Issue Date November 18, 2008	
Audit Report Number 2009-BO-1003	

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SUBJECT: New Hampshire Housing Finance Authority Generally Administered Its Cost Allocation, Operating Reserves, and Technology Expenditures as Required

HIGHLIGHTS

What We Audited and Why

We completed our review of the New Hampshire Housing Finance Authority's (Authority) cost allocation, operating reserves, and technology expenditures. We initiated this survey at the request of the U.S. Department of Housing and Urban Development's (HUD) Office of Public Housing. Our objective was to determine whether the Authority properly allocated costs, maintained appropriate reserves, and managed its technology equipment and information services. Due to the nature of cost allocation, our review was expanded and examined the allocations to five major programs[1] funded by HUD.

[1] The Housing Choice Voucher, Section 8 New Construction/Substantial Rehabilitation, Section 8 Housing Assistance Payments – Special Allocations, HOME Investment Partnerships, and Section 8 Moderate Rehabilitation programs.

What We Found

The Authority generally administered its cost allocation, operating reserves, and technology expenditures in accordance with HUD requirements. However, its decision to operate its Information Services and Technology Division on an in-house basis was not supported by a cost analysis. We addressed this issue in a separate memorandum to HUD management.

What We Recommend

This report contains no formal recommendations, and no further action is necessary

Auditee's Response

An exit conference was held with the Authority on November 13, 2008. This report did not require a response from the auditee.

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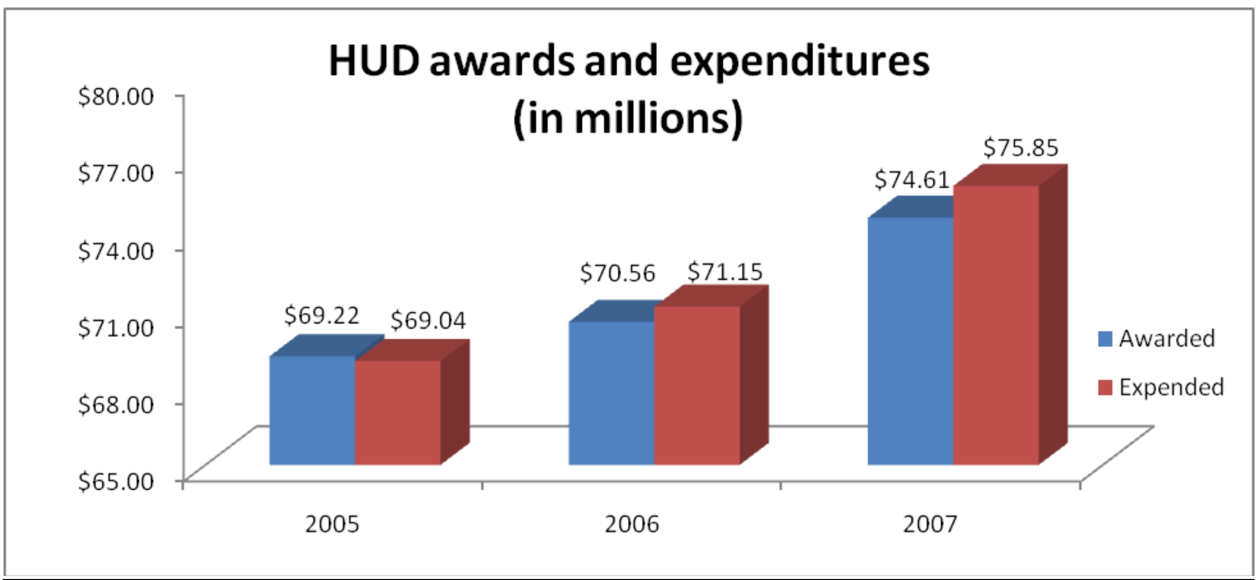
BACKGROUND AND OBJECTIVES

The State of New Hampshire created the New Hampshire Housing Finance Authority (Authority) to provide financial and technical assistance to create and preserve housing for low-to-moderate-income residents of New Hampshire. The Authority administers approximately 3,241 Section 8 vouchers under contract with the U.S. Department of Housing and Urban Development (HUD). In addition, it issues bonds and grants loans from the bond proceeds. The Authority has approximately $1 billion in assets and has a staff of 110 employees to carry out its mission.

HUD provides more than $75 million to the Authority through five major programs.

Fiscal year	2005	2006	2007
Section 8 New Construction/Substantial Rehabilitation	**$17,452,831**	**$17,807,474**	**$18,019,142**
Section 8 Housing Assistance Payments – Special Allocations	**$21,305,579**	**$22,542,603**	**$23,402,569**
HOME Investment Partnerships Program	**$4,678,411**	**$4,122,821**	**$6,156,460**
Section 8 Moderate Rehabilitation	**$721,655**	**$710,184**	**$749,573**
Housing Choice Voucher	**$24,879,327**	**$25,965,995**	**$27,518,566**
Total	**$69,037,803**	**$71,149,077**	**$75,846,310**

In 2006 and 2007, the Authority's expenditures for HUD programs were greater than its awards.



The Housing Choice Voucher program and HOME Investment Partnerships program had operating losses.

Our objective was to determine whether the Authority properly allocated costs, maintained appropriate reserves, and managed its technology equipment and information services.

HUD was concerned that (1) the cost allocation system used by the Authority did not appropriately and fairly assign expenses to the program benefiting from those expenses, (2) the Authority purchased technical equipment and information services that were not appropriate in nature and reasonable in price, and (3) the Authority's decisions regarding cost allocation and technology expenditures adversely impacted reserves needed to sustain existing programs. Due to the nature of cost allocation, we did not limit our review to public housing programs; instead, we examined five major programs funded by HUD including the Housing Choice Voucher, Section 8 New Construction/Substantial Rehabilitation, Section 8 Housing Assistance Payments – Special Allocations, HOME Investment Partnerships, and Section 8 Moderate Rehabilitation programs.

RESULTS OF AUDIT

The Authority generally administered its cost allocation, operating reserves, and technology expenditures in accordance with HUD requirements. The cost allocations were based on an acceptable allocation methodology, reserves were maintained at appropriate levels, and the technology expenditures were for allowable operating costs. Therefore, the plan ensured that costs incurred benefited the administration of the programs charged, reserves were appropriately maintained for one week of funding, and technology cost allocations were appropriately allocated to the benefiting programs.

Cost Allocation, Reserves, and Expenditures Were Appropriate

The Authority had established a cost allocation plan with a valid methodology. The basis for the plan's methodology was labor hours, which is an allowed basis under the applicable regulations. The allocations made to the Housing Choice Voucher, Section 8 New Construction/Substantial Rehabilitation, Section 8 Housing Assistance Payments – Special Allocations, HOME Investment Partnerships, and Section 8 Moderate Rehabilitation programs were based on this allocation methodology. Programs that were more labor intensive, such as the Housing Choice Voucher program, had a greater proportion of the expenses by using a basis of labor hours. In addition to the HUD-funded programs, the Authority operated other loan programs funded with the proceeds of bonds issued by the Authority. The Authority was consistent in its use of the basis of labor hours for its programs.

We reviewed the job descriptions of Authority employees and found that there was an appropriate relationship between the duties listed in the job descriptions and the methodology used to allocate the associated salary to the benefiting programs. We determined that the individual salaries that comprised the bulk of the allocated costs were reasonable in price.

We also reviewed the reserves that the Authority was required to maintain according to the applicable HUD regulations. During the audit period, the amount of the Authority's reserves declined dramatically.

Fiscal year	2005	2006	2007
New Construction/Substantial Rehab	$75,922,519	$60,131,867	$0
Moderate Rehabilitation	$3,196,806	$2,390,570	$0
Housing Choice Voucher	$629,953	$0	$614,286
Totals	**$79,749,278**	**$62,522,437**	**$614,286**

The Authority maintained appropriate reserves in accordance with the applicable regulations. The decline in reserves was related to changes that HUD had made to the methodology for reporting reserves in the audited financial statements. HUD changed how reserves are reported to reflect only the administrative fee reserve and the housing assistance payment equity reserve. The reserves for the new construction/substantial rehabilitation were set-aside accounts for the reserve for replacement and/or the residual receipts. These set-aside accounts were for the benefit of the individual projects administered by the Authority. HUD no longer requires the reporting of these funds in the reserves section of the audited financial statements and has eliminated the line item on the required financial statement. Under these changes, HUD requires that the Authority maintain no more than one week of funding in the reserves, which also contributed to the decrease in reserves.

The Authority spent approximately $1.5 million annually to operate and manage its Information Services and Technology Division on an in-house basis. This division supports all of the Authority’s technology needs for both HUD-funded and non-HUD-funded program operations. The bulk of the costs for this division (59 percent) were for salaries and related benefits, which appeared to be appropriate for the services provided. The Authority believed its use of an in-house information services function provided greater control over operations, better protected confidential information, and allowed the Authority to be more responsive to the frequent changes in the regulatory environment. Our review determined that the Authority appropriately allocated its technology cost allocations to the benefiting programs and maintained an inventory of technological equipment that was depreciated in accordance with applicable accounting standards.

Our review of the Authority’s Information Services and Technology Division also found that the Authority had not formally documented its decision-making process for retaining this function on an in-house basis. Specifically, the decision by the Authority to retain its information services on an in-house basis was not supported by a cost analysis, which would have examined other alternatives, such as contracting out. A cost-benefit analysis should be part of any decision-making process when funds exceed a threshold beyond which the soundness of the decision could be questioned. We addressed this issue in a separate memorandum to HUD management.

Conclusion

The Authority generally administered its cost allocation, operating reserves, and technology expenditures in accordance with HUD requirements. However, its decision to operate its Information Services and Technology Division on an in-house basis was not supported by a cost analysis. We addressed this issue in a separate memorandum to HUD management.

Recommendations

There are no formal recommendations, and no further action is necessary.

SCOPE AND METHODOLOGY

For our audit period of July 1, 2005, through June 30, 2008, we

- Interviewed HUD staff and reviewed monitoring reports to identify control weaknesses.
- Interviewed Authority staff to determine policies and procedures, understand the operating environment and control structure, obtain the cost allocation methodology, and identify potential weaknesses.
- Identified and reviewed applicable legislation, regulations, handbooks, notices, letters, and circulars to understand existing regulations and conflicts, if any, in the regulations governing the various programs.
- Reviewed the audited financial statements and accompanying data schedules to understand patterns of awards and expenditures.
- Analyzed the cost allocation plans to determine their basis, propriety with program regulations, and consistency in application across programs.
- Compared the duties in the job descriptions with the methodology for allocating the salary associated with each job description. For a representative, nonstatistical sample of 10 job descriptions from a population of 73 HUD-funded positions, we traced the associated salary to paychecks/electronic funds transfers.
- Compared the salaries paid to Authority staff with the range of salaries for similar job descriptions in Manchester, New Hampshire, maintained by the Bureau of Labor Statistics.
- Compared reserve requirements with reserve balances while considering changes in how reserves were reported.
- Obtained and reviewed the inventory of software and technology equipment and related depreciation expenses.
- Identified the absence of information service contracts.
- Reviewed the decision-making process for information services.

We performed our review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective(s).

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objectives:

- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

We found no significant internal control weaknesses within the scope of our audit.