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TO: Donna J. Ayala, Director, Office of Public Housing, Boston Hub, 1APH

FROM: 
John A. Dvorak, Regional Inspector General for Audit, Boston Region 1, 1AGA

SUBJECT: Weymouth Housing Authority, Weymouth, MA, Did Not Always Administer Its Housing Choice Voucher Program and Public Housing Program in Accordance With HUD Regulations and Its Annual Contributions Contracts

HIGHLIGHTS

What We Audited and Why

We audited the Housing Choice Voucher program and Federal public housing programs at the Weymouth Housing Authority as part of our annual audit plan. The overall objective of the audit was to determine whether the Authority had acceptable management practices to efficiently and effectively administer its Housing Choice Voucher program while providing decent, safe, and sanitary housing in compliance with U.S. Department of Housing and Urban Development (HUD) requirements and its annual contributions contracts. The specific subobjectives of the audit were to determine whether (1) contract rents were reasonable and based on rent reasonableness factors, (2) housing units complied with housing quality standards, (3) costs charged to the Housing Choice Voucher and other Federal public housing programs were properly allocated and supported, (4) the Authority complied with HUD procurement regulations and its own procurement policy, and (5) Housing Choice Voucher program funds were used in compliance with the Authority's annual contributions contract.

What We Found

The Authority did not always administer its Housing Choice Voucher and public housing programs in accordance with HUD regulations and its annual contributions contracts. It (1) approved rents without adequately performing rent

reasonableness determinations, (2) did not adequately perform and monitor the Housing Choice Voucher program's housing quality standards process, (3) did not have an adequate cost allocation plan, (4) did not adequately perform procurements in compliance with HUD regulations and its own procurement policy, and (5) did not have a policy to ensure that Housing Choice Voucher program receipts were used only for the program. In addition, the Authority submitted its 2010 Section 8 Management Assessment Program in late February 2011 and self-certified to items that it did not perform.

What We Recommend

We recommend that the Director of the Boston Office of Public Housing require the Authority to (1) provide supporting documentation to show that the rents were reasonable for units for which the Authority paid more than \$1.7 million in housing assistance in 2009 and more than \$2 million in housing assistance in 2010 (totaling more than \$3.5 million) or repay from non-Federal funds any unsupported costs to its housing assistance payment reserve account; (2) repay from non-Federal funds the Housing Choice Voucher program housing assistance payment costs of \$11,625 that should have been abated for units that were materially noncompliant with housing quality standards; (3) reimburse the Federal public housing and Housing Choice Voucher programs \$159,388 from non-Federal sources and any additional amounts determined to be improperly allocated based on an equitable cost allocation plan and supporting documentation; (4) support the use of \$69,860 paid for services that were not properly procured by soliciting price or rate quotations from three sources to procure a fee accountant, Housing Choice Voucher program inspector, attorney, and independent public accountant or reimburse the Federal programs for any unreasonable amounts paid; and (5) develop and implement a plan to ensure that the Authority records and reconciles interprogram fund transactions monthly to correct any imbalances.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the Authority a draft report on July 25, 2011, and held an exit conference with officials on August 4, 2011. The Authority provided written comments on August 15, 2011, generally agreed with our findings and recommendations, and has taken some corrective actions that should eliminate the conditions noted in this report. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The United States Housing Act of 1937 established the Federal framework for government-owned affordable housing. The Act also authorized public housing as the Nation's primary vehicle for providing jobs and building and providing subsidized housing through the U.S. Department of Housing and Urban Development (HUD). HUD disperses funds to public housing agencies under annual contributions contracts to provide subsidy payments or housing assistance payments for participating low-income families.

In addition, the Act was amended by the Quality Housing and Work Responsibility Act of 1998 to create the Section 8 Housing Choice Voucher tenant-based program. The program is funded by HUD and allows public housing authorities to pay HUD subsidies directly to housing owners on behalf of the assisted family.

The Weymouth Housing Authority was incorporated in May 1948 by a town meeting vote. The Authority is an autonomous local government subdivision which owns, manages, and maintains Federal and State subsidized public housing developments and leased housing programs within Weymouth, MA. It administers Federal and State housing, the Federal Housing Choice Voucher program, and the Massachusetts Rental Voucher Program. The Authority is overseen by a five-member policy setting board of commissioners, and the executive director is responsible for the day-to-day operations.

The Authority is funded by HUD and the Massachusetts Department of Housing and Community Development. In calendar year 2008, the Housing Choice Voucher program received \$1.3 million from HUD, and in calendar year 2009, the program received \$2.2 million from HUD.¹ There was an average of 141 units participating in the program in calendar year 2009.

Our overall audit objective was to determine whether the Authority had acceptable management practices to efficiently and effectively administer its Section 8 Housing Choice Voucher program while providing decent, safe, and sanitary housing in compliance HUD requirements and its annual contributions contract. The specific subobjectives of the audit were to determine whether (1) contract rents were reasonable and based on rent reasonableness factors, (2) housing units complied with housing quality standards, (3) costs charged to the Housing Choice Voucher and public housing programs were properly allocated and supported, (4) the Authority complied with HUD procurement regulations and its own procurement policy, and (5) Housing Choice Voucher program funds were used in compliance with the Authority's annual contributions contract.

¹ We reviewed the independent auditor's reports for 2008 and 2009 because the 2010 report was not yet available while we were onsite.

RESULTS OF AUDIT

Finding 1: The Authority Approved Rents Without Performing Adequate Rent Reasonableness Determinations

The Authority did not follow adequate procedures to ensure that rents paid for assisted units were reasonable in relation to rents charged for comparable unassisted units. This condition occurred because the Authority failed to adequately monitor the inspection company hired to perform rent reasonableness studies. As a result, the Authority may be subsidizing units at rents that are lower or higher than what is considered reasonable.

The Authority Did Not Perform Adequate Rent Reasonableness Determinations

HUD regulations require that public housing agencies ensure that rents charged by owners to Housing Choice Voucher program participants be reasonable. In conducting rent reasonableness, the agency must determine whether the rent to the owner is a reasonable rent in comparison to rent for other comparable unassisted units. In determining comparability, the following factors must be considered:

- (1) Location and age of the unit;
- (2) Unit size, including the number of rooms and square footage of rooms;
- (3) The type of unit, including construction type (for example, single family, duplex, garden, lowrise, highrise);
- (4) The quality of the units, including the quality of the original construction, maintenance, and improvements made; and
- (5) Amenities, services, and utilities included in the rent.

In each case in which the agency is required to determine rent reasonableness, it must document its decision and the basis for it (such as information on the unassisted units compared) in the tenant's file. This documentation should identify who conducted the rent reasonableness determination and when it was conducted.

The company that the Authority hired to perform rent reasonableness studies did not complete the studies in accordance with HUD regulations and the Authority's administrative plan. Our review of 15 tenant files disclosed that none contained a proper rent reasonableness study. The supporting documentation did not include all of the factors required by HUD. The documentation for the comparable units

did not show the age of all properties, square footage of rooms, construction type, amenities, services, or quality or condition of the units and building.

In addition, the Authority did not compare rents charged for unassisted units and assisted units in the same building in which its Housing Choice Voucher program tenants resided to certify that the contract rents were reasonable. For example, the Housing Choice Voucher program contract rents for three-bedroom units at the Tammy Brook project, located in Weymouth, MA, were higher than the rents the units would receive in the unassisted market. The contract rents for the Authority's program tenants were \$1,820, compared to \$1,750 received for unassisted units in the project. We verified that the rents charged for the unassisted units have not changed in the past nine months. It appeared that the rents for two-bedroom units were comparable for Authority tenants and unassisted tenants at \$1,380 monthly.

The Authority's administrative plan states that the Authority will (1) determine and document, on a case-by-case basis, that the approved rent is reasonable in comparison to rent for other comparable unassisted units in the market; (2) collect and maintain data on market rents in the Authority's jurisdiction, which will be updated on an ongoing basis, and rent information that is more than 12 months old will be eliminated; and (3) include a rent comparability survey for rent reasonableness that was completed with the housing quality standards inspection (performed for all leased units and annual reinspections).

A public housing agency administering a Section 8 tenant-based assistance program is required to submit an annual Section 8 Management Assessment Program (SEMAP) to HUD within 60 days after the end of its fiscal year. The information from the agency concerns the performance of the agency and provides assurance that there is no evidence of seriously deficient performance. HUD uses the information and other data to assess agency management capabilities and deficiencies. One of the items assessed in the SEMAP is rent reasonableness, and the Authority awarded itself the full 20 points. The Authority reported that it had and had implemented a reasonable written method to determine and document for each unit leased that the rent to owner was reasonable based on current rents for comparable unassisted units. This method takes into consideration the location, size, type, quality, and age of the unit and of similar unassisted units and any amenities, housing services, maintenance, or utilities provided by the owners. The Authority's process for rent reasonableness did not deserve the full 20 point; therefore, we recommend that the HUD Boston Office of Public Housing rescore the 2010 SEMAP submission.

Conclusion

The Authority did not follow appropriate procedures to ensure that housing assistance payments for rents were reasonable in relation to rents charged for comparable unassisted units. Therefore, it may have approved rents that were too high, which would have limited the number of families that could be assisted. The Authority needs to ensure that rents are reasonable so it can provide the greatest housing opportunities to families that are in need of housing. Thus, we questioned housing assistance payments of more than \$1.7 million in 2009 and more than \$2 million in 2010, totaling more than \$3 million, as unsupported.

Recommendations

We recommend that the Director of HUD's Boston Office of Public Housing require the Authority to

1A. Implement controls to ensure that the rent to the owner is a reasonable rent in comparison to rent for other comparable unassisted units and that all factors are considered.

1B. Provide supporting documentation to show that the rents were reasonable for units for which the Authority paid \$1,764,197 in housing assistance in 2009 and \$2,012,734 in housing assistance in 2010 (totaling \$3,776,931) or repay from non-Federal funds any unsupported costs to its housing assistance payment reserve account.

We also recommend that the Director of HUD's Boston Office of Public Housing

1C. Rescore the Authority's 2010 SEMAP submission to correct points for indicator 2, reasonable rent.

RESULTS OF AUDIT

Finding 2: Housing Choice Voucher Program Units Did Not Always Meet HUD's Housing Quality Standards

The Authority did not adequately ensure that its Housing Choice Voucher program housing units met HUD's housing quality standards. Further, it did not always ensure that inspections were performed in a timely manner or properly abate housing assistance payments when repairs were not made as required and overstated 2010 SEMAP scores for housing quality standards quality control and enforcement. These conditions occurred because the Authority failed to adequately monitor its inspection contractor and implement an effective quality control program. Also, it did not have policies and procedures related to the abatement of housing assistance payments to landlords. As a result, it used HUD funds to subsidize rents for families in units that did not meet HUD's standards for decent, safe, and sanitary housing; did not abate housing assistance payments as necessary; and overstated its 2010 housing quality standards SEMAP scores to HUD.

Program Units Did Not Always Meet HUD Standards

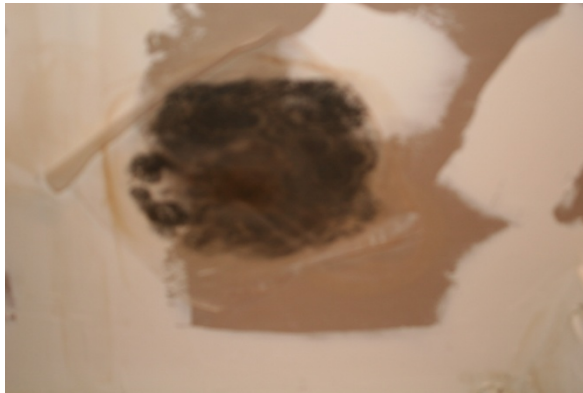
The Authority did not adequately ensure that its Housing Choice Voucher program housing units met HUD housing quality standards. We selected and inspected 25 housing units and found that 7 of the units ($7/25 = 28\%$) inspected failed. Also, five ($5/25 = 20\%$) of the seven that failed were materially noncompliant with housing quality standards.

Inspections Were Not Performed in a Timely Manner

The Authority did not perform timely inspections. Thirty-nine percent (83 of 211 = 39%) of the units had not had an inspection performed within the last year. These inspections were performed an average of 190 days late, and the range was from 22 to as many as 421 days late. The inspections were not performed in a timely manner because the Authority was having problems with its housing inspection contractor and did not know that 38 project-based enhanced vouchers required annual inspections. The housing inspection contractor began performing inspections in March 2009 and within two years the contractor had been replaced. If the Authority had a written enforceable policy regarding timely inspections it may have corrected the issue sooner.

Rents Were Not Abated When Required

The Authority should have abated two units based on multiple inspection reports for each of the units. The first unit was inspected on September 28, 2010, and did not pass the housing quality standards inspection. The Authority's inspection contractor sent a letter informing the landlord of the deficiencies, a burner on stove did not work, replace refrigerator seal and install smoke detector. The Authority performed a housing quality standards quality control inspection on November 4, 2010, and the unit did not pass inspection for the same deficiencies identified in the September 28, 2010 inspection. The deficiencies should have already been corrected, and the Authority should have begun abating the landlord's housing assistance payment. The unit was reinspected by the Authority's new inspection contractor on February 25, 2011, and the unit did not pass inspection. The inspection contractor identified possible mold and water stains on the bathroom ceiling and two missing smoke detectors. We performed an inspection of the unit on March 16, 2011, and the unit did not pass the housing quality standards inspection. A picture of a hole and mildew in the bathroom ceiling follows.



Another unit was inspected on August 24, 2010, and the housing quality standards inspection was listed as inconclusive. The Authority performed a housing quality standards quality control inspection of the same unit on October 14, 2010, and the unit did not pass inspection. The Authority sent a letter to the landlord informing it of many deficiencies including issues with two smoke detectors beeping and damaged front steps. The Authority's inspection contractor performed a housing quality standards inspection on October 29, 2010, and found similar issues, including two smoke detectors beeping and damaged front steps. The inspection contractor performed a follow-up inspection on November 1, 2010, and passed the unit. We performed an inspection on March 17, 2011, and also found issues with smoke detectors and damaged front steps. In our opinion, most of the deficiencies were preexisting, the Authority's inspection contractor did not

perform a proper inspection on November 1, 2010, and the unit should have failed. The Authority relied on the contractor's November 1, 2010, inspection and did not perform its own follow-up inspection. Pictures of some of the more significant deficiencies follow.

Damaged smoke detector



Mildew and rotten window sill



Porch railing detached from house wall and porch drop off



We questioned the housing assistance costs paid that were not abated from the time the unit was reinspected by the Authority to the date of our inspection resulting in ineligible costs as follows:

Tenant ID number	Months housing assistance payments should have been abated	Monthly housing assistance payment	Total questioned
P01-1007	4	\$1,090	\$4,360
V10-0041	5	\$1,453	<u>\$7,265</u>
		Total ineligible cost	<u>\$11,625</u>

SEMAP Scores for Housing Quality Standards Were Overstated

The Authority filed its 2010 SEMAP and claimed the maximum points for indicator 5 – housing quality standards quality control, 5 points, and indicator 6 – housing quality standards enforcement, 10 points, without adequate supporting documentation. For housing quality standards quality control, a public housing agency supervisor is required to reinspect a sample of units during the agency’s fiscal year, and the sample should include a cross section of neighborhoods. Among the units selected for housing quality standards quality control were tenant numbers P01-1007 and V10-0041. The Authority inspected unit P01-1007 and failed the unit on November 4, 2010, but did not follow up by having the deficiencies corrected and did not abate the landlord’s housing assistance payments. Similarly, the Authority failed unit V10-0041 on October 14, 2010; however, the unit was reinspected by the Authority’s inspection contractor and was passed on November 1, 2010. The Authority relied on the November 1, 2010, inspection and did not return to perform its own inspection. It should have reinspected and failed the unit. It should also have begun abating the landlord’s housing assistance payments. These are two examples demonstrating that the

Authority did not adequately monitor the inspection contractor and should have policies and procedures to abate landlord housing assistance payments. The HUD Boston Office of Public Housing should rescore the Authority's 2010 SEMAP submission for housing quality standards quality control and enforcement.

Conclusion

The Authority did not adequately ensure that Housing Choice Voucher program units met HUD's housing quality standards and were inspected in a timely manner, and it lacked an abatement process. We inspected 25 housing units, and 7 ($7/25 = 28\%$) failed. In addition, 83 of 211 units ($83/211 = 39\%$) had not had an inspection performed within the last year, and the range was from 22 to 421 days late. Lastly, the Authority did not adequately monitor the inspection contractor and did not have policies and procedures to abate landlord housing assistance payments. As a result, it used HUD funds to subsidize rents for families in units that did not meet HUD's standards for decent, safe, and sanitary housing; did not abate housing assistance payments as necessary; and overstated its 2010 housing quality standards SEMAP scores to HUD.

Recommendations

We recommend that the Director of HUD's Boston Office of Public Housing require the Authority to

- 2A. Develop and implement a written policy to ensure that units are inspected on a timely basis.
- 2B. Develop and implement policies and procedures to address the responsibilities with its newly hired inspection contractor.
- 2C. Develop and implement written policies and procedures for the abatement of housing assistance payments to landlords.
- 2D. Develop and implement an adequate written quality control inspection program.
- 2E. Repay the Housing Choice Voucher program housing assistance costs of \$11,625 that should have been abated from non-Federal funds.

We recommend that the Director of HUD's Boston Office of Public Housing

2F. Rescore the 2010 SEMAP submission to correct points for indicator 5, housing quality standards quality control, and indicator 6, housing quality standards enforcement.

RESULTS OF AUDIT

Finding 3: The Authority Did Not Appropriately Allocate Costs Between Federal and State Housing Programs

The Authority's costs for salaries and maintenance labor, employee benefits, and other administrative and operating expenses were not allocated appropriately and equitably between the State and Federal properties in accordance with HUD requirements. This condition occurred because the Authority relied on budget estimates to allocate costs and did not have a cost allocation plan or other records necessary to clearly define and support costs charged. As a result, its Federal programs were overburdened with ineligible costs totaling \$159,388 (See Appendix C) from January 1, 2009, to March 31, 2011.

Federal Programs Were Overcharged \$190,626 in Salaries

The Authority did not comply with applicable HUD requirements to ensure the appropriate allocation for salaries and maintenance labor. It could not adequately support the proration percentages it used and could not demonstrate that the salaries and maintenance labor were allocated equitably between its Federal and State programs. HUD regulations (Public and Indian Housing Low-Rent Technical Accounting Guide 7501.1, section II) dictate that indirect costs are to be allocated to the HUD programs on an equitable basis. The Authority's goal was to allocate salaries and maintenance labor based on a straight unit allocation methodology. However, the percentage ratios it used were not current and were based upon past experience, including what was dictated in the annual budget. Although, we recognize that the straight unit allocation methodology may not be the only acceptable cost allocation method, the Authority did not have a written allocation plan or explainable method for the allocation other than the straight unit allocation.

We evaluated the Authority's current allocations based on a review of financial records, job descriptions, results of staff interviews, and observations. The salaries of employees who performed Authority-wide tasks, such as the executive director, assistant executive director, bookkeeper, and office receptionist, were not distributed based on straight unit allocation. In addition, the salary for the State leasing specialist was charged 30 percent to the Federal public housing program and 45 percent to the Section 8 program; however, this individual worked almost exclusively with the Massachusetts Rental Voucher Program, with

the exception of minimal time spent working with 40 Federal enhanced vouchers. The salaries for the Authority's resident services and public housing coordinator and tenant selector and occupancy coordinator were charged 43 and 40 percent, respectively, to the Federal public housing program, although the Authority's public housing program was comprised of 405 State units and only 70 Federal units. We used a straight unit allocation methodology that divided salaries and maintenance labor by the number of units of housing affected to determine that the Federal public housing and Housing Choice Voucher programs were overcharged \$190,626 in salaries, \$180,830 and \$9,796, respectively. We considered the \$190,626 in salaries to be an ineligible cost.

Federal Programs were Overcharged \$8,183 in Employee Benefits

There were deficiencies with the Authority's method of allocating employee benefits. Deficiencies noted in the payroll allocation method above also affected the allocation method used in allocating certain employee benefits, specifically health insurance taxes, unemployment compensation, and Medicare, because the Authority allocated these benefits using the same percentages as payroll. Therefore, to the extent (percentage) that the Federal programs were overcharged for salaries, they were also overcharged for certain related payroll benefit costs. We determined that \$3,183 (Federal public housing – \$3,019 and Housing Choice Voucher program – \$164) was overcharged to Federal programs for health insurance taxes, unemployment insurance, and Medicare that should have been absorbed by State programs. We considered the \$3,183 to be an ineligible cost.

In addition, the Authority's method of allocating group health insurance and retirement benefit costs (paid to the Town of Weymouth, MA) was not consistent from month to month and differed from the straight unit allocation methodology. We used a straight unit allocation methodology and determined that for the 3 years combined, the Federal programs were undercharged for group health insurance and retirement benefits. We selected for review charges exceeding \$10,000 since many dollar amounts at or below \$10,000 were not allocated in the Authority's cash disbursements records, as were most dollar figures exceeding \$10,000. We determined that a net amount of at least \$44,950 (Federal public housing - overcharged \$36,244 and Housing Choice Voucher program – undercharged \$81,194) was undercharged to Federal programs for group health insurance and a net amount of \$22,721 (Federal public housing – undercharged \$47,156 and Housing Choice Voucher program – overcharged \$24,435) was undercharged to the Federal programs for retirement costs.

Although the Federal programs may not have been overburdened with group health insurance and retirement benefit costs, the Authority's percentage ratios

were not consistent throughout the year, and the allocation basis for the charges could not be substantiated. Therefore, the Authority needs to have a written cost allocation plan or method in place to ensure that costs are allocated properly. HUD Handbook 7420.6, chapter 5, paragraph 24c, stipulates under “Allocation of Expenses” that if the public housing agency administers other low-income housing programs or is involved in enterprises other than the housing assistance payments program and certain costs incurred are applicable to other than that program, it will be necessary to prorate such costs to charge the program with its applicable portion of the costs. The agency must maintain for audit purposes appropriate schedules and worksheets showing how the allocation of costs was made.

The Federal Program Was Overcharged \$39,365 for Vehicles Used by the Authority

There were deficiencies with the Authority’s method of allocating administrative and operating expenses other than salaries. The Federal public housing program absorbed the entire cost for two vehicles used at both State and Federal projects, resulting in ineligible costs of \$39,365. One of the vehicles, which was in the possession of the executive director, cost \$19,374 and was charged 100 percent to the Federal public housing program, although the executive director was also responsible for the State public housing program and the Massachusetts Rental Voucher Program. Based on a straight unit allocation, the Federal public housing program was overcharged \$16,519. In addition, the Authority charged the entire cost of \$26,796 to the Federal program for a vehicle used by the Authority’s maintenance staff. However, we were informed by an Authority employee that the vehicle was used primarily at Lakeview Manor, a State public housing project. Based on a straight unit allocation, the Federal public housing program was overcharged \$22,846 for that vehicle.

In addition to the two vehicles, we selected 22 administrative and operating expenses to determine how the Authority charged these items. This selection was based on what OIG and the Authority’s bookkeeper determined represented all allocable administrative and operating expenses (other than salaries). Based on a straight unit allocation, we determined that a net amount of \$6,114 (Federal public housing – overcharged \$17,237 and Housing Choice Voucher program – undercharged \$23,351) was undercharged to the Federal programs. Although the HUD programs were not overburdened, the basis for the Authority’s allocation of these administrative and operating costs could not be substantiated. The Authority needs to have a written cost allocation plan or method in place to support how costs are allocated.

Conclusion

The Authority's cost allocations were based on unsupported percentage ratios from past experience. The Authority failed to develop a cost allocation plan, which is necessary to clearly define and support the allocation percentages. As a result, the Federal programs were charged \$159,388 more than their fair share of the costs for payroll and employee benefits and other administrative and operating costs. Without an allocation plan or other measurable basis, the reasonableness of costs charged to the Federal programs was not ensured.

Recommendations

We recommend that the Director of the Boston Office of Public Housing require the Authority to

- 3A. Establish and implement an equitable cost allocation plan that provides reasonable assurance that payroll, employee benefit, and administrative and operating costs are fairly allocated among Federal and State housing programs.
- 3B. Reimburse the Federal public housing and Housing Choice Voucher programs \$159,388 (See Appendix C) from non-Federal sources and any additional amounts determined to be improperly allocated based on an equitable cost allocation plan and supporting documentation.

RESULTS OF AUDIT

Finding 4: The Authority Did Not Comply With HUD Procurement Regulations and Its Own Procurement Policy

The Authority did not follow proper procedures for Federal procurements. We identified four areas in which the Authority's procurement practices did not comply with HUD regulations, Massachusetts General Laws, and its own procurement policy. Specifically, the Authority did not obtain and document price or rate quotations from an adequate number of qualified sources when procuring services from three entities or companies. In addition, it paid for services without executing contracts. These conditions occurred because the Authority did not establish and implement effective management controls over the procurement process. As a result, there was a lack of assurance that the procurement process used by the Authority was fair and equitable and that \$174,506 spent represented the most favorable prices that could have been obtained. Of the \$174,506 spent by the Authority, \$69,860 was charged to its Federal programs from January 2009 through March 2011.

Price or Rate Quotations Were Not Solicited for Procurement of Ongoing Services

The Authority could not furnish sufficient documentation to substantiate that it solicited price or rate quotations from an adequate number of sources when procuring ongoing services. It did not follow HUD's or its own procurement procedures when procuring the following:

- Fee accountant services,
- Housing Choice Voucher program inspection services and rent reasonableness studies, and
- Attorney and legal services

Massachusetts General Laws regarding procurement of goods and services, chapter 30B, sections 3 and 4, establish that for the procurement of a supply or service in the amount of \$5,000 or greater, a procurement officer must (1) seek written or oral quotations from no fewer than three persons customarily providing such supply or service; (2) record the names and addresses of all persons from whom quotations were sought, the names of the persons submitting quotations, and the date and amount of each quotation; and (3) maintain a written file on each procurement.

A housing authority must solicit price quotations from several entities or companies to achieve a reasonable cost and to provide increased fair access to the economic opportunities created through an open procurement. Although the Authority established written procurement policies that conformed to HUD's policies and procedures, it did not follow its policy regarding small purchase procedures. The Authority's Federal procurement policy dictates that, to the greatest extent feasible, the procurement process should promote competition and small purchases should be distributed among qualified sources. We considered \$69,860 charged to the HUD programs to be unsupported.

Servicer	FY* 2009	FY 2010	FY 2011	Totals
Fee accountant	\$13,982	\$14,142	\$3,228	\$31,352
Inspector	7,778	11,321	0	19,099
Attorney	6,984	10,114	2,311	19,409
Totals	\$28,744	\$35,577	\$5,539	\$69,860

* FY = fiscal year

Written Contracts Were Not Maintained

Public and Indian Housing Low-Rent Technical Accounting Guidebook 7510.1, section II(8), states that the housing authority must maintain source documents and files that support the financial transactions recorded in the books of account and that provide an adequate audit trail. These documents include such items as contracts.

The Authority failed to maintain written contracts or agreements with the three companies. Although the contract with its fee accountant expired on December 31, 2010, the Authority had allowed the fee accountant to continue providing services since January 1, 2011, without a contract. In addition, there was no evidence of a written contract with the fee accountant for the period January 1 to December 31, 2009. There was no evidence that the Authority had maintained contracts with the other three entities or companies. Without a contract, it was not possible to determine whether the contractor's invoices were properly submitted or whether the costs incurred by the Authority were reasonable. A contract not only serves to support the agreed up-on cost, but also defines services expected and describes the responsibilities of each party. For example, the Authority contracted out its physical inspections and rent reasonableness determination responsibilities for its Housing Choice Voucher program to an independent contractor, but the contractor performed poorly (see finding 2). The Authority's failure to execute a contract may have contributed to the poor quality of the physical inspections and may have limited its recovery options for inadequate services billed and paid.

Conclusion

The Authority did not establish and implement effective management controls over the procurement process. This condition resulted in limited assurance that its procurement process was fair and equitable and that funds spent represented the most favorable prices that could have been obtained or the best quality of services that could be provided. A housing authority must solicit price quotations from several entities or companies not only to achieve a reasonable cost, but also to provide increased fair access to the economic opportunities created through an open procurement. A written contract not only serves to support the agreed up-on cost, but also defines services expected and describes the responsibilities of each party.

Recommendations

We recommend that the Director of the Boston Office of Public Housing require the Authority to

4A. Support the use of \$69,860 by soliciting price or rate quotations from three sources to procure a fee accountant, inspector, attorney, and independent public accountant or reimburse the Federal programs for the applicable amount. If the \$69,860 cannot be supported, the Authority should reimburse \$46,701 to the Housing Choice Voucher program and \$23,159 to the Federal public housing program.

4B. Implement procedures to ensure that the Authority complies with HUD rules and regulations, Massachusetts General Laws, and its own Federal procurement policies regarding small purchases.

RESULTS OF AUDIT

Finding 5: The Authority Inappropriately Used Housing Choice Voucher Program Receipts for Other Programs

The Authority had interprogram fund transactions that had not been reconciled for calendar years 2008 and 2009. This condition occurred because the Authority did not have procedures and controls to ensure that its Housing Choice Voucher program funds were used only to fund that program's expenditures or address program account imbalances and ensure that reconciliations were completed. The imbalances occurred because the Authority used a revolving account and did not ensure that specific programs paid only for costs associated with those specific programs. In 2008, the Housing Choice Voucher program was owed more than \$65,000 from the revolving fund; however, in 2009, the reverse occurred, and the Housing Choice Voucher program owed the revolving account more than \$56,000. The Authority did not reconcile the accounts and was unable to identify which programs owed funds or had used funds from a specific program or programs. As a result, Housing Choice Voucher program receipts were used to pay for other program expenses.

The Authority Did Not Use Housing Choice Voucher Program Funds Appropriately

The Authority did not reconcile its interprogram fund transactions between Federal and State programs in calendar years 2008 and 2009. It used a revolving fund as a central account, and programs advanced funds to the revolving fund and made payments from the account. The independent audit report for 2008 stated that there were transactions between funds that were representative of lending or borrowing arrangements outstanding at the end of the fiscal year that were referred to as either due to or from other funds. As of December 31, 2008, the Authority's year end, the Housing Choice Voucher program was owed \$65,367 from the revolving fund. The fee accountant was unable to identify what Federal or State program owed the Housing Choice Voucher program. This condition occurred because the Authority's management had not established policies or procedures for reconciling and zeroing out the interprogram fund balances. The Authority did not comply with its annual contributions contract and Federal appropriation laws because Housing Choice Voucher program receipts were used for other programs. The contract states that program receipts may only be used to pay program expenditures. It further states that public housing agencies must maintain complete and accurate books of account and records for the program. As a result of its noncompliance, the Authority could not support \$65,367 in transactions recorded in the interprogram accounts as of December 31, 2008.

The Authority had interprogram fund transactions between Federal and State programs in calendar year 2009. As of December 31, 2009, the Housing Choice Voucher program owed the revolving fund \$56,232. The independent audit report for 2009 stated that the Authority used a central account known as a revolving account to make vendor payments. All of the individual programs had advanced a sum of money to establish the account. The individual programs reimbursed the revolving account monthly in arrears for their share of the expenditures of the revolving account. This process resulted in a due to or due from and represented interprogram fund transactions. The fee accountant was not able to determine which Federal or State programs provided funds to the Housing Choice Voucher program.

Conclusion

The Authority had a central account called a revolving fund, through which the various Federal and State programs made advances and paid bills. In 2008 and 2009, there were interprogram fund transactions and balances at year end, but the Authority did not have a policy for reconciling Federal and State programs. As a result, it did not comply with its annual contributions contract and Federal appropriation laws because Housing Choice Voucher program receipts are only supposed to pay for expenses related to that program and not other program expenses. Also, the Authority was unable to identify which programs owed funds or had used funds from a specific program or programs. The Authority should develop a policy to reconcile interprogram fund transactions and ensure that it complies with its annual contributions contract and applicable Federal appropriation laws.

Recommendations

We recommend that the Director of HUD's Boston Office of Public Housing require the Authority to

5A. Develop and implement a plan to ensure that the Authority records and reconciles the interprogram fund transactions to correct any imbalances and ensure that Housing Choice Voucher program funds are only used for The Housing Choice Voucher program purposes in accordance with its annual contributions contract and Federal appropriation laws.

SCOPE AND METHODOLOGY

We performed the audit at the Authority from January 20 to June 3, 2011. Our fieldwork was completed at the Authority's main office located at 402 Essex Street, Weymouth, MA. The audit generally covered the period January 1, 2009, to December 31, 2010, and was extended when necessary to meet our objectives. To accomplish our audit objectives, we

- Reviewed applicable Office of Management and Budget circulars, HUD handbooks and guidebooks, the Code of Federal Regulations, annual contributions contracts, appropriation laws, HUD public housing notices, and the Authority's administrative plan.
- Conducted discussions with Authority officials to gain an understanding of the Authority's financial structure, cost allocation, accounting controls, procurement practices, tenant occupancy, and monitoring policies.
- Reviewed independent public auditors' reports as part of our testing for control weaknesses and reviewed media articles related to the Authority and its staff.
- Evaluated the most current HUD rental integrity review and SEMAP reports to identify potential issues or concerns. We also reviewed the most recent Voucher Management System report regarding voucher use and the accuracy and timeliness of reporting, including determining whether the report reconciled to the housing assistance payments contract reports and financial records.
- Evaluated internal controls and conducted sufficient tests to determine whether the controls functioned as intended and reviewed computer controls to identify potential weakness related to our objectives.
- Reviewed records of Authority board minutes and noted information relevant to the Section 8 program.
- Reviewed the Authority's organizational chart and job descriptions to determine each staff member's involvement with Federal programs and, using the Authority's payroll distribution and cash disbursements reports, evaluated the Authority's cost allocation practices for salaries and maintenance labor, employee benefits, and other administrative and operating expenses to determine whether the costs were allocated appropriately and equitably between Federal and State properties and in accordance with HUD requirements.
- Reviewed 15 tenant files based on a representative selection of random numbers generated by a statistical program from the State of Texas (State Auditor Office Statistical Tools, version 2.1). The size of the universe included 240 files, and we selected 25 files, including 10 files selected as a cushion, for our sample.

- Selected and inspected a total of 25 Section 8 Housing Choice Voucher program units. Fifteen units were selected in the survey phase based on a representative selection of random numbers generated by the statistical program from the State of Texas. The size of the universe was 54 units that passed inspection from August 2010 through January 2011, and of the 15 units selected, 11 were inspected. In the audit phase, we inspected the remaining 4 units selected in our initial sample of 15 and selected the next 10 units for inspection.
- Determined whether the Authority complied with HUD rules, regulations, and policies related to rent reasonableness for the Housing Choice Voucher program and determined whether contract rents charged to Section 8 tenants exceeded rents charged for comparable unassisted units in the same project or development.
- Evaluated the Authority's procurement practices by selecting for review four procurements. Three of the procurements, namely services provided by a fee accountant, Section 8 inspector, and independent public accountant, were selected based on deficiencies or issues disclosed during the survey. In addition, we selected procurement for legal services because it represented the servicer with the largest costs incurred in fiscal year 2010. For those procurements, we reviewed invoices, written agreements, and bids or quotes solicited. The total dollar value of the procurements was \$174,506.
- Reviewed financial statements for loans or transfers (due to or from accounts) to determine whether the Authority used Section 8 funds to support other programs.

We conducted the audit 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 findings and conclusions based on our audit objectives.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls 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:

- Controls over rent reasonableness;
- Controls over housing quality standards;
- Controls over procurements;
- Controls over cost allocation;
- Controls over accounting, specifically interprogram fund transactions;
- Controls over tenant eligibility, calculating housing assistance payments, and calculating tenant payments;
- Controls over the Authority's administrative plan; and
- Controls over the Housing Choice Voucher program.

We assessed the relevant controls identified above.

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, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiencies

Based on our review, we believe that the following items are significant deficiencies:

- Inadequate controls over rent reasonableness determinations (see finding 1).
- Inadequate controls over housing quality standards, specifically monitoring the inspection contractor, and no policies or procedures regarding abatement of landlord housing assistance payments (see finding 2).
- Lacked cost allocation plan and costs not appropriately allocated between Federal and State housing programs (see finding 3).
- Insufficient compliance with HUD procurement regulations and the Authority's procurement policy (see finding 4).
- Lacked accounting controls and policies regarding the use of Federal funds (see finding 5).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1B		\$3,776,931
2E	\$11,625	
3B	<u>\$159,388</u>	
4A		<u>\$69,860</u>
	\$171,013	\$3,846,791

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.


Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION


Ref to OIG Evaluation

Auditee Comments

AN EQUAL OPPORTUNITY EMPLOYER



Weymouth Housing Authority



402 Essex Street, Weymouth, MA 02188 Tel. (781) 331-2323 FAX (781) 335-8214 TDD (781) 337-5703

2011 AUG 18 AM 11:06
OFFICE OF AUDIT
BOSTON, MASSACHUSETTS
HOD-018

To: John A. Dvorak Regional Inspector General of Public Housing, Boston Hub, IAPH
From: Michael P. Flaherty
Re: Audit Report Response
Date: August 15, 2011

Mr. Dvorak,

I appreciated the opportunity to respond on behalf of the Weymouth Housing Authority to the Audit conducted by your staff regarding the Weymouth Housing Authority Weymouth, Ma. Did Not Always Administer its Housing Choice Voucher Program and Public Housing Program in Accordance With HUD Regulations and Its Annual Contributions Contracts.

After an extensive audit the Weymouth Housing Authority was found to have fallen short in administering five (5) portions of its Housing Choice Voucher Program and its Public Housing Program in Accordance with Its Annual Contributions Contracts.

As much as we appreciated the spirit of The Audit, we conclude that some of the findings are debatable. However we view this audit as an opportunity for the Weymouth Housing Authority to move forward and oversee its operations with a clearer sense and avoid errors that may have been made in the past. I will respond to each finding individually.

FINDING 1: The Authority Approved Rents Without Performing Adequate Rent Reasonableness Determinations:
We generally agree with this finding because it appears that the Weymouth Housing Authority did not adequately perform these determinations to the best of our ability. However, we have set up a system of checks and balances that will ensure the Weymouth Housing Authority will perform Rent Reasonableness Determinations as we move forward.

Resolution to finding: The Weymouth Housing Authority is setting up a Rent Reasonableness verification system which is being implemented with each Section 8 Housing Choice Voucher initial lease up, participant move and monthly renewal of lease annually. Each tenant file will be checked for compliance monthly at the time of re-examination of the rent. All landlords will be notified and must complete a Rent Reasonableness Study form with the lease renewal paperwork each year. This is now mandatory and checked by the Section 8 Department along with the Deputy Director of

Comment 1

Ref to OIG Evaluation

Auditee Comments

the Housing Authority to verify landlord rent increase requests are reasonable. No rent increases will be approved without the completed form from the landlord and a Rent Reasonableness Evaluation conducted by the Section 8 Department. This Evaluation will be signed by the Section 8 Department the Deputy Director and the Executive Director.

Each Section 8 resident file will contain the following forms.

- Inspection Company rent reasonableness form with each inspection
(This will be part of the Inspection Company contract. A proposal is being drafted for advertisement and then out to bid)
- Rent Reasonableness Study form from each landlord
- Rent Comparability form for unassisted units from each landlord.
- Rent Reasonableness Checklist and Certification Form completed and signed by the Section 8 HCV department.
- Rent Reasonableness Gauge
- Advertisements of unassisted apartments by community showing rental amounts.

Copies of all forms are included. (10 pages)

All landlord requests for rental increases must be received in writing sixty (60) days prior to the lease expiring along with the Rent Reasonableness Study form and the Rent Comparability form for unassisted units in their buildings or similar units in the area.

We are soon to go out to bid for a new contract for this service. All of the previously mentioned items will be agreed upon contractually with the new inspection company avoiding any misgivings about responsibility of the new company.

FINDING 2: Housing Choice Voucher Program Units Did Not Always Meet HUD's Housing Quality Standards:

We generally agree with this finding because it appears that Weymouth Housing Authority did not adequately perform these Housing Quality Standards inspections in a timely and professional manner to ensure that the units complied with housing quality standards.

Resolution: The Weymouth Housing Authority has temporarily brought in a different inspection company to do the inspections of our units. The Weymouth Housing Authority will perform housing quality standards inspections as required annually by HUD regulation 24 CFR 982.405 (a) prior to the initial term of the lease and thereafter at least annually and at other times as needed to determine the that the unit meets housing quality standards.

As previously mentioned we will be going out to bid for these services.

Under Section Eight Management Assessment Program the following guidelines will be followed:

Comment 1

Ref to OIG Evaluation

Auditee Comments

- a. #5 Supervisory quality control inspections of all units within three (3) months of the authority's fiscal year, in our case October through December.
- b. #6 Supervisory quality control inspections of all units that failed HQS inspections in the last year, in our case January to December.
- c. #11 Supervisory quality control inspections will be completed in the sample of units that did pass HQS inspections before the beginning date of the assisted lease and HAP contract.
- d. #12 Supervisory inspections of units where annual HQS was over due on the lease date.

Follow up inspections to make sure repairs have been made or a notarized statement from the landlord verifying that repairs have been made and are present in the file.

If a unit does not pass inspection at initial, annual or re-inspection the landlord will be notified by the Inspection Company and a copy of the inspection form will be sent to both the housing authority and the landlord. The landlord will have 24 hours to repair/abate any life threatening violations at the property and thirty days to repair any other violations. If the life threatening violations are not repaired within the 24 hour time frame the housing assistance payment for the unit will be abated on all leased units with no exceptions. The same applies to all other violations if not repaired in the thirty day time frame. If on initial inspection the unit fails inspection the landlord must repair all HQS violations prior to the lease and HAP signing or the tenant participant move in.

A sampling of some units has been completed under SEMAP Indicator #6 for the 2011 calendar year. We will continue to schedule HQS inspections for indicator #5 #6 and #12 prior to our fiscal year end of December 31st.

Comment 2

FINDING 3. The Authority Did not Appropriately Allocate Costs Between Federal and State Housing Programs: The Housing Authority does not generally agree with this finding regarding Proper Cost Allocation.

An agency the size of the Weymouth Housing Authority is not complex and as a result we take a straight forward approach to budgeting/cost allocation planning. For decades the Weymouth Housing Authority has created a budget based upon historical use of personnel and costs. When appropriate we use unit based cost allocations and when not we allocate costs to each program based upon that program's use of authority resources. It is too simple to say that without time studies our method is flawed.

Furthermore, every month we consistently apply allocations based upon the approved cost allocation plan, our approved budget.

Changes to federal public housing regulations over the past few years require large complex authorities to adhere to much more definable cost allocations. This methodology is filtering down to small agencies despite their size or need.

Ref to OIG Evaluation

Auditee Comments

Comment 2

Administrative salary allocations are based on workload and adhere to one of two tiers. One tier of employees (Executive Director, Deputy Director, Bookkeeper and Receptionist) is charged to all programs generally based on a unit allocation. The second administrative salary tier is based upon the individuals assigned responsibilities. This allocation is based on history and discussion with management. We can acknowledge that we do not have a means to substantiate those allocations. However the Weymouth Housing Authority is amenable if HUD deems this necessary to complete workload time frame study and implement salary cost allocation based upon this study.

Comment 3

Maintenance Labor is, on the other hand, charged on a unit allocation. Total maintenance labor costs are allocated based upon unit allocation. Individuals are charged to specific programs, but in total maintenance salaries charged to the federal program equal the unit allocation of federal programs to state programs. For the readers edification that percentage is 14.7% (70 federal units out of 475 total units) with 85.3% charged to the state.

Comment 4

Employee benefits including but not limited to retirement, payroll taxes and health insurance (excluding payroll withholding taxes paid by the employee) are allocated based upon the percentage of payroll by program as budgeted, which is our budgeted cost allocation plan.

In response to the audit finding that employee benefits cost allocation did not occur consistently between disbursements, we reviewed each of the retirement and group insurance disbursements (97% of all employee benefits fall within these two expenses) and determined that every one matched the correct allocation. It's noted that health insurance bills included payroll withholding liability payments. Every disbursement and general ledger posting is documented, agrees to our cost allocation method and can be provided as needed.

In conjunction with our testing of employee benefits we also reviewed the auditor's general expense cost allocation analysis. We independently reviewed each vendor and determined that every disbursement was allocated based upon a straight forward unit allocation. The only exception was the fee accountant's cost which is a direct charge based on the contract. We conclude that we were not able to identify any over charges when applying our cost allocation plan as outlined in our budget.

Comment 5

In regards to the auditor's conclusion that the federal program has borne an inequitable portion of the trucks we respectfully disagree. The auditor specifies two vehicles: the Executive Director's vehicle and the maintenance truck. As provided during the audit exit conference the Executive Director's vehicle was allocated based on units to all programs. HUD has examined this transaction and agrees with its handling. The Former Executive Director's decision to charge the federal program with the maintenance truck was based on the fact that the last maintenance vehicle charged the the federal program occurred in 1997. Since then the state programs have purchased five maintenance vehicles. We conclude that this is fair and equitable sharing of resources since all vehicles are used by maintenance on all federal and state developments.

Ref to OIG Evaluation

Auditee Comments

Comment 6

FINDING 4: The Authority Did Not Comply With HUD Procurement Regulations and Its Own Procurement Policy:

We will discuss each finding individually:

Fee Accountant Services: The Weymouth Housing Authority contends that we did procure the services of the fee accountant. I have provided documentation indicating we procured these services properly.

Housing Choice Voucher program inspection service and rent reasonableness studies. The Weymouth Housing Authority contends that we did procure the services of the inspection company and have provided documentation indicating that we have procured these services properly

Attorney Services: The Weymouth Housing Authority contends that we did procure the services of our attorney. We have provided documentation indicating that we have procured these services properly.

Independent Auditor Services: the Weymouth Housing Authority contends that we did procure the services of the independent auditor. We have provided documentation indicating that we have procured these services properly.

Comment 7

As an aside, we have provided information that may be helpful in the future that indicates that these services in question are exempt under the Uniform Procurement Act G.L.c.30B. I have enclosed a copy for your review. As I indicated we feel we have procured these services properly but wanted to point out the possible exemption of these services for your review.

FINDING 5: Authority Inappropriately Used HCVP Receipts for Other Programs

At no time were HCVP funds used to pay expenses for any other program. At the end of the audit periods examined there was a small balance due-to or due-from the Revolving Fund. Having a balance at any month end does not mean that the program is funding the needs of any other program. HCVP funds were not loaned or borrowed by the Revolving Fund, or any other program, in order to cover expenses.

Comment 8

During the monthly course of bill payments the Weymouth Housing Authority bookkeeper transfers funds to cover expenses. At times the funds are not transferred from the programs in relationship to the expense allocation and a small over or under funding occurs. Following the month end, the fee accountant reviews and distributes every disbursement. Only then, is the correct monthly expense allocation known and only then can the bookkeeper transfer funds to correct any imbalance.

Ref to OIG Evaluation

Auditee Comments

Comment 8

The Weymouth Housing Authority is committed to continuing the monthly cash transfer process and ensuring that no funds are ever used to cover the expenses of any other program, not merely the HCVP.

Comment 9

At the end of FY 2008 we ended the year with an accounts receivable from the Revolving Fund. Following HUD alerting us that this situation was not appropriate we diligently corrected the situation by assuring that the HCVP has not over funded the Revolving Fund.

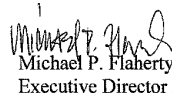
Comment 10

Just to clarify, the audit finding reports that in FY 2009 the HCVP owed the Revolving Fund \$56,000 when in fact the HCVP owed that balance to the Revolving Fund. Consequently, correctly stating the facts in the audit will go along way in mitigating the appearance of misuse of HCVP funds to pay the expenses of other programs.

In response to audit reports finding that the fee accountant was not able to determine what programs owed the HCVP, we categorically deny this statement. The Weymouth Housing Authority and fee accountant will want all readers of this report to understand that at all times the inter-fund relates to balances owed between the Revolving Fund and the HCVP. No programs borrowed any funds from the HCVP or any other program. A review of the year-end financial statements clearly shows that all inter-funded balances between the Revolving Fund and the programs were covered by available cash.

In closing the Weymouth Housing Authority looks forward to discussing the responses to the findings enclosed.

Sincerely,


Michael P. Flaherty
Executive Director
Weymouth Housing Authority

cc.
Board of Commissioners

OIG Evaluation of Auditee Comments

Comment 1 The Authority generally agreed with our finding and has initiated corrective actions that should correct the cited deficiencies if properly implemented.

Comment 2 The Authority did not generally agree with our finding. The Authority stated they created a budget based upon historically use of cost, however, the Authority could not provide adequate documentation to support the historical factors used. As stated in their response “We can acknowledge that we do not have a means to substantiate those allocations. However, the Weymouth Housing Authority is amenable if HUD deems this necessary to complete workload time frame study and implement salary cost allocation based upon this study.” In addition, our report already states that the unit method we used is not the only accepted method. For example, the Authority could implement a time card system for employees that work on multiple programs, perform a time study, or use any other acceptable method to allocate costs based on a casual/beneficial relationship. We did not state that their method was flawed because they did not perform a time study. We stated that the cost allocation plan used was unacceptable because it was not supported by adequate documentation. Furthermore, based on the Authority’s Organization Chart, the employees’ job descriptions and process interviews of their actual duties performed we determined that the plan did not properly assign costs based on the benefits provided to the respective programs. This was evident based on examples cited in the report for staff including the (1) state leasing specialist, (2) resident services and public housing coordinator, and (3) tenant selector and occupancy coordinator.

The use of historical costs as a basis for continued cost allocations does not provide the most accurate and reliable results. For example, the use of historical costs would not account for changes in the number of housing choice vouchers administered or shifting of duties and responsibilities. Also, the Authority has not provided adequate rationale or supporting documentation for its decision not to include portability vouchers in its cost allocations. Although port-outs generally require less administrative effort such as income recertification and HQS inspections, port-ins generally require as much, if not more administrative effort.

Our audit testing contradicts the Authority’s position that its costs allocations were consistent every month. In addition, the Authority’s implication that we concluded that the Authority’s allocation method is flawed without time studies is not accurate. We are not requiring the Authority to develop a complex cost allocation method and perform time studies, although time studies can be useful. However, based on inconsistencies and inadequate support for the Authority’s cost allocation method, there is a lack of assurance that costs were fairly allocated among federal and state housing programs. Therefore, we maintain the position that the Authority needs to establish and implement an equitable cost allocation plan that provides reasonable assurance that payroll, employee benefit, and

administrative and operating costs are fairly allocated among Federal and State housing programs.

- Comment 3** The Authority's statement that it allocated maintenance salary costs based on the number of federal units divided by total number of federal and state units ($70/475 = 14.7\%$), is incorrect. We reviewed the maintenance salary allocations and determined that the Authority allocated individual maintenance worker's salary based on the projects and programs served, but not based on the exact number of units in those projects/programs the costs to the programs served. We allocated the costs based on the exact number of units. For example, if a maintenance worker was assigned to the federal projects (70 units), as well as the state elderly projects (216 units), a total of 286 ($70 + 216 = 286$) units, we allocated ($70/286 = 24.48\%$) of the salary costs to federal programs, whereas, the Authority allocated a higher amount. Therefore, we questioned the difference as an ineligible amount charged to the federal programs. Our detailed calculations were provided to the Authority and will be furnished to HUD program personnel to assist in audit resolution.
- Comment 4** As stated in the report, since we determined that the Authority overcharged federal programs for some salary costs allocated to federal programs then the directly associated employee benefits would have also been overcharged based on the method the Authority used, but could not support.
- Comment 5** The Authority did not provide any evidence that the executive director's vehicle charges were reviewed and approved by HUD. As part of the audit resolution, this evidence should be provided and HUD should formally determine whether it is adequate. In addition, the Authority's practice of alternating charging the full cost of maintenance vehicles to either the state or federal programs when the vehicles are used by all programs is not proper accounting. Since the vehicles are not dedicated to a particular project or program the vehicle costs (depreciation and operating costs) should be pooled and allocated on a causal beneficial relationship such as actual usage, housing units serviced, or other supportable method. It is not sufficient to charge the full cost of a vehicle to a program simply because it is the program's turn to buy a vehicle.
- Comment 6** Our review of the documentation provided at the exit conference indicates that there are still significant deficiencies in the procurements for the fee accountant, HQS inspector, and attorney. For example, the fee accountant procurement had no independent cost estimate or multiple quotes. Also, the fee accountant's contract was executed several months into the period of performance indicating services were being provided without a contract in place.

Regarding the HQS inspector, there was no enforceable executed contract or purchase order in place, merely an offer from the inspector to provide inspection services at unit prices per inspection/reinspection. Although the Board minutes cite competition from two other inspection companies, the proposals were not

maintained or provided for our review. In addition, based on the poor performance of the inspector selected (see finding 2), had a “best value” analysis been performed, the Authority may not have selected this inspection company and avoided the problems caused by its poor quality.

The attorney’s procurement documentation is based solely on the Authority Board Minutes from 1997 indicting they were to advertise for an attorney and that one was hired. No other documentation was provided.

The documentation provided with the Authority’s response for the procurement of the Independent Auditor appears adequate and we will remove this exception from the report.

Comment 7 The exemption under the Uniform Procurement ACT G.L.c.30B would not be applicable to the Authority’s federally funded contracts. The Authority’s own procurement policy, Federal Regulations at 24 CFR 85.36 and HUD Handbook 7460.8 Rev 2 supersedes the state exemption criteria and must be followed. Therefore, our audit recommendations remain unchanged.

Comment 8 The Authority’s response states that “At times the funds are not transferred from the program in relationship to the expense allocation and a **small over or under funding occurs.**” This **over funding** is precisely the condition we are citing that is in violation of Federal Appropriation Laws which prohibit the use of HCVP funds being used for other than HCVP program expenses. To prevent this potential violation the Authority must establish a procedure to closely monitor and ensure that HCVP program funds are not used or transferred for other programs’ use, not even on a temporary basis.

Comment 9 The Authority states that at the end of 2008 the HCVP was owed (accounts receivable) by the revolving account (accounts receivable) and that HUD alerted them that this was not appropriate. (We note that the Authority did not provide this information to us during our audit.) When we saw this condition in 2008 and that the HCVP owed the revolving account (accounts payable) in 2009 we inquired as to what procedures the Authority employed to ensure compliance with the Federal Appropriation Laws. The Authority did not provide an adequate explanation. Therefore, we continue to recommend that a formal procedure be established to ensure that the HCVP does not **over fund** the revolving account resulting in future Appropriation Law violations.

Comment 10 We corrected the statements in the finding to show that the HCVP owed the revolving account \$56,232 in 2009.

Appendix C

INELIGIBLE COST ALLOCATIONS

Expense Categories	CY 2009		CY 2010		CY 2011 (Jan. to Mar.)		Expense Totals
	HCVP	Public Housing	HCVP	Public Housing	HCVP	Public Housing	
1. Employee Salaries	-\$24,256	\$96,152	\$26,292	\$68,012	\$7,757	\$16,669	\$190,626
2. Employee Benefits*	-\$406	\$1,606	\$439	\$1,136	\$130	\$278	\$3,182
3. Group Health Insurance	-\$38,278	\$15,920	-\$32,017	\$15,670	-\$10,899	\$4,654	-\$44,950
4. Retirement to Town of Weymouth	-\$19,179	\$9,985	-\$14,334	\$7,371	-\$13,643	\$7,079	-\$22,721
5. Authority Vehicles	\$0	\$0	\$0	\$39,365	\$0	\$0	\$39,365
6. Other Administrative Cost	-\$13,596	\$8,565	-\$8,379	\$7,449	-\$1,376	\$1,223	-\$6,114
Program Total by Year	<u>\$95,715</u>	<u>\$132,228</u>	<u>-\$27,999</u>	<u>\$139,003</u>	<u>\$18,031</u>	<u>\$29,903</u>	<u>\$159,388</u>

*Employee Benefits include health insurance tax, unemployment insurance, and Medicare.