
AUDIT REPORT



CHELSEA HOUSING AUTHORITY

CHELSEA, MASSACHUSETTS

2002-BO-1005

SEPTEMBER 30, 2002

OFFICE OF AUDIT, NEW ENGLAND
BOSTON, MASSACHUSETTS



Issue Date	September 30, 2002
Audit Case Number	2002-BO-1005

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

Cristine M. O'Rourke for

FROM: Barry L. Savill, Regional Inspector General, Office of Audit, 1AGA

SUBJECT: Chelsea Housing Authority
Chelsea, Massachusetts

We performed an audit of the Chelsea Housing Authority (CHA). Our audit objectives were to determine whether the CHA was administering its public housing and Section 8 programs in an efficient, effective and economical manner, and whether the CHA was complying with the terms and conditions of its Annual Contributions Contract (ACC), applicable laws, HUD regulations and other applicable directives.

The report contains three findings:

1. Ineffective Management of Section 8 Vouchers.
2. Refrigerator Policy Leads to Families being Overcharged.
3. Inadequate Accounting for Capital Fund Transactions.

For each recommendation in this report, please give us a status report within 60 days (as required by HUD Handbook 2000.06 REV-2) on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact us at (617) 994-8380.

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Executive Summary

We performed an audit of the Chelsea Housing Authority's operations. Our audit objectives were to determine whether the Chelsea Housing Authority (CHA) was administering its housing programs in an efficient, effective and economical manner, and whether the CHA was complying with the terms and conditions of its Annual Contributions Contract (ACC), applicable laws, HUD regulations and other applicable directives.

Audit Results

We determined that the CHA needs to:

- Effectively manage its Section 8 vouchers,
- Grant tenants in Federal family projects an allowance for maintenance and replacement of a refrigerator when CHA does not provide one,
- Reconcile its Capital Fund Program (CFP) account.

The CHA did not effectively manage its Section 8 Voucher Program in accordance with Federal guidelines. The CHA did not follow the requirements of a Federal District Court ruling by obtaining permission from initial PHAs located within Massachusetts before absorbing Section 8 Vouchers. Also, CHA did not notify out-of-state PHAs, as required by HUD, that Section 8 Vouchers they had issued had been absorbed by the CHA. As a result, for the vouchers it absorbed, the CHA received two payments for each family receiving the subsidy—one from the initial PHA that issued the voucher, and another from HUD.

The CHA improperly transferred the ownership of refrigerators to tenants of its Federally owned family projects through a resolution by the Board of Commissioners in January 1994. In this transfer of ownership, the CHA did not: (1) request HUD approval, (2) provide the tenants an allowance to cover the additional costs of owning and maintaining the refrigerators, or (3) revise the tenant leases removing the responsibility for the refrigerators from the CHA. As a result, the CHA owes its tenants as much as \$107,000 as an allowance for maintaining and replacing the refrigerators.

The CHA was unable to provide supporting documentation for their receipts and disbursements for capital expenditures for fiscal year 2000. During 2000, the CHA requisitioned \$406,206 and disbursed \$459,707 under the CFP. Additionally, the CHA did not requisition all funds from HUD for their CFP; instead, the CHA borrowed funds from other programs to fund the CFP. As of June 30, 2001, the CFP Program owed \$606,896 to other programs and, as a result, the CHA cannot assure that disbursements under CFP are accurate, timely or valid.

Recommendations

We have provided specific recommendations to assist the CHA in correcting the reported deficiencies. The CHA needs to:

- Properly record and reconcile Section 8 payments and balances each month.
- Provide an accounting to HUD identifying all overpayments resulting from absorbed and terminated vouchers and return overpayments to initial PHAs.
- Determine an appropriate monthly allowance to cover the costs incurred by current tenants for refrigerator repair and replacement and submit the allowance and supporting documentation to HUD for approval.
- Reimburse current and former tenants the allowance amount for the period of their tenancy.
- Revise tenant leases to show that the CHA is not providing refrigerators.
- Reconcile the FY 2000 CFP account and requisition CFP funds from HUD for appropriate administrative and management improvement costs.
- Eliminate the accounts payable from the CFP fund to the Revolving Fund.

The findings were discussed with the CHA's officials during the course of the audit. We held an exit conference on July 24, 2002. On August 8, 2002, we provided the CHA a copy

of the draft report for comment. We received the CHA's response on September 11, 2002, and included pertinent comments from the response in the Findings section of the report. The CHA's full response is included as Appendix C.

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Abbreviations

ACC	Annual Contributions Contract
CFP	Capital Fund Program
CFR	Code of Federal Regulations
CHA	Chelsea Housing Authority
FY	Fiscal Year
HA	Housing Authority
HAP	Housing Assistance Payment
HQS	Housing Quality Standards
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget
PHA	Public Housing Authority
PHDEP	Public Housing Drug Elimination Program

Introduction

A five-member Board of Commissioners, chaired by Richard Repici, governs the Chelsea Housing Authority (CHA). The Executive Director, Michael E. McLaughlin, is responsible for the administration of daily operations. The CHA office is located at 54 Locke Street in Chelsea, Massachusetts. The CHA administers 351 units of Federal Low Income Public Housing, 345 vouchers under the Section 8 Housing Choice Program, as well as 560 State Low Income Family and Elderly units and 145 vouchers under the Massachusetts Rental Voucher Program.

Audit Objectives

The purpose of our audit was to determine whether the CHA is:

- Managing its Federal housing programs in an efficient, effective, and economical manner.
- Complying with the terms and conditions of its Annual Contributions Contract, 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, Office of Management and Budget Circulars, CHA Policies and Procedures and applicable Massachusetts General Laws and Federal Laws related to public housing.
- Reviewed Independent Public Accountant's reports, HUD's Section 8 Management Reviews, HUD's Public Housing Drug Elimination Program (PHDEP) Reviews, HUD's Occupancy Audit, minutes of the CHA Board of Commissioners meetings, Inspection Reports and Reports of the U.S. Corps of Engineers to obtain information relating to CHA operations.
- Reviewed tenant files to verify that tenants: qualified as a family; were within income limits; and were re-certified annually.
- Interviewed Massachusetts Office of Public Housing personnel, CHA personnel and its Fee Accountant to obtain procedures for accounting, administration, procurement, maintenance, occupancy, cash disbursements and fixed assets related to their Low

Income Housing, Section 8, PHDEP and Capital Fund Programs.

- Examined CHA's procurement procedures and supporting documentation.

We used non-representational samples rather than statistical samples for the testing, as this methodology was more appropriate for the areas reviewed. The audit was conducted between March and November 2001, and covered the period from January 1, 1999 to August 31, 2001. When appropriate, the audit was extended to include other periods.

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

Ineffective Management of Section 8 Vouchers

The CHA did not effectively manage the Section 8 Vouchers initially issued by other PHAs. For the Vouchers initially issued by other PHAs within Massachusetts, the CHA did not follow HUD guidance that portability procedures did not apply to tenants moving among municipalities within Massachusetts. For Vouchers initially issued by out-of-state PHAs, the CHA did not notify these PHAs, as required by Federal regulation, and inform them that these Vouchers had been absorbed. As a result, the CHA received two payments for each family receiving the subsidy - one from the initial PHA that issued the voucher, and another from HUD.

Section 8 Voucher Program

Each applicant for assistance under the Section 8 Housing Choice Voucher Program must meet the definition of a family, using guidelines provided by HUD. HUD establishes income limits by family size for the area in which the PHAs are located. All families must meet the program's income criteria before eligibility will be determined. A family's income must be within the income limits of the initial PHA's area at the time the family receives the voucher. Once the PHA determines the applicant is eligible to receive a Section 8 Voucher, the PHA calculates the family's Housing Assistance Payment (HAP) based on the family's adjusted income and Federal allowances. HUD regulations allow a family with a Section 8 Housing Choice Voucher to lease a unit outside of the jurisdiction of an initial PHA using certain procedures called portability.

Portability Regulations Do not Apply in Massachusetts

The enabling legislation for PHAs, Massachusetts General Law Chapter 121B, does not define the jurisdiction for PHAs. A PHA brought the issue of jurisdiction before the Federal District Court of Massachusetts. Under a ruling from the court, PHAs in every municipality in Massachusetts have the authority to contract for housing anywhere in the State. HUD provided the information concerning the court ruling to all of the Massachusetts Executive Directors in a memorandum dated October 6, 1993. This memorandum advised that the initial PHA may enter into and administer a HAP contract for a unit located outside of the PHA's municipality; even if the housing is in a municipality of another PHA that already operates a Section 8 certificate or voucher program. When the initial PHA in Massachusetts is presented with a request for Section 8 lease approval, the initial PHA may directly administer assistance for the family

and deal directly with the owner, or develop other arrangements to administer the certificate or voucher. Since Massachusetts PHAs have statewide jurisdiction, Federal portability procedures allowing a family to be absorbed by a new municipality's PHA upon relocation to that municipality are not applicable when a family moves within Massachusetts.

Portability Vouchers
Absorbed without
Following Applicable
Regulations

During 2000, the CHA absorbed 86 Portability Vouchers from 33 PHAs without obtaining permission from Massachusetts PHA or providing notification to out-of-state PHAs. For the 26 PHAs in Massachusetts, the CHA failed to follow HUD's instructions that portability procedures do not apply to tenants moving from one municipality to another within Massachusetts. For the seven out-of-state PHAs, the CHA did not have documentation to show that they notified the PHAs of the absorption. By not following the appropriate regulations, the CHA caused some of the initial PHAs to continue to forward HAP payments to the CHA. As a result, CHA received two payments for a single subsidized family - one payment from the PHA that issued the voucher and one payment from HUD.

In addition, CHA did not properly notify initial PHAs that they had terminated some vouchers. The CHA maintains an Accounts Receivable consisting of subsidiary balances for each PHA for payments associated with the absorbed and terminated vouchers. As of August 17, 2001, this Accounts Receivable had a credit balance of \$239,488 consisting of overpayments from 34 initial PHAs (see Appendix B). These overpayments consisted of subsidiary CHA credit balances of \$226,676 from 28 PHAs in Massachusetts and \$12,812 from six out-of-state PHAs. As a result, some of the initial PHAs were unable to assist families on their waiting lists because the PHAs believed that the terminated vouchers were still in use.

Overpayment to One PHA
Exceeded \$211,000

During the year 2000, the CHA absorbed 21 vouchers and terminated 12 vouchers from one Massachusetts PHA without properly notifying that PHA of all of the absorptions and terminations. The CHA sent this PHA a notice on May 10, 2001 stating that CHA was receiving HAP payments for 22 of their 33 vouchers for over a year after they had been absorbed or terminated. This notice disclosed that the absorptions took place on July 1, 2000 and the terminations

took place between November 1999 and September 2000. As of May 2001, the CHA owed this PHA \$211,911. In June 2001, this PHA began withholding funds from ongoing HAP payments until the \$211,911 was offset.

CHA Attributes Problems
to Staff Turnover and Lack
of Supervision

The CHA did not reconcile any vouchers during FY 2000. The CHA Director of Finance stated that the person responsible for handling the billing for portable vouchers had little or no supervision because their supervisor left the CHA. The CHA believes this lack of supervision resulted in inadequate record keeping and a failure to reconcile vouchers from other PHAs as required. Turnover of supervisor and staff resulted in an inadequate ability to train, monitor, and retain new employees. From June 4, 1997 to February 14, 2000, thirty-one CHA employees vacated positions and twenty-one employees were hired. Our interviews identified that many of the managers are new to their positions. Current staff commented that prior management failed at providing timely supervision or training for new staff members. As a result, the CHA could not determine the reason for the growing Accounts Receivable balance owed to other PHAs.

If the CHA reconciled the vouchers from other PHAs regularly, the overpayments could have been handled in a timely manner.

HUD May Reduce Administrative Fee

In 24 CFR 982.152(d), HUD regulations state:

HUD may reduce or offset any administrative fee to the PHA, in the amount determined by HUD, if the PHA fails to perform PHA administrative responsibilities correctly or adequately under the program

In FY 2000, the CHA absorbed 86 vouchers without providing all PHAs proper notification. During that year HUD paid the CHA \$259,220 in Section 8 administrative fees. Absorbed vouchers represent approximately 25 percent of the current 345 Section 8 vouchers administered by the CHA. The CHA is in the process of determining the accuracy of Accounts Receivable owed to other PHAs. The CHA has reconciled the Accounts Receivable for the period of January 1, 2000 to August 17, 2001. For the period of March 1998 to January 2000, the CHA decided not to reconcile the Accounts Receivable as it believes that checking tenant rental charges and other data needed to identify discrepancies is time consuming.

In our opinion, the CHA's decision does not adequately address the problem. Since the CHA did not plan to reconcile its Accounts Receivable/Payable to other PHAs for the period of March 1998 to January 2000 when the supervisory problem in the Section 8 Department became evident, the CHA should return to HUD the administrative fees attributable to the administration of the absorbed vouchers in 1998 and 1999. If the percentage absorbed in FY 2000 is representative of absorptions in FYs 1998 and 1999, the CHA should return \$119,156 to HUD. This calculation represents the FY 2000 absorption percentage multiplied by the total administrative fees paid to the CHA in 1998 and 1999.

Administrative Fee Attributable to Absorptions in FYs 98 and 99	
1998 Administrative Fee	\$217,404
1999 Administrative Fee	\$259,220
Subtotal	\$476,624
Absorption Percentage (86 absorbed out of 345 total)	25%
Estimated Administrative Fee related to Absorption	\$119,156

Auditee Comments

The CHA advised that they were in the process of returning all overpayments to the initial PHAs. The CHA also indicated that they would reconcile the accounts from January 1998 forward and are currently reconciling the accounts on a monthly basis. The CHA further stated that they are complying with regulations requiring the initial PHA's (Massachusetts only) permission to absorb vouchers and will notify the initial PHA's of terminated vouchers.

OIG Evaluation of Auditee Comments

The actions taken and planned by the CHA should correct all of the deficiencies noted in the finding. The CHA should provide your staff evidence that the reconciliation is complete and that all overpayments have been returned to the initial PHAs.

The draft report contained recommendations 1F, 1G and 1H concerning monthly reconciliations, permission from initial PHAs to absorb vouchers, and notification to initial PHAs on terminated vouchers. We have deleted these three recommendations based on the CHA's response.

Recommendations

We recommend that you:

- 1A. Require the CHA to provide your staff an accounting for all overpayments resulting from absorbed and terminated vouchers beginning with January 1998.
- 1B. Require the CHA to assure that all overpayments are returned to the initial PHAs.
- 1C. Require the CHA to reconcile the Accounts Owed To/From Other PHAs from January 1998 forward.
- 1D. Reduce CHA's Administrative Fee if CHA is unable to reconcile Accounts Owed To/From other PHAs back to January 1998.
- 1E. Instruct the initial PHAs on the proper accounting of the returned overpayments.

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Refrigerator Policy Leads to Families being Overcharged

The Chelsea Housing Authority (CHA) no longer provides refrigerators to tenants in their Federal family projects. CHA officials stated they were unaware that HUD requires PHAs who do not provide appliances to: (1) obtain HUD approval for disposing of appliances; and (2) provide tenants an allowance for maintenance and replacement of appliances. As a result of the CHA's non-compliance with HUD requirements, the CHA overcharged needy families as much as \$107,000 over the past eight years.

1994 Resolution Passed by Board

In December 1993, the CHA's Board of Commissioners passed a resolution approving a refrigerator policy which stated that CHA would no longer provide refrigerators to the tenants in family units. This policy advises:

As of January 1, 1994, the Authority will no longer provide nor maintain refrigerators for the households of the Authority's conventional family housing . . . except those households . . . that:

- 1. Are unable to afford a refrigerator, and that they have exhausted every public source of funding for appliances to obtain a refrigerator.*
- 2. Have a disability that requires them to use a refrigerator that is not a standard size or design, and they are unable to afford or otherwise obtain that atypical refrigerator.*

ACC has Covenant Against Disposition

The Annual Contributions Contract (ACC) between the CHA and HUD states that the CHA shall develop and operate all projects covered by this ACC in compliance with all applicable statutes, executive orders, and regulations issued by HUD. Section 7 of Part A of the ACC, Covenant against Disposition and Encumbrances, states:

The HA shall not demolish or dispose of any project, or portion thereof, other than in accordance with the terms of this ACC and applicable HUD requirements . .

. the HA shall not in any way encumber any such project, or portion thereof, without the prior approval of HUD (Emphasis added).

Appliances such as refrigerators are a portion of a project.

Allowances Required for Tenants

In addition to the ACC, HUD issued Notice H83-53, PHA's Requests to Phase out the Provision of Major Appliances on July 13, 1983. In Section 3 of this Notice, HUD advises that allowances are required for tenants when the PHA does not provide appliances. To dispose of and no longer provide appliances, PHAs must request HUD approval and provide a written justification identifying substantial cost savings and a plan that establishes:

- A monthly allowance for tenants to provide their own appliances, and a plan for dealing with tenants who cannot afford their own appliances.
- Plans for the disposition of appliances currently supplied and for the provision of, and maintenance of, appliances during the phase-out period.
- Estimates of the replacement and maintenance cost for appliances currently provided, and proposed lease revisions reflecting the change in ownership of appliances.

Families Overcharged

The CHA disposed of 200 refrigerators by transferring ownership to Low-Income Public Housing tenants at the Federal family projects without obtaining HUD's approval and without providing these tenants an allowance for maintenance and replacement of the refrigerators. In addition, the CHA did not modify the existing leases to identify that refrigerators were no longer provided. The CHA officials stated they were unaware that HUD approval was required for disposing of the appliances, or that HUD requires PHAs to provide tenants an allowance for maintaining and replacing those appliances not provided by the PHA. As a result, the CHA overcharged families as much as \$107,000 by not providing either a refrigerator for each unit or an allowance for the family to purchase and maintain their own refrigerator.

Section 8 Families Receive an Allowance

The CHA provides an allowance for appliances in another HUD-funded housing program it administers – the Section 8 Program. Beginning November 2001, the CHA provided Section 8 families an allowance of \$13 per month when the Section 8 landlord does not provide a refrigerator. Prior to November 2001, this allowance was \$5 per family per month. In our opinion, the CHA Public Housing tenants should receive an allowance similar to the CHA Section 8 tenants. Using the same allowances, the CHA would need to reimburse Public Housing tenants as much as \$107,000 for the period of January 1994 to March 2002, as shown below:

Building Name	Units	11/1/01 to 03/31/02	01/1/94 to 10/31/01	Total per Building
Mace	95	\$6,175	\$44,650	\$50,825
Scrivano	105	\$6,825	\$49,350	\$56,175
Total	200	\$13,000	\$94,000	\$107,000

Auditee Comments

The CHA has contracted with a private vendor to revise their Utility Allowance schedule, including an allowance for refrigerators. The CHA indicated agreement with reimbursing current and prior tenants for occupancy between January 1, 1994 and July 31, 2002. The CHA also advised that they are following HUD regulations in revising their lease.

OIG Evaluation of Auditee Comments

CHA’s planned actions will address our six recommendations once these actions are completed. However, you should obtain assurances from the vendor providing the refrigerator allowance that the allowance is for maintaining and replacing the refrigerator and not for electricity.

Recommendations

We recommend that you require the CHA to:

- 2A. Determine an appropriate monthly allowance to cover the additional costs incurred by tenants for owning their refrigerators.
- 2B. Submit this allowance and appropriate documentation to your staff for approval.

- 2C. Reimburse all current and former tenants for this monthly allowance multiplied by the duration of their tenancy from January 1, 1994 to July 1, 2002.
- 2D. Reduce the rent of current tenants by the amount of the monthly allowance.
- 2E. Publish a legal notice advising former tenants of their entitlement to reimbursement provided they can document the duration of their tenancy between January 1, 1994 and July 31, 2002.
- 2F. Submit for your approval a revised tenant lease identifying that the CHA is not providing refrigerators. Upon HUD's approval, CHA needs to execute these revised leases with its tenants.

Inadequate Accounting for Capital Fund Transactions

The Chelsea Housing Authority (CHA) did not properly account for receipts and disbursements in its Capital Fund Program (CFP) for 2000. For 2000, the CHA requisitioned \$406,206 and disbursed \$459,707 under the CFP. Through its Revolving Fund, the CHA borrowed funds from other programs to fund the CFP for several years. Additionally, the CHA has not requisitioned all funds from HUD for their CFP. As of June 30, 2001, the CHA has recorded a total payable to the other programs of \$606,896, which it cannot validate until it completes a reconstruction of the account. As a result, the CHA cannot assure that disbursements under the CFP are accurate, timely or valid.

HUD Requirements

The Annual Contributions Contract between the CHA and HUD, Part A, Section 15 (A), Books of Account, Records, and Government Access states:

The HA must maintain complete and accurate books of account for the projects of the HA in such a manner as to permit the preparation of statements and reports in accordance with HUD requirements, and to permit timely and effective audit.

Standards for Financial Management Systems, 24 CFR 85.20, paragraph (b) (6) states:

Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub grant award documents, etc.

Cost Principles for State, Local, and Indian Tribal Governments, OMB circular A-87, Attachment A, paragraph C. 1 provides the factors affecting allowability of costs. Among other items costs must:

Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

Be adequately documented.

Program Name Changes

The Comprehensive Grant Program (CGP) was the primary source of modernization funds for physical improvements to public housing units through 1999. In 2000, the Quality Housing and Work Responsibility Act of 1998 (incorporated into 1999 HUD budget) replaced CGP funding with the CFP. For the purpose of this report, CFP is used to refer to funds from both programs.

Requisitions and Disbursements not Documented for 2000

For 2000, the CHA could not support requisitions or disbursements for their CFP. The current Director of Finance, who joined CHA in December 2000, advised that the CHA would need to reconstruct the account. The former Assistant Director, who was previously responsible for maintaining the documentation, left the CHA in November 2000. For the year ending December 31, 2000, the CHA recorded requisitioned funds of \$406,206 and disbursements of \$459,707.

The CHA maintains a Revolving Fund to provide financing for continuous operations. This financing derives from the grants and subsidies received. Expenditures through the Revolving Fund must be charged back to the appropriate grant or subsidy. The CHA has been resourcing funds in the Revolving Fund to pay for shortfalls in the CFP. To record the amount resourced, CHA created an Interfund Accounts Payable from CFP to the Revolving Fund.

The Interfund Accounts Payable due from the CFP to the Revolving Fund totaled \$606,896 as of June 30, 2001. The Director of Finance advised that the CHA could not validate the Accounts Payable until the CHA completed a reconstruction of the CFP account. The Director of Finance stated that the shortfall that led to an increase in the Accounts Payable for 2001 resulted from expending funds for CFP without requisitioning all CFP funds from HUD. The CHA advised that it did not requisition CFP funds for allowed Administrative Costs and Management Improvement Costs until September 2001 due to its lack of experience with the requisition process. The CHA's failure to requisition funds timely from HUD resulted in: (1) lost interest income, (2) expenditures exceeding requisitions and (3) unsupported costs.

Auditee Comments

The CHA advised that: (1) the CFP requisitions and disbursements have been reconciled and fully requisitioned, and (2) all funds owed to the revolving fund have been repaid. In addition, the CHA advised that they are currently requisitioning administrative and management costs timely.

OIG Evaluation of Auditee Comments

The CHA should provide documentation evidencing the reconciliation and the overpayment to the Revolving Fund for your staff's review. Based on the CHA's response and review of recent requisitions, we have deleted the recommendation in our draft report concerning timely requisitions of administrative and management improvement costs.

Recommendations

We recommend that you require the CHA to:

- 3A. Reconcile requisitions and disbursements to their CFP Program from January 2000 forward and provide documentation to support the reconciliation for your staff's review.
- 3B. Provide evidence that the amount borrowed from the Revolving Fund has been repaid from the CFP fund.

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Management Controls

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

Management controls include the plan of organization, 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.

Relevant Management

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

- General administration and accounting controls
- Safeguards over assets and records
- Section 8 Program
- Capital Fund Program
- Procurement and Contracting
- Admissions and Occupancy
- Tenants Accounts Receivables and Security Deposits

Significant Weakness

A significant weakness exists if management controls do not provide 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 reports.

Assessment Results

Our review identified significant weaknesses in management controls over Section 8 vouchers, disposal of refrigerators and administration of the Capital Fund Program. These weaknesses are described in the Findings and Recommendations section of this report.

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Schedule of Questioned Costs

Findings	Ineligible Costs <u>1/</u>	Unsupported Costs <u>2/</u>
1- Overpayments on Section 8 Portability Vouchers	\$239,488	
1- Administrative Fees Earned in 1998 and 1999		\$119,156
2 - CHA Refrigerator Policy causes Families to be Overcharged	\$107,000	
Total	\$346,488	\$119,156

1/ Ineligible costs are costs that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds.

2/ Unsupported costs are costs whose eligibility cannot be clearly determined during the audit since such costs were not supported by adequate documentation.

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Portability Accounts Receivable as of August 17, 2001

Massachusetts PHAs	
1	\$10,497
2	\$27,970
3	\$1,031
4	\$127,200
5	\$1,297
6	\$335
7	\$258
8	\$720
9	\$634
10	\$1,146
11	\$10,016
12	\$958
13	\$4,981
14	\$2,018
15	\$466
16	\$2,687
17	\$4,373
18	\$745
19	\$171
20	\$5,275
21	\$18
22	\$2,765
23	\$12,798
24	\$27
25	\$223
26	\$4,644
27	\$179
28	\$3,244
Subtotal	\$226,676
Out of State PHAs	
1	\$2,262
2	\$7,182
3	\$36
4	\$650
5	\$2,646
6	\$36
Subtotal	\$12,812
Total	\$239,488

Auditee Comments

Chelsea Housing Authority

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September 11, 2002

Dear Ms. O'Rourke:

The Chelsea Housing Authority has reviewed the draft audit report and appreciates the opportunity to offer comments and document the steps our staff has already taken to address the issues identified.

Finding #1 Ineffective Management of Section 8 Vouchers

As recommended, an accounting of all overpayments resulting in terminations or same- authority swapping from July 1998 forward is being documented. As a point of clarification, the Chelsea Housing Authority did not absorb vouchers prior to July 2000. The Authority has worked diligently to reconcile all accounts and is close to returning all overpayments to the initial PHAs.

Account reconciliations and payments were made upon OIG recommendations for the period 2000 and forward. However, based upon the draft report, the Authority will reconcile accounts from January 1998 forward.

The Chelsea Housing Authority has instructed leased housing and finance staff of the proper accounting for returned overpayments, and is ensuring all initial PHAs are informed as well. In addition, all mobility accounts are being reconciled on a monthly basis. To this end, the Chelsea Housing Authority is complying with the federal and state regulations requiring initial PHA's permission to absorb vouchers.

Finally, the Authority has always and will continue to notify the initial PHA's of terminated vouchers by sending the HUD Form 52665-Family Portability Information to the host authority. A copy of this form remains in the tenant CHA file.

Finding #2 Refrigerator Policy Leads to Families Being Overcharged

As a point of clarification, the Chelsea Housing Authority would like to have it noted that this finding was *self-reported* and not discovered in the course of the Inspector General's audit. It was noted in a conversation between the Executive Director Michael E. McLaughlin and the OIG auditor the fact that a past CHA administration had changed the policy, but not the lease. The Executive Director explained to the auditor that the Authority was in the process of making the change.

The Chelsea Housing Authority is currently determining an appropriate monthly allowance to cover the additional costs incurred by tenants that provide their own refrigerators. To this end, the Chelsea Housing Authority has contracted with a national housing software vendor to revise our Utility Allowance schedule to comply with HUD regulations. This schedule contains data for heating, cooking, other electric, water heating, range and refrigerator.

Once the allowance is determined, the Chelsea Housing Authority will immediately reduce the rent of all current tenants by the amount of the monthly allowance. In addition, the Authority will publish legal notices in the Boston Globe as well as local newspapers to advise former and current tenants of their entitlement to reimbursement provided they can document the duration of their tenancy between January 1, 1994 and July 1, 2002.

The Chelsea Housing Authority follows proper HUD regulations with respect to lease revision as outlined in 24 CFR 966.3.

Finding #3 Inadequate Accounting for Capital Fund Transactions

The capital fund program requisitions and disbursements have been reconciled and fully requisitioned from January 2002 to date. All funds owed to the revolving fund from the capital fund programs were repaid in July 2002.

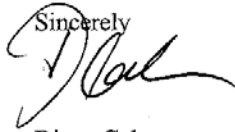
Administrative and management costs are now being requisitioned in a timely manner.

As of December 31, 2001, the balance had been reduced to \$340,132 and had been reimbursed in its entirety by August 1, 2002. Draw downs and interproject reimbursements are reflected in the Chelsea Housing Authority books of accounts.

As stated in the informal exit conference, the previous employee responsible for the federal modernization program drawdowns did not properly attach all necessary backup to the LOCCS requisitions; *however, the backup was available* in the payable files. The

Chelsea Housing Authority relied on a two fold process to track payments. At all times requisitions and disbursements could be supported.

Again, I wish to take this opportunity to assure your office the Chelsea Housing Authority is working diligently on your office's findings and recommendations. Please do not hesitate to contact me if you have any questions. I can be reached at 617-884-5617, ext 12.

Sincerely


Diane Cohen
Director of Operations

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