



Issue Date	November 3, 2006
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Audit Report Number	2007-BO-1001
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TO: Donna J. Ayala, Director, Office of Public Housing, Boston, Massachusetts,  
Regional Office, 1APH

A handwritten signature in black ink, appearing to read "John A. Dvorak".

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

SUBJECT: Lynn Housing Authority & Neighborhood Development, Lynn, Massachusetts,  
Generally Administered its Section 8 Voucher Program in Accordance with  
HUD Requirements

## **HIGHLIGHTS**

### **What We Audited and Why**

We reviewed the Section 8 Housing Choice Voucher program (Section 8 program) at the Lynn Housing Authority and Neighborhood Development (Authority) as part of our fiscal year 2006 annual audit plan. Our audit objectives were to determine whether the Authority effectively and efficiently administered its Section 8 program in compliance with the U.S. Department of Housing and Urban Development (HUD) requirements and its annual contributions contracts.

### **What We Found**

Our audit of the Authority's Section 8 program did not disclose anything that indicated that it was not administering its Section 8 program in accordance with U.S. Department of Housing and Urban Development requirements and its annual contributions contracts. The audit also did not disclose anything that would cause

us to believe that the Authority's internal control structure, over its management processes, accounting and data processing, did not adequately ensure that the Section 8 program was effectively and efficiently managed.

### **What We Recommend**

Based on our audit, we did not identify any reportable conditions or deficiencies; therefore, we are not making any recommendations.

### **Auditee's Response**

An exit conference was held on October 20, 2006 with the Auditee. The report did not require a response from the auditee.

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## **BACKGROUND AND OBJECTIVES**

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The United States Housing Act of 1937 established the federal framework for government-owned affordable housing. This act also authorized public housing as the nation's primary vehicle for providing jobs, and for building and providing subsidized housing through the 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 United States Housing Act of 1937, as amended by the Quality Housing and Work Responsibility Act of 1998, authorizes operating subsidies for public housing agencies administering HUD low-income housing programs. HUD provides annual operating subsidies, through the Public Housing Operating Fund program, to help public housing agencies pay some of the cost of operating and maintaining public housing units. The Quality Housing and Work Responsibility Act of 1998 also created the Housing Choice Voucher program (Section 8 program). The Section 8 program allows public housing authorities to pay HUD subsidies directly to housing owners on behalf of the assisted family.

The Lynn Housing Authority and Neighborhood Development (Authority) is organized under the statutes of the Commonwealth of Massachusetts (MGL 121B) with the express mission of providing safe, sanitary and decent housing to families and individuals of low income. The primary jurisdictional area of the Authority is the City of Lynn, Massachusetts. HUD contracts with the Authority for the administration and management of 1,242 low-income units through annual contributions contracts. As of December 31, 2005, there were 1,197 housing choice voucher units under lease. The Authority received approximately \$29 million in funding for the Section 8 program, for fiscal years 2004 through 2006. The annual contributions contracts require the Authority to follow appropriations laws, public housing notices, and the Authority's administrative plan.

Our overall audit objective was to determine whether the Authority employed acceptable management practices to effectively and efficiently administer its Section 8 program while creating decent, safe, and sanitary housing opportunities in compliance with HUD requirements and its annual contributions contracts.

## RESULTS OF AUDIT

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### The Authority Generally Administered its Section 8 Program in Compliance with HUD Requirements

The Authority generally administered its Section 8 Housing Choice Voucher program (Section 8 program) in accordance with U.S. Department of Housing and Urban Development requirements and its annual contributions contracts. The Authority fairly selected applicants, properly determined tenant eligibility and rent reasonableness, accurately calculated payments, and completed tenant recertifications. The units inspected met HUD requirements for decent, safe, and sanitary housing conditions, and the allocation of program administrative costs was reasonable and consistently applied. In addition, the Authority reconciled all its portability invoices, netted differences and recorded its accounts receivables on its monthly trail balances.

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#### **The Authority's Section 8 program meets HUD requirements**

Based on our review of the Authority's policies and 11 tenant files, we found that, for the files we reviewed, the Authority fairly selected applicants, properly determined tenant eligibility and rent reasonableness, accurately calculated tenant/HAP payments and utility allowances, assured unit suitability and completed tenant recertifications in a timely manner. The Authority had established procedures to annually review 10 percent of its tenant file to ensure recipients are program eligible according to household size, and income. Our audit also showed that the physical condition, of the seven Section 8 units we inspected, met HUD requirements for decent, safe, and sanitary housing conditions; and the allocation of program administrative costs we reviewed was reasonable and consistently applied to ensure that the participating federal, state, and city programs were appropriately charged.

In addition, we found that, for the portability vouchers we reviewed, the Authority's procedures ensured that it reconciled all its portability invoices to the total payments made by the other housing authorities; netted differences for housing assistance payments, administrative charges, and utility adjustments; and recorded its accounts receivables on the monthly basis.

## **Conclusion**

Our audit did not find anything that would cause us to believe that the Authority's internal control structure, over management processes (operations and compliance) and accounting and data processing, did not adequately ensure that the program was effectively and efficiently managed in compliance with HUD requirements and its annual contributions contracts. The audit also did not identify any reportable deficiencies and there are no recommendations.

## SCOPE AND METHODOLOGY

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We conducted the audit between July and September 2006. Our fieldwork was completed at the Authority's central office located at 10 Church Street, Lynn, Massachusetts, and at the Rental Assistance Program offices located at 174 South Common Street, Lynn, Massachusetts. In addition, we performed physical inspections of tenant units throughout the City of Lynn. Our audit covered the period April 1, 2003, to December 31, 2005, and was extended when necessary to meet our objectives. To accomplish our audit objectives, we

- Interviewed the Authority's director of finance, fee accountant, housing finance manager, rental assistance program manager, chief rental assistance housing specialist and housing policies/internal audits coordinator to determine policies and procedures to be tested.
- Reviewed the financial statements, general ledgers, tenant files, portability data, and cost allocation plans as part of our testing for control weaknesses.
- Reviewed program requirements including federal laws and regulations, Office of Management and Budget circulars, the consolidated annual contributions contracts between the Authority and HUD, and the Authority's Section 8 administrative plan to determine its compliance to applicable HUD procedures.
- Selected and reviewed a statistical sample of Section 8 program tenant files to ensure program participants were eligible, housing assistance payments were properly supported and calculated, housing deficiencies were corrected in a timely manner, and rents paid were reasonable.
- Reviewed cost allocation procedures to determine whether the Authority charged its Voucher program an appropriate amount of salary and employee benefits expenses.
- Reviewed interfund transfer procedures to verify that transfers were properly accounted for, and that federal funds were used for the intended programs.

We performed our review in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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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.

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## Relevant Internal Controls

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

- Controls over tenant eligibility, calculating housing assistance payments, tenant payments, and utility allowances;
- Controls over rent reasonableness;
- Controls over voucher use (eligibility, waiting lists, and use);
- Controls over housing quality standards inspections;
- Controls over expenditures to ensure that they were necessary and reasonable;
- Controls over Section 8 program accounting and reporting; and
- Controls over accounting for 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

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