTHORITY

### *Net Assets*

Net assets represent the difference between total assets and total liabilities. As shown in Table 1, the Authority's total net assets at March 31, 2013 decreased by \$5 million to \$76 million. This was a 6.3% decrease from the March 31, 2012 balance of \$81 million.

Total assets decreased by \$8 million or 8.7%, from \$91 million to \$83.1 million at March 31, 2013.

Total liabilities decreased by \$2.9 million or 28.1% from \$10.2 million at March 31, 2012 to \$7.3 million at March 31, 2013.

Current assets decreased by \$5 million or 38.6%, in 2013, primarily due to decreases in cash deposits and investments.

Capital and non-current assets decreased by \$2.9 million or 3.7% from \$77.8 million to \$75 million in 2013, primarily because of depreciation.

**Table 1**  
**Gary Housing Authority Net Assets**  
(in thousand dollars)

	<b>2013</b>	<b>2012</b>	<b>Change</b>	<b>Percentage Change</b>
Current Assets	\$ 8,115	\$ 13,206	\$ (5,091)	-38.6 %
Non-current Assets	74,970	77,839	(2,869)	-3.7 %
<b>Total Assets</b>	<b>83,085</b>	<b>91,045</b>	<b>\$ (7,960)</b>	<b>-8.7 %</b>
Current Liabilities	2,285	3,746	\$ (1,461)	-39.0 %
Non Current Liabilities	5,064	6,478	(1,414)	-21.8 %
<b>Total Liabilities</b>	<b>7,349</b>	<b>10,224</b>	<b>(2,875)</b>	<b>-28.1 %</b>
Unrestricted	11,226	13,970	(2,744)	-19.6 %
Restricted Net Assets	771	1,417	(646)	-45.6 %
Invested in Capital Assets, Net	63,739	65,434	(1,695)	-2.6 %
<b>Total Net Assets</b>	<b>75,736</b>	<b>80,821</b>	<b>(5,085)</b>	<b>-6.3 %</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 83,085</b>	<b>\$ 91,045</b>	<b>\$ (7,960)</b>	<b>-8.7 %</b>

### **Change in Net Assets**

Overall net assets decreased by approximately \$5.1 million or 6.3 percent at March 31, 2013. As shown in Table 2, the Authority's total operating revenues, which included all HUD Grants, tenant rents, interest and other income decreased by \$2.6 million or 11.5 percent, while total operating expenses increased by \$367 thousand or 1.6 percent, from approximately from \$22.8 million at March 31, 2012 to \$23.2 million at March 31, 2013.

**Table 2**  
**Changes in Gary Housing Authority's Net Assets**  
**(in thousand dollars)**

Tenant Revenue	\$ 2,749	\$ 3,257	\$ (508)	-15.6%
HUD Revenue	16,811	20,023	(3,212)	-16.0%
Other Income	176	(973)	1,149	-118.1%
Total Revenue	<u>19,736</u>	<u>22,307</u>	<u>(2,571)</u>	<u>-11.5%</u>
Operating Expenses	23,199	22,832	367	1.6%
Depreciation	1,492	1,492	-	0.0%
Total Expenses	<u>24,691</u>	<u>24,324</u>	<u>367</u>	<u>1.5%</u>
Change in Net Assets	(4,955)	(2,017)	(2,938)	145.7%
Beginning Net Assets	80,821	81,255	(434)	-0.5%
Prior Period				
Adjustments	(130)	1,583	(1,713)	
Ending Net Assets	<u>\$ 75,736</u>	<u>\$ 80,821</u>	<u>\$ (5,085)</u>	<u>-6.3 %</u>

As previously stated, operating expenses increased by approximately 1.5 percent, changes are shown below in Table 3:

**Table 3**  
**Gary Housing Authority's Operating Expense**  
**(in thousand dollars)**

	<b>2013</b>	<b>2012</b>	<b>Change</b>	<b>Total Percent</b>
Administrative Expenses	\$ 6,191	\$ 5,447	\$ 744	13.7%
Tenant Services	34	31	3	9.7%
Utilities Expenses	3,074	3,029	45	1.5%
Ordinary Maintenance	2,301	2,476	(175)	-7.1%
Protective Services	633	710	(77)	-10.8%
General Expenses	775	606	169	27.9%
Housing Assistance Payments	10,191	10,533	(342)	-3.2%
Depreciation Expense	1,492	1,492	-	0.0%
<b>Total Operating Expenses</b>	<b>\$ 24,691</b>	<b>\$ 24,324</b>	<b>\$ 367</b>	<b>1.5%</b>

Increases occurred mainly in administrative expenses. The increase in administrative expenses was due to an increase in salaries and benefits, which was a result of new hires and promotions within the Authority.

## CAPITAL ASSETS

Capital assets decreased by \$1.7 million from \$65.4 million to \$63.7 million, as shown in the table below:

	<b>March 31, 2012</b>	<b>Additions and Deletions</b>	<b>March 31, 2013</b>
Land and Structures	\$ 82,488,979	\$ 8,313,256	\$ 90,802,235
Equipment and Furniture	3,535,821	52,754	3,588,575
Construction in Progress	38,139,190	(8,567,952)	29,571,238
Less Accum. Depreciation	(58,730,179)	(1,492,425)	(60,222,604)
<b>Total Fixed Assets</b>	<b>\$ 65,433,811</b>	<b>\$ (1,694,367)</b>	<b>\$ 63,739,444</b>

Completed construction projects totaled \$8,567,952 and were transferred to leasehold improvements. Depreciation for the year totaled \$1,492,425. There were no capital addition during the year and demolitions totaled \$254,696.

## BUDGETARY CONTROL

Budgetary control is exercised over programs through internal control methods that ensure compliance with legal provisions incorporated in annual program budgets approved by HUD and the Board of Commissioners. The activities of the Authority's enterprise fund are included in the annual budgeting process. Capital project budgets contained in the Authority's Low Rent Housing program are adopted for the length of the capital projects then annualized to strength cost monitoring and completion of timetables.

## MAJOR INITIATIVES

### Current Year:

The Gary Housing Authority continues to provide comprehensive service in the City of Gary to assure the existence of affordable housing for low to moderate income individuals, families, senior citizens, handicapped, and disabled individuals. Under the leadership of a dedicated Board of Commissioners and the hard work of true professionals in the field of affordable housing, the agency continues to thrive, considering the various challenges for the federally subsidized housing providers. Improvements have included working hard to enhance our operations internally and seeking external funds to support our residents whenever possible.

The Authority successfully:

- met the requirements of the Public Housing Assessment Subsystem indicators in 2013,
- completed a vacancy reduction program and began a new one,
- completed the memorandum of agreement,

- completed a modernization program for the high rise developments,
- began sale of homeownership units, and
- applied for a choice neighborhood planning grant to redevelop Ivanhoe Gardens,

**Future Years:**

We intend to continue our current initiatives and work toward becoming a high performer, maintain an occupancy rate of 97 percent or better, and build a new development at Ivanhoe Gardens.

Sincerely,

Willie Garrett  
Chief Executive Officer

## **BASIC FINANCIAL STATEMENTS**

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA**  
**STATEMENT OF NET ASSETS - ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012)**

**EXHIBIT A**

	LOW RENT	SECTION 8	COMPONENT UNIT	2013 SUB-TOTAL	ELIMINATION	2013 TOTAL	2012 TOTAL
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
Cash and Cash Equivalents	\$ 1,748,528	\$ 794,056	\$ 4,756,132	\$ 2,542,584	\$ 2,542,584	\$ 4,888,818	
Investments and Escrows	87,236	46,044		4,889,412		4,889,412	5,367,616
Accounts Receivable, net	312,830			312,830		312,830	820,049
Interfund Receivable	554,448	172,882		727,330	(727,330)	-	1,552,431
Prepaid Expenses	11,149			11,149		11,149	117,562
Material Inventories, net	358,639			358,639		358,639	362,536
Notes Receivable - Current		57,902		57,902	(57,902)	-	97,902
Total Current Assets	3,072,830	1,070,884	4,756,132	8,899,846	(785,232)	8,114,614	13,206,914
<b>NON CURRENT ASSETS</b>							
Accrued Interest Receivable	2,171,298		222,644	2,393,942		2,393,942	2,084,154
Notes Receivable - Long Term	8,337,060	1,466,151	500,000	10,303,211	(1,466,151)	8,837,060	10,321,113
Capital Assets, net	60,567,412		3,172,032	63,739,444		63,739,444	65,433,811
Total Non-Current Assets	71,075,770	1,466,151	3,894,676	76,436,597	(1,466,151)	74,970,446	77,839,078
<b>TOTAL ASSETS</b>	<b>\$ 74,148,600</b>	<b>\$ 2,537,035</b>	<b>\$ 8,650,808</b>	<b>\$ 85,336,443</b>	<b>\$ (2,251,383)</b>	<b>\$ 83,085,060</b>	<b>\$ 91,045,992</b>
<b>LIABILITIES AND NET ASSETS</b>							
<b>CURRENT LIABILITIES</b>							
Accounts Payable	\$ 743,687	\$ 65,877	\$ 809,564	\$ 809,564	\$	\$ 725,616	
Interfund Payable	727,330		727,330		(727,330)	-	1,552,431
Accrued Liabilities	382,172		382,172			382,172	392,082
Escrow Deposits		853,394	853,394			853,394	753,288
Notes Payable - Current	57,902		57,902	(57,902)		-	97,902
Bonds Payable - Current		240,000	240,000			240,000	225,000
Total Current Liabilities	1,911,091	65,877	1,093,394	3,070,362	(785,232)	2,285,130	3,746,319
<b>NONCURRENT LIABILITIES</b>							
Notes Payable - Long-Term	1,466,151		1,466,151	(1,466,151)		-	1,484,053
Bonds Payable - Long-Term		2,670,000	2,670,000			2,670,000	2,910,000
Accrued Interest	2,171,298	222,644	2,393,942			2,393,942	2,084,154
Total Noncurrent Liabilities	3,637,449	-	2,892,644	6,530,093	(1,466,151)	5,063,942	6,478,207
Total Liabilities	5,548,540	65,877	3,986,038	9,600,455	(2,251,383)	7,349,072	10,224,526
<b>NET ASSETS</b>							
Unrestricted Net Assets	8,032,648	1,699,946	1,492,738	11,225,332		11,225,332	13,970,009
Restricted Net Assets		771,212		771,212		771,212	1,417,646
Investment in Fixed Assets	60,567,412	-	3,172,032	63,739,444		63,739,444	65,433,811
Total Net Assets	68,600,060	2,471,158	4,664,770	75,735,988	-	75,735,988	80,821,466
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 74,148,600</b>	<b>\$ 2,537,035</b>	<b>\$ 8,650,808</b>	<b>\$ 85,336,443</b>	<b>\$ (2,251,383)</b>	<b>\$ 83,085,060</b>	<b>\$ 91,045,992</b>

See Accompanying Notes to Financial Statements

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET  
FOR THE YEAR ENDED MARCH 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012)**

**EXHIBIT B**

	LOW RENT	SECTION 8	COMPONENT UNIT	2013 TOTAL	2012 TOTAL
<b>OPERATING REVENUES</b>					
Tenant Charges	\$ 2,749,520	\$	\$	\$ 2,749,520	\$ 3,256,609
HUD Operating Grants	6,672,099	10,138,464		16,810,563	20,023,032
Other Income	427,621			427,621	266,328
<b>TOTAL REVENUES</b>	<b>9,849,240</b>	<b>10,138,464</b>	<b>-</b>	<b>19,987,704</b>	<b>23,545,969</b>
<b>OPERATING EXPENSES</b>					
Administrative Expenses	5,310,203	881,092		6,191,295	5,446,641
Tenant Services	33,829			33,829	31,273
Utilities Expenses	3,074,133			3,074,133	3,029,146
Ordinary Maintenance	2,300,587			2,300,587	2,476,055
Protective Services	633,424			633,424	710,008
General Expenses	761,445	13,327		774,772	605,489
Housing Assistance Payments	129,125	10,062,038		10,191,163	10,533,390
Depreciation Expense	1,472,164		20,261	1,492,425	1,492,440
<b>TOTAL OPERATING EXPENSES</b>	<b>13,714,910</b>	<b>10,956,457</b>	<b>20,261</b>	<b>24,691,628</b>	<b>24,324,442</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(3,865,670)</b>	<b>(817,993)</b>	<b>(20,261)</b>	<b>(4,703,924)</b>	<b>(778,473)</b>
<b>NON-OPERATING REVENUES AND (EXPENSES)</b>					
Interest Income	2,320	1,214		3,534	5,513
HUD Capital Grants				-	2,067,146
Gain/(Loss) on Disposal of Assets	(254,696)			(254,696)	(3,311,612)
Interfund Revenue	2,224,087			2,224,087	1,259,909
Interfund Expenses	(2,198,087)	(26,000)		(2,224,087)	(1,259,909)
<b>TOTAL NON-OPERATING</b>	<b>(226,376)</b>	<b>(24,786)</b>	<b>-</b>	<b>(251,162)</b>	<b>(1,238,953)</b>
<b>CHANGES IN NET ASSETS</b>	<b>(4,092,046)</b>	<b>(842,779)</b>	<b>(20,261)</b>	<b>(4,955,086)</b>	<b>(2,017,426)</b>
<b>BEGINNING NET ASSETS</b>	<b>72,767,609</b>	<b>3,313,937</b>	<b>4,739,920</b>	<b>80,821,466</b>	<b>81,255,561</b>
<b>PRIOR PERIOD ADJUSTMENTS</b>	<b>(75,503)</b>		<b>(54,889)</b>	<b>(130,392)</b>	<b>1,583,331</b>
<b>ENDING NET ASSETS</b>	<b>\$ 68,600,060</b>	<b>\$ 2,471,158</b>	<b>\$ 4,664,770</b>	<b>\$ 75,735,988</b>	<b>\$ 80,821,466</b>

See Accompanying Notes to Financial Statements

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS  
FOR THE YEAR ENDED MARCH 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012)**

**EXHIBIT C**

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Tenants and Others	\$ 19,987,704	\$ 23,493,411
Payments to Employees	(3,677,173)	(4,580,328)
Payments to Vendors and Suppliers	(18,599,134)	(13,280,359)
Net Cash Provided by/(Used for) Operating Activities	<u>(2,288,603)</u>	<u>5,632,724</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Gain)/Loss on Investments	256,589	(346,643)
Interest on Investments	3,534	5,513
Net Cash Provided by/(Used for) Investing Activities	<u>260,123</u>	<u>(341,130)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Purchase)/Sale of Fixed Assets	(52,754)	(679,023)
Investment in Fixed Assets	-	(2,067,146)
(Increase)/Decrease in Notes Receivable	17,902	57,902
Increase/(Decrease) in Notes Payable	(57,902)	(722,241)
Increase/(Decrease) in Bonds Payable	(225,000)	(1,249,366)
Net Cash Provided by/(Used for) Financing Activities	<u>(317,754)</u>	<u>(4,659,874)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b><u>(2,346,234)</u></b>	<b><u>631,720</u></b>
<b>CASH AND CASH EQUIVALENTS AT APRIL 1, 2012</b>	<b>4,888,818</b>	<b>4,257,098</b>
<b>CASH AND CASH EQUIVALENTS AT MARCH 31, 2013</b>	<b>\$ 2,542,584</b>	<b>\$ 4,888,818</b>
<b>Reconciliation of Operating Loss to Net Cash</b>		
<b>Used by Operating Activities</b>		
Operating Loss	\$ (4,703,924)	\$ (778,473)
Adjustments To Reconcile:		
Depreciation	1,492,425	1,492,440
Prior Period Adjustment	(130,392)	1,583,331
Add back Loss on Disposal	254,696	3,311,612
Changes in Assets and Liabilities		
(Increase)/Decrease in Accounts Receivable	507,220	(579,763)
(Increase)/Decrease in Prepaid Expenses	106,413	(4,554)
(Increase)/Decrease in Material Inventories	3,897	(14,508)
(Increase)/Decrease in Accrued Interest Receivables	(309,788)	(254,080)
Increase/(Decrease) in Accounts Payable	90,867	484,761
Increase/(Decrease) in Accrued Liabilities	(9,910)	57,991
Increase/(Decrease) in Escrow Deposits	100,105	79,887
Increase/(Decrease) in Deferred Revenue	309,788	254,080
Net Cash Provided by/(Used for) Operating Activities	<u>\$ (2,288,603)</u>	<u>\$ 5,632,724</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES</b>		
None		

See Accompanying Notes to Financial Statements

**NOTES TO FINANCIAL STATEMENT**

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
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***Note 1 - Organization and Program Description***

The Housing Authority of the City of Gary, Indiana (the Authority) is a municipal corporation created and organized under the Housing Authority Act of the State of Indiana to engage in the acquisition, development, leasing and administration of a low-rent housing program and other federally assisted programs.

The governing body of the Authority is its Board of Commissioners (Board) composed of seven members appointed by the Mayor of the City of Gary (City). The Board appoints an Executive Director to administer the affairs of the Authority. The Authority is not considered a component unit of the City.

The United States Department of Housing and Urban Development (HUD) has direct responsibility for administering housing programs under the United States Housing Act of 1937, as amended. HUD is authorized to enter into contracts with local housing authorities and provide funds to assist the Public Housing Authorities (PHAs) in financing the acquisition, construction, and/or leasing of housing units; make housing assistance payments; and make annual contributions (subsidies) to PHAs for the purpose of maintaining the low rent character of the local housing program.

The Gary Housing Authority is a separate governmental entity created for the purpose of constructing, maintaining, and operating public housing and providing rental assistance to low and moderate income persons. The majority of its funding is provided by the Department of Housing and Urban Development (HUD). All funds and programs are included in these statements.

As required by accounting principles generally accepted in the United States of America, the accompanying financial statements present the various program activities of the Authority. The Authority's assets, liabilities and results of operations are segregated into public housing and grant programs as follows:

**Low Rent Housing** - The low rent housing program provides subsidized housing to low income residents. The Authority is the owner of public housing units located throughout the City. The Authority receives revenue from dwelling rental income and an operating subsidies provided by HUD. Capital Grants and Development (Hope VI) Funds, are also provided by HUD and are used to improve the construction, physical condition, management and operation of existing public housing developments. The low rent housing program is reported as an enterprise fund.

**Section 8 Programs**- The Authority participates in the housing choice voucher, and moderate rehabilitation programs. These programs are designed to provide privately owned, decent, safe and sanitary housing to low income families. The Authority provides assistance to low income persons seeking decent, safe and sanitary housing by subsidizing rents between such persons and owners of existing private housing. Under the programs, the Authority enters into housing assistance payment contracts with eligible landlords. To fund the program, the Authority enters into annual contribution contracts with HUD for the receipt of rental subsidies. The

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
NOTES TO THE FINANCIAL STATEMENTS  
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Housing Choice Voucher and the moderate rehabilitation programs are also reported as enterprise funds.

***Modernization and Development***-Substantially all additions to land, buildings, and equipment are funded through Capital Grant Fund Program or Hope VI - Development Program. These programs add to, replace or materially upgrade deteriorated portions of the Authority's housing units. Funding is provided through programs established by HUD.

**A. Reporting Entity**

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America, as applicable to governmental units.

These principles define the reporting entity of the primary government, as well as its component units. Component units are separate legal organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either (a) the ability to impose will by the primary government, or (b) the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. Based upon the application of these criteria, the reporting entity includes the Gary Housing Authority LLC, Gary Housing Development Corporation, Small Farms Development Corporation (Small Farms), and Fifth Avenue Housing Development Corporation, as component units.

The basis criterion for including a legally separate organization as a component unit is the degree of financial accountability the Authority has over the organization.

In June 1999, the Government Accounting Standards Board unanimously approved Statement 34, Basic Financial - and Management Discussion and Analysis (MD&A) section which provided an analysis of the overall financial positions and results of operations.

This and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

**Component Units**

**Gary Housing Authority, LLC - (GHA - LLC)**

Gary Housing Authority, LLC (GHA) was established on September 4, 2003 as a for profit limited liability company. GHA was formed to acquire and/or manage real property. The LLC was formed by the Authority, it's sole member, for the purpose of assisting in the development of a 131 unit multifamily housing project leased to Duneland Village Apartments, L.P., under Section 542(c) of the Housing and Community Development Act of 1992, defined under the provisions of section 221(d)(4) of The National Housing Act. Such projects are regulated as to rent and operating methods. Construction was substantially completed in March 2004. The management building was completed in August 2005. Apartments are rented to a mixture of

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
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low-income and market-rate tenants. Complete financial statements of the organization may be obtained from the Finance Director of the Gary Housing Authority, at their office at 578 Broadway, Gary Indiana, 46402.

**Gary Housing Development Corporation- (GHDC)**

Gary Housing Development Corporation (GHDC) was established on July 9, 2003 as a nonprofit company to acquire and/or manage real property. GHDC was formed by the GHA, its sole participant, for the purpose of assisting in the development of a 123 unit multifamily housing project leased to Horace Mann Associates, L.P., under section 542(c) of the Housing and Development Act of 1992, defined under the provisions of section 221(d)(4) of the National Housing Act. Such projects are regulated as to rent and operating methods. Construction was substantially completed in March 2006. Apartments are rented to a mixture of low income and market rate tenants. Complete financial statements of the organization may be obtained from the Finance Director of the Gary Housing Authority, at their office at 578 Broadway, Gary Indiana, 46402.

**Fifth Avenue Housing Development Corporation - (FAHDC)**

Fifth Avenue Housing Development Corporation (Fifth Avenue) was formed in May 1983 to assist in the development of housing projects within the meaning of Section 3(6) of the United States Housing Act of 1937. Fifth Avenue issued Construction Loan Notes and Mortgage Revenue Bonds for both Gary NSA III and NSA V. The Construction Loan Notes and Mortgage Revenue Bonds were both retired in 2001. Apartments were rented to a mixture of low income and market rate tenants. The Authority subsequently entered into a lease with NSA III and V to manage its Section 8 program. The Section 8 management has subsequently been discontinued and the corporation has been inactive. Complete financial statements of the organization may be obtained from the Finance Director of the Gary Housing Authority, at their office at 578 Broadway, Gary Indiana, 46402.

**Small Farms Development Corporation - (SFDC)**

Small Farms was formed in March 1979 to engage in the development of housing projects within the meaning of Section 3(6) of the United States Housing Act of 1937. Small Farms provided interim construction financing and permanent mortgage financing for the construction of 13 two-story buildings consisting of 200 units for low income families, and a community building on 20 acres of land in Gary, Indiana. Small Farms provided financing to fund the project by issuing Mortgage Revenue Bonds in April 1979. Apartments are rented to a mixture of low income and market rate tenants. Government backed securities were purchased as security for the loans. The bonds are managed by an independent administrator. Complete financial statements of the organization may be obtained from the Finance Director of the Gary Housing Authority, at their office at 578 Broadway, Gary Indiana, 46402.

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**B. Measurement Focus, Basis of Accounting and Basis of Presentation**

The accounts of the Authority are organized and operated on the basis of fund accounts. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounts segregate funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

*Enterprise Funds* are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time they are incurred. All assets and liabilities associated with the operation of these funds are included on the balance sheet.

The Authority has elected not to adopt provisions of GASB 20, paragraph 7, which state that all FASB statements and interpretation issued after November 30, 1989, can be applied.

**C. Fund Accounting**

Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The Authority maintains the following fund types and account groups:

- Public Housing Units consist of HUD financed units, owned by the Authority. Funds include low-rent housing programs, capital grant program and Hope VI - development program.
- Section 8 programs consist of HUD provided rental housing assistance programs, where the rents are paid directly to landlords. Funds include the housing choice voucher and moderate and substantial rehabilitation programs.
- Component unit funds consisted of the financing activities of the construction of mixed income housing units and the issuance of bonds to develop affordable housing.

*Proprietary Funds* - The Authority's operations are accounted for in a single *Enterprise Fund*. *Enterprise Funds* account for those operations that are financed and operated in a manner similar to private business or where the Authority has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

*Budgets* - Budgets are adopted for applicable enterprise funds on a basis consistent with accounting principles generally accepted in the United States of America. The Authority is not legally required to adopt budgets for such funds. However, the Authority has contractual requirements to adopt budgets for applicable HUD programs. All annual appropriations lapse at fiscal year-end. Multi-year appropriations for capital projects (all capital projects are currently accounted for in Proprietary Funds) are adopted for the length of the project and/or

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program and are annualized for accounting purposes. Additional information on the Authority's budgetary requirements and controls is disclosed in Note 2.

**Management's Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Net Assets** - The Authority has adopted GASB Statement No. 33. In accordance with GASB Statement No. 33, capital contributions are recognized as revenue when expenditures are made and amounts become subject to claim for reimbursement. Depreciation recorded on property, plant and equipment acquired with funds recorded as contribution in years prior to 2000 is calculated on a straight-line basis over the estimated useful life of the related assets, charged to operations, and reclassified to the related contributed capital account. The net book values of assets disposed of are written off against contributed capital if no proceeds from the disposal are received. Depreciation recorded on the property, plant and equipment is charged to operations.

Net assets include the following:

- Invested in capital, net of related debt - The component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds that are directly attributable to the acquisition, construction or improvement of these capital assets.
- Restricted for federal programs - the component of net assets that reports the amount of revenue from a federal or state award for service programs in excess of expenditures. These funds are restricted for the use of the related federal or state program.
- Unrestricted - The difference between the assets and liabilities that is not reported in net assets invested in capital, net of related debt or net assets restricted for federal and state programs.

**Inter-program Due to/from**-During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

**Federal Awards** -Federal grants for reimbursable programs are recognized as revenue in the year the related program expenditure occurs. Awards received prior to meeting revenue recognition criterion are recorded as deferred revenue. Operating grants are recorded as revenue in the year earned.

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**Investments** -The Authority has estimated the fair values of its financial investments using available market information and other valuation methodologies in accordance with GASB Statement No. 31. Federal statutes authorize investment of excess federal funds in instruments guaranteed by the federal government. The Authority has adopted this policy for all invested funds, whether or not they are federal funds.

**Inventories** - Inventories are stated at the lower of cost or market.

**Prepaid Expenditures** - Payments made to vendors for services that will benefit periods beyond March 31, 2012, are recorded as prepaid items.

**Compensated Absences** - The Authority allows full-time regular employees to accumulate the following compensated balances:

- Vacation is accrued based on length of employment, ranging from 13 days per year after 12 months of continuous service to 25 days after 20 years of continuous service. Unused vacation is paid upon termination.
- Sick pay is granted at the rate of one day per month. Upon resignation or retirement employees are paid for unused sick leave as follows:
  1. 5 through 14 years 50 percent
  2. 15 though 29 years 75 percent
  3. 30 or more years 90 percent

**Fixed Assets** - The Authority capitalizes fixed assets with a cost of more than \$5,000 and a useful life of one year or more. Proprietary fund types focus on capital maintenance. Accordingly, land, structures and equipment are recorded in the enterprise fund, which acquires such assets.

Fixed assets are stated at cost or at estimated historical cost. The cost of maintenance and repairs is charged to operations as incurred and improvements are capitalized. Fixed assets are depreciated over their useful lives using the straight-line method of depreciation as follows:

Building	40 years
Building Modernization	10-27.5 years
Infrastructure	40 years
Office Furniture and Equipment	5-7 years
Automobiles	5 years
Computers	3 years

**Concentration of Risk**

During the year ended March 31, 3013, the Authority received approximately 84 percent of its revenue from HUD.

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**Financial Information for 2012**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended March 31, 2012, from which the summarized information was derived.

**Note 2 - Budget Information**

The Authority is required by contractual agreements to adopt annual operating budgets for all its enterprise funds receiving federal expenditure awards. The Director of Finance prepares all budgets on a HUD basis, which is materially consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end. Operating budgets are not prepared for capital projects activity, which is included in the low rent housing enterprise fund. Budgets are submitted by the Authority's Executive Director and approved by resolutions of the Board of Commissioners.

**Enterprise Funds** - All enterprise fund operating budgets are prepared for the upcoming year by the end of the current fiscal year and are approved by the Authority's Board of Commissioners and/or HUD. Appropriations for capital projects are authorized at the fund and expenditure level, and effective budgetary control is achieved through periodic budgeting and reporting requirements.

**Note 3 - Cash and Cash Equivalents**

Cash and cash equivalents totaled \$2,542,584 at March 31, 2013. Amounts are maintained in commercial checking accounts and are readily available. HUD regulations require authorities to maintain funds in accounts that are fully collateralized by United States government securities. Cash amounts in excess of the \$250,000 insured by the government were collateralized by government securities and held in the pledging financial institutions' trust departments in the Authority's name.

Of the total cash on hand at March 31, 2013, \$1,200,221 was restricted, as follows:

<b>Description</b>	<b>Amount</b>
Tenant Security Deposits	\$ 179,314
Housing Asst. Payment	771,212
FSS Escrow	18,420
Other Restricted Funds	231,275
<b>Total Restricted Cash</b>	<b>\$ 1,200,221</b>

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**Note 4 – Investments**

At March 31, 2013, investments totaled \$4,889,412 which consisted of money market accounts and government securities. The fair values and unrealized gain/loss at March 31, 2013, are summarized as follows:

<b>Description</b>	<b>Category 1</b>		<b>Unrealized Gain/(Loss)</b>
	<b>Book Value</b>	<b>Market Value</b>	
Money Market	\$ 1,011,480	\$ 1,011,480	\$ -
Government Securities	3,877,932	3,877,932	-
<b>Total Investments</b>	<b>\$ 4,889,412</b>	<b>\$ 4,889,412</b>	<b>\$ -</b>

Category 1 - Certificates of deposit investments are insured by the Federal Depositor Insurance Corporation and are further fully collateralized by government security and held in the pledging financial institution's trust department in the Authority's name.

Money market and government security accounts are amounts held in escrows invested by the trustee (The Bank of New York Mellon Trust Company, N.A) in federal securities and U.S. Treasury Obligations money market funds. The Authority is currently not exposed to custodial credit risk or concentration risk, as defined in GASB 40. Restricted investments totaled \$4,756,132 as follows:

<b>Description</b>	<b>Money Market</b>	<b>Government Securities</b>	<b>Total</b>
Small Farms - Bonds	\$	3,902,738	\$ 3,902,738
GHA LLC - Reserve	853,394		853,394
<b>Total</b>	<b>\$ 853,394</b>	<b>\$ 3,902,738</b>	<b>\$ 4,756,132</b>

The Small Farms Development Corporation (Small Farms) - (a nonprofit corporation created as an agency and instrumentality of the Authority) investments are restricted for future bond payments. Small Farms issued mortgage revenue bonds (FHA Insured Mortgage - Section 8 Assisted Projects) totaling \$5,465,000 on April 1, 1979.

On October 15, 1991, Small Farms entered into an agreement with a bank to act as escrow deposit trustee. Investments totaling \$4,182,627 were deposited with the trustee. Escrows were required to be invested in Federal securities. Bond holder payments are to be made June 1 and December 1 until maturity of December 1, 2021

**Gary Housing Authority, LLC**

The Gary Housing Authority, LLC. (GHA LLC) a limited liability company, created as an instrumentality of the Authority, entered into an agreement in September 2003, with the

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developers of Duneland Village, to fund the operating reserve escrow of \$258,000 and the operating reserve of \$250,000, required by the Indiana Housing Finance Authority, as a condition of tax credits. At March 31, 2013, escrow deposit amounts totaled \$853,394.

**Note 5 - Accounts Receivable**

At March 31, 2013, accounts receivable totaled \$312,829 and consisted of the following:

<b>Description</b>	<b>Amount</b>
Tenant Accts. Receivable, net	\$ 199,055
Accounts Receivable - Other	113,774
<b>Total Accounts Receivable</b>	<b>\$ 312,829</b>

The Authority reviews the accounts receivable periodically.

Total accounts receivable inter-fund was \$727,330, at March 31, 2013, and was offset by the accounts payable inter-fund. Inter-fund accounts have been eliminated in the financial statements

**Note 6- Prepaid Expenses**

Prepaid expenses totaled \$11,149 at March 31, 2013, and consisted of prepaid insurance and vendor services.

**Note 7 - Material Inventories - Net**

Material inventories totaled \$358,639 at March 31, 2013. Material inventories are stated at the lower of cost or market. Material inventories were not reviewed for obsolescence or adjusted during the 2013 fiscal year.

**Note 8-Notes Receivable**

Notes receivable at March 31, 2013, totaled \$10,361,113 and represented amounts due from various component units. Total notes receivable along with accrued interest are shown below:

<b>Description</b>	<b>Notes</b>	<b>Interest</b>	<b>Total</b>
Duneland Village Associates, L.P.	\$ 3,116,000	\$ 1,924,898	\$ 5,040,898
Horace Mann Associates, L.P.	5,221,060	246,400	5,467,460
Gary Housing Development Corp.	500,000	222,644	722,644
Section 8 - Inspector General Audit	1,524,053		1,524,053
<b>Total Notes and Interest Receivable</b>	<b>\$ 10,361,113</b>	<b>\$ 2,393,942</b>	<b>\$ 12,755,055</b>

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The Authority established the various entities to fulfill its goal of affordable housing. The component units loaned funds to developers to build these units. Notes receivable primarily consist of amounts due from developers of mixed income properties. The repayment of these notes is based on net cash flow. As of March 31, 2013, no payments had been made.

**The Housing Authority of the City of Gary, Indiana (GHA) Duneland Village Associates, L.P.**

The Authority provided a 57 year construction loan of \$3,116,000, to Duneland Village Associate LLC. The loan is secured by a second priority leasehold mortgage and security agreement. The note bears interest at a rate of 5.08% compounded annually until all amounts are paid in full.

These funds originated from the HOPE VI grant. During the life of the note, principal and interest are payable only from Net Available Cash Flow, Net Proceeds, or Condemnation Proceeds, as defined in the loan agreement. Net Available Cash Flow is defined as Surplus Cash, defined by the Project Regulatory Agreement, generated after the Project initially achieves 90% occupancy, less any other reasonable and necessary Project expenses for the borrower. Net Proceeds are defined as all proceeds received from the sale or refinancing of the Project, less (i) repayment of the first Mortgage Loan, (ii) costs of sale or refinancing, and (iii) any re-syndication or refinancing proceeds reinvested in the Project are unavailable for distributions. Duneland pays 55% of the first \$140,000 of Net Available Cash Flow, adjusted for inflation each year, and 75% of the Net Available Cash Flow of the Project in excess of \$140,000. The loan matures on September 1, 2060. The amount outstanding at March 31, 2012 is \$3,116,000 plus accrued interest of \$1,924,898.

**The Housing Authority of the City of Gary, Indiana (the Authority) - Horace Mann Associates, L.P.**

The Authority provided a 45.5 year construction loan of \$5,221,060, to Horace Mann Associates, L. P. The loan matures on December 31, 2051. The interest rate of the loan was 8% annually, during the construction and noninterest bearing thereafter. Maximum interest during construction was \$246,400.

The loan is secured by a third priority leasehold mortgage and security agreement. Principal and interest are payable only from Net Available Cash Flow, Net Proceeds, or Condemnation Proceeds, as defined in the loan agreement. Net Available Cash Flow is defined as Surplus Cash, defined by the Project Regulatory Agreement, generated after the Project initially achieves 90% occupancy, less any other reasonable and necessary Project expenses for the Borrower. Net Proceeds are defined as all proceeds received from the sale or refinancing of the Project, less (i) repayment of the First Mortgage Loan and the Second Mortgage Loan, (ii) costs of sale or refinancing, (iii) any re-syndication or refinancing proceeds reinvested in the Project are unavailable for distribution, and (iv) repayment of any Project related advances.

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Thirty-six percent of Net Available Cash Flow is paid annually as long as the Second Mortgage is outstanding. The Partnership will pay the Authority 57% of Net Available Cash Flow of the Project.

The loan matures on December 31, 2051. Principal outstanding at March 31, 2013 was \$5,221,060. Accrued interest was \$246,400.

**Gary Housing Development Corporation (GHDC) - Horace Mann Associates, L.P.**

GHDC (a wholly owned not for profit organization) provided a 39.5 year construction loan of \$500,000 to Horace Mann Associates, L. P. The loan matures on December 31, 2046. The interest rate of the loan was 8.0% annually, during the construction and 4.57% thereafter. Maximum interest during construction was \$23,600.

Principal and interest are payable only from Net Available Cash Flow, Net Proceeds, or Condemnation Proceeds. Until maturity, 21% of Net Available Cash Flow is paid annually. Net Available Cash Flow is defined as Surplus Cash, defined by the Project Regulatory Agreement, generated after the Project initially achieves 90% occupancy, less any other reasonable and necessary Project expense for the Borrower. Net Proceeds are defined as all proceeds received from the sale or refinancing of the project, less (i) repayment of the First Mortgage Loan, (ii) costs of sale or refinancing, (iii) any re-syndication of refinancing proceeds reinvested in the Project are unavailable for distribution, and (iv) repayment of any Project related advances.

The loan matures on December 31, 2047. The amount outstanding at March 31, 2013 is \$500,000. Accrued interest totaled \$222,644.

**HUD IG Audit**

Based on an audit performed by the office of the HUD Inspector General, the Authority has entered into an agreement to repay disallowed costs back to the Section 8 Program. According to the agreement, the Low Rent program must make annual reimbursement payments through December 31, 2053. At March 31, 2013 the Section 8 receivable was \$1,524,053.

**Note 9 - Land, Structures and Equipment**

The changes in land, structures and equipment for the year ended March 31, 2013, were as follows:

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	<b>March 31, 2012</b>	<b>Additions/ Deletions</b>	<b>March 31, 2013</b>
Land and Structures	\$ 82,488,979	\$ 8,313,256	\$ 90,802,235
Equipment and Furniture	3,535,821	52,754	3,588,575
Construction in Progress	38,139,190	(8,567,952)	29,571,238
Less Accum. Depreciation	(58,730,179)	(1,492,425)	(60,222,604)
<b>Total Fixed Assets</b>	<b>\$ 65,433,811</b>	<b>\$ (1,694,367)</b>	<b>\$ 63,739,444</b>

Changes in land, structures and equipment during the audit period consisted of equipment purchased, disposals, and depreciation expense. Fixed Assets are recorded at cost. Depreciation is recorded over the useful lives of the assets using the straight-line method of depreciation. Depreciation expenses for 2013 totaled \$1,492,425. Demolitions totaled \$254,696 and additions totaled \$52,754.

**Note 10 - Accounts Payable**

Accounts payable totaled \$809,563, at March 31, 2013, which consisted of the following:

<b>Description</b>	<b>Amount</b>
Accounts Payable - Vendors	\$ 301,713
Tenant Security Deposits	138,372
Prepaid Rents	61,267
Accounts Payable - Other	308,211
<b>Total Accounts Payable</b>	<b>\$ 809,563</b>

Total accounts payable inter-fund was \$727,330, at March 31, 2013, and was offset by the accounts receivable inter-fund. Inter-fund accounts have been eliminated in the financial statements

**Note 11 - Accrued Liabilities**

Accrued liabilities totaled \$382,172, at March 31, 2013, and represented amounts due for accrued salary, vacation and sick leave as follows:

<b>Description</b>	<b>Amount</b>
Accrued Salary and Wages	\$ 58,825
Other Accrued Liabilities	51,812
Compensated Absences	271,535
<b>Total Accrued Payables</b>	<b>\$ 382,172</b>

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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It is the Authority's policy to compensate employees for accumulated sick and vacation leave upon termination. The Authority recognizes leave taken as a current year's salary expense during the year in which the leave is taken. Both vacation and sick pay is accrued for and recognized in the financial statements as an accrued liability.

**Note 12 - Notes Payable**

The Authority has entered into an agreement with the Office of the HUD Inspector General to repay costs disallowed because of an audit. At March 31, 2013 the balance outstanding was \$1,524,053, with future payment amounts as follows:

<b>Year End</b>	<b>Amount</b>
3/31/2014	\$ 57,902
3/31/2015	57,902
3/31/2016	57,902
3/31/2017	57,902
3/31/2018	57,902
Thereafter	1,234,543
<b>Total Notes Payable</b>	<b>\$ 1,524,053</b>

**Note 13- Escrow Reserves**

The Gary Housing Authority, LLC. (GHA LLC) a limited liability company, created as an instrumentality of the Authority, entered into an agreement in September 2003, with the developers of Duneland Village, to fund the operating reserve escrow of \$258,000 and the operating reserve of \$250,000, required by the Indiana Housing Finance Authority, as a condition of tax credits. At March 31, 2013, escrow deposits amounts totaled \$853,394, which exceeds the required balance.

**Note 14 - Bonds Payable**

The Small Farms, an agency of the Authority, has bonds outstanding totaling \$2,910,000 and interest payable outstanding was \$1,179,064. Total amount due for bonds and interest was \$4,089,064, at March 31, 2013.

Interest earned and payable is 7.4 percent. The Bonds mature in 2021. As discussed in note 4, the Authority has accumulated escrow deposits of \$3,902,738, toward payment of principal and interest. Current and non-current payments are as shown below:

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2013**

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<b>Description</b>	<b>Amount</b>
Current Portion	\$ 240,000
Long-Term Portion	2,670,000
<b>Total Bonds Payables</b>	<b>\$ 2,910,000</b>

Future payment amounts are as follows:

<b>Year End</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
3/31/2014	\$ 240,000	215,214	\$ 455,214
3/31/2015	255,000	197,580	452,580
3/31/2016	275,000	178,710	453,710
3/31/2017	295,000	158,360	453,360
3/31/2018	320,000	136,530	456,530
Thereafter	1,525,000	292,670	1,817,670
<b>Total Bond Payable</b>	<b>\$ 2,910,000</b>	<b>1,179,064</b>	<b>\$ 4,089,064</b>

**Note 15-Deferred Revenues**

Deferred revenues totaled \$2,393,942 and consisted of deferred interest income due from the various notes receivable. See note 8.

Due to the uncertainty created by the length of time preceding the payment of interest and the provisions of certain note that interest payments are contingent upon the existence of surplus cash, interest earned has been deferred.

**Note 16 - Employee Benefit Plans**

The Authority established a defined contribution plan administered by a third-party administrator. The Plan covers all regular employees who work for at least 90 days. The maximum contribution is 4% of the employee's monthly salary. Participants' benefits are fully vested after five years of participation and are determined solely by the provisions of the Government Agency Retirement Plan and Trust.

Besides retirement benefits, the Plan offers life insurance where participants receive 100% of one year's salary up until the age of 65 when the benefit is reduced by 35%.

The normal retirement date is the participants' 65<sup>th</sup> birthday. Participants may elect to retire anytime after their 55<sup>th</sup> birthday, at which time they are 100% vested regardless of years of service. The amount a participant receives at early, normal, or postponed retirement is based on the amount accumulated in their account. Although no employee contributions are required, employees may make voluntary contributions not to exceed 10% of their annual

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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salary. The Authority's total payroll expense was \$3,677,173. Pension expense for the year was \$127,684. The Authority made all required contributions to the Plan.

Plan assets totaled \$2,925,135, at March 31, 2013, as follow

<b>Description</b>	<b>Amount</b>
Beginning Balance @ 04/01/2012	\$ 2,681,915
Contributions	438,469
Withdrawals	(337,676)
Earnings	141,740
Forfeitures	4,687
<b>Ending Balance @ 03/31/2013</b>	<b>\$ 2,929,135</b>

**Note 17 - Operating Lease Commitments**

The Authority has an operating lease for office equipment (copiers) that expires at the end of fiscal year 2016. Total lease payments were \$80,400 during 2013. The future minimum lease payments are as follows:

<b>Year End</b>	<b>Amount</b>
3/31/2014	\$ 72,369
3/31/2015	72,369
3/31/2016	72,369
<b>Total Lease Payable</b>	<b>\$ 217,107</b>

**Note 18 - Commitments and Contingencies**

The Authority receives financial assistance from federal government agencies in the form of grants and operating subsidies. Disbursements of funds received under these programs require compliance with terms and conditions specified in the agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. In the opinion of management, any such disallowed claims would not have a material effect on the overall financial position of the Authority. The Authority also has certain contingent liabilities resulting from litigations, claims, and commitments incident to the ordinary course of business. Management expects the final resolution of such contingencies will not have a material adverse effect on the financial position of the Authority.

**Note 19 - Administrative Fees**

The Authority receives an "Administrative Fee" as part of each of the annual contributions contract from HUD to cover the costs (including overhead) of administering the Housing Choice Voucher Housing Assistance programs.

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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**Note 20 - Allocation of Cost**

The Authority uses the direct cost method to recognize the expenses of each project and program. The central office charges the projects and programs a management fee. This fee is recognized as income for the central office and as an expense for the projects and programs. These fees between the projects and central office are eliminated during the reporting process. Fees from the programs are not eliminated and are recognized as revenue to central office and an expense to the program. Management considers this to be an equitable method of allocation.

**Note 21-Subsequent Events**

Management has performed an analysis of activities and transactions subsequent to March 31, 2013, to determine the need for any adjustments to and/or disclosure within the audited financial statements for the year ended March 31, 2013. Management has performed their analysis through December 13, 2013, the date the financial statements were issued. The Authority has not evaluated events occurring after December 13, 2013, in these financial statements.

**Note 22 - Prior Period Adjustments**

The prior period adjustments totaled negative \$(130,392) and consisted of unbooked adjusting entries from 2012.

**SUPPLEMENTAL INFORMATION**

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
FOR THE YEAR ENDED MARCH 31, 2013**

**EXHIBIT D**

<b>FEDERAL GRANTOR</b>	<b>ANNUAL</b>	<b>FEDERAL</b>	<b>TOTAL</b>	
	<b>CONTRIBUTION</b>	<b>AWARDS</b>	<b>PROGRAM</b>	
	<b>CONTRACT #</b>	<b>CFDA #</b>	<b>EXPENDED</b>	<b>EXPENDITURES</b>
<b>Major Programs - U S Department of Housing and Urban Development</b>				
<u>Direct Program</u>				
<u>Low Rent Housing Program</u>				
Low Rent Housing Programs		14,850	\$ 6,338,031	\$ 15,912,997
Total Low Rent Housing Programs			6,338,031	15,912,997
<u>Housing Assistance Payment Program</u>				
Section 8 - Housing Choice Voucher Program		14,871	9,730,193	10,642,415
Moderate Rehabilitaion		14,856	408,271	360,303
Total Housing Assistance Program Payments			10,138,464	11,002,718
Total U S Department of Housing and Urban Development (Major Programs)			16,476,495	26,915,715
<b>Total All Programs - U S Department of Housing and Urban Development</b>			<b>\$ 16,476,495</b>	<b>\$ 26,915,715</b>

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
NOTES TO THE SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
FOR THE YEAR ENDED MARCH 31, 2013**

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**Note 1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Housing Authority of the City of Gary, Indiana (the Authority), and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the Authority's financial statements.

The schedule summarizes the federal funds expended by the Authority under programs of the federal government during the year ended March 31, 2013. The awards are classified into major and non-major program categories in accordance with the provisions of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. The schedule of expenditures of federal awards displays the Authority's expenditures charged to federal programs for the year ended March 31, 2013, and should be read in conjunction with the Authority's consolidated financial statements.

**Note 2 – Sources of Funding**

The schedule includes all grants and contracts entered into directly between the Authority and agencies and department of the federal government, as well as federal funds passed-through to the Authority by primary recipients. The Authority provided no part of its direct grant federal dollars to sub-recipients.

**Note 3 – Type of Funding**

The schedule includes all grants and contracts entered into directly between the Authority and agencies and departments of the federal government, as well as federal funds passed-through to the Authority by primary recipients. The Authority provided no part of its direct grant federal dollars to sub-recipients.

The Authority did not receive any non-cash assistance from federal funds, had no federal insurance, nor have any loan or loan guarantees outstanding as of March 31, 2013.

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
STATEMENT OF CAPITAL FUND PROGRAM COST COMPLETED  
FOR THE YEAR ENDED MARCH 31, 2013**

**EXHIBIT E**

**ANNUAL CONTRIBUTION CONTRACT C - 348**

**PHASES IN36PO11 - 501-06, 501-07, IN36SO11-501-09 AND IN36RO11 - 501-06**

	<b>501-06</b>	<b>501-07</b>	<b>501-09 S</b>	<b>501-06 R</b>	<b>Total</b>
Funds Approved	\$ 1,559,846	\$ 4,738,332	\$ 5,874,358	\$ 68,819	\$ 12,241,355
Funds Expended	<u>1,559,846</u>	<u>4,738,332</u>	<u>5,874,358</u>	<u>68,819</u>	<u>12,241,355</u>
Excess\Deficit) of Funds Approved	\$ <u>      -</u>				
Funds Advanced	\$ 1,559,846	\$ 4,738,332	\$ 5,874,358	\$ 68,819	\$ 12,241,355
Funds Expended	<u>1,559,846</u>	<u>4,738,332</u>	<u>5,874,358</u>	<u>68,819</u>	<u>12,241,355</u>
Excess\Deficit) of Funds Advanced	\$ <u>      -</u>				

- 1 Capital Fund Program costs for Phases IN 36P-501-06, IN 36P-501-07, IN 36S-501-09 and IN 36R-501-06 are shown above.
- 2 All modernization work in connection with the Capital Fund Grant has been completed;
- 3 That the entire actual modernization costs or liabilities incurred by the housing authority have been fully paid;
- 4 That there are no indischarged mechanics', laborers', contractors', or material-mens', liens against such modernization work on file in any public office where the same should be filled in order to be valid against such modernization work; and
- 5 That the time in which such liens could be filled has expired.

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
STATEMENT OF CAPITAL FUND PROGRAM COST UNCOMPLETED  
FOR THE YEAR ENDED MARCH 31, 2013**

**EXHIBIT F**

**ANNUAL CONTRIBUTION CONTRACT C - 348**

**PHASES IN36PO11 - 501-04, 501-08, 501-09, 501-10, 501-11 AND IN36RO11 - 502-05**

	<b>501-04</b>	<b>502-05</b>	<b>501-08</b>	<b>501-09</b>	<b>501-10</b>	<b>501-11</b>	<b>Total</b>
Funds Approved	\$ 4,791,323	\$ 4,567,821	\$ 4,640,817	\$ 4,616,580	\$ 4,601,056	\$ 3,798,787	\$ 27,016,384
Funds Expended	<u>3,360,571</u>	<u>2,831,396</u>	<u>4,640,817</u>	<u>2,750,478</u>	<u>1,380,317</u>	<u>949,697</u>	<u>15,913,276</u>
Excess\Deficit of Funds							
Approved	\$ <u>1,430,752</u>	\$ <u>1,736,425</u>	\$ _____ -	\$ <u>1,866,102</u>	\$ <u>3,220,739</u>	\$ <u>2,849,090</u>	\$ <u>11,103,108</u>
Funds Advanced	\$ 3,360,571	\$ 2,831,396	\$ 4,640,817	\$ 2,750,478	\$ 1,380,317	\$ 949,697	\$ 15,913,276
Funds Expended	<u>3,360,571</u>	<u>2,831,396</u>	<u>4,640,817</u>	<u>2,750,478</u>	<u>1,380,317</u>	<u>949,697</u>	<u>15,913,276</u>
Excess\Deficit of Funds							
Advanced	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -

- 1 Capital Fund Program costs for Phases IN 36P-501-04, 501-08, 501-09, 501-10, 501-11 and IN 36R-502-05 are shown above.
- 2 There were no cost additions during the audit period and accordingly, no cost were audited by VB&C for the year.

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
STATEMENT OF CAPITAL FUND PROGRAM COST UNCOMPLETED  
FOR THE YEAR ENDED MARCH 31, 2013**

**EXHIBIT F**

**ANNUAL CONTRIBUTION CONTRACT C - 348**

**PHASES IN36PO11 - 708-99, 501-00, 501-01, 501-02, AND 501-03**

	<b>708-99</b>	<b>501-00</b>	<b>501-01</b>	<b>501-02</b>	<b>501-03</b>	<b>Total</b>
Funds Approved	\$ 6,379,924	\$ 4,574,808	\$ 6,108,798	\$ 5,328,723	\$ 4,092,421	\$ 26,484,674
Funds Expended	<u>6,379,924</u>	<u>3,089,322</u>	<u>6,108,798</u>	<u>5,328,723</u>	<u>2,599,227</u>	<u>23,505,994</u>
Excess\Deficit of Funds						
Approved	\$ <u>      </u> -	\$ <u>1,485,486</u>	\$ <u>      </u> -	\$ <u>      </u> -	\$ <u>1,493,194</u>	\$ <u>2,978,680</u>
Funds Advanced	\$ 6,379,924	\$ 4,574,808	\$ 6,108,798	\$ 5,328,723	\$ 4,092,421	\$ 26,484,674
Funds Expended	<u>6,379,924</u>	<u>3,089,322</u>	<u>6,108,798</u>	<u>5,328,723</u>	<u>2,599,227</u>	<u>23,505,994</u>
Excess\Deficit of Funds						
Advanced	\$ <u>      </u> -	\$ <u>1,485,486</u>	\$ <u>      </u> -	\$ <u>      </u> -	\$ <u>1,493,194</u>	\$ <u>2,978,680</u>

- 1 Capital Fund Program costs for Phases IN 36P-708-99, 501-00, 501-01, 501-02, and 501-03 are shown above.
- 2 There were no cost additions during the audit period and accordingly, no cost were audited by VB&C for the year.

**SINGLE AUDIT REPORTS**

**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed  
In Accordance with Government Auditing Standards**

Board of Commissioners  
Housing Authority of the City of Gary, Indiana  
Gary, Indiana

U.S. Department of Housing and Urban  
Development  
Cleveland Office  
Renaissance on Playhouse Square  
1350 Euclid Avenue, Suite 500  
Cleveland, Ohio 44115-1815

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, the aggregate discretely presented component units, and each major fund of the Housing Authority of the City of Gary, Indiana (the Authority) as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 13, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial report. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses for items 2013-1, 2013-2, and 2013-3.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies 2013-4, 2013-5, 2013-6, and 2013-7.

### **Compliance and Other Matters**

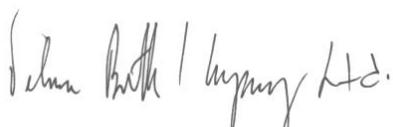
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-8, 2013-9, 2013-10, and 2013-11.

### **The Authority's Response to Findings**

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Velma Butler / Company Ltd." The signature is fluid and cursive, with "Velma Butler" on the top line and "Company Ltd." on the bottom line.

Velma Butler & Company, Ltd.  
Chicago, Illinois

December 13, 2013

**Report on Compliance For Each Major Federal Program; Report on Internal  
Control Over Compliance; and Report on Schedule of Expenditures of  
Federal Awards Required by OMB Circular A-133**

**INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
Housing Authority of the City of Gary, Indiana  
Gary, Indiana

U.S. Department of Housing and Urban  
Development  
Cleveland Office  
Renaissance on Playhouse Square  
1350 Euclid Avenue, Suite 500  
Cleveland, Ohio 44115-1815

**Report on Compliance for Each Major Federal Program**

We have audited the Housing Authority of the City of Gary, Indiana (the Authority)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended March 31, 2013. 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.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

### **Basis for Qualified Opinion on Low Rent Public Housing Program**

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding CFDA 14.850 Low Rent Public Housing as described in finding numbers 2013-8 for Deficiencies in Tenant File Documentation, 2013-9 for Deficiencies in Low Rent Waiting List, 2013-10 for Procurement, Suspension and Debarment, and 2013-11 Davis-Bacon. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

### **Qualified Opinion on Low Rent Public Housing Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the low rent public housing program for the year ended March 31, 2013.

### **Basis for Qualified Opinion on Housing Choice Voucher Program**

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding CFDA 14.871 Housing Choice Voucher as described in finding numbers 2013-8 for Deficiencies in Tenant File Documentation. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

### **Qualified Opinion on Housing Choice Voucher Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the low rent public housing program for the year ended March 31, 2013.

### **Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended March 31, 2013.

### **Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-8, 2013-9, 2013-10, and 2013-11. Our opinion on each major federal program is not modified with respect to these matters.

The Authority's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-1, 2013-2, and 2013-3 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-4, 2013-5, 2013-6, and 2013-7 to be significant deficiencies.

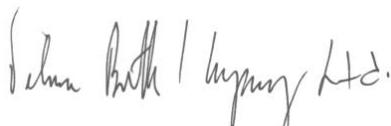
The Authority's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The

Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Authority as of and for the year ended March 31, 2013, and have issued our report thereon dated December 13, 2013, which contained a disclaimer opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink, appearing to read "Velma Butler / Company Ltd." The signature is fluid and cursive, with "Velma Butler" on the top line and "/ Company Ltd." on the bottom line.

Velma Butler & Company, Ltd.  
Chicago, Illinois

December 13, 2013

**HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA**  
**SUMMARY OF AUDITOR'S RESULTS**  
**FOR THE YEAR ENDED MARCH 31, 2013**

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**Section I - Summary of Auditor's Results**

*Financial Statements*

The type of report issued:    **Disclaimer**

Internal control over financial reporting:

Material weakness(es) identified?    X Yes       No

Deficiencies identified not considered to be material weaknesses?

X Yes       No

Noncompliance material to financial statements noted?

X Yes       No

*Federal Awards*

Internal control over major programs:

Material weakness(es) identified?    X Yes       No

Deficiencies identified not considered to be material weaknesses?

X Yes       No

Type of auditor's report issued on compliance for major programs:    **Qualified**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

X Yes       No

Identification of major program:

**U.S. Department of Housing and Urban Development**

CFDA Number                  Name of Federal Program

Low Rent Rental Assistance Programs

14.850                  Low Rent Housing

Section 8 Housing Assistance Programs

14.871                  Housing Choice Voucher Program  
14.186                  Moderate Rehabilitation

Dollar threshold used to distinguish between Type A and Type B programs:    \$ 300,000

Auditee qualified as low-risk auditee?                  Yes    X No

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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**Section II – Financial Statement Findings and Questioned Costs**

**Finding 2013-1      Weaknesses in Internal Control (*Material Weakness*)**

The Housing Authority of the City of Gary, Indiana (the Authority) did not maintain adequate internal controls to assure that all transactions were recorded in its accounting records. Accounting records required numerous adjustments to agree them to source documents.

Because internal controls could not provide reasonable assurance that all valid transactions were recorded, it was not practical for us to extend our audit procedures beyond the records available to us. Accordingly, the scope of our work was not sufficient to enable us to express and we do not express, an opinion on the financial statements. We noted the following:

- Some general ledger balances could not be supported with hard documentation,
- Documentation supporting expenditures was not provided,
- Accounts receivables did not agree with supporting documents or schedules. As a result an adjustment was required to restate the account balances,
- The tenant accounts receivable balances were not accurately maintained or supported by an aging report resulting in an adjustment,
- Notes receivable's prior year adjustments were not recorded,
- Escrow funds for the current year had not been recorded. Thus, escrow amounts did not agree to supporting documentation,
- Fixed assets did not include infrastructure costs for Duneland and increases in construction in progress was not properly stated,
- Accounts payable, notes payable, revenue and expense account balances did not agree with the underlying support, or no support received.

OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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**Recommendation:**

We recommend that all transactions initiated are recorded, processed, and reported in the proper accounting period and recorded in the proper account in order to maintain the accuracy of account balances and accountability for the Authority's assets, liabilities, and net assets in accordance with laws, regulations and the provisions of contract and grant agreements.

**Authority Action Plan:**

*Current management at the Authority is working to make positive changes to the internal control environment that include 1) developing procedures to maintain complete and accurate supporting documentation, 2) implementing Standard Operating Procedures for various operating and accounting activities, 3) hiring appropriately skilled staff, 4) improving training of staff and 5) hiring experienced and skilled contractors to oversee the accounting department.*

**Finding 2013-2                  Accounting Software (Material Weakness)**

The Authority did not maintain adequate accounting records to provide sufficient information for the preparation of basic financial statements. The Authority's accounting records did not constitute a system that could produce complete financial statements during fiscal year 2013.

The Authority implemented the Yardi accounting software systems to record accounting transactions in April 2012. However, the system was not properly implemented. Information in the Yardi was not reconciled or entered correctly. Therefore, reliable and accurate information for accounts receivable and accounts payable was not properly generated.

OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

**Recommendation:**

We recommend that the Authority reviews, reconciles and properly enters all account balance information in its accounting system at year-end.

**Authority's Action Plan:**

*Previous Authority management did not ensure that Yardi was implemented correctly or that staff were properly trained on the software. The contractor that has been hired to oversee the finance department includes staff that is proficient in Yardi. This will help correct prior deficiencies in implementing and maintaining the Authority's Financial Management software.*

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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**Finding 2013-3      Financial Statement Adjustments (Material Weakness)**

The Authority did not sufficiently review its accounts receivable, accounts payable, revenue or expense balances before closing its books. During the audit, we noted balances in the incorrect account balance classifications and balances that were not properly supported. The effect of the incorrect balances overstated the Authority's financial position at year end.

**Recommendation:**

We recommend that the Authority reviews of all significant accounts to ensure its books and records accurately reflects its operations as required by generally accepted accounting principles.

**Authority's Action Plan:**

*The capacity to perform this task was absent from this agency in Fiscal Year 2013. The Authority is working to avoid a recurrence in Fiscal Year 2014, using its contractor and future hires that will be experienced and have the ability to sufficiently review accounting balances prior to closing the Authority's books.*

**Finding 2013 -4      Asset Management Fees (Significant Deficiencies)**

The Authority overstated management fees by \$1,982,915 in the income and expense accounts.

Section 6.1 through 6.6 in the Supplement to the HUD Handbook 7475.1 Revision, Change -1 discuss the method for calculating management fees

**Recommendation:**

We recommend that the Authority calculate management fees in accordance with HUD's criteria.

**Authority's Action Plan:**

*The Authority will calculate management fees in accordance with HUD's criteria as set in the Handbook.*

**Finding 2013-5      Inventory of Materials (Significant Deficiencies)**

The Authority performed a physical inventory, as required by HUD, but did not properly maintain and assign records of assigned values. Therefore the values assigned per the financial records did not reflect the true inventory values.

Inventory records should reflect inventory quantities on-hand, along with the underlying values. Underlying records should reconcile to the general ledger and any differences should be investigated and reconciled in a timely manner.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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HUD (2235.7 REV-2) requires that all owned and rented reportable property must be inventoried once a year. Capitalized, non-capitalized, and rented reportable property shall be inventoried concurrently.

**Recommendation:**

The Authority should have an approved written inventory control policy that including procedures for accounting for, controlling, and safeguarding its fixed assets and maintain inventory records which reflect quantities on-hand with the value of the inventory. If it is not possible to establish a system for all of materials, then inventory controls should be implemented for high dollar value items while the Authority continues to seek a solution for the entire inventory.

**Authority's Action Plan:**

*The Authority will work to establish Standard Operating Procedures and properly account for all inventory in the inventory module within the Yardi financial system.*

**Finding 2013-6 Questioned Costs (Significant Deficiencies)**

The Authority did not provide sufficient documentation required to support 16 transactions tested. In performing our testing of transactions, 16 out of the 45 items tested, totaling \$539,089 was lacking supporting documentation.

OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

**Recommendation:**

We recommend that the Authority takes the appropriate steps to ensure that all balances are properly supported by invoices and or other documentation.

**Authority's Action Plan:**

*This finding was due to poor record keeping and invoice filing system at the Authority. All transactions where the invoice was available were appropriate. Management will improve the filing system and controls around record keeping at the Authority.*

**Finding 2013-7 Payroll Reporting (Significant Deficiencies)**

The Authority was not able to reconcile the 941 quarterly payroll reports for salary expense back to the general ledger. We compared the 941 payroll reports submitted to the IRS against

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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the general ledger provided by the Authority. These reports should reconcile in total to the general ledger system for each quarter and the fiscal year.

The Federal government requires the 941 reports as part of the payroll function to ensure proper reporting and payment of wages and payroll taxes. The effect of not reconciling these reports back to the general ledger could result in undetected errors in wages and payroll taxes.

**Recommendation:**

The Authority should ensure that all payroll reports are prepared accurately and can be reconciled to the general ledger system.

**Authority's Action Plan:**

*The Authority will work to ensure that all payroll reports are prepared accurately and the quarterly 941 reports reconcile to the general ledger.*

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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**Section III – Federal Award Findings and Questioned Costs**

**Finding 2013-1      Weaknesses in Internal Control (*Material Weakness*)**

The Housing Authority of the City of Gary, Indiana (the Authority) did not maintain adequate internal controls to assure that all transactions were recorded in its accounting records. Accounting records required numerous adjustments to agree them to source documents.

Because internal controls could not provide reasonable assurance that all valid transactions were recorded, it was not practical for us to extend our audit procedures beyond the records available to us. Accordingly, the scope of our work was not sufficient to enable us to express and we do not express, an opinion on the financial statements. We noted the following:

- Some general ledger balances could not be supported with hard documentation,
- Documentation supporting expenditures was not provided,
- Accounts receivables did not agree with supporting documents or schedules. As a result an adjustment was required to restate the account balances,
- The tenant accounts receivable balances were not accurately maintained or supported by an aging report resulting in an adjustment,
- Notes receivable's prior year adjustments were not recorded,
- Escrow funds for the current year had not been recorded. Thus, escrow amounts did not agree to supporting documentation,
- Fixed assets did not include infrastructure costs for Duneland and increases in construction in progress was not properly stated,
- Accounts payable, notes payable, revenue and expense account balances did not agree with the underlying support,

OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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**Recommendation:**

We recommend that all transactions initiated are recorded, processed, and reported in the proper accounting period and recorded in the proper account in order to maintain the accuracy of account balances and accountability for the Authority's assets, liabilities, and net assets in accordance with laws, regulations and the provisions of contract and grant agreements.

**Authority Action Plan:**

*Current management at the Authority is working to make positive changes to the internal control environment that include 1) developing procedures to maintain complete and accurate supporting documentation, 2) implementing Standard Operating Procedures for various operating and accounting activities, 3) hiring appropriately skilled staff, 4) improving training of staff and 5) hiring experienced and skilled contractors to oversee the accounting department.*

**Finding 2013-2                  Accounting Software (Material Weakness)**

The Authority did not maintain adequate accounting records to provide sufficient information for the preparation of basic financial statements. The Authority's accounting records did not constitute a system that could produce complete financial statements during fiscal year 2013.

The Authority implemented the Yardi accounting software systems to record accounting transactions in April 2012. However, the system was not properly implemented. Information in the Yardi was not reconciled or entered correctly. Therefore, reliable and accurate information for accounts receivable and accounts payable was not properly generated.

OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

**Recommendation:**

We recommend that the Authority reviews, reconciles and properly enters all account balance information in its accounting system at year-end.

**Authority's Action Plan:**

*Previous Authority management did not ensure that Yardi was implemented correctly or that staff were appropriately trained on the software. The contractor that has been hired to oversee the finance department includes staff that are proficient in Yardi. This will help correct prior deficiencies in implementing and maintaining the Authority's Financial Management software.*

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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**Finding 2013-3      Financial Statement Adjustments (Material Weakness)**

The Authority did not sufficiently review its accounts receivable, accounts payable, revenue or expense balances before closing its books. During the audit, we noted balances in the incorrect account balance classifications and balances that were not properly supported. The effect of the incorrect balances overstated the Authority's financial position at year end.

**Recommendation:**

We recommend that the Authority reviews of all significant accounts to ensure its books and records accurately reflects its operations as required by generally accepted accounting principles.

**Authority's Action Plan:**

*The capacity to perform this task was absent from this agency in Fiscal Year 2013. The Authority is working to avoid a recurrence in Fiscal Year 2014, using its contractor and future hires that will be experienced and have the ability to sufficiently review accounting balances prior to closing the Authority's books.*

**Finding 2013-8      Deficiencies in Low Rent and Housing Choice Voucher Program Tenant File Documentation (Other Matter)**

The Authority did not maintain documentation to assure compliance with housing quality standards. During our audit of 20 low rent housing tenant files and 20 housing choice voucher program tenant files we noted that the Authority did not always maintain the required documentation in its tenant files. We noted the following deficiencies:

- 8 files did not include signed lease or rental agreements,
- 13 files did not contain Annual Inspection of Unit Forms,
- 10 files did not have Annual Reexamination of Family Status and Family Income Verification Forms,
- 7 files' tenant rents calculated by the Annual Reexamination of Family Income from the Yardi system did not agree with the amounts of tenant rents reported on Form HUD-50058 Family Report that filed with HUD, and
- 3 file was not available for us to review.

HUD Regulations requires the Authority to maintain complete and accurate tenant files, which consist of annual re-certification applications, third party verification of reported annual income, signed residential lease agreements, support for tenant rent calculations, move-in forms, resident's birth certificates, registration for housing, social security cards, and state identification forms, amount other things.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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**Recommendation:**

We recommend that the Authority strengthen its record documentation and procedures to include all the required forms.

**Authority's Action Plan:**

*The Authority will implement standard operating procedures for reviewing and maintaining complete and accurate tenant files. Authority management will ensure that Asset Managers are held accountable for accurate and complete tenant files. Periodic reviews of tenant files will be conducted to ensure compliance.*

**Finding 2013-9      Deficiencies in Low Rent Waiting List (Other Matter)**

The Authority did not comply with the Admission and Occupancy Policy. In performing our testing on the waiting list we noted that the Authority did not follow the waiting list policies and procedures required in the Authority's Admission and Occupancy Policy.

We tested twenty new applicant files that were placed on the low-rent program waiting list during fiscal year 2013.

Out of twenty new applicant files tested:

- Two applicants' unit sizes were different than the unit sizes reported on the waiting list and their unit sizes were not determined on the criteria stated from the Authority's unit assignment policy.
- One applicant file could not locate it or was not available for us to review.
- Four application files did not contain amount and source of annual income as one of the applicants' essential information under the Authority's Waiting List Placement Guidelines.
- One application file did not contain applicant's signature.
- Four application files did not contain Date & Time of signed applications.
- Eighteen application files did not include Preference such as emergency preference, extremely low-income family preference, or elderly and disabled single person preference.
- One application file's date of application is different than the date from the waiting list in Yardi system.

Title 24 CFR 960.206(e) provides that the method for selecting applicants must leave a clear audit trail that can be used to verify that each applicant was selected in accordance with the Authority's Admission and Occupancy Policy. The waiting list format should contain sufficient information to allow the PHA to properly select families who are next eligible for the housing program according to the selection policy described in the administrative plan.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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The Authority must maintain waiting lists for selecting applicants; process tenant applications properly to ensure all applications were processed in accordance with HUD requirements.

**Recommendation:**

We recommend that the Authority strengthen its record documentation and procedures to maintain the waiting list properly.

**Authority's Action Plan:**

*Authority management is in the process of implementing procedures to maintain the waiting list properly in accordance with all HUD and Fair Housing Rules and Regulations.*

**Finding 2013-10      Procurement, Suspension, Debarment (Other Matter)**

The Authority failed to maintain complete contracting and procurement files. In performing our testing of contract procurement, we noted that files did not contain contracting details related to relevant communications and decisions made before procurement action.

We tested the six contract files and noted that two (2) out of six (6) contracts tested, the following information was absent in the contract files or not available for us to review:

- contracts or agreements between the Authority and the third party vendors,
- bidding information, and
- documentation of cost or price analysis supporting the procurement actions.

Title 24 CFR Part 84.84 provides that the PHA is responsible for ensuring that sufficient justification is retained for audit trail purposes. Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (1) basis for contract selection; (2) justification for lack of competition when competitive bids or offers are not obtained; and (3) basis for award cost or price. However, the Authority failed to comply and could not produce adequate documentation. Without the required documentation, the Authority was unable to show that it had complied with the requirements. We were generally unable to determine whether some information had been lost, misplaced, or did not exist.

**Recommendation:**

We recommend that the Authority follows the procurement policies to maintain contracting and procurement files that contain contracting details related to relevant decisions including contracting approval authorities hinders the ability of the department to facilitate appropriate management oversight.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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**Authority's Action Plan:**

*The Authority is in the process of hiring an adequately skilled and knowledgeable Chief Procurement Officer who will assist in ensuring the Authority follows all Federal, State and Local laws regarding the procurement process.*

**Finding 2013-11      Davis-Bacon Act (Other Matter)**

The Authority failed to comply with the requirements of the Davis-Bacon Act that are applicable to the construction work funded with a Federal grant under the Low Rent Public Housing Program. During our testing of the certified payroll statements, we noted that the Authority did not comply with all the Federal requirements.

We tested 3 out of 4 total construction contracts that were awarded to the third party vendors during the fiscal year 2013. We found the following deficiencies for the 3 contract files tested:

- 1 contract files did not contain any of the labor interviews indicating a site visit was performed to verify certified payroll.
- 1 contract file did contain a document of site visit but the labor interview was done on the date while the labor was absent from the project work per review of certified payroll and the Record of Employee Interview report.
- 1 contract did not contain the required documentation including: (i) project grant agreement between the Authority and a third party vendor, (ii) U.S. Department of Labor prevailing wage rates listing, (iii) FY2013 certified payrolls, and (iv) documentation of the site visits during the fiscal year 2013.

Title 24 CFR 906.37 and HUD regulations require that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates). Without a sufficient number of labor interviews, management cannot have adequate assurance of compliance with the Davis-Bacon Act. For the absent of required documentation, we were generally unable to determine whether some information had been lost, misplaced, or did not exist.

**Recommendation:**

We recommend that the Authority perform its control procedures in its entirety to comply with the Davis-Bacon Act Compliance.

**Authority's Action Plan:**

*Management will ensure that control procedures are implemented and followed to ensure compliance with the Davis-Bacon Act.*

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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<u>Prior Year Findings</u>	<u>Status</u>	<u>Page Number</u>
<b>Financial Statement Findings and Questioned Cost</b>		
1. Weaknesses in Internal Control, 2012-1	Open	36
2. Accounting Software, 2012-2	Open	37
3. Financial Statement Adjustments, 2012-3	Open	38
4. Asset Management Fees, 2012-4	Open	38
5. Inventory of Materials, 2012-5	Open	38
6. Questioned Costs, 2012-6	Open	39
7. Payroll Reporting, 2012-7	Open	40
<b>Federal Award Findings and Questioned Cost</b>		
1. Weaknesses in Internal Control, 2012-1	Open	41
2. Accounting Software, 2012-2	Open	42
3. Financial Statement Adjustments, 2012-3	Open	43
4. Deficiencies in Tenant File Documentation, 2012-8	Open	44
5. Housing Quality Standard, 2012-9	Closed	-
6. Deficiencies in Low Rent Waiting List, 2012-10	Open	45
7. Procurement, Suspension and Debarment, 2012-11	Open	46

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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**Section II - Financial Statement Findings and Questioned Costs**

**Finding 2012-1      Weaknesses in Internal Control (*Material Weakness*)**

The Housing Authority of the City of Gary, Indiana (the Authority) did not maintain adequate internal controls to assure that all transactions were recorded in its accounting records. Accounting records required numerous adjustments to agree them to the source documents.

Because internal controls could not provide reasonable assurance that all valid transactions were recorded, it was not practical for us to extend our audit procedures beyond the records available to us. Accordingly, the scope of our work was not sufficient to enable us to express and we do not express, an opinion on the financial statements. We noted the following:

- Some general ledger balances could not be supported with the hard documentation,
- Documentation supporting expenditures by the private management firm was not provided,
- Accounts receivables did not agree with supporting documents or schedules. As a result an adjustment was required to restate the account balances,
- The tenant accounts receivable balances were not accurately maintained or supported by an aging report resulting in an adjustment,
- Notes receivable prior year's adjustments were not recorded,
- Escrow funds for the current year had not been recorded. Thus escrow amounts did not agree to supporting documentation,
- Fixed assets did not include infrastructure costs for Duneland and increases in construction in progress was not properly stated
- Accounts payable, notes payable, and revenue and expense account balances did not agree with the underlying support,
- Component Units accounting transactions for the year had not been recorded.

The Authority hired a private management firm - the Woodlawn Community Development Corporation (WCDC) to manage its developments and to maintain the appropriate support for amounts charged to each development until July 2012. The WCDC was to prepare an operating budget detailing charges for each development. Expenditures were to be made in accordance with the budget and appropriate support was to be maintained. However, support for various expenditures was not provided.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
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OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

**Recommendation:**

We recommend that all transactions initiated are recorded, processed, and reported in the proper accounting period and recorded in the proper account in order to maintain the accuracy of account balances and accountability for the Authority's assets, liabilities, and net assets in accordance with laws, regulations, and the provisions of contract and grant agreements.

**Authority Action Plan:**

We agree that the prior management company did not provide us with support or documentation for several entries that were made into the accounting records. We are working with financial contractors hired by HUD and other financial consultants hired by the Authority to make corrections and changes to the internal control environment. We believe the recommendations received from the above financial teams will assist us in correcting the issues identified.

**Finding 2012-2 - Accounting Software (Material Weakness)**

The Authority did not maintain adequate accounting records to provide sufficient information for the preparation of basic financial statements. The Authority's accounting records did not constitute a system which could produce complete financial statements during fiscal year 2012.

The Authority implemented the Yardi accounting software systems to record accounting transactions in April 2012. However, the system was not properly implemented. Information in the Yardi was not reconciled or entered correctly. Therefore, reliable and accurate information for accounts receivable and accounts payable was not properly generated.

OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

**Recommendation:**

We recommend that the Authority review, reconcile and properly enter all account balance information, into its accounting system.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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**Authority's Action Plan:**

The Authority is working with financial contractors hired by HUD, other financial consultants hired by the Authority and the internal IT staff to make corrections and changes to the YARDI system. Once these corrections and changes are made, the Authority will conduct entity-wide training so that all users understand how to utilize the system.

**Finding 2012-3 - Financial Statement Adjustments (Material Weakness)**

The Authority did not sufficiently review its accounts receivable, accounts payable, revenue or expense balances before closing its books. During the audit, we noted balances in the incorrect account balance classifications and balances that were not properly supported. The effect of the incorrect balances overstated the Authority's financial position at year end.

**Recommendation:**

We recommend that the Authority review of all significant accounts to ensure its books and records accurately reflects its operations as required by generally accepted accounting principles.

**Authority's Action Plan:**

We are working with financial contractors hired by HUD and other financial consultants hired by the Authority to make corrections and changes to the internal control process. Part of the recommendation will be information related to reconciling all accounts on a timely basis during the year and at year end and ensuring that the accounting personnel understand how to properly record transaction within the accounting system.

**Finding 2012 -4 -Assets Management Fees (Significant Deficiencies)**

The Authority overcharged management fees by \$2,277,171 in the income and expenses accounts.

Section 6.1 through 6.6 in the Supplement to the HUD Handbook 7475.1 Revision, Change -1 discuss the method for calculating management fees

**Recommendation:**

We recommend that the Authority calculate management fees in accordance with HUD's criteria and record only the amounts listed in the Handbook.

**Authority's Action Plan:**

Going forward the authority will calculate management fees in accordance with HUD's criteria and record only the amounts listed in the Handbook.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
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**Finding 2012 -5-Inventory of Materials (*Significant Deficiencies*)**

The Authority performed a physical inventory, as required by HUD, but did not maintain or assign a record of value. Therefore the values assigned per the financial records did not reflect the true inventory values.

Inventory records should reflect inventory quantities on-hand, along with the underlying values. Underlying records should reconcile to the general ledger and differences should be investigated and reconciled in a timely manner.

HUD (2235.7 REV-2) requires that all owned and rented reportable property must be inventoried once a year. Capitalized, non-capitalized, and rented reportable property shall be inventoried concurrently.

**Recommendation:**

The Authority should conduct a materials inventory annually and maintain inventory records, which reflect quantities on-hand with the value of the inventory. If it is not possible to establish a system for all of materials, then inventory controls should be implemented for high dollar value items while the Authority continues to seek a solution for the entire inventory.

**Authority's Action Plan:**

The Authority has been working to move all inventory from the warehouse to the AMP's and to obtain a correct accounting of inventory on hand. The Authority is also working with financial contractors hired by HUD and other financial consultants hired by the Authority to ensure that the YARDI inventory module is installed and operating correctly. The financial team will also provide recommendations on how inventory should be handled going forward. Once these changes are completed, the Authority will conduct entity-wide training so that all users understand how to utilize the system.

**Finding 2012 -6 Questioned Costs (*Significant Deficiencies*)**

The Authority did not provide sufficient documentation required to support 13 transactions tested. During our testing of transactions we noted the lack of supporting documentation for 13 out of the 40 items tested, totaling \$107,219.

Eleven (11) of the 13 items, totaling \$88,326, where support was not received, occurred during five months of the year when Woodlawn (WCDC) handled the AMP expenditures.

OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED MARCH 31, 2013**

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**Recommendation:**

We recommend that the Authority takes the appropriate steps to ensure that all balances are properly supported by invoices and or other documentation.

**Authority's Action Plan:**

All of the expenditures noted occurred when the WCDC managed the property. There was a lack of internal controls over records and supporting documentation. We requested this information on several occasions and were not successful in obtaining it.

Once this function was brought back in house, support was provided for all transactions requested.

**Finding 2012-7- Payroll Reporting (*Significant Deficiencies*)**

The Authority was not able to reconcile the 941 quarterly payroll reports to the salary expense recorded in the general ledger at March 31, 2012. The WCDC did submit the 941 quarterly reposts for the quarters ending June 30, 2011 or September 30, 2011. These reports should reconcile in total to the general ledger system for the quarter and fiscal year.

The Federal government requires 941 reports as part of the payroll function to ensure proper reporting and payment of wages and payroll taxes. The effect of not reconciling these reports back to the general ledger could result in undetected errors in wages and payroll taxes.

**Recommendation:**

The Authority should ensure that all payroll reports are prepared accurately and can be reconciled to the general ledger system.

**Authority's Action Plan:**

WCDC is no longer employed by the Authority; therefore the lack of quarterly 941 reports and the lack of reconciliations should not longer be an issue.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
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**Section III – Federal Award Findings and Questioned Costs**

**Finding 2012-1      Weaknesses in Internal Control (*Material Weakness*)**

The Housing Authority of the City of Gary, Indiana (the Authority) did not maintain adequate internal controls to assure that all transactions were recorded in its accounting records. Accounting records required numerous adjustments to agree them to the source documents.

Because internal controls could not provide reasonable assurance that all valid transactions were recorded, it was not practical for us to extend our audit procedures beyond the records available to us. Accordingly, the scope of our work was not sufficient to enable us to express and we do not express, an opinion on the financial statements. We noted the following:

- Some general ledger balances could not be supported with the hard documentation,
- Documentation supporting expenditures by the private management firm was not provided,
- Accounts receivables did not agree with supporting documents or schedules. As a result an adjustment was required to restate the account balances,
- The tenant accounts receivable balances were not accurately maintained or supported by an aging report resulting in an adjustment,
- Notes receivable prior year's adjustments were not recorded,
- Escrow funds for the current year had not been recorded. Thus escrow amounts did not agree to supporting documentation,
- Fixed assets did not include infrastructure costs for Duneland and increases in construction in progress was not properly stated
- Accounts payable, notes payable, and revenue and expense account balances did not agree with the underlying support,
- Component Units accounting transactions for the year had not been recorded.

The Authority hired a private management firm - the Woodlawn Community Development Corporation (WCDC) to manage its developments and to maintain the appropriate support for amounts charged to each development until July 2012. The WCDC was to prepare an operating budget detailing charges for each development. Expenditures were to be made in accordance with the budget and appropriate support was to be maintained. However, support for various expenditures was not provided.

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OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

**Recommendation:**

We recommend that all transactions initiated are recorded, processed, and reported in the proper accounting period and recorded in the proper account in order to maintain the accuracy of account balances and accountability for the Authority's assets, liabilities, and net assets in accordance with laws, regulations, and the provisions of contract and grant agreements.

**Authority Action Plan:**

We agree that the prior management company did not provide us with support or documentation for several entries that were made into the accounting records. We are working with financial contractors hired by HUD and other financial consultants hired by the Authority to make corrections and changes to the internal control environment. We believe the recommendations received from the above financial teams will assist us in correcting the issues identified.

**Finding 2012-2 - Accounting Software (Material Weakness)**

The Authority did not maintain adequate accounting records to provide sufficient information for the preparation of basic financial statements. The Authority's accounting records did not constitute a system which could produce complete financial statements during fiscal year 2012.

The Authority implemented the Yardi accounting software systems to record accounting transactions in April 2012. However, the system was not properly implemented. Information in the Yardi was not reconciled or entered correctly. Therefore, reliable and accurate information for accounts receivable and accounts payable was not properly generated.

OMB Circular A-87 "Cost Principles for State, Local, and Indian Tribal Governments" requires the maintenance of a financial management system that provides accurate, current and complete disclosure of the financial results and identify adequately the source and application of funds in accordance with generally accepted accounting principles and practices consistently applied.

**Recommendation:**

We recommend that the Authority review, reconcile and properly enter all account balance information, into its accounting system.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
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**Authority's Action Plan:**

The Authority is working with financial contractors hired by HUD, other financial consultants hired by the Authority and the internal IT staff to make corrections and changes to the YARDI system. Once these corrections and changes are made, the Authority will conduct entity-wide training so that all users understand how to utilize the system.

**Finding 2012-3 - Financial Statement Adjustments (Material Weakness)**

The Authority did not sufficiently review its accounts receivable, accounts payable, revenue or expense balances before closing its books. During the audit, we noted balances in the incorrect account balance classifications and balances that were not properly supported. The effect of the incorrect balances overstated the Authority's financial position at year end.

**Recommendation:**

We recommend that the Authority review of all significant accounts to ensure its books and records accurately reflects its operations as required by generally accepted accounting principles.

**Authority's Action Plan:**

We are working with financial contractors hired by HUD and other financial consultants hired by the Authority to make corrections and changes to the internal control process. Part of the recommendation will be information related to reconciling all accounts on a timely basis during the year and at year end and ensuring that the accounting personnel understand how to properly record transaction within the accounting system.

**Finding 2012-8      Deficiencies in Tenant File Documentation (Other Matter)**

During our audit of 20 low rent housing tenant files we noted that the Authority did not always maintain the required documentation in its tenant files, 1 file was not available for us to review.

HUD Regulations requires the Authority to maintain complete and accurate tenant files, which consist of annual re-certification applications, third party verification of reported annual income, signed residential lease agreements, support for tenant rent calculations, move-in forms, resident's birth certificates, registration for housing, social security cards, and state identification forms, amount other things.

**Recommendation:**

We recommend that the Authority strengthen its record documentation and procedures to include all the required forms.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
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**Authority's Action Plan:**

The Asset Manager will work with the Amp Managers to ensure that all files are reviewed for accuracy.

**Finding 2012-10      Deficiencies in Low Rent Waiting List (*Other Matter*)**

We noted that the Authority did not follow the waiting list policies and procedures required in the Authority's Admission and Occupancy Policy.

We tested twenty new applicant files that were placed on the low-rent program waiting list during fiscal year 2012.

Out of twenty new applicant files tested:

- Four applicants' unit sizes were different than the unit sizes reported on the waiting list and their unit sizes were not determined on the criteria stated from the Authority's unit assignment policy.
- Three applicant file could not locate it or was not available for us to review.
- Three application files did not contain amount and source of annual income as one of the applicants' essential information under the Authority's Waiting List Placement Guidelines.
- One application file did not contain applicant's signature.

Title 24 CFR 960.206(e) provides that the method for selecting applicants must leave a clear audit trail that can be used to verify that each applicant was selected in accordance with the Authority's Admission and Occupancy Policy. The waiting list format should contain sufficient information to allow the PHA to properly select families who are next eligible for the housing program according to the selection policy described in the administrative plan.

The Authority must maintain waiting lists for selecting applicants; process tenant applications properly to ensure all applications were processed in accordance with HUD requirements.

**Recommendation:**

We recommend that the Authority strengthen its record documentation and procedures to maintain the waiting list properly.

**Authority's Action Plan:**

The Asset Manager will work with the Amp Managers to ensure that the waiting list is reviewed for accuracy.

**THE HOUSING AUTHORITY OF THE CITY OF GARY, INDIANA  
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**Finding 2012-11      Procurement, Suspension, and Debarment (Other Matter)**

We noted that the contract was awarded to the lowest scored firm instead of the highest scored firm that was chosen by the Evaluation Committee.

We tested the eight contract files and noted that the one out of eight contracts tested, the contractor selection was not corroborated with the supporting documents contained in the contract file. The professional service was purchased under the request for qualifications (RFQ) wherein the competitive bidders are evaluated based solely on their qualifications. The reason for the selection of the firm was not noted.

Title 24 CFR Part 84.84 provides that the PHA is responsible for ensuring that sufficient justification is retained for audit trail purposes.

**Recommendation:**

We recommend that the Authority follows the procurement policies for contract selecting in accordance with Federal procurement standards, State and local laws.

**Authority's Action Plan:**

*In instances where the highest score is not selected, the procurement department will document in the file as to the reason why the bidder with the highest score was not selected.*