



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

WAVP 117042

December 16, 1981

COMMUNITY AND ECONOMIC  
DEVELOPMENT DIVISION

B-205290



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The Honorable Stan Parris  
House of Representatives

Dear Mr. Parris:

Subject: Acquisition of the Coventry Site by the Fairfax  
County Redevelopment and Housing Authority Appears  
to be Proper (CED-82-20)

In response to your September 30, 1981, request and subsequent agreements with your office, we have reviewed the purchase of the Coventry public housing site in Fairfax, Virginia, by the Fairfax County Redevelopment and Housing Authority (RHA). On October 30, 1981, we briefed you on the results of our review. This letter summarizes the information we provided to you at that time, including information you requested regarding the transfer of Fairfax County housing assistance funds to RHA and Fairfax County audits of RHA housing assistance activity.

The objective of our review was to ascertain whether RHA had used Department of Housing and Urban Development (HUD) funds to purchase the Coventry site for public housing in Fairfax, Virginia. RHA's use of HUD funds to acquire the site would have been a breach of its annual contributions contract with HUD, since HUD had not authorized the acquisition.

We made our review, which was performed in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," at RHA headquarters at the Fairfax County Office of Finance, in Fairfax, Virginia, and at HUD headquarters in Washington, D.C. We reviewed RHA's accounting procedures and operating fund account--the source of funds used to purchase the Coventry site. We also reviewed RHA's Coventry project file including pertinent records and correspondence. We interviewed various officials at RHA and HUD headquarters regarding public housing site acquisition regulations, policies, and procedures to the extent we considered necessary to determine whether HUD funds were contained in the RHA operating fund or used in the purchase of the Coventry property.

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We found no evidence that HUD moneys were contained in RHA's operating fund or that HUD funds were used to purchase the Coventry property.

### BACKGROUND

On April 18, 1978, RHA applied to HUD for a public housing program funding reservation for the construction of 50 row-type townhouses under the "turnkey" method of development. Under turnkey funding the developer must own the project site, build the housing units, and sell the finished development to RHA. Approval for the fund reservation was granted by HUD on September 6, 1978.

The project was advertised for proposals on May 11 and 18, 1979; on July 2, 1979, HUD accepted the project proposal of Lotto Construction Company, Inc., of Alexandria, Virginia. The Lotto Construction Company had chosen an approximately 11.5-acre site near Hillside and Center Avenues in Fairfax County--a site known as Coventry--for construction of the 50 housing units. After the Lotto proposal was accepted, however, RHA learned that the county's master plan for the Coventry area would not permit row-type townhouses. On March 6, 1980, RHA requested HUD to reformulate the project from 50 row-type townhouses to 34 single family detached houses, to conform to the master plan. In February 1981 HUD determined that it was necessary for RHA to readvertise the project for developers' proposals, since the project had been changed from townhouses to single family detached houses. RHA readvertised the project for turnkey proposals on May 18, 1981, and on June 16, 1981, reselected the Lotto Construction Company, the only developer to submit a proposal.

Lotto Construction Company's Coventry site purchase agreements required that the property be acquired by September 15, 1981. If settlement could not occur by September 15, Lotto Construction Company had agreed to assign its purchase rights to RHA.

On September 4, 1981, RHA requested that HUD complete its processing of the Lotto Construction Company proposal as soon as possible, including the notification of tentative HUD site approval and the immediate scheduling of a development conference to be held on September 14, 1981. RHA acknowledged that the developer's right to acquire the Coventry property would expire on September 15 and the developer's decision to proceed with the property acquisition was necessarily related to its selection by HUD as the turnkey developer for the site.

RHA noted in its September 4 correspondence that HUD's failure to process the Coventry proposal on time could result in the loss of the Coventry site for the project. RHA stated its intention to "pursue such alternative steps as may be available to it to try to preserve its authority to provide assisted housing at this site," as authorized by RHA resolution 626 approved on July 28, 1981.

RHA notified Lotto Construction Company on September 21, 1981, that because HUD had delayed the final processing of its May 18 advertisement proposal beyond the site acquisition date, RHA had exercised its assignment rights and purchased the Coventry site for \$425,500 on September 15, 1981. This action eliminated the Lotto Construction Company from being considered responsive to the conditions of the turnkey advertisement which required developer ownership of the construction site.

On September 23, 1981, RHA requested that HUD reformulate the Coventry project under the conventionally financed public housing program. This action would allow RHA, as primary developer, to proceed with the project. As of November 30, 1981, RHA had not been notified as to whether HUD had accepted or rejected the Coventry project.

#### THE RHA OPERATING FUND

The RHA executive director described the Authority to us as a "super county department" with a broad base of operations. He said that although RHA is a subsidiary function of the Fairfax County government, its housing development activities are largely autonomous. RHA receives both Federal and non-Federal sources of funding for its programs and projects. The Federal sources principally include HUD annual contributions contract funds, and community development block grants. Non-Federal funding sources include (1) allocated Fairfax County housing assistance funds and (2) developer fees and charges, penalties, investment interest, and other similar sources of revenue. He said that, as a result of this very active income program, it became necessary for RHA to establish an operating account for the non-Federal funds. The executive director also said that no Federal funds have ever been contained in this account.

RHA's legal counsel told us that the operating fund was authorized under title 36, section 36-19(h), of the Code of Virginia, as amended, which provides that Virginia housing authorities may establish bank accounts to carry out their necessary functions. RHA's bylaws, dated March 10, 1966, as amended, enumerate these powers. On July 26, 1977, the RHA commissioners approved resolution 231 specifically directing and authorizing establishment of the operating fund. The RHA operating fund was established on September 22, 1977, with the National Bank of Fairfax, Fairfax, Virginia. The account was later transferred to the United Virginia Bank, Fairfax, Virginia.

The following table shows the fund balances for the 1978-80 period as reported in the RHA's annual audit reports, prepared by a certified public accounting firm.

RHA Operating Fund  
Balance as of June 30

	<u>1978</u>	<u>1979</u>	<u>1980</u>
Total assets:	\$792,916.51	\$999,318.62	\$2,180,267.52
Total liabilities:	869,386.65	945,998.26	1,133,701.49
Fund balance:	(76,470.14)	53,320.36	1,046,566.03

The June 30, 1981, fund balance figures were not available at the time this report was written.

Approval of expenditures

Fairfax County approval of RHA operating fund expenditures is not required under the authorization creating the account. RHA operating fund moneys are under the sole control and management of RHA. However, RHA must describe how it intends to use Fairfax County-allocated housing funds when it requests a transfer of the funds from Fairfax County to RHA. Written approval for the transfer must first be obtained from the Fairfax County Office of Finance before RHA may use these funds.

COVENTRY SITE ACQUISITION

On October 6, 1981, HUD headquarters requested information on RHA's September 15, 1981, purchase of the Coventry site; specifically, whether RHA had used Federal funds in the purchase. HUD's October 6 request noted that RHA's use of HUD funds to acquire the site would appear to be a breach of its annual contributions contract, since HUD had not authorized the acquisition.

The RHA executive director responded to HUD's request on October 23, 1981. He stated that because HUD had stopped processing the Coventry project, RHA was unable to negotiate with Lotto Construction Company before its Coventry property purchase rights expired. The executive director noted that the Coventry site had been approved by the Fairfax County Planning Commission and the Fairfax County Board of Supervisors as part of the HUD-approved housing assistance plan and, therefore, in order to preserve the site for low-income housing, RHA had exercised its option to purchase the Coventry property. The executive director also stated that the site was not acquired with any HUD moneys; rather, the sources of the funds "are from local appropriations, fees, etc."

During our review, RHA's executive director, chief financial officer, and controller repeated their assurances that no Federal moneys have ever been contained in the operating fund and that no

Federal moneys had been used by RHA to purchase the Coventry property.

We reviewed RHA's operating fund and Coventry project file and found no evidence that the Coventry property was purchased either in whole or part with HUD or any other Federal funds.

OTHER RHA OPERATING  
FUND PURCHASES

RHA's September 15, 1981, purchase of the proposed Coventry public housing site was not the first time that the RHA operating fund had provided the moneys to acquire public housing sites in Fairfax County. Other vacant sites RHA purchased with operating fund moneys include Barros Circle, acquired on November 7, 1980, and Zion Drive, acquired on January 23, and June 15, 1981. The RHA operating fund has also provided construction startup funds used in several other RHA housing project developments, including Belle View Condominiums, Greenwood, Heritage Condominiums, Sheffield Square, and Robinson Square.

RHA's chief financial officer explained that RHA operating fund moneys are typically used for land acquisition and construction of assisted housing. He stated that, in RHA's experience, HUD's approval process for housing project proposals normally requires from 3 to 6 months. A delay in HUD project approval may result in the loss of the project site or higher RHA purchase costs after expiration of the land purchase option. The chief financial officer also explained that using funds from the RHA operating fund allows acquisition of a project site or startup of development without delay or higher costs. If HUD approves the project, the site acquisition or startup construction costs will be returned to the RHA operating fund from Federal funding.

OTHER OBSERVATIONS

During our review, we observed or were told by RHA and Fairfax County officials about (1) the transfer of housing assistance funds from the County to RHA and (2) County oversight of RHA financial and management activities.

Transfer of Fairfax County housing  
assistance funds to RHA

Fairfax County allocates housing assistance funds, which amounted to about \$1.3 million in fiscal year 1981, to RHA for assisted housing activities. These funds are initially held for RHA in a Fairfax County transfer account. The County requires that RHA submit a requisition for the funds to the County's Office of Finance. If the requisition is approved, the funds are transferred from the County's control to RHA's. The Fairfax County Office of Management and Budget director told us that the RHA requisition for allocated funds is accepted "on trust" without additional followup on funding use. The Fairfax County Office of

Management and Budget director characterized the final accountability of these allocated funds as a "grey area" between Fairfax County and RHA.

Fairfax County oversight of RHA's financial and management activities

RHA's housing assistance operations are largely independent of Fairfax County control. Title 36, article 36-19(h) of the Code of Virginia, as amended, states that housing authorities shall

"\* \* \* exercise all or any part or combination of powers herein granted. No provisions of law with respect to the acquisition, operation or disposition of property by other political subdivisions or public bodies shall be applicable to an authority unless the legislature shall specifically so state."

According to Fairfax County's chief accountant, RHA's independent operation has led to controversy between the County and RHA regarding the County's authority to conduct audits of RHA financial and housing assistance activities. The County's chief internal auditor acknowledged that the last County audit of RHA activities, which, he said, was very limited in its scope of review, was completed in September 1980. He noted that no Fairfax County audits of RHA are now scheduled in the 5-year audit plan, which extends from July 1982 to June 1987.

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As you requested, we did not obtain RHA or Fairfax County written comments or discuss our conclusions and findings presented in this report with RHA or Fairfax County officials.

Sincerely yours,



Henry Eschwege  
Director