AUDIT REPORT

Housing Choice Voucher and Low-Income Public Housing Program Deficiencies at the Bridgeport Housing Authority, Bridgeport, Connecticut, Resulted in $3.8 Million in Questioned Costs

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

SUBJECT: Housing Choice Voucher and Low-Income Public Housing Program Deficiencies at the Bridgeport Housing Authority, Bridgeport, Connecticut, Resulted in $3.8 Million in Questioned Costs

HIGHLIGHTS

What We Audited and Why

We audited the Bridgeport Housing Authority's (Authority) Section 8 Housing Choice Voucher (Voucher) and low-income public housing programs. The audit was conducted because recent U.S. Department of Housing and Urban Development (HUD) rental integrity management reviews and independent public accountant audit reports identified program deficiencies. Our audit objective was to determine whether the programs were administered according to program requirements.

What We Found

The programs were not administered according to program requirements. As a result, the Authority

- Mismanaged the $1.5 million purchase and renovation of additional Office space.

- Spent $2.6 million on the Pembroke green development project, of which $1.3 million failed to benefit eligible families.
- Improperly used $636,811 in low-income public housing funds for voucher program expenses.
- Improperly charged $409,311 in administrative costs to the Voucher program.
- Did not properly calculate and support housing assistance payments.

We identified questioned costs and opportunities for funds to be put to better use totaling $3.8 million (see appendix A).

What We Recommend

We recommend that the Regional Office of Public Housing, Boston, Massachusetts, require the Authority to

- Justify the acquisition and use of the 215 Warren Street office space or sell the property.
- Implement procedures to ensure that only eligible families own and rent Pembroke Green housing units or repay the $1.3 million in HUD funds used to develop the project that did not benefit eligible families.
- Repay $636,811 to the low-income public housing program for funds used for the Voucher program.
- Implement an equitable cost allocation plan and accounting procedures to allocate expenses to the benefiting programs and reimburse its Voucher program $409,311 for ineligible costs charged to the program.
- Adequately implement its quality control procedures to ensure housing assistance payments are properly calculated and supported.

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

Auditee's Response

The Authority generally agreed with the deficiencies in this report and agreed to take corrective actions. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report. The Authority also provided exhibits with its response that are available for review upon request.

TABLE OF CONTENTS

BACKGROUND AND OBJECTIVES

The Bridgeport Housing Authority (Authority) was created under the United States Housing Act of 1937 and Section 8-40 of the Connecticut General Statutes to provide low-income public housing for qualified individuals. The Authority is headed by an executive director and governed by a board of commissioners (board) appointed by the mayor of the City of Bridgeport, Connecticut. The board dismissed the Authority's executive director in December of 2003, appointed two acting interim executive directors, and ultimately hired a permanent executive director in June of 2005.

The Authority administers one of the largest Section 8 Housing Choice Voucher (Voucher) programs in Connecticut. It received more than $49 million in Voucher program funds from the U.S. Department of Housing and Urban Development (HUD) to support vouchers for more than 2,600 families in fiscal years 2002 through 2004. The Authority assists low-income families in renting affordable housing with federal subsidies under the Voucher program. Under the program, eligible families select and rent units that meet HUD housing quality standards. If the Authority approves a family's unit and tenancy, it contracts with the owner to make rent subsidy payments on behalf of the family.

The Authority must operate its Voucher program according to the rules and regulations prescribed by HUD in accordance with the United States Housing Act of 1937, as amended. The rules and regulations detail eligibility requirements for participating families and prescribe the method for determination of rent subsidy levels based upon each family's income and other factors.

The Authority also administers one of the largest low-income public housing programs in the state of Connecticut with 2,686 units.

Our overall audit objective was to determine whether the programs were administered according to program requirements. Our specific audit objectives were to determine whether

- The Authority justified and effectively and efficiently managed the $1.5 million spent to purchase and renovate its 215 Warren Street office space,
- The $2.6 million spent on the Pembroke Green development project benefited eligible families,
- The Authority accurately accounted for its administrative fee reserve account and spent its administrative fees on reasonable and necessary expenses,
- The Authority's cost allocation plan and expenses charged to the Voucher and low-income public housing programs were reasonable,
- The Authority's Voucher program tenant files contained adequate documentation supporting tenant eligibility and housing assistance payment calculations, and
- The Authority's Voucher program portability accounts were collectible.

RESULTS OF AUDIT

Finding 1: The Authority Mismanaged the $1.5 Million Purchase and Renovation of 215 Warren Street

The Authority mismanaged the $1,465,688 in Voucher program funds used to purchase, renovate, and furnish excess office space at 215 Warren Street. It also failed to effectively manage the renovation of the building or complete the building renovation in a reasonable period. These conditions occurred because the Authority lacked effective controls over the acquisition, renovation, and use of facilities. As a result, the Authority did not have a needs assessment to show the required administrative office space for its programs, and now has an additional 14,562 square feet of office space that it must maintain and find a use for that is both practical and beneficial to the administration of the Voucher program. Similarly, it did not access the renovation needed before purchasing the property and faces redesign problems, contract completion delays, and significant added costs. As of May 9, 2005, the facilities are still under renovation. In addition, the Authority depleted its administrative fee reserve account due to the renovation costs and did not have sufficient funds to pay Voucher program staff salaries, which they paid using funds from other programs (see finding 3).

The Authority Invested $1,465,688 in HUD Funds to Purchase Excess Office Space

As of September 30, 2004, the Authority had invested $1,465,688 in Voucher program funds to purchase, renovate, and furnish office space at 215 Warren Street. The purchase and renovation cost $1,368,673, and office furniture cost $97,015. The Authority acquired the office space primarily for its Voucher program's Section 8 department, which had outgrown the office space at the Authority's main administration building. The Authority also planned to move its scattered site office staff and Voucher program inspectors to the new building. However, the Authority did not conduct a comprehensive needs assessment or develop a facilities plan to establish the office space needed and the space requirements before the purchase.

The Authority's Voucher program, scattered sites, and Voucher program inspectors occupy 3,252 square feet of office space in the main administrative building. By contrast, the 215 Warren Street property contains 14,562 square feet of office space, approximately 10,000 square feet of which was planned to be allocated for the three offices. This represents an expansion to three times the current space. Without a facility plan or needs assessment, the Authority could not support the necessity or reasonableness of the additional office space.

The Authority Is Unable to Show Whether Purchase Was Economical and Practical

The Authority purchased the 215 Warren Street property without documenting its rationale for purchasing the additional office space rather than leasing office space or reconfiguring current office space. Without justifying that purchasing the office space was the most economical and practical choice, the Authority cannot demonstrate the reasonableness and necessity of the acquisition and renovation costs.

The Authority agreed that the purchase was not adequately planned. To ensure it can utilize this property space, they advised us that they would hire a professional architect or space design firm to prepare a space utilization plan. In the interim, the Authority indicated that it would use one-half of the 215 Warren Street's office space for the Voucher program and the other half for redevelopment and modernization, housing management, central maintenance, and procurement activities.

Architect Selected without Competition

The Authority awarded a design contract for the renovation of the 215 Warren Street property to an architect firm without competition. In its approval of the award, the Board cited that they wanted a new perspective on designing the layout of building, but this approval violated the Authority's procurement policy. Without competing and evaluating prospective architects the Authority provided no assurance that, the best quality and economic services were obtained.

Renovation Costs Increased

The Authority purchased the Warren Street property at a cost of $795,000 in May 2002. The former executive director told the board that the project would not require significant renovations. However, the original renovation contract was awarded for $385,000. To date, the Authority has spent almost $700,000 to renovate and furnish the property. Our discussions with the contractor and the Authority found that the renovation needed was not fully determined by Authority management prior to the purchase of the Warren Street. They also said that significant design problems contributed to project completion delays including a leaky roof, enhancing the electrical system, modifying the handicap bathroom, and modifications to the to the building to re-enforce it's structure to accommodate an elevator for handicap accessibility. Several items still need to be addressed, such as a long-term solution to the roof leakage, parking lot paving, and enhancing the structural integrity of the outside stairway. As of May 9, 2005, the project was not complete or suitable for occupancy and was more than two and a half years behind schedule.

Conclusion

The Authority did not have effective controls for the acquisition, renovation, and use of facilities it purchased. As a result, the Authority mismanaged $1,465,688 in Voucher program funds by using the funds to purchase, renovate, and furnish excess office space at 215 Warren Street. The Authority now has an additional 14,562 square feet of office space that it must maintain and find a use for that is both practical and beneficial. Further, they mismanaged the determination of need for building renovation, and the redesign resulted in contract delays and significant added costs. The Authority should complete a usage plan to justify purchasing and renovating the office space. It should also show it was the most economical and practical choice, and demonstrates the reasonableness and necessity of the acquisition and renovation costs. The justification must consider the $1.5 million in sunk costs and the operating, maintenance, and modernization costs. In addition, the Authority depleted its administrative fee reserve account and did not have sufficient funds to pay essential Voucher program staff salaries without using funds from other programs because of the acquisitions (see Finding_3).

Recommendations

We recommend that the Regional Office of Public Housing, Boston, Massachusetts, require the Authority to

1A. Develop and implement policies and procedures to ensure the economic and efficient use of facilities, including comprehensive facilities and renovation plans to determine the Authority's office space requirements and address all future operating and modernization costs, including the newly acquired 215 Warren Street property.

1B. Allocate the acquisition and renovation costs to the benefiting programs if the facilities and renovation plans justify keeping 215 Warren Street or sell 215 Warren Street if the facilities plan does not justify the cost of acquiring, renovating, and maintaining the facility, which will result in funds to be put to better use up to the $1,465,688 investment.

Finding 2: The Authority Spent $2.6 Million on the Pembroke Green Development Project, $1.3 Million of Which Failed to Benefit Eligible Families

The Authority failed to ensure that only low- and moderate-income families used Pembroke Green's 21 duplexes. Homeownership and rental opportunities were instead provided to persons whose income eligibility was not verified or persons whose annual income exceeded eligibility thresholds. This occurred because the Authority did not establish adequate procedures to ensure that only eligible individuals took advantage of the homeownership and rental opportunities. As a result, intended goals were not achieved, and we questioned the $1,284,570 used to develop the housing units.

The Authority Invested $2,569,155 in HUD Funds

The Authority developed Pembroke Green to produce 21 duplexes of affordable housing with 21 homeownership units and 21 rental units. It spent a total of $2,569,155 in HUD funds on the development. The federal subsidy for each unit was $61,170 per unit. The Authority's goal was to produce affordable housing that would afford first-time low-income families from the public housing and Section 8 programs and the general public the opportunity to purchase the 21 duplex style homes. Homebuyers would occupy one of the units and rent the adjacent unit to a Voucher program tenant referred to the homeowner by the Authority. The guaranteed rental income generated by the Voucher program tenant would help ensure that the low-to-moderate-income owner could afford the mortgage. The homebuyer also had the option to forgo the guaranteed Voucher program rental income and rent the adjacent unit to a low-income tenant if the Authority certified that the tenant was income eligible.

Resale Restrictions Required Low-Income Purchasers and Tenants

The purchase agreement signed by the Authority and homebuyers incorporated a declaration of restrictive covenants and resale agreements. These legal documents established the Authority's and owner's responsibilities. Under the agreement, the Authority was required to establish that prospective purchasers were persons and families whose income was no more than 80 percent of the area's median income. Owners had to rent their adjacent units to income-eligible tenants. Prospective tenants had to be persons or families who would pay up to 30 percent of their annual income for housing, and their income had to be no more than 50 percent of the area's median income. However, the Authority did not establish procedures to ensure compliance with the covenant's restrictions on owner and tenant income. The Authority's records showed that of the 42 housing units developed,

- Three housing unit owners exceeded the income eligibility thresholds,
- Five housing unit owners had not established that they were income eligible, and
- Thirteen rental unit tenants had not established that they were income eligible.

For the three units provided to ineligible owners, the use of $183,510 in HUD funds spent to develop the units is considered a questioned cost. These costs clearly fail to satisfy program goals and are ineligible program costs. In addition, the Authority failed to substantiate the income for five other owners and 13 tenants. The Authority expended $1,101,060 to develop these units, which is also considered a questioned cost.[1]

Recommendations

We recommend that the Regional Office of Public Housing, Boston, Massachusetts, require the Authority to

2A. Establish and implement procedures to ensure that owners and tenants are income eligible in accordance with the declaration of restrictive covenant and resale agreement.

2B. Repay the low-income operating fund $183,510 for the three units sold to ineligible owners.

2C. Repay the low-income operating fund $1,101,060 or support the income eligibility for the five purchased units and 13 rental units that were not supported.

[1] See appendix C for a list of ineligible and unsupported costs/units.

Finding 3: The Authority Improperly Used $636,811 in Low-Income Public Housing Funds for Voucher Program Expenses

The Authority did not comply with federal regulations and its annual contributions contract when it used low-income public housing funds to pay for Voucher program expenses. The low-income public housing program funds can only be used for low-income public housing program costs. The Authority used low-income public housing funds because it had not properly accounted for $1,465,003 in expenditures that should have been recorded as expenditures from the Authority's administrative fee reserve account during fiscal years 2002, 2003, and 2004. The failure to properly account for expenditure was the result of inadequate controls over the accounting and reporting of the Voucher program's administrative fee reserve account, and low-income public housing expenditures. If the Authority had properly recorded the expenditures to pay for the Warren Street property mortgage, they would have known that the administrative fee reserve account was depleted. However, the Authority believed it had funds in its reserve account to reimburse the low-income public housing program, when it used $636,811 from the low-income public housing program to pay for Voucher program salaries and administrative expenses. As a result, it could not reimburse the low-income public housing program, and the $636,811 was not available to support low-income public housing program.

Reserves Were Overstated to the Real Estate Assessment Center

We identified significant accounting and reporting errors that contributed to the Authority's improper use of low-income public housing funds for the Voucher program. Each year, the Authority reports its "unrestricted net assets" or administrative fee reserve account on financial statements submitted to HUD's Real Estate Assessment Center. HUD uses these statements to determine the amount of funding received by the housing authority. However, the Authority failed to report $1,361,631 invested in the Warren Street property. Thus, the $945,200 in administrative fee reserves the Authority reported for fiscal year 2004 was overstated by $1,361,631 and should have been reported as a deficit balance of $416,431. The chief financial officer agreed that an error had occurred and the Real Estate Assessment Center statement must be resubmitted. Our review showed that the balance should be further adjusted as discussed below.

Reserves Were Consistently Overstated on Annual Operating Statements

In addition to the financial statements submitted to HUD's Real Estate Assessment Center, the Authority reports its administrative fee reserve account balance to HUD on HUD Form 52681, the "Voucher for Payment of Annual Contributions and Operating Statement." Our review of the operating statements for fiscal years 2002, 2003, and 2004 showed that the Authority did not deduct withdrawals totaling $1,465,003 from its administrative fee reserve account as required. Thus, the account balance was consistently overstated to HUD. The $1,465,003 was expended as follows:

- $1,368,673 for the purchase and renovation of 215 Warren Street,
- $83,209 for construction costs at Pembroke Green, and
- $13,121 for office furniture at the public housing scattered sites office.

The Authority Spent Public Housing Funds to Pay Voucher Program Expenses

The adminstrative reserve fee account was in deficit as of the end of fiscal year 2003, and funds were not available for fiscal year 2004. However, in January of 2004, the board approved Voucher program funds to pay off the mortgage note for its 215 Warren Street property. The expenditure was intended to save $230,000 in interest payments during the loan period but was the largest factor increasing the deficit. In additon, the Authority used $636,811 from the low-income public housing program to pay Voucher program expenses in violation of its annual contributions contract with HUD. As a result, $636,811 was not available to support low-income public housing program tenants.

The Authority submitted Revised Financial Statements

Following our fieldwork the Authority submitted a corrected fiscal year 2004 REAC Statement and HUD Voucher for Payment of Annual Contributions and Operating Statement. Therefore, we consider that recommendation 3D has been implemented and final action will be recorded in the departmental audit resolution tracking system upon report issuance.

Conclusion

The Authority did not have sufficient funds to pay Voucher program expenses, and used $636,811 in low-income housing program contract to pay the Voucher program expenses. These funds must be repaid to the low-income public housing program. The use of low-income public housing funds to pay Voucher program expenditures occurred because there was a lack of adequate controls to ensure that only low-income public housing expenditures were paid using these program funds. Similarly, the Authority depleted its administrative fee reserve account to purchase and renovate the office space at 215 Warren Street because the Authority did not have adequate control over its accounting and reporting of the administrative fee reserve account. As a result, they did not properly account for expenditure that should have been charged to the account. This failure to properly account for expenditures also resulted in the Authority filing incorrect financial statement with HUD's Real Estate Assessment Center because the "invested in capital assets" and "unrestricted net assets" balances were incorrectly reported for fiscal year 2004

Recommendations

We recommend that the Regional Office of Public Housing, Boston, Massachusetts, require the Authority to

3A. Reimburse the low-income public housing program $636,811 for funds used to pay Voucher program costs at the end of fiscal year 2004.

3B. Revise and strengthen internal controls to ensure that the low-income public housing program funds are only used to pay for this program's expenditures.

3C. Establish and implement procedures to properly account for and report administrative fee reserve account activity.

3D. Revise and submit the Authority's financial statement to HUD's Real Estate Assessment Center and correctly report its "invested in capital assets" and "unrestricted net assets" balances for fiscal year 2004.

Finding 4: The Authority Improperly Charged $409,311 in Administrative Costs to the Voucher Program

The Authority improperly charged administrative costs the to the Voucher program when it failed to correctly allocate $406,683 in costs and spent $2,628 on unreasonable and unnecessary expenses. Specifically, the Authority improperly charged $406,683 in other program costs to its Voucher program as follows:

- $327,244 for employee salaries and benefits,
- $69,284 for other administrative expenses, and
- $10,155 for public relations expenses.

The Authority also charged its Voucher program $2,628 in unnecessary and unreasonable catering costs for its annual meeting. This occurred because the Authority lacked adequate accounting procedures to allocate reasonable and necessary expenses to the benefiting programs. As a result, funds totaling $409,311 were not available for program needs. The Authority concurred with this assessment and processed correcting entries for fiscal year 2004. The Authority's chief financial officer stated that the remaining correcting entries would be processed for fiscal years 2002 and 2003 upon receipt of this report.

Inadequate Allocation Resulted in $327,244 in Ineligible Costs Being Charged

A review of $4,000,771 in salaries and benefits identified $327,244 in ineligible costs charged to the Voucher program during the period October 1, 2002, through September 30, 2004. These ineligible costs were for employees who either did not perform Voucher program duties or performed limited duties for the Voucher program. Office of Management and Budget Circular A-87 requires that (1) the distribution of salaries or wages for employees working on multiple activities or cost objectives be supported by personnel activity reports or equivalent documentation and (2) the activity reports must reflect an after-the-fact distribution of the activity for each individual employee. Budget estimates or distribution percentages determined before the services are performed do not support charges to federal programs. The ineligible costs were charged because the Authority lacked an allocation plan or written procedures that properly established and supported the amount of salaries and benefits that should be allocated to each program. In addition, the Authority did not maintain time records to determine the percentage of salaries and benefits that should have been charged to each housing program for fiscal years 2002, 2003, or 2004.[2]

[2] See appendix D for a complete listing of questioned charges.

Ineligible Administrative Expenses Charged Totaling $69,284

A review of $99,516 in administrative expenses identified $69,284 in ineligible charges.[3] These occurred because adequate accounting procedures were not established to allocate expenses to benefiting programs. For example, Voucher program employees represented only 16 percent of the Authority's workforce; however, the Authority allocated 50 percent of payroll service costs in fiscal year 2002 to the Voucher program and 35 percent of payroll service costs in fiscal year 2003. The Authority's allocation practice charged the unpaid portion of all other administrative expenses to the Voucher program, resulting in the following ineligible Voucher program charges:

- $24,007 paid for payroll service costs,
- $23,808 paid for a senior housing site telephone answering service,
- $11,124 paid for tenant credit reports,
- $6,983 paid for investment services, and
- $3,361 paid for a credit card processing service for public housing tenants.

Public Relations Expenses Totaling $10,155 Were Improperly Charged

Our review of $59,148 in public relations expenses identified $10,155 in ineligible charges. The majority of ineligible charges related to costs incurred to produce and print the Authority's resident newsletter. The costs charged to the Voucher program were not appropriate because the newsletter was distributed to public housing residents and Authority staff and not to Voucher program tenants. The Voucher program did not benefit from the Authority's newsletter. Therefore, the Authority's allocation of 50 percent of the publication's costs in fiscal year 2003 and 16 percent of the costs charged in fiscal year 2004 were questioned as ineligible program costs.[4]

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[3] See appendix E.
[4] For transaction details See appendix F.

Unnecessary and Unreasonable Costs of $2,628 Were Charged for Catering

The Authority paid a vendor $7,035 to cater its December 2003 annual meeting. This cost covered the rental for space, beverages, food, place settings, chefs, and servers. The rental charges for the space and beverage costs are reasonable expenses, but the food costs and the associated expenses were not a customary or necessary cost for a public meeting. The Authority charged 50 percent of the catering costs to its Voucher program; however, the food costs and associated expenses of $2,628 did not benefit administration of the Voucher program. Thus, we determined that the $2,628 charged to the Voucher program was an ineligible program cost.

The Authority Repaid Improper Charges of $409,311

The Authority agreed with our review and repaid the Voucher program $409,311 for improper charges during the audit (152,879 + 253,786). During our fieldwork the chief financial officer agreed that costs totaling $152,879 were improperly charged to the Voucher program and adjusted the program account's general ledger for $133,594 in salary charges, $16,323 in administrative charges, and $2,980 in resident newsletter expenses charged during fiscal year 2004. Following our fieldwork, the Authority's response showed that the remaining $253,786 in improper charges was repaid.

During our fieldwork the chief financial officer provided the Office of Inspector General (OIG) the Authority's fiscal year 2005 operating budget and salary allocation plan, and the plan appeared to be reasonable. However, the Authority had not established formal procedures to support the plan's rationale to allocate salaries for employees who provide services for more than one housing program as required by Office of Management and Budget Circular A-87.

Conclusion

The Authority charged its Voucher program for expenses that did not benefit the program. During our audit the Authority repaid the Voucher program $409,311 for expenses we identified as not benefiting the program. Therefore, we consider that recommendations 4B and 4C have been implemented and final action will be recorded in the departmental audit resolution tracking system upon report issuance.

The salary and benefits costs were not properly charged to the Voucher program because the allocation plan used did not establish the appropriate rationale for allocating salaries and benefits for employees who worked on multiple housing programs as required by HUD regulations. Similarly, the administrative and public relations costs were not allocated based on their benefit to the Voucher program. This occurred because formal written procedures were not established to properly allocate costs to the benefiting programs. The procedures should include the rationale used and documentation to support the amounts allocated and ensure only necessary costs for administering the Voucher program are charged to the program.

Recommendations

We recommend that the Regional Office of Public Housing, Boston, Massachusetts, require the Authority to

4A. Establish and implement formal written procedures to properly allocate costs to the benefiting programs and ensure that only necessary costs for administering the Voucher program are charged to the program.

4B. Reimburse the Authority's Voucher program the remaining $253,786 of the $406,683 in ineligible salaries, benefits, and administrative and public relations expenses.

4C. Reimburse the Authority's Voucher program $2,628 for unnecessary and unreasonable catering costs from nonfederal funds.

Finding 5: The Authority's Voucher Program Tenant Files Contained Many Deficiencies

We estimate that at least 23 percent of the Voucher program's tenant files contained deficiencies related to the verification of tenant income and the calculation of housing assistance payments. These errors occurred despite similar findings reported to the Authority by HUD during prior reviews, which had prompted the Authority to revise its quality assurance function. However, we attributed this high rate of errors[5] to the Authority's failure to effectively administer its quality assurance function. These errors caused tenants and HUD to overpay and underpay their share of rent, and HUD was not adequately protected from tenants underreporting their income.

Tenant Files Contained Numerous Errors

The Voucher program's tenant files contained a number of deficiencies, such as missing third party income verifications, utility allowance errors, and income calculation errors. As of June 29, 2004, the Authority administered 2,633 vouchers under its Voucher program. Our statistical sample of 57 tenant files showed that 18 files contained deficiencies. Thus, based on our statistical sample, an estimated 23 percent or 605 files contained at least one deficiency. These deficiencies negatively impacted the Voucher program and affected the amount of rent paid by tenants and HUD.

The Authority Inadequately Supported Assistance Payments

We found that 10 of the 57 tenant files sampled were missing applicable third party verifications. Without third party verifications, the Authority is prevented from determining the tenant's adjusted annual income and is unable to determine the proper assistance payment. Incorrect assistance payments result in overpayment or underpayment of subsidies and negatively impact HUD and tenants.

The Authority Improperly Calculated Assistance Payments

We found that the Authority improperly calculated the tenant's share of rent and the assistance payment in 8 of 57 tenant files we tested. Thus, assistance payments were not adequately supported. We considered these deficiencies

[5] See appendix G for a listing and frequency of the deficiencies.

serious in nature because they affected the amount of subsidies paid. These incorrect calculations were primarily attributed to errors that included

- Failure to process reimbursements for unreported income,
- Using incorrect utility allowances,
- Not including child support payments as income, and
- Computation errors.

For example, between July 2003 and March 2004, a tenant underpaid the tenant's share of the rent by approximately $265 per month because the tenant failed to report the income of a nonstudent dependant over the age of 18. The Voucher program clerk identified the error during a recertification; however, the clerk did not address the $10,600 in unreported income earned by the dependent. The Authority should have recalculated the tenant's share of rent and obtained retroactive reimbursement.

Ineffective Quality Assurance Reviews

The Authority's quality assurance reviews were ineffective. The Authority revised its quality assurance function based on HUD's recommendation to increase supervisory oversight and conduct at least a 5-percent quality control review of its tenant files monthly. However, we could not determine to what extent the reviews were conducted because the Authority did not always document its quality reviews. In addition, our file reviews showed that the Authority's quality reviews were not sufficient to detect, correct, or otherwise reduce repeated errors.

Conclusion

Our review disclosed that the Authority's Voucher program continued to have deficiencies related to the payment of housing subsidies. The Authority inadequately supported and calculated housing assistance payments, leading to overpayments and underpayments of HUD subsidies, negatively affecting HUD and tenants. These conditions persisted because the Authority lacked an effective quality control function to detect and correct errors and omissions.

Recommendations

We recommend that the Regional Office of Public Housing, Boston, Massachusetts, require the Authority to

5A. Revise quality control procedures to ensure that Voucher program housing assistance payments are properly supported and calculated.

5B. Implement procedures that ensure that the recommended minimum quality assurance reviews are conducted and documented to detect, correct, and reduce repeated errors.

5C. Correct all errors noted in appendix G.

Finding 6: The Authority Did Not Write Off $114,081 in Uncollectible Portability Accounts

The Authority maintained uncollectible accounts receivable on their books and records and did not repay entities for overpayments. This occurred because the Authority failed to write off uncollectible accounts and did not establish procedures to repay entities when overpayments were received for portability tenants. As a result, the Authority's financial position was overstated by $114,081.

Collection Efforts Were Unsuccessful

The Authority's general ledger shows an uncollected net balance of $114,081 for the billings and receipts occurring between October 1995 and December 2000. This balance represents the amount that entities owe the Authority ($157,551), less payments received from other entities ($33,345) and payments received but not billed ($10,124).

The Authority made efforts and sought HUD's assistance in collecting the outstanding receivables and resolving accounts payables. Those efforts were mostly unsuccessful, and many of the receivables and overpayments on the authority's records are nearly 10 years old and involve at least 59 entities. Due to the age of the receivables, the failure of some entities to respond to inquiries, and disputes between the Authority and other entities, collection is unlikely. Accordingly, the Authority should write off the uncollectible accounts. It should also determine the validity of the overpayments and repay any overpayments it owes other entities.

HUD's Public and Indian Housing Notice 2004-12, issued on July 19, 2004, revised the procedures on portability to ensure that billings are prompt and reduce the possibility of retaining aged receivables. These procedures should ensure that future payments for tenants with portable vouchers are accounted for properly.

Recommendations

We recommend that the Regional Office of Public Housing, Boston, Massachusetts, require the Authority to

6A. Establish policies and procedures that implement HUD's Public and Indian Housing Notice 2004-12 and ensure receivables are evaluated periodically and uncollectible accounts are written off.

6B. Determine whether the amounts owed other entities are valid and pay the amount owed.

SCOPE AND METHODOLOGY

To achieve our audit objectives, we

- Reviewed program requirements including federal laws and regulations, Office of Management and Budget circulars, the consolidated annual contributions contract between the Authority and HUD, and HUD Office of Public and Indian Housing handbooks and guidance including the "Housing Choice Voucher Program Guidebook," HUD 7420.10G;
- Reviewed HUD-OIG Audit Report 00-BO-204-1004, dated July 5, 2000, and related follow-up files to assess whether the Authority adequately addressed prior OIG findings;
- Reviewed the Authority's annual program reports sent to HUD, including "Estimates of Total Required Annual Contributions," "Vouchers for Payment of Annual Contributions and Operating Statements," assessment program certifications, independent public accountant's reports, and HUD monitoring reviews;
- Interviewed Authority and HUD personnel and officials and reviewed meeting minutes from the Authority's board;
- Reviewed Voucher program documentation at the Authority, including the administrative plan, annual and five-year plans, Voucher program tenant and waiting lists (as of June 29, 2004), tenant file documentation, and accounting system records;
- Evaluated the Authority's planned use of its property located at 215 Warren Street, including its facilities plan/needs assessment and whether the costs for the purchase and renovation of the office space were necessary and reasonable; and
- Selected a statistical sample of Voucher program tenant files, which we reviewed for compliance with tenant income verification and the accuracy of the housing assistance payment calculations. The purpose of our testing was to ensure that the participants were eligible and that the housing assistance payments were properly supported and calculated. To accomplish this, we randomly selected 57 tenant files from a universe of 2,633 Voucher program tenants as of June 29, 2004, to perform detailed attribute testing. Our sample resulted in a confidence level of 90 percent and a precision of 10 percent. Based on the errors we found in our sample files, we used the lower confidence limit to estimate a 23-percent error rate for the universe of 2,633 files; however, the sampling methodology was not designed to estimate the dollar magnitude of the errors.

We performed our fieldwork between June and December 2004. We conducted the majority of our fieldwork at the Authority's office located at 150 Highland Avenue in Bridgeport, Connecticut. Our audit covered the period of October 1, 2001, through September 30, 2004, but was expanded to include other periods when necessary. We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Controls over tenant eligibility;
- Controls over calculating housing assistance payments, tenant payments, and utility allowances;
- Controls over rent reasonableness;
- Controls over voucher use;
- Controls over housing quality standards inspections;
- Controls over expenditures to ensure they were necessary and reasonable;
- Controls over the effective and efficient acquisition, renovation, and use of facilities;
- Controls over Section 8 program accounting and reporting;
- Controls over the management of the Pembroke Green development; and
- Controls over writing off uncollectible portable voucher accounts.

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

Based on our review, we believe the following items are significant weaknesses

- The Authority lacked controls over the effective and efficient acquisition, renovation, and use of facilities (see finding 1).
- There were inadequate procedures established for the Pembroke Green development to ensure that the 21 duplexes (42 units) were purchased and rented to eligible families (see finding 2).
- There were inadequate controls over the accounting and reporting of the Voucher program's administrative fee reserve account (see finding 3).
- Allocation procedures were not adequate to ensure that expenses were charged to the appropriate program (see Finding 4).
- An effective quality control system was not established to ensure that housing assistance payments were properly calculated and supported (see Finding 5).
- The Authority did not have policies in effect to write off uncollectible accounts receivable (see finding 6).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Unreasonable or unnecessary 3/	Funds to be put to better use 4/
1B				1,465,688
2B	183,510			
2C		$1,101,060		
3A	636,811			
4B	$406,683			
4C			2,628	

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 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.

3/ Unreasonable/unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.

4/ "Funds to be put to better use" are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

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HOUSING AUTHORITY · CITY OF BRIDGEPORT

July 8, 2005

RECEIVED
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HUD-OIG
OFFICE OF AUDIT
BOSTON, MASSACHUSETTS

Mr. Michael Motulski
U.S. Department of Housing
and Urban Development
Office of the Inspector General
10 Causeway Street, Room 370
Boston, MA 02222-1092

Re.: Housing Choice Voucher and Low-Income Public Housing Program; Audit Draft Response

Dear Mr. Motulski:

In response to the Audit Draft received on June 16, 2005, we would like to address the summary of six findings, and the discrete tasks identified.

Comment 1

Finding 1. The Authority mismanaged the $1.5 million purchase and renovation of additional office space.

BHA's Response: The Authority disagrees with this finding.
During the FYE 9.30.2002 and prior to the issuance of 24CFR982.155 Section 8 administrative funds that were not needed to cover Section 8 administrative expenses could be used to fund for other housing purposes. This rule was changed in FY 2003. Since BHA offices were utilized beyond capacity the Authority decided to purchase the Warren Street property on May 2nd of 2002 to provide necessary office space.

- Purchase price for this property was $795,000 plus additional closing costs of $12,839.
- BHA paid 200,000 plus the $12,839 from Section 8 and took a $595,000 ten year mortgage. At the time the Section 8 reserves were $678,469.
- By September 30, 2002 BHA paid $29,552 in interest and principal payment on the mortgage to the Community's Bank.

Appendix B

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to OIG Evaluation **Auditee Comments**

- BHA would not have purchased the property and acquired a mortgage if it had known about the upcoming rule changes. The purchase was predicated on the governing regulations not changing in 2003.

- At the time of purchase BHA had no knowledge of the changes in HUD's regulations for FY 2003 that would restrict Section 8 administrative fees to be used for Section 8 program's purposes only.

1.A. Failed to develop and effectively implement a comprehensive needs assessment to establish the necessity of additional office space and the reasonableness of space requirements prior to the purchase.
BHA's Response: The Authority agrees

- The anticipated use of the Warren Street building was for fifty percent of the space to be utilized by the Section 8 Department and the remainder to other BHA administrative functions. However, BHA did not conduct an appropriate space assessment for its needs prior to the purchase to determine if the Warren Street building would adequately meet our needs. Therefore, by September 30, 2005 the Authority will solicit the procurement of a qualified professional for a space assessment for all BHA administrative functions.

Comment 2

1.B Did not complete a cost benefit analysis of lease and purchase alternatives to determine which method would be the most economical and practical option.
BHA's Response: The Authority agrees

- The space assessment will be completed by March 1, 2006. BHA will perform a cost benefit analysis to determine the best use of all administrative spaces.
- BHA will determine the most economical and practical application for the use of all administrative spaces by April 1, 2006.

1.C. Improperly procured the architect firm responsible for the redesign of the building and failed to properly plan and manage renovations.
BHA's Response: The Authority concurs that the planning, design and reconstruction of the Warren Street building was not performed in the effective method possible. However, BHA assumed proper construction oversight of the final stages of reconstruction, established a punch list compliance plan to be completed by August 1, 2005 and we anticipate move-in of Section 8 staff by September 15, 2005.

- Utilization of the first floor will not be determined until space assessment and cost benefit analysis is completed by April 1, 2006.

Finding 2. The Authority spent $2.6 million on the Pembroke Green Development Project, $1.3 Million of which failed to benefit eligible families.

Comment 3

BHA's Response: The Authority can not determine the validity of this finding until a complete review can be conducted of our records.

Appendix B

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

We will determine by July 31, 2005:
- Street addresses and names of current property owners
- The purchase agreements for each property will be assessed and reviewed.

We will determine by the second week of August:
- Non-Section 8 renter families
- Eligible and non-eligible tenants for each property

Working with the HUD Regional Office BHA will develop an Action Plan to reconcile the deficiencies of this program by October 31, 2005.

2.A Three units were sold to owners whose annual income exceeded eligibility thresholds
BHA's Response: On or before August 31, 2005 the Authority will:
- Research to substantiate eligibility for purchasers.
- Explore legal options for resale.
- Determine purchase agreement violations for owners if renter is also not eligible and explore legal options.

If it is determined that ineligible purchasers own the properties, BHA will institute remediation options in our Action Plan.

2.B Five units were sold to owners whose income eligibility was not adequately supported
BHA's Response: See 2.A

2.C Thirteen units were rented to tenants whose income eligibility was not verified
BHA's Response: On or before October 31, 2005 the Authority will:
- Verify eligibility of the renters
- Enforce the provisions of purchase agreement on owners who did not comply.
- Explore legal options, and (if possible) exercise legal action against violators
- Establish guidelines and procedures to annually recertify that all renters maintain eligibility status.

Finding 3. Improperly used $636,811 in low-income public housing funds for voucher program expenses
BHA's Response: The Authority disagrees with this finding

Comment 4

3.A The authority did not properly account for $1,465,003 in costs that should have been recorded as administrative fee reserve expenses during fiscal years 2002, 2003, and 2004
BHA's Response: The Authority disagrees with this finding.

Appendix B

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to OIG Evaluation **Auditee Comments**

Comment 4

- In un-audited and audited reports to REAC for FYE 9/30/04, (please see Attachment 1 (3a response) REAC reports for FYE 9/30/04 Audited and Un-Audited) on line item 508.1 Invested in Capital Assets, Net of Related Debt of

  $1,361,631 was reported correctly. On line item 512.1 Unrestricted Net Assets in the amount of ($416,431) was also reported correctly. That leaves a total Net Equity in the amount of $945,200 ($1,361,631 - $416,431), which was also shown on REAC 9.30.04 Audited and Un-Audited Financial Statements.

- On the original HUD Financial Statements as of 9.30.2004 we reported $945,200 in the reserve line item, but we sent revised statements with the $1,361,631 and ($416,431) breakdown. ($1,361,631 minus 416,431 = 945,200) and HUD has approved the revised Financial Statements. Please see Attachment 2 (3A response).

- BHA is requesting guidance from HUD on the definition of "Available Reserves". As Attachment 3 (3A response) GAO-05-30, page 8 and page 9 indicate, there is apparent conflict with the method of reporting required by HUD.

- In 1999 when REAC was implemented by HUD we were asked to modify our accounting for REAC following the principles of GAAP. As a result, HUD Financial Statements do not fully conform to GAAP accounting. We are requesting guidance from HUD on which method to follow. We are sure that HUD would not require BHA to maintain two concurrent accounting records. This would be duplicitous work and certainly not cost effective.

- However, for the period in question, BHA did maintain HUD Financial Statements (which were never audited by HUD). BHA's operating reserve on the original HUD Financial Statements were overstated, but HUD had approved them. Subsequently, BHA resubmitted the Financial Statements and the revised version were approved by Andrew Miller at HUD. Please see Attachment 4 (3A response). Financial Statements as of 9/30/04 approved by HUD on 4/08/05. Please note that the FYE 9/30/04 negative reserves would be reimbursed through the FY2004 CFP program if HUD approves BHA's request for ACC of approximately $300,000. It is our understanding that the HUD Field Office is awaiting concurrence on this action from HUD Legal in the Regional Office.

Comment 5

3.B The failure to properly account for expenditures was the result of inadequate controls over the accounting and reporting of the Voucher program's administrative fee reserve account

BHA's Response: The Authority agrees with this finding, and will revise administrative controls and establish better reporting mechanisms for the Housing Choice Voucher Program by October 31, 2005.

Appendix B

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to OIG Evaluation	Auditee Comments

3. C The Authority believed it had the funds in its reserve account to reimburse the low income public housing program to pay for voucher program salaries and administrative expenses

Comment 6

BHA's Response: The Authority has been and will continue to reimburse Section 8 administrative reserves. We believe that the shortfall will be totally reimbursed by May 2006. The delay was caused by the unexpected reduction in funding in Section 8 Administrative Fees for FY 2004.

- As of September 30, 2004, LIPH had Accounts Receivable for Section 8 in the amount of $608,571.15. This was attributable to Section 8 not being able to reimburse Public Housing for Section 8 expenses paid from Operations due to funding cuts for the administrative fees and HAPP fees during the last quarter of the fiscal year 2004. HUD has reimbursed us partially for these expenses. The first part of this money - $323,160 was paid in February, and second part - $269,865 was paid in May of 2005. In addition to the cuts (12-15% per unit) in the administrative fees in FYE 2004 there ware also restrictions in HAPP fees from HUD. In 2005 most of this short fall was covered and LIPH was reimbursed from Section 8.

Finding 4. Improperly charged $409,311 in administrative costs to the Voucher program

Comment 7

BHA's Response: The Authority agrees and corrections have been made. Furthermore, BHA will establish a Board approved policy for restrictions and caps on sundry administrative expenses, such as public relations and catering.

- Finance Department corrected allocation tables for expending administrative costs to Section 8. BHA corrected $152,897 in charges improperly allocated to Section 8 program during fiscal year 2004. Additional entries JV 05-141 on the Operation side and JV 5-21 on the Section 8 side as of June 30, 2005 corrected the $256,414 of the additional overcharging of Section 8 by Operations for fiscal years prior to 2004. Please see Attachment 5 (4 response- entries).

4.A $327,244 for employee salaries and benefits

BHA's Response: The Authority agrees and corrections have been made.

4.B $69,284 for other administrative expenses
BHA's Response: The Authority agrees and corrections have been made.

4.C $10,155 for public relations expenses
BHA's Response: The Authority agrees and corrections have been made.

4.D $2,628 to cater its annual meeting
BHA's Response: The Authority agrees and corrections have been made.

Appendix B

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to OIG Evaluation	Auditee Comments

Finding 5. Did not properly calculate and support housing assistance payments
BHA's Response: The Authority agrees and by November 30, 2005 will establish quality control procedures targeting reporting deficiencies in the Section 8 Program including areas identified in this audit. BHA will continue to train Section 8 staff, this will include remedial components targeting specific staff, and training for supervisory staff. Most importantly, BHA will establish a staff person to monitor Quality Control on a full time basis.

5.A Estimate at least 23 percent of the Voucher Program's tenant files contained deficiencies related to the verification of tenant income an the calculation of housing assistance payments
BHA's Response: The Authority agrees

- All income are verified third party sources; however in some cases when the source fails to respond in a timely manner or not at all, we use other methods in obtaining proof of current information in order to stay within the time constraints for monthly reexaminations. We have developed an acceptable Income Level Verification Form to define the source used to determine annual and adjusted incomes.

5.B Errors occurred due to ineffective quality assurance function
BHA's Response: The Authority agrees

- A better process will be put into place as soon as a Section 8 Compliance Officer has been hired. This process will greatly improve once a person is in place to address this matter on a full time ongoing basis. The conducted reviews will minimize mistakes and reduce repeated errors.

5. C As a result tenants and HUD overpaid and underpaid their share of rent
BHA's Response: The Authority agrees

- Staff has begun to check the files that have been documented for corrections. The appropriate adjustments have been and are being processed. The quality control procedures will ensure that assistance payments are properly supported and calculated

Comment 8

Finding 6. Did not write off $114,081 in Uncollectible Portability Accounts
BHA's Response: The Authority agrees and it has been corrected.

- BHA will establish policies and procedures by October 31, 2005 that implement HUD's Public and Indian Housing Notice 2004-12 and ensure that receivables are evaluated periodically and uncollectible accounts are written off. Prior to that there were no clear HUD's guidelines for collecting Accounts Receivable for the

Appendix B

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to OIG Evaluation **Auditee Comments**

Portable Accounts. The Authority made efforts and sought HUD's assistance to collect $114,081 for uncollectible over ten years' accounts but was unsuccessful. BHA will write off $ 114,081 in five equal installments starting with FYE 9.30.2005.

Please feel free to contact me at my office should you have any questions or concerns at (203) 337-8915. I look forward to working with your office to resolve these matters and correct any existing deficiencies. Every effort will be made to bring the agency into compliance with all existing regulations.

Sincerely,

HOUSING AUTHORITY OF
THE CITY OF BRIDGEPORT

Nicholas Calace
Executive Director

NC:af

Appendix B

AUDITEE COMMENTS AND OIG's EVALUATION

OIG Evaluation of Auditee Comments

Ref to Auditee Response	OIG Evaluation
Comment 1	The Authority disagreed that they mismanaged the $1.5 Million purchase and renovation of 215 Warren Street property because it was permissible at the time of purchase and they were unaware of pending changes for the Section 8 program. We concur that the use of Section 8 funds to purchase 215 Warren Street was permissible. Although the Authority did not directly respond to our recommendations 1A and 1B we believe the Authority's response supports our assessment that the project was mismanaged.
Comment 2	The Authority's comments 1.A., 1. B., and 1.C., did not address recommendations 1A and 1B, but the proposed actions mentioned in the Authority's comments and should satisfy recommendation 1A. However, the proposed actions will not adequately address recommendation 1B. This is because Voucher funds may not be used for the entire facility purchase because the Authority's Administrative Fee Reserves were reduced to zero during fiscal year 2004, and the Authority's use of Voucher program Administrative fees for other housing purposes was prohibited under 24 CFR 982.152. HUD should ensure that the Authority's corrective actions adequately implements recommendation 1B, including possibly selling the property. Further, if the plan justifies keeping the facility, HUD should ensure that the corrective action plan does not utilize Voucher funds for the facility's entire purchase, renovation, and maintenance costs.
Comment 3	The Authority's proposed actions are responsive to our recommendations 2A, B, and C. However, HUD program Officials should ensure that the proposed corrective action plan is sufficiently detailed and require the repayment of funds, if necessary.
Comment 4	The Authority did not agree that $636,811 in low-income public housing funds was improperly used. However, the Authority stated that $608,571 in low-income public housing funds was used to pay Section 8 operating expenses (Response 3C). The Authority also did not agree that $1,465,003 in administrative fee reserve expenses during fiscal years 2002, 2003, and 2004 was improperly accounted for (Response 3A). However, the Authority resubmitted their FY 2004 REAC Statement and HUD Financial Statement. We believe these corrections are a

Appendix B

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to Auditee Response	**OIG Evaluation**
Comment 4	(cont'd) We encourage the Authority to seek all necessary advice regarding the implementation of proper accounting procedures. We do not believe that the Authority's response regarding the differences between GAAP and REAC accounting requirements was the proximate cause of the Authority's failure to submit accurate REAC and HUD Financial statements. The response also addresses recommendation 3D and consider it implemented. The final action for Recommendation 3D is complete and will be recorded in the departmental audit resolution tracking system concurrent with report issuance.
Comment 5	The Authority did not address our recommendation 3B to revise and strengthen internal controls to ensure low-income public housing program funds are only used to pay for low-income public housing program expenses. Therefore, this recommendation remains open and HUD should ensure the Authority develops and implements adequate procedures.
Comment 6	Recommendation 3A will be satisfied if the Authority fully repays the LIPH, and the difference between \$636,811 and \$608,571 may be attributed to year closing and adjusting entries, which should be verified as part of completing the corrective action. We consider the Authority's proposed actions to revise administrative controls by October 31, 2005 responsive to our recommendation 3C. However, the HUD should ensure that the procedures, when implemented, ensure that the Authority properly accounts for and reports its administrative reserve funds.
Comment 7	The Authority agreed with the finding and recommendations, but did not adequately address our recommendation 4A regarding properly allocating expenses to the Voucher program. HUD should ensure that the Authority establishes and implements adequate procedures to allocate costs to the benefiting programs and ensure that only necessary costs are charged to the program. The action indicated in the response for recommendations 4B and 4C resolve these recommendation and final action complete will be recorded in the departmental audit resolution tracking system concurrent with report issuance.

Appendix B

AUDITEE COMMENTS AND OIG's EVALUATION

Ref to Auditee Response	OIG Evaluation
Comment 8	We consider the Authority's proposed corrective actions to be partially responsive to our recommendation 6A. We believe the Authority's proposed five year write off of the $114,081 uncollectible and invalid payables is not adequate to ensure their books and records are adjusted in a timely manner. The Authority has had as much as 10 years to collect these receivables, pay the payables, or write them off. If implemented as planned the Authority's books and records will continue to be misstated. Therefore, the entire amount should be written off. The Authority also did not adequately address our recommendation 6B to "Determine whether the amounts owed other entities are valid and pay the amount owed."

Appendix C
SCHEDULE OF PEMBROKE GREEN TENANT ELIGIBILITY

Address	Did purchaser meet income eligibility requirements?	Did tenant meet income eligibility requirements?
127-131 Hallett Street	No	Unknown
68-72 Martin Luther King Dr.	No	Unknown
696-700 Pembroke Street	No	Yes
163-167 Hallett Street	Unknown	Unknown
163-167 Hamilton Street	Unknown	Yes
191-195 Hamilton Street	Unknown	Yes
650-656 Pembroke Street	Unknown	Unknown
93-97 Hallett Street	Unknown	Unknown
688-692 Pembroke Street	Yes	Unknown
107-111 Hallett Street	Yes	Unknown
117-121 Hallett Street	Yes	Unknown
145-149 Hallett Street	Yes	Unknown
205-209 Hamilton Street	Yes	Unknown
30-34 Martin Luther King Dr.	Yes	Unknown
42-46 Martin Luther King Dr.	Yes	Unknown
82-86 Martin Luther King Dr.	Yes	Unknown
177-181 Hamilton Street	Yes	Yes
217-221 Hamilton Street	Yes	Yes
56-60 Martin Luther King Dr.	Yes	Yes
668-674 Pembroke Street	Yes	Yes
716-720 Pembroke Street	Yes	Yes

Appendix D

SCHEDULE OF INELIGIBLE SALARY/BENEFITS COSTS

Fiscal year	Position title	Annual salary	Authority's allocation rate	Reason questioned	Audited allocation rate	Improper charges Salary + federal income tax + medical employees retirement fund + workers compensation ins. + state unemployment ins.+ hospitalization
2002	Human resource director	52,235	65%	21.3 of 141 employees work for Section 8. Thus, allocation s/b 15%	15%	$39,249
2002	Human resource assistant	28,980	0%	21.3 of 141 employees work for Section 8. Thus, allocation s/b 15%	15%	(6,593)
2002	Payroll clerk	49,727	75%	21.3 of 141 employees work for Section 8. Thus, allocation s/b 15%	15%	44,854
2002	Benefits & payroll administrator	56,904	0%	21.3 of 141 employees work for Section 8. Thus, allocation s/b 15%	15%	(12,946)
2002	Computer specialist	45,561	50%	No support for time charged. Deputy director and chief financial officer stated that 15% was appropriate.	15%	24,015
2002	Maintenance director	55,838	10%	No Section 8 duties	0%	8,409
2002	Preventive maintenance coordinator	39,850	10%	No Section 8 duties	0%	6,001
Subtotal						$ 102,990
2003	Human resource director	54,324	65%	21.65 of 141 employees work for Section 8. Thus, allocation s/b 15%	15%	$40,616
2003	Human resource assistant	30,139	0%	21.65 of 141 employees work for Section 8. Thus, allocation s/b 15%	15%	(6,969)
2003	Computer specialist	45,781	50%	No support for time charged. Deputy director and chief financial officer stated that 15% was appropriate.	15%	24,131
2003	Payroll clerk	49,967	60%	21.65 of 141 employees work for Section 8. Thus, allocation s/b 15%	15%	33,596
2003	Benefits & payroll administrator	59,180	30%	21.65 of 141 employees work for Section 8. Thus, allocation 15%	15%	(13,685)
2003	Maintenance director	58,352	10%	No Section 8 duties	0%	8,788
2003	Preventive maintenance coordinator	41,444	10%	No Section 8 duties	0%	6,241
Subtotal						$ 92,718
2004	Human resource director	55,954	65%	25.75 of 141 employees work for Section 8. Thus, allocation s/b 15%.	18%	39,881
2004	Human resource assistant	31,043	0%	25.75 of 141 employees work for Section 8. Thus, allocation s/b 15%.	18%	(8,646)
2004	Computer specialist	45,341	50%	No support for time charged. Deputy director and chief financial officer stated that 15% was appropriate.	15%	24,201
2004	Payroll clerk	49,486	60%	25.75 of 141 employees work for Section 8. Thus, allocation s/b 15%.	18%	31,498
2004	Maintenance director	60,681	10%	No Section 8 duties	0%	9,254
2004	Preventive maint. coordinator	42,687	10%	No Section 8 duties	0%	6,510
2004	Inventory analysis	47,276	50%	Section 8 has little or no inventory. Deputy director stated that 10% was appropriate.	10%	28,838
Subtotal						$ 131,536
Total						**$ 327,244**

Appendix E

SCHEDULE OF INELIGIBLE ADMINISTRATIVE COSTS

Fiscal year	Payee	Annual payments	Services received	Authority's allocation rate	Reason questioned	Audited allocation rate	Audited allocation (amount X audited rate)	Overcharged (authority $ - audited $)
2002	Automated Data Processing	$ 39,124	Payroll services	50%	We applied Authority's fiscal year 2004 rate of 16% as reasonable	16%	$ 6,260	$ 13,302
2003	Automated Data Processing	56,341	Payroll services	35%	We applied Authority's fiscal year 2004 rate of 16% as reasonable	16%	9,015	10,705
2002	Public Housing Residents	29,921	Telephone answering service for public housing	50%	No Section 8 benefit	0%	0	14,961
2003	Public Housing Residents	25,280	Telephone answering service for public housing	35%	No Section 8 benefit	0%	0	8,848
2002	The Info Center	13,410	Credit reports for public housing tenants	50%	No Section 8 benefit	0%	0	6,705
2003	The Info Center	12,626	Credit reports for public housing tenants	35%	No Section 8 benefit	0%	0	4,419
2003	UBS Investment Services	19,952	Investment fees for public housing	35%	No Section 8 benefit	0%	0	6,983
2002	Fleet Bank	3,663	Credit card processing fees for public housing	50%	No Section 8 benefit	0%	0	1,831
2003	Fleet Bank	4,371	Credit card processing fees for public housing	35%	No Section 8 benefit	0%	0	1,530
Total								**$ 69,284**

Appendix F

SCHEDULE OF INELIGIBLE PUBLIC RELATIONS COSTS

Check #	Amount allocated	Authority's allocation rate	Description	Reason questioned	Audited allocation rate	Ineligible expenses charged to the Section 8 program
49340	$ 4,500	50%	Resident newsletter	No Section 8 benefit	0%	$ 2,250
50518	2,100	50%	Scattered site photography	No Section 8 benefit	0%	1,050
51530	3,750	50%	Resident newsletter	No Section 8 benefit	0%	1,875
53564	4,000	50%	Resident newsletter	No Section 8 benefit	0%	2,000
60718	4,000	16%	Resident newsletter	No Section 8 benefit	0%	640
62435	4,000	16%	Resident newsletter	No Section 8 benefit	0%	640
64617	2,125	16%	Resident newsletter	No Section 8 benefit	0%	340
65121	2,125	16%	Resident newsletter	No Section 8 benefit	0%	340
65289	2,125	16%	Resident newsletter	No Section 8 benefit	0%	340
66043	2,125	16%	Resident newsletter	No Section 8 benefit	0%	340
66213	2,125	16%	Resident newsletter	No Section 8 benefit	0%	340
Total						**$ 10,155**

Appendix G

SCHEDULE OF TENANT FILE ERRORS

	Subsidy	Exceptions	Effect on housing assistance payment, family rent, or utility reimbursement
1	V00003	1	No effect.
2	V01619	1 and 2	Utility reimbursement reduced from $122/month to $6/month.
3	V01099	1, 3, 4, 5, 6, and 7	Housing assistance payment reduced from $740/month to $612/month; family rent increased from $60/month to $188/month.
4	V02511	1 and 4	Unable to determine effect.
5	V00194	1	No effect.
6	V02807	6 and 7	Housing assistance payment reduced from $533/month to $469/month; family rent increased from $367/month to $431/month.
7	V00496	1	Unable to determine actual effect but estimate housing assistance payment would have been reduced by $265/month.
8	V00303	1	No effect.
9	V02262	1, 6, and 7	Housing assistance payment reduced from $684/month to $660/month; family rent increased from $66/month to $90/month.
10	V03167	1	No effect.
11	V03229	3, 6, and 7	Housing assistance payment increased from $672/month to $684/month; family rent reduced from $178/month to $166/month.
12	V00776	4, 6, and 7	Housing assistance payment reduced from $385/month to $366/month; family rent increased from $540/month to $559/month.
13	V01517	6 and 7	Housing assistance payment reduced from $418/month to $399/month; family rent increased from $482/month to $501/month.
14	V01540	2 and 3	Utility reimbursement increased from $53/month to $71/month.
15	V03266	8	No effect.
16	V01368	4	Unable to determine effect.
17	V00153	6 and 7	Housing assistance payment reduced from $519/month to $485/month; family rent increased from $281/month to $315/month.
18	V00845	3, 6, and 7	Housing assistance payment reduced from $409/month to $397/month; family rent increased from $291/month to $303/month.

Description of Exceptions:

1. Missing at least one third party verification.
2. Utility reimbursement incorrectly calculated.
3. Improper utility allowance used.
4. No support for utility payments.
5. Improper payment standard used.
6. Housing assistance payment incorrectly calculated.
7. Family share of rent incorrectly calculated.
8. Improper dependent deduction allowed.