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# AUDIT REPORT



WEYMOUTH HOUSING AUTHORITY

WEYMOUTH, MASSACHUSETTS

2001-BO-1004

APRIL 2, 2001

OFFICE OF AUDIT, NEW ENGLAND  
BOSTON, MASSACHUSETTS

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Issue Date April 2, 2001
Audit Case Number 2001-BO-1004

TO: Donna J. Ayala, Director, Office of Public Housing,  
Massachusetts State Office, 1APH

FROM: William D. Hartnett, District Inspector General, Office of Audit, 1AGA

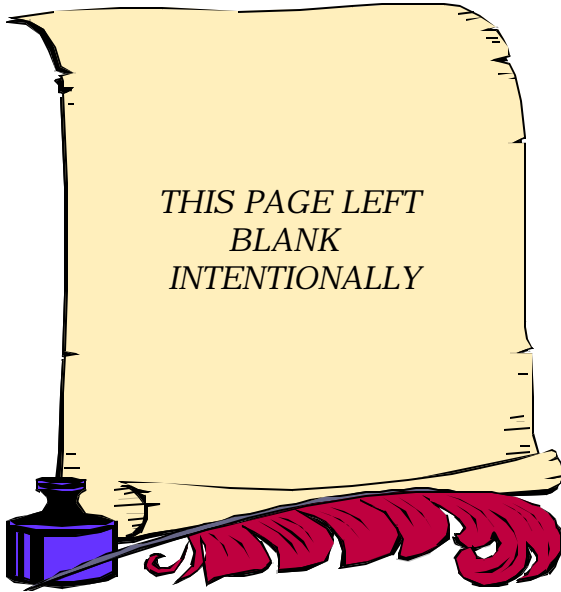
SUBJECT: Weymouth Housing Authority  
Weymouth, Massachusetts

We performed an audit of the Weymouth Housing Authority (WHA) Low-Income Public Housing and Section 8 programs. The objective of our review was to determine if the Authority has been operating its programs in an efficient and effective manner.

The report contains three findings.

Within 60 days please give us, for each recommendation in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

If you have any questions, please contact our office at (617) 565-5259.



# Executive Summary

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We performed an audit of the Low-Income Public Housing and Section 8 Programs operated by the Weymouth Housing Authority (WHA). Our objectives were to determine if the WHA was operating its program in an efficient, effective and economical manner; and was complying with the terms and conditions of its Annual Contributions Contract, applicable laws, and HUD regulations.



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## Audit Results

The WHA has not developed an equitable method of allocating costs between Federal and State programs. In addition, the WHA allocated costs to a vacant Federal project in 1999. The inequitable allocation of costs resulted in the Federal programs being overcharged by approximately \$78,000.

The WHA needs to improve its administration of the Section 8 Program by strengthening the procedures used for determining rent reasonableness; documenting the third party verification process; and conducting annual reexaminations in a timely manner. Two of the conditions (determining rent reasonableness and documenting the third party verification process) had been previously reported as findings in a 1999 Field Office review. Due to the weaknesses in the WHA's administration of the Section 8 Program there is limited assurances that the contract rents for the units are reasonable and that HUD and the tenants are paying the proper share of the rent.

The WHA inappropriately paid a former executive director \$3,382 for unused vacation and sick leave contrary to personnel policies. The payment to the former executive director included \$1,804 for vacation pay that had not been earned when he resigned and \$1,578 in excess of the maximum \$1,000 the WHA allows for sick leave. The WHA allocated \$1,796 out of the \$3,382 to Federal programs.

Recommendations

We are recommending that the WHA: establish and implement an equitable cost allocation plan and reimburse the Federal Programs for any amounts determined to be improperly allocated; provide evidence that they are determining rent reasonableness, performing third party verifications and conducting annual recertifications; and reimburse the Federal programs \$1,796 which were charged with ineligible vacation and sick leave payments made to the former executive director.

Findings and  
Recommendations  
Discussed

The findings were discussed with the WHA officials during the course of the audit. On February 8, 2001, we provided the WHA a copy of the draft report for comment. We received the WHA's response on March 19, 2001.

We have included pertinent comments from the WHA's response in the findings section of the report. The WHA's full response is included as Appendix E.

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# Table of Contents

---

Management Memorandum	i
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---

Executive Summary	iii
-------------------	-----

---

Introduction	1
--------------	---

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## Findings

1. WHA Needs to Develop An Equitable Method Allocating Costs	3
2. Section 8 Program Administration Needs Improvement	11
3. Ineligible Payments For Vacation and Sick Leave to Former Executive Director	17

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Management Controls	19
---------------------	----

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## Appendices

A Schedule of Ineligible and Unsupported Costs	21
B Allocation of Salaries - 1998	23
C Allocation of Salaries - 1999	25
D Allocation of Salaries - 2000	27
E Auditee Comments	29
F Distribution	33

Abbreviations

ACC	Annual Contributions Contract
CFR	Code of Federal Regulations
HQS	Housing Quality Standards
HUD	Department of Housing and Urban Development
IPA	Independent Public Accountant
LHA	Local Housing Authority
MA	Massachusetts
MRVP	Massachusetts Rental Voucher Program
MSO	Massachusetts State Office
OMB	Office of Management and Budget
PHA	Public Housing Authority
WHA	Weymouth Housing Authority



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# Introduction

A five-member Board of Commissioners, chaired by Ernest Remondini, governs the Weymouth Housing Authority (WHA). The Executive Director, Roland Moussally, is responsible for the administration and WHA operations. The WHA office is located at 402 Essex Street, Weymouth, MA 02188.

The WHA is administering 159 units under the Section 8 Program and one project containing 40 Low Income Public Housing units. A second project is currently undergoing partial demolition and rehabilitation. The WHA is also administering 3 state projects containing 216 units and 111 units under the State's rental voucher program.

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## Audit Objectives

The purpose of our audit was to determine whether the WHA is operating in an efficient and effective manner. The specific objectives were to determine whether:

1. WHA's procedures established to administer the Section 8 Programs and Low Income Public Housing were adequate;
2. WHA's tenant eligibility and subsidies were in compliance with HUD's directives; and
3. Complying with the terms and conditions of its Annual Contributions Contract (ACC), applicable laws, HUD regulations, and other applicable directives.

## Audit Scope and Methodology

To accomplish the audit objectives we:

- Reviewed Federal requirements including the Code of Federal Regulations, HUD Handbooks, Public and Indian Housing Notices and Directives, OMB Circular, and the WHA's organizational and administrative structure, administrative plans and personnel policies, and recorded minutes of the Board of Commissioners meetings.
- Reviewed Independent Public Accountant (IPA) audit reports, as well as monitoring reviews conducted by the HUD Field Office.
- Examined the WHA's accounting books and records.

- Examined the WHA's procedures and supporting documentation for procurement.
- Reviewed the WHA's rent reasonableness testing procedures to determine if rents were reasonable and in accordance with regulations.
- Examined tenant files to verify that tenants qualified as a family; that tenants' income was within income guidelines; that Housing Assistance Payments (HAP) contracts were calculated correctly; and to determine that recertifications were performed on an annual basis.
- Interviewed staff at WHA concerning HUD policies and procedures on Housing Quality Standards (HQS) Inspections; rent reasonableness requirements, and third party verification process.
- Examined Low Income Housing transfer list, waiting list, and tenants account receivable.
- Conducted physical inspection on 10 units to ensure compliance with HQS.
- Reviewed the Office of Public and Indian Housings files maintained by the Massachusetts State Office (MSO) pertaining to the WHA.

The audit was conducted between September 2000 and November 2000, and covered the period January 1, 1999 through August 31, 2000. When appropriate the review was extended to include other periods.

Our audit was conducted in accordance with generally accepted government auditing standards.

## WHA Needs To Develop An Equitable Method Of Allocating Costs

The Weymouth Housing Authority (WHA) has not developed an equitable method of allocating costs between its Federal and Massachusetts State Programs. The WHA's method of allocation shifts costs that are not fully funded by the State for its Programs to the Federal Programs. In addition, the WHA allocated costs to a vacant Federal Project in 1999. As a result, the Federal Programs were charged in excess of its fair share of the costs for payroll, payroll related, and some administrative costs.

### Equitable Allocation Method Required

24 CFR Part 85.22(b) requires State, local and Indian tribal governments to follow the Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." According to 24 CFR 85.3, a local government includes any public housing agency.

OMB Circular A-87 establishes principles for determining the allowable costs incurred by State and local governments. "The principles are designed to provide that Federal awards bear their fair share of cost recognized under these principles except where restricted or prohibited by law." (Attachment A, paragraph A.1.)

Attachment A, paragraph C. "Basic Guidelines" of OMB Circular A-87 provides in part:

- A cost is allocable to a particular cost objective if the goods or services are chargeable or assignable to such cost objective in accordance with relative benefits received.
- All activities that benefit from the governmental unit's indirect cost will receive an appropriate allocation of indirect costs.

Attachment A, paragraph F. "Indirect Costs" of OMB Circular A-87 provides in part:

- Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically

benefited, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs. Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Allocations Weighted More  
Toward Federal Programs

The WHA operates four programs: Federal Public Housing Program; State Public Housing Program; Federal Leased Housing Program (Section 8 Certificate and Vouchers); and State Leased Housing Program (Massachusetts Rental Voucher Program-MRVP).

The WHA inappropriately increased the allocations to the Federal programs in three ways:

1. The State of Massachusetts established a maximum salary amount that would be paid for certain positions. For employees earning above the amount allowed by the State the difference was charged to the Federal programs.
2. The State reduced the reimbursement for their MRVP Program from \$45 per unit per month to \$25 per unit per month. To absorb the reduction in funding from the State, the WHA did not allocate all appropriate staff to the State's MRVP Program, increasing the costs allocated to the Federal programs.
3. In 1999, the WHA allocated costs of five of its employees on a unit basis. Included in the unit allocation for 1999 were 70 units from Cadman Towers even though that project had been vacant since May 1998.

Maximum Salaries Allowed by the State

There were four WHA employees who were paid substantially more than the maximum allowed by the State. The maximum salaries allowed by the State and the salaries actually paid for the four employees in 1999 were:

Position	Allowed By State	Actual Salary	Difference *
Executive Director	\$44,224	\$52,000	\$7,776
Asst. Exec. Dir.	\$31,194	\$37,539	\$6,345
Receptionist – 1	\$11,140	\$14,777	\$3,637
Receptionist – 2	\$12,176	\$20,683	\$8,507
* Fully funded by the Federal Programs			

The WHA’s Fee Accountant advised that to compensate for the cap placed on salaries 3 separate allocations were performed. The result of these allocations was to allocate amounts to the State Programs based on the maximum salaries allowed and to allocate the amount in excess to the Federal Programs. This results in excessive amounts being charged to the Federal Programs.

As noted above, OMB Circular A-87, Attachment A, paragraph C.3.a. provides that, “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.” Since the Federal Programs did not receive any benefit from the additional salaries charged, the additional salaries should not have been allocated to the Federal Programs.

All Staff Not Allocated to State’s MRVP Program

WHA’s Fee Accountant advised that the State reduced the reimbursement for the MRVP Program from \$45 per unit per month to \$25 per unit per month. In order to absorb this reduction in funding the WHA had to reduce the allocation to the MRVP Program and increase the allocation to the Federal Programs. For the 3-year period 1998 to 2000, the salaries of the Assistant Executive Director and one of the Receptionists were not allocated to the MRVP Program. In addition, the salary of the Staff Accountant was allocated on a much lower amount than would be allocated on a unit basis for 1998 and 1999. In 2000, none of the Staff Accountants’ salary was allocated to the MRVP Program.

As noted above, OMB Circular A-87, Attachment A, paragraph C.3.b. provides that, “All activities which benefit from the governmental unit’s indirect cost ...will receive an appropriate allocation of indirect costs.” The Federal Programs should not be subsidizing the State Programs that are not properly funded.

Cost Allocated to Cadman Towers in FY 99

Cadman Towers, a 70-unit Federal Low Income Project, has been vacant since May of 1998 pending partial demolition and rehabilitation. The Fee Accountant advised that they deducted the units from the WHA’s allocation schedules for Fiscal Year 2000 because the project was vacant for such a long period. The Fee Accountant agreed that the allocations could have been reduced earlier by subtracting Cadman’s units from the total units administered by the WHA.

During 1999, the WHA allocated the salaries of 5 employees to Cadman Towers. OMB Circular A-87 provides that, “A cost is allocable to a particular cost objective if the goods or services are chargeable or assignable to such cost objective in accordance with relative benefits received.” Since Cadman Towers was vacant since May of 1998, we believe that very little benefit was provided for Cadman Towers and therefore, costs should not have been allocated to the project.

Effect on Federal Program

WHA’s allocation method for salaries for the 3-year period 1998 to 2000 inappropriately increased the allocation of costs to the Federal Programs by approximately \$78,000 not including payroll related and other miscellaneous administrative costs. See Appendices A, B, and C for details by year.

The WHA’s Fee Accountant advised us that the payroll related costs, such as, retirement, payroll taxes, health, and workmen’s’ compensation were allocated based on the same allocation basis as were the staffs salaries. Therefore, to the extent (percentage) that the Federal Programs were overcharged for salaries, they would also be overcharged for payroll related costs.

In addition, the WHA’s Fee Accountant also advised that depending on the availability of funds from the MRVP Program that some miscellaneous administrative costs would not be

allocated to that program even if they shared the benefit (items such as office supplies).

## Auditee Comments

The WHA addressed their comments to the three ways cited in the finding that they inappropriately increased allocations to the Federal programs.

1. The State established a maximum salary for certain positions. The WHA charged the difference to the Federal programs.

The WHA generally agreed that the Federal programs were charged the difference between the salaries allowed by the State and the actual salary. However, the WHA argued that this is a common practice throughout the State and, therefore, the WHA cannot be charged for improper allocations.

The WHA also stated that,

OMB Circular No. A-87 states *“that each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques that may be necessary to assure proper and efficient administration of Federal awards.”*

2. The State reduced the reimbursement for their MRVP Program from \$45 per unit per month to \$25 per unit per month. The WHA increased the cost allocated to the Federal programs to absorb the reduced State funding.

The WHA agreed that additional costs were allocated to the Federal programs to cover costs of the MRVP Program. The WHA also noted that it is less costly to administer the MRVP Program than it is to administer HUD’s Section 8 Program, since the State has less requirements. The WHA further stated that all housing authorities in the State are having similar problems and have had to make similar allocation decisions.

3. The WHA allocated costs of five of its employees on a unit basis. Included in the allocations for 1999 were 70 units for Cadman Towers, which had been vacant since May 1998.

The WHA disagreed with our conclusion that very little benefit was provided for Cadman Towers considering it was vacant since May 1998. The WHA stated that the Executive Director spent numerous hours contacting various officials, funding agencies, banks, community builders; and HUD attempting to raise funds for Cadman Towers. The WHA indicated that the Assistant Executive Director and the receptionists made calls and typed letters and reports to forward to various agencies. The WHA also stated that, *“The time allocated to this project was inordinate; however, the benefit to our constituency was restoring the building to its useful purpose.”*

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OIG Evaluation of  
Auditee Comments

1. We disagree with the WHA’s argument that, since it is a common practice by Housing Authorities to charge Federal programs the difference in the actual salaries paid, it is allowable. OMB Circular A-87 cannot be interpreted to allow costs not allowed by the State to be allocated only to the Federal programs. The principles of OMB Circular A-87 were designed to provide that Federal awards bear their fair share of costs, not their fair share plus the fair share of costs properly allocable to other programs.
2. Arbitrarily increasing the allocation to Federal programs for shortfalls in other programs is not allowable under OMB circular A-87.
3. While we agree staff time (particularly the Executive Director) was expended on this project, we do not believe that the unit basis is the proper method of allocating costs, since the project was vacant for all of 1999. The WHA needs to develop an alternate allocation method for 1999.



Recommendations

We recommend that you require the Weymouth Housing Authority to:

- 1A. Establish and implement an equitable cost allocation plan.
- 1B. Reimburse the Federal Programs for any amounts determined to be improperly allocated based on the equitable cost allocation plan.



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## Section 8 Program Administration Needs Improvement

The Weymouth Housing Authority (WHA) needs to improve its procedures in: 1) determining rent reasonableness; 2) documenting third party verification of family income; and 3) conducting timely annual recertifications. Conditions 1 and 2 were cited in a Field Office review conducted in May of 1999, but have not been corrected. The Executive Director was not aware that the corrective actions for the previous findings were not being followed. He was aware that recertifications were not being performed timely, however, there were no corrective actions taking place at the time of our review. As a result, HUD has limited assurance that the contract rents for the units are reasonable and that HUD and the tenants are paying their proper share of the rent.

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### Knowledge of Current Rental Market Required

#### Rent Reasonableness

Federal Regulations state that Public Housing Authority's (PHA) may not give approval for the family of the assisted tenancy, or execute a HAP contract, until the PHA has determined the rent to owner is reasonable (24 CFR 982.305). The PHA must take into consideration the location, type, quality, amenities, facilities, and maintenance service of the unit (24 CFR 982.503).

Furthermore, HUD requires that the PHA must have an overall *current* knowledge of the rental market within its jurisdiction and data on the rents being charged for specific units. The PHA will have to conduct either telephone surveys, site visits, or more extensive market surveys of available rental units. The PHA will also have to determine the rents to unassisted units in the same building or other comparable units owned by the Section 8 Owner in order to certify that the contract rents are reasonable (HUD Handbook 7420.7, Chapter 6-5 (b) &(d)(1)).

Rent Reasonableness Not Documented

The Massachusetts State Office (MSO) of Public Housing conducted a review in March of 1999. The first finding contained in the report indicated, “The WHA does not consistently apply rent reasonableness determinations. This office found that the WHA utilizes a form, completed by landlords, indicating that the rent for the proposed unit is reasonable in relation to rents currently being charged by owner for comparable unassisted units.” The Field Office recommended, “In order to assess rent reasonableness, the HA must conduct market surveys of available rental units and collect data on ten (10) informational factors: (1) location, (2) size, (3) type, (4) quality, (5) handicap accessibility, (6) amenities, (7) facilities, (8) management and maintenance services, (9) data available for occupancy, after construction or rehabilitation, and (10) gross rent. ...Once the requirements in the above paragraph have been met, there are three (3) things that the WHA must ensure for compliance with rent reasonableness: First, that there is always documentation regarding a rent reasonableness determination in every participant’s file both at initial lease up as well as each annual recertification...”

In May of 1999, WHA responded to the Field Office review stating, “The Weymouth Housing Authority is in the process of conducting a market survey of available rental units and is collecting data on the 10 informational factors. A copy of that letter forwarded to local landlords is included for your review. Once the data is collected the WHA certifies that it will ensure compliance with rent reasonableness; the WHA certifies that: 1) every participant file will have a rent reasonableness determination in it...”

Our review of the ten Section 8 tenant files disclosed that seven of them did not have the rent reasonableness determinations in them. The other files did not require the rent reasonableness procedures, because rent increases were not requested.

The Assistant Executive Director advised that the WHA tried to obtain information on the current rents from Section 8 owners and from other unassisted property owners. However, this attempt was unsuccessful. The Assistant Executive Director and the Leased Housing Coordinator advised that they believed that they had a sound knowledge of the surrounding area and could determine the reasonableness of proposed rents. The

Executive Director stated that the staff should be following the procedures as stated in their response to the MSO review. The Executive Director advised that he was under the impression that his staff was following those procedures.

**Third Party Verification**

Knowledge of Third Party Verification Procedures Required

Federal Regulations require that PHA’s must obtain a third party verification of family income or must document in the tenant files why third party verification was not available (24 CFR 982.516).

Third Party Verification Not Documented

The Field Office conducted a review in March of 1999. The report cited a finding of the third party verification process. The report indicated, “Some files did not have current third party verification. In one case, the reviewer found that the participant verified their own income.” The Field Office recommended, “The WHA shall be more diligent in requiring third party verification of familial status and income. It is of utmost importance that the WHA obtain complete verification from all applicants/participants and thoroughly document the methods by which it has verified all pertinent information in the applicant’s/participant’s files. Inaccurate information and inadequate verification may result in incorrect levels of housing assistance on behalf of the participant. The WHA must assure this Office in writing that procedures have been implemented to obtain and document third party verification in all tenants’ files.”

In May of 1999, WHA responded to the Field Office review stating, “The WHA certifies that whenever possible current third party verification will be in all participating files and that it will thoroughly document the method by which it has verified all pertinent information in the file.” A memo was forwarded to the Assistant Director and Leasing Coordinator detailing the action that will be taken to insure compliance.

Our review of ten (10) Section 8 tenant files disclosed that third party verification had not been obtained for five tenants and the tenant files did not document why third party verifications were not obtained.

The Leased Housing Coordinator advised that the verification of income requests are forwarded to employers. The Leased

Housing Coordinator stated that several of the verification requests were not returned. She also stated that some tenants do not want their employers to know they receive housing assistance. In these cases, the Leased Housing Coordinator used tenants pay stubs to verify family income. As noted, our review disclosed that there was no documentation in the tenant file to show why third party verification was not obtained. The Executive Director advised that he was unaware that procedures documented in the corrective action were not being followed.

**Annual Recertifications**

Federal Regulations require that PHAs perform reexamination of family income and composition at least annually (24 CFR 982.516)

Annual Recertification Requirements

Annual Recertification Not Performed Timely

Our review of the ten Section 8 tenant files revealed that seven of the tenant’s annual reexamination were not performed timely. The recertifications were from one to over twelve months overdue. The results are as follows:

Months Overdue	Number of	
	Tenants	Status of Recertifications
1 – 2 months	3	1 completed – 2 still in process
3 – 6 months	1	1 completed
6 – 12 months	1	1 completed
Over 12 months	2	1 completed – 1 still in process

The Leased Housing Coordinator stated that the two main reasons for the untimely recertifications were: (1) the workload of the Section 8 Program which included transferring tenants from the certificate and voucher programs into the Housing Choice Program; and (2) some recertification dates were entered into the computer incorrectly and therefore the computer could not identify those as being scheduled for recertification. The Executive Director advised that he was aware that recertifications were not timely and was in the process of working with the Leased Housing staff to correct it.

**Auditee Comments**

The WHA recognized that it needed to improve its procedures in: 1) determining rent reasonableness; 2) documenting third party verification of family income; and 3) conducting timely recertifications. The WHA stated that they would provide an Action Plan that will insure all procedures are followed.

**OIG Evaluation of Auditee Comments**

HUD should review the Action Plan to assure that it adequately addresses all of the recommendations.

**Recommendations**

We recommend that you require the Weymouth Housing Authority to:

- 2A. Provide evidence that a current market survey of private unassisted units in the area, including those owned by Section 8 owners has been performed and is adequate.
- 2B. Provide evidence that the third party verification process is being properly obtained and documented in all tenants' files.
- 2C. Provide evidence that annual recertifications are being performed timely.





# Ineligible Payments For Vacation and Sick Leave to Former Executive Director

Contrary to its own personnel policies the WHA paid \$3,382 of excess vacation and unused sick leave to a former executive director. As a result, those funds were not available for necessary and appropriate housing expenditures.



WHA's Personnel Policy Identifies Benefits Allowed

The WHA's Personnel Policy prescribes various personnel procedures. The former executive director's December 3, 1996 employment contract stated that he should be entitled to all benefits and conditions outlined in the personnel policies. The WHA's Personnel Policy states that an employee shall be paid an amount equal to the vacation allowance earned in the vacation year during which termination occurs.

Vacation Pay

The Board of Commissioners accepted the former executive director's resignation with an effective date of January 13, 1999. Effective January 1, 1999 the WHA accrued 70 hours of vacation pay on the executive director's leave records. The 70 hours represented the total hours the executive director would earn for 1999. Upon his resignation, the WHA paid the executive director for a total of 105 hours, which included 35 hours carried over from 1998 and the entire 70 hours accrued for 1999. However, since the executive director resigned effective January 13, 1999, he only earned 3 hours of annual leave for 1999 and therefore should have only been paid for 38 hours. The overpayment was calculated as follows:

Amount paid for vacation pay (105 hrs. @ \$26.92)	\$2,827
Less Proper Payment for Vacation Pay (38 hrs. @ \$26.92)	\$1,023
Overpayment	\$1,804

Sick Leave Pay

The WHA's Personnel Policy provides that upon resignation the employee may receive cash reimbursement for 20 percent of their accrued sick leave to a maximum of \$1,000. The former executive director had a balance of 191.56 hours and was paid for 50 percent of the accrued hours or 95.78 hours. The overpayment is calculated as follows:

Finding 3

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Amount paid for unused Sick Leave (95.78 @ \$26.92)	\$2,578
Less Proper Payment for unused Sick Leave (CAP @ 1,000)	\$1,000
Overpayment	\$1,578

Amount Allocated to Federal Programs

The overpayment of \$3,382 was allocated to all of the programs administered by the WHA. The WHA allocated \$1,796 to the Federal programs and \$1,586 to the State programs. Details of the allocation by program are as follows:

Programs	Federal Owned	Section 8 Certification	Section 8 Voucher	State Owned	State Leased
Percentage	21.9%	22.0%	9.2%	29.8%	17.1%
Amount	\$740.66	\$744.04	\$311.14	\$1,007.84	\$578.32

The WHA Staff Accountant advised that she was instructed by the former executive director as to the hours he should be reimbursed for annual and sick leave at his termination. There was no other party at the WHA who approved the payment other than the former executive director.

Auditee Comments

The WHA advised that prior Executive Director believes that he was entitled to the termination payment and asked how the WHA should proceed.

OIG Evaluation of Auditee Comments

The WHA should be addressing the allowability of the termination payment not the former Executive Director who received the payments. Our recommendation remains for the WHA to reimburse the Federal programs \$1,796 from non-federal funds.

Recommendations

We recommend that you require Weymouth Housing Authority to:

- 3A. Reimburse the federal programs \$1,796 from non-federal funds.

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# Management Controls

In planning and performing our audit, we considered the management controls used by the Weymouth Housing Authority (WHA) that were relevant to our audit objectives. We considered the WHA's management control systems to determine our auditing procedures and not to provide assurance on management controls.

Management Controls consist of a plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss and misuse; and that reliable data is obtained maintained, and fairly disclosed in reports.

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## Relevant Management Controls

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

- Financial Controls Over Program Funds
- Management Controls Over Program Expenditures
- Management Controls Over Procurement and Contract Administration
- Management Controls Over the Leasing of Units
- Management Controls Over the Cost Allocation System

## Assessment Results

A significant weakness exists if management controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in the financial statements and reports.

## Significant Weaknesses

Our review identified significant weaknesses in the management controls over the cost allocation system and the management controls over the leasing of units under the Section 8 Program. These weaknesses are described in the Findings and Recommendations section of this report.

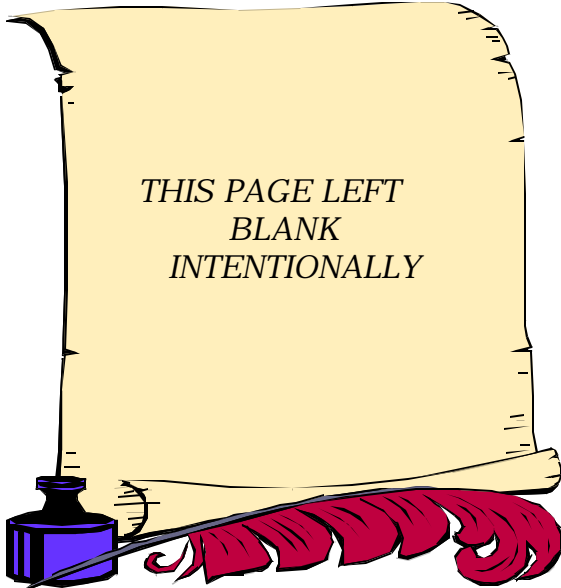


# Schedule of Ineligible and Unsupported Costs

FINDING	INELIGIBLE <u>1/</u>	UNSUPPORTED <u>2/</u>
1. Inequitable Allocation of Costs		\$77,638
3. Ineligible Vacation and Sick Leave Pay	\$1,796	

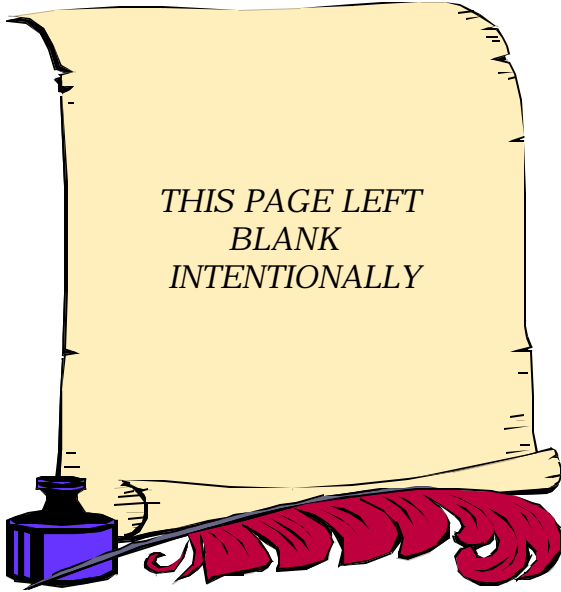
1/ Ineligible amounts obviously violate law, contract, HUD or local agency policies, or regulations, such as buying unneeded services or not depositing receipts..

2/ Unsupported amounts do not obviously violate law, contract policy, or regulation, but warrant being contested for various reasons, such as lack of satisfactory documentation to support eligibility and HUD approval.



# Allocation of Salaries - 1998

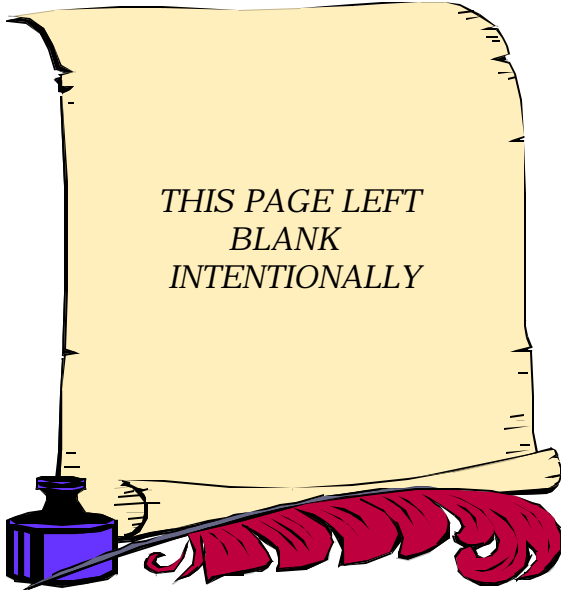
<i>Position</i>	<i>Salary</i>	<i>PHA Owned State</i>	<i>PHA Owned Federal</i>	<i>Leased State</i>	<i>Leased Federal</i>	<i>Total</i>
Units		216	111	124	159	610
Exec. Director	\$50,472					
WHA Allocation		\$15,053	\$11,005	\$8,632	\$15,782	\$50,472
Unit Allocation		\$17,872	\$9,184	\$10,260	\$13,156	\$50,472
Difference		(\$2,819)	\$1,821	(\$1,628)	\$2,626	\$0
Assitant Executive Director.	\$36,053					
WHA Allocation		\$12,148	\$10,164	\$0	\$13,741	\$36,053
Unit Allocation		\$12,766	\$6,561	\$7,329	\$9,397	\$36,053
Difference		(\$618)	\$3,603	(\$7,329)	\$4,344	\$0
Staff Accountant	\$27,321					
WHA Allocation		\$9,481	\$9,465	\$1,152	\$7,223	\$27,321
Unit Allocation		\$9,674	\$4,972	\$5,554	\$7,121	\$27,321
Difference		(\$193)	\$4,493	(\$4,402)	\$102	\$0
Receptionist-1	\$14,205					
WHA Allocation		\$3,792	\$6,206	\$0	\$4,207	\$14,205
Unit Allocation		\$5,030	\$2,585	\$2,887	\$3,703	\$14,205
Difference		(\$1,238)	\$3,621	(\$2,887)	\$504	\$0
Receptionist-2	\$11,368					
WHA Allocation		\$0	\$4,123	\$1,337	\$5,908	\$11,368
Unit Allocation		\$4,025	\$2,069	\$2,311	\$2,963	\$11,368
Difference		(\$4,025)	\$2,054	(\$974)	\$2,945	\$0
Total Difference		(\$8,893)	\$15,592	(\$17,220)	\$10,521	\$0





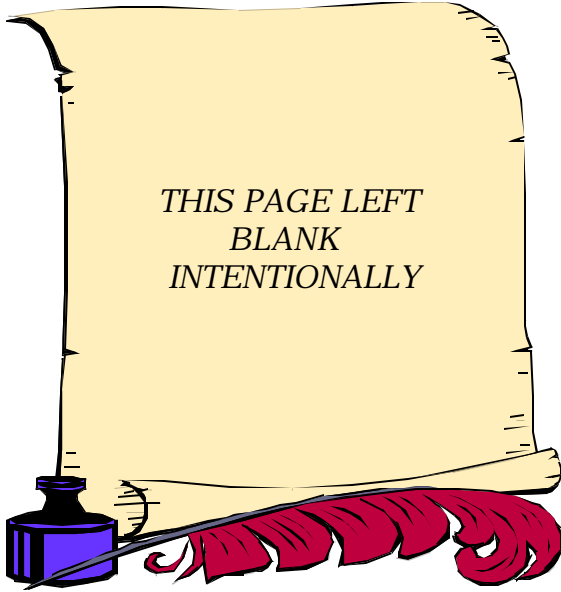
# Allocation of Salaries - 1999

<i>Position</i>	<i>Salary</i>	<i>PHA Owned State</i>	<i>PHA Owned Federal</i>	<i>Leased State</i>	<i>Leased Federal</i>	<i>Total</i>
Units		216	41	124	159	540
Exec. Dir.	\$52,000					
WHA Allocation		\$15,655	\$11,244	\$8,977	\$16,124	\$52,000
Unit Allocation		\$20,800	\$3,948	\$11,941	\$15,311	\$52,000
Difference		(\$5,145)	\$7,296	(\$2,964)	\$813	\$0
Assistant Executive Director.	\$37,539					
WHA Allocation		\$12,509	\$10,822	\$0	\$14,208	\$37,539
Unit Allocation		\$15,016	\$2,850	\$8,620	\$11,053	\$37,539
Difference		(\$2,507)	\$7,972	(\$8,620)	\$3,155	\$0
Staff Accountant.	\$28,410					
WHA Allocation		\$9,860	\$9,841	\$1,198	\$7,511	\$28,410
Unit Allocation		\$11,364	\$2,157	\$6,524	\$8,365	\$28,410
Difference		(\$1,504)	\$7,684	(\$5,326)	(\$854)	\$0
Receptionist-1	\$14,777					
WHA Allocation		\$3,944	\$6,456	0	\$4,377	\$14,777
Unit Allocation		\$5,911	\$1,122	\$3,393	\$4,351	\$14,777
Difference		(\$1,967)	\$5,334	(\$3,393)	\$26	\$0
Receptionist-2	\$20,683					
WHA Allocation		\$4,310	\$5,713	\$2,472	\$8,188	\$20,683
Unit Allocation		\$8,273	\$1,571	\$4,749	\$6,090	\$20,683
Difference		(\$3,963)	\$4,142	(\$2,277)	\$2,098	\$0
Total Difference		(\$15,086)	\$32,428	(\$22,580)	\$5,238	\$0



# Allocation of Salaries - 2000

<i>Position</i>	<i>Salary</i>	<i>PHA Owned State</i>	<i>PHA Owned Federal</i>	<i>Leased State</i>	<i>Leased Federal</i>	<i>Total</i>
Units		216	41	111	159	527
Executive Director	\$52,000					
WHA Allocation		\$18,857	\$4,820	\$9,659	\$18,664	\$52,000
Unit Allocation		\$21,313	\$4,045	\$10,953	\$15,689	\$52,000
Difference		(\$2,456)	\$775	(\$1,294)	\$2,975	\$0
Assistant Executive Director.	\$37,494					
WHA Allocation		\$13,009	\$10,587	\$0	\$13,898	\$37,494
Unit Allocation		\$15,368	\$2,917	\$7,897	\$11,312	\$37,494
Difference		(\$2,359)	\$7,670	(\$7,897)	\$2,586	\$0
Staff Accountant	\$28,429					
WHA Allocation		\$17,960	\$2,149	\$0	\$8,320	\$28,429
Unit Allocation		\$11,652	\$2,212	\$5,988	\$8,577	\$28,429
Difference		\$6,308	(\$63)	(\$5,988)	(\$257)	\$0
Receptionist-1	\$14,786					
WHA Allocation		\$8,921	\$1,989	\$0	\$3,876	\$14,786
Unit Allocation		\$6,060	\$1,151	\$3,114	\$4,461	\$14,786
Difference		\$2,861	\$838	(\$3,114)	(\$585)	(\$0)
Administrative Assistant	\$20,700					
WHA Allocation		\$4,308	\$0	\$8,616	\$7,776	\$20,700
Unit Allocation		\$8,484	\$1,611	\$4,360	\$6,245	\$20,700
Difference		(\$4,176)	(\$1,611)	\$4,256	\$1,531	\$0
Total Difference		\$178	\$7,609	(\$14,037)	\$6,250	\$0



# 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

March 5, 2001

Mr. William D. Harnett, District Inspector General  
 HUD \_IG  
 Thomas P. O'Neil, Jr. Federal Building  
 Room 370  
 10 Causeway Street  
 Boston, MA 02222-1092

Dear Mr. Harnett,

The Weymouth Housing Authority is in receipt of your draft report of your audit conducted during the period of September 2000 through November 2000 and covering the period of January 1, 1999 through August 31, 2000.

Your draft report found three areas of concern:

1. The WHA has not developed an equitable method of allocating cost between Federal and State programs;
2. The WHA inappropriately paid a former Executive Director for unused vacation and sick leave contrary to personnel policy; and
3. The WHA needs to improve its administration of the Section 8 Program by strengthening the procedures used for determining rent reasonableness, documenting the third party verification process; and conducting annual reexaminations in a timely manner.

The Weymouth Housing Authority appreciates the opportunity to respond to the draft report before publication and will attempt to address the issues presented.

Sincerely,

Roland C. Moussally  
 Executive Director  
 Weymouth Housing Authority

R.C.M.

402 ESSEX STREET  
 WEYMOUTH, MA 02188  
 UNITED STATES OF AMERICA

RESPONSE TO DRAFT IG AUDIT

**AUDIT RESULT #1:**

**The WHA has not developed an equitable method of allocating cost between Federal and State Programs.**

The audit found that the WHA inappropriately increased the allocation to the Federal Programs in three ways:

1. The State of Massachusetts established a maximum salary amount that would be paid for certain positions and that the WHA charged the difference to the Federal Program.

The Weymouth Housing Authority does not deny the fact that its allocation system provided that the Federal Program was charged for the difference between the maximum salaries allowed by the State and the actual salary. However, it should be noted that this has been a common practice throughout the State of Massachusetts. All housing authorities have a similar allocation system.

OMB Circular No. A-87 states “that each governmental unit, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques that may be necessary to assure proper and efficient administration of Federal awards.” OMB Circular No. A-87 also states that Federal agencies should work with States or localities, which wish to test alternative mechanisms for paying costs for administering Federal programs. If a similar allocation system has been in place throughout the State of Massachusetts for at least the past fifteen years, the Weymouth Housing Authority cannot be charged with improper allocations.

In Appendix C of the OMB Circular it states that compensation for employees engaged in work on Federal programs will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit. The Weymouth Housing Authority has compared the salaries of the individuals in its housing authority and has found them to be comparable to other housing authorities of similar size. Again the Authority cannot be held liable for something that is fair, comparable and common practice.

As the last argument in defense of the Authority’s allocation system, an Independent Auditor has audited the Weymouth Housing Authority over the period covered by the IG’s audit and our allocation system was never an issue. Again, if the allocation was considered erroneous, it would have been a finding in the independent audits conducted for the Authority.

2. The State reduced the reimbursement for their MRVP program from \$45 per unit month to \$25 per unit month and that the WHA charged the Federal Program to absorb the reduction in funding for the difference.

Again the Weymouth Housing Authority does not deny allocating some additional cost from the Federal Program in order to cover cost to the MRVP program. It should be noted that the administration fee for the federal program is considerably higher than the State allocation. Part of the reason for such a disparity is the fact that the state program is not as demanding on the housing authority as is the Federal Programs. The Federal Program requires housing authority's to perform HQS inspections, far more complex rent reasonableness studies, rent determinations and verification processes; however, the fact remains that the \$25 allocation from the State does not cover the cost of the program. All housing authorities throughout the State are having similar problems and in order to meet their mission of providing safe affordable housing to low income families have had to make similar allocation decisions.

3. That the WHA allocated cost of five of its employees on a unit basis. Included in the unit allocation for 1999 were 70 units from Cadman Towers even though that project had been vacant since 1998.

The Cadman Towers Elderly Development has been vacant since 1998 due to a structural deficiency. The IG's audit states that personnel cost were allocated to this project improperly during 1999. The IG's audits quotes OMB Circular A-87 stating that, "A cost is allocable to a particular cost objective if the goods or services are chargeable or assignable to such cost objective in accordance with relative benefits received." The IG states that, "Since Cadman Towers was vacant since May of 1998, we believe that very little benefit was provided for Cadman Towers and therefore cost should not have been allocated to the project."

I strongly disagree with that statement. As was stated previously Cadman Towers was vacated in 1998 due to structural flaws. All funds for this project were frozen, and an affordable elderly development was in jeopardy. As Executive Director, I spent numerous hours contacting various officials, funding agencies, banks, community builders, and HUD attempting to raise funds for this project. I had the Assistant Executive Director, and the receptionists making calls, typing letters and reports to forward to the various agencies. The time allocated to this project was inordinate; however, the benefit to our constituency was restoring the building to its useful purpose.

We were able to secure funding for the hard cost of the development; but no additional dollars. HUD's directive was to get the project moving and we were successful in accomplishing the restoration; however, if we cannot allocate cost of our time to the project, it definitely seems unfair. To me the objective of restoring Cadman Towers to utilization is a valuable benefit received and the cost

associated with the time and paperwork of the personnel involved in its restoration is an allowable expense allocation.

**Finding #2:**

**Section 8 Administration Needs Improvement:**

The Weymouth Housing Authority recognizes the fact that it has to improve its procedures in: 1) determining rent reasonableness; 2) documenting third party verification of family income; and 3) conducting timely annual recertifications.

The Executive Director was aware of the backlog of annual recertifications and was in the process of addressing that issue. The Executive Director will provide an Action Plan that will insure that all information and procedures are followed in the leasing department.

**Finding #3:**

**Ineligible Payment for Vacation and Sick Leave to Former Executive Director:**

The Weymouth Housing Authority has reviewed the information provided by the Auditor and has forwarded that information to the prior Executive Director for his response. His response to our query is included for your review.

It appears that the prior Executive Director believes that he was entitled to the termination payment. Please advise on how you would like the Weymouth Housing Authority to proceed in this matter.



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The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706 Hart Senate Office Bldg., United States Senate, Washington, DC 20510

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The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn Bldg., House of Representatives, Washington, DC 20515

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