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# AUDIT REPORT



Review of Worcester Housing Authority, Worcester, MA  
Identified \$1.9 million of its Public Housing Operating Funds  
Used for Non-program Purposes

2006-BO-1002

November 29, 2005

OFFICE OF AUDIT, REGION 1  
Boston, Massachusetts





Issue Date November 29, 2005
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Audit Report Number 2006-BO-1002
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TO: Donna Ayala, Director, Office of Public Housing, Boston Hub, 1APH  
*John A. Dvorak*

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

SUBJECT: Review of Worcester Housing Authority, Worcester, MA Identified \$1.9 Million of its Public Housing Operating Funds Used for Non-program Purposes

## **HIGHLIGHTS**

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

We reviewed the Housing Choice Voucher program and the Public Housing Operating Fund program at the Worcester Housing Authority (Authority). This audit was conducted as part of our fiscal year 2005 annual audit plan. Our objectives were to determine whether the Authority improperly used Federal funds for expenses of its State programs, and whether it properly allocated salary and other expenses to its Housing Choice Voucher program and Public Housing Operating Fund program.

### **What We Found**

The Authority did not administer its federal funds in compliance with the financial provisions of its annual contributions contracts. Specifically, the Authority used its Public Housing Operating Funds to pay expenditures for state-subsidized housing programs and other federal programs, and did not properly allocate salary and benefit expenses to its Housing Choice Voucher program and Public Housing Operating Fund program.

These conditions occurred because the Authority did not follow the internal controls that it established to ensure compliance with its annual contributions contracts and HUD regulations. The executive director stated that he made a decision to loan Public Housing Operating Fund operating reserves to pay state expenses until the state reimbursed the Authority for its expenses. Also, the salary and benefits were not charged to the programs using a supported basis to ensure that only reasonable costs were charged for the operation of the programs. As a result, the Authority did not have more than \$1.9 million available for its Public Housing Operating Fund program. Additionally, without an adequate basis, the Authority could not support the salary and benefits expenses charged to its Housing Choice Voucher and Public Housing Operating Fund programs.

### What We Recommend

We recommend that the director of the Office of Public Housing require the Authority to

- Cease the practice of using Public Housing Operating Funds to pay for nonprogram costs, such as the \$1.9 million<sup>1</sup> used from and owed to the Public Housing Operating Fund program as of August 31, 2005.
- Reimburse its revolving fund the amounts owed by its programs on a monthly basis.
- Conduct a time study to determine the appropriate allocation of salaries and benefits for its federal programs.
- Develop and implement a HUD-approved cost allocation plan for salaries and employee benefits, and adjust its fiscal year 2006 accounting records accordingly.

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

### Auditee's Response

The complete text of the auditee's response, along with our evaluation of that response, can be found in [appendix B](#) of this report.

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<sup>1</sup> The Authority repaid \$1.2 million in August 2005 and another \$1.2 million in October 2005. Both payments went into the revolving fund and were transferred to the Public Housing Operating Fund program in these same months.

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## BACKGROUND AND OBJECTIVES

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The United States Housing Act of 1937 established the first federal framework for government-owned affordable housing. This act also authorized public housing as the nation's primary vehicle for providing jobs and building and providing subsidized housing through the Department of Housing and Urban Development (HUD). HUD disperses funds to public housing agencies under annual contribution 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. Operating subsidies are essential for public housing agencies to provide cost-effective, decent, safe, and affordable dwellings for low-income and very low-income tenants who pay no more than 30 percent of their adjusted income for rent.

The Quality Housing and Work Responsibility Act of 1998 created the Housing Choice Voucher program. The Housing Choice Voucher program allows public housing authorities to pay HUD subsidies directly to the housing owners on behalf of the assisted family.

Through annual contributions contracts, HUD contracts with the Worcester Housing Authority (Authority) for the administration and management of 2,074 low-income units, 1,798 housing choice vouchers and 39 moderate rehabilitation vouchers.<sup>2</sup> The annual contributions contracts require the Authority to follow appropriations laws, public housing notices, and the Authority's administrative plan. The Authority provides these housing assistance subsidies to assist families with housing through its leases with property owners and its agreements with other housing authorities. The Authority also receives a fee to administer the Housing Choice Voucher program.

Our overall audit objectives were to determine whether the Authority improperly used federal funds to pay expenses of its state programs in violation of the financial provisions of its annual contributions contracts and whether it properly allocated salary and other expenses to its Housing Choice Voucher program and Public Housing Operating Fund programs.

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<sup>2</sup>The Authority administers 1,837 vouchers in total, which includes the 1,798 Housing Choice Vouchers and 39 Moderate Rehabilitation program vouchers.

## RESULTS OF AUDIT

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### Finding 1: The Authority Inappropriately Used \$1.9 Million in Federal Funds

The Authority did not comply with its annual contributions contracts when it used Public Housing Operating Fund program funds to pay for nonprogram expenses. These program funds may only be withdrawn for Public Housing Operating Fund program purposes. However, the Authority inappropriately used these federal funds to pay for expenses of its state funded programs and other federal programs. The executive director stated he decided to loan Public Housing Operating Fund operating reserves for state expenses because the state did not reimburse the Authority timely for state program expenses. As a result, the Authority did not have more than \$1.9 million available for its Public Housing Operating Fund program as of August 31, 2005.

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#### **The Authority Used Federal Funds Inappropriately**

The Authority's consolidated annual contributions contracts with HUD require it to maintain records that identify the source and application of funds. These records are required to allow HUD to determine whether the Authority has expended funds appropriately. The Authority uses a series of fund accounts to track the source and use of funds for programs such as the Public Housing Operating Fund program (low-rent program). The funds received for all federal programs flow through the program's general ledger account into the Authority's revolving fund, from which program expenditures are paid. However, federal program funds were not always used to pay expenditures of the funded federal program. We verified that the Authority transferred Public Housing Operating Fund program funds to the revolving fund to pay for expenses of state and other federal programs.

The Authority generally repaid the Public Housing Operating Fund program on a quarterly basis by transferring funds from the state and other programs through the revolving fund. However, the Authority indicated that it loaned Public Housing Operating Fund operating reserves to the revolving fund for state program expenses until the state paid the Authority. On July 1, 2005, the state confirmed that it owed the Authority approximately \$1.5 million.

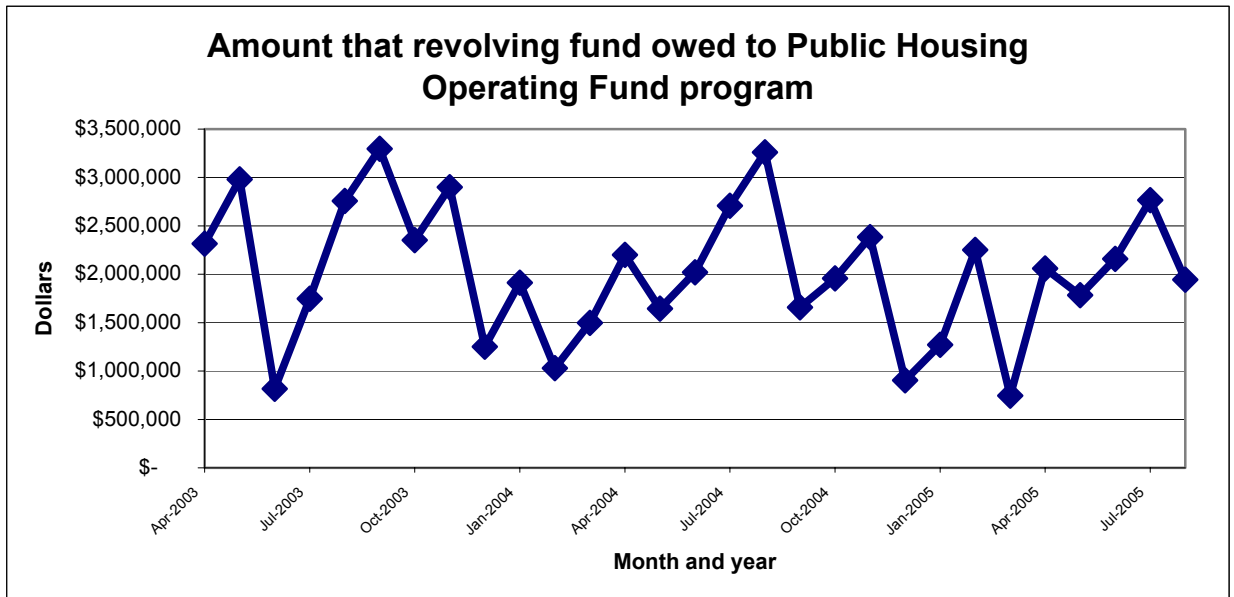
The revolving fund showed that the Public Housing Operating Fund was owed \$1,943,662 on August 31, 2005. When we asked for the breakout of the \$1,943,662

the Authority provided a reconciliation showing the amounts owed by programs.

<b>Programs Owning</b>	<b>Amount Owning</b>	<b>Programs Owed</b>	<b>Amount Owed</b>
State programs	\$1,622,851	Public Housing Operating Fund	\$1,943,662
Housing Choice Voucher program	\$582,292	Advances to Revolving fund	\$300,808
Other federal programs	\$39,327		
<b>Subtotal</b>	<b>\$2,244,470</b>	<b>Subtotal</b>	<b>\$2,244,470</b>

The Authority attributes the \$300,808 difference at August 31, 2005 to advances from programs to the revolving fund. Additionally, the Authority attributed the amount owed by the Housing Choice Voucher program and other federal programs a result of the Authority's procedures to reimburse its revolving fund quarterly instead of monthly.

Also, as the chart below shows, the Authority's revolving fund routinely owed the Public Housing Operating Fund program and the amount owed changed each month.



**Authority Repaid Public Housing Operating Fund program**

The state paid the Authority \$1.2 million in August 2005 and another \$1.2 million in October 2005. Both payments went into the revolving fund and then were transferred to the Public Housing Operating Fund program in these same months. In



September 2005, the Authority reimbursed the revolving fund the \$582,292 owed by the Housing Choice Voucher program and the \$39,327 owed by other federal programs.

### **Internal Controls Not Followed**

The Authority's improper use of federal funds occurred because it did not follow the internal controls it established to ensure compliance with the financial provisions of its annual contributions contracts for its federal programs. The Authority's executive director advised us that he made a decision to loan Public Housing Operating Program reserve funds to cover state expenses due to a failure of the state to provide sufficient funding for the state-subsidized housing programs in a timely manner. As a result, the Authority's use of these funds violated the provisions in its annual contributions contract with HUD. Additionally, it attributed the amounts owed by other programs, including the Housing Choice Voucher program, a result of its policy to reimburse the revolving fund on a quarterly basis, as opposed to a monthly basis.

### **Conclusion**

The Authority did not follow internal controls that prevented it from using federal funds to pay nonprogram expenditures. The Authority's executive director decided to use Public Housing Operating program funds for nonprogram purposes, which was an inappropriate use of more than \$1.9 million in federal funds, and left its Public Housing Operating Fund program less funding available. The Authority repaid \$1.2 million in August 2005 and another \$1.2 million in October 2005 to its revolving fund and then transferred funds to the Public Housing Operating Fund program in these same months.

### **Recommendations**

We recommend that the director of the Office of Public Housing require the Authority to

- 1A. Cease the practice of using Public Housing Operating Funds to pay for nonprogram costs, such as the \$1,943,662 that was owed as of August 31, 2005.
- 1B. Submit monthly accounting reports with supporting documentation to HUD for monitoring.

- 1C. Reimburse its revolving fund the amounts owed by its programs on a monthly basis, as opposed to a quarterly basis.

We recommend that the director of the Office of Public Housing

- 1D. Take appropriate administrative actions against Authority officials for the improper use of federal funds.

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## Finding 2: The Authority Did Not Properly Allocate Expenses to Federal Programs

The Authority did not properly allocate salaries and employee benefits to the proper programs during fiscal years 2003, 2004, and 2005. We estimate that the Authority overallocated \$2,363,161 in administrative and maintenance salaries and employee benefits<sup>3</sup> to the Public Housing Operating Fund program and underallocated \$672,039 to its Housing Choice Voucher program. This occurred because the Authority did not have a supportable basis for the plan governing the allocation of costs to the benefiting programs, but adjusted its cost allocations according to program funding levels. The Authority attributed the inappropriate allocation to the Commonwealth of Massachusetts not providing sufficient funding to operate the Authority's state-subsidized programs. As a result, the Authority had less funding available to operate its Public Housing Operating Fund program.

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### Authority's Unsupported Basis for Allocating Costs

The Authority did not have a documented basis for the salary percentages allocated to its programs. The Authority acknowledged that the allocated salaries based on those percentages were not supported with time studies or other measurable basis. The Authority indicated that it used the same plan for many years—including those years when HUD required all Authorities to submit operating budgets with allocation plans for HUD's approval. During our audit period, this requirement was no longer in effect. The Authority acknowledged that the Public Housing Operating Fund program was allocated more in salary costs due to salary caps imposed by the state.<sup>4</sup>

### The Authority Improperly Allocated Expenses in its Fiscal Years 2003 to 2005

We estimate that the Authority overallocated \$2,363,161 in administrative salaries, ordinary maintenance salaries and employee benefits to the Public Housing Operating Fund program, of which \$672,039 was underallocated to the Housing Choice Voucher program and \$1,691,122 was underallocated to state programs. The tables below summarize the total estimated amounts

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<sup>3</sup> Employee benefits included retirement benefits, unemployment taxes, health insurance, and Medicare taxes.

<sup>4</sup> The Commonwealth of Massachusetts requires each housing authority that receives state-subsidized housing funds to operate within a maximum budget provided by the state.

inappropriately allocated to the Public Housing Operating Fund and Housing Choice Voucher programs by fiscal year under the Authority’s allocation plan or methodology.

<b>Public Housing Operating Fund program</b>				
<b>Description</b>	<b>Fiscal year 2003</b>	<b>Fiscal year 2004</b>	<b>Fiscal year 2005</b>	<b>Total</b>
Administrative salaries	\$410,205	\$315,067	\$287,144	\$1,012,416
Ordinary maintenance salaries	\$148,511	\$114,918	\$113,794	\$377,223
Employee benefits	\$408,712	\$284,338	\$280,472	\$973,522
<b>Totals</b>	<b>\$967,428</b>	<b>\$714,323</b>	<b>\$681,410</b>	<b>\$2,363,161</b>

<b>Housing Choice Voucher program</b>				
<b>Description</b>	<b>Fiscal year 2003</b>	<b>Fiscal year 2004</b>	<b>Fiscal year 2005</b>	<b>Total</b>
Administrative salaries	(\$173,612)	(\$163,327)	(\$99,519)	(\$436,458)
Ordinary maintenance salaries	\$0	\$0	\$0	\$0
Employee benefits	(\$75,319)	(\$103,209)	(\$57,053)	(\$235,581)
<b>Totals</b>	<b>(\$248,931)</b>	<b>(\$266,536)</b>	<b>(\$156,572)</b>	<b>(\$672,039)</b>

For all departments except the Authority’s Admissions Department, we used a straight unit allocation methodology that divided the budgeted salaries by the number of units of housing affected. This straight unit allocation methodology was used because the Authority did not document the amount of time that each employee spent on each of its programs. Absent time studies or other measurable basis, a unit methodology would more appropriately allocate the costs to these programs than the allocation method used by the Authority. Also during our review of the salary expenses for the Admissions Department, we found that a unit allocation methodology used for these costs would misallocate expenses to the Housing Choice Voucher program when the Public Housing Operating Fund program and state public housing programs benefitted from the expense. Staff in the Admissions Department indicated that 50 percent of their time was spent on the Public Housing Operating Fund program and 15 percent of their time was spent on the Housing Choice Voucher program.

The Authority also used a different method to allocate its employee benefits.<sup>5</sup> For employee benefits, the Authority divided the subtotal of budgeted salaries by program into the total salaries for all programs to develop its allocation percentages. The Authority then charged this percentage of the employee benefits cost to each program. Since employee benefits are inherently tied to salaries, the Authority should have used the same basis for employee benefits that it used for salaries.

### **Incorrect Use of Public Housing Operating Fund Program Units in Allocation Plans**

The Authority has other allocation plans for which the allocation basis was units. For several of these plans, the Authority used 2,155 public housing units when the authorized units were 2,074. The Authority should correct the number of units in all of its allocation plans, adjust the unit-totals in its computer system, and correct its accounting records accordingly for fiscal year 2006.

### **Conclusion**

The Authority's executive director made a decision to continue using the cost allocation plan in place at the Authority when he was hired. However, the Authority did not have a supportable basis that ensured costs were allocated and charged to the benefiting programs. The Authority's inappropriate allocations removed more than an estimated \$2.36 million or \$787,720 annually from its Public Housing Operating Fund program, of which \$672,039 or \$224,013 annually in salary expenses should have been allocated to its Housing Choice Voucher program. Developing a cost allocation plan with a supportable basis will save the Public Housing Operating Fund program \$787,720 and appropriately charge an additional \$224,013 to the Housing Choice Voucher program in fiscal year 2006.

### **Recommendations**

We recommend that the director of the Office of Public Housing require the Authority to

- 2A. Conduct a time study to determine the proper allocation of salaries and benefits to the Housing Choice Voucher and Public Housing Operating Fund programs.

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<sup>5</sup> The Authority did allocate medicare taxes based on its salary allocation plan.

- 2B. Correct the number of units in all allocation plans to reflect the authorized 2,074 public Housing units.
- 2C. Develop, obtain HUD approval of, and implement an appropriate cost allocation plan for salaries and employee benefits to ensure that only necessary costs for administering the Public Housing Operating Fund and Housing Choice Voucher programs are charged to the programs.
- 2D. Correct the Housing Choice Voucher and Public Housing Operating Fund programs' accounting records to record the appropriate salary and benefit expenses attributable to the administration of these programs for fiscal year 2006, which would result annually in funds put to better use of \$787,720 for the Public Housing Operating Fund program and \$224,013 for the Housing Choice Voucher program

## SCOPE AND METHODOLOGY

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We performed our review in accordance with generally accepted government auditing standards. We conducted the audit between March and September 2005 and covered the period April 1, 2002, through March 31, 2005. The audit period was extended when necessary to meet our objectives. To accomplish our audit objectives, we

- Reviewed the annual contributions contracts, Public and Indian housing notices, the Authority's administrative plans, the board of commissioners' minutes, the audited financial statements and the Authority's procedures.
- Interviewed Authority officials and contractors about the financial controls, the Housing Choice Voucher program controls, administrative procedures, and job duties.
- Analyzed the Authority's cost allocation plans, salaries, employee benefits, and account records for fiscal years 2003, 2004, 2005, and 2006.
- Summarized results of our analyses.

# 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 sources and uses of federal funds.
- Controls over tracking and reporting expenditures.
- Compliance with laws and regulations-Policies of management to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives

## Significant Weaknesses

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

- The Authority used federal funds inappropriately to pay expenditures for state programs and other federal programs. (finding 1)
- The Authority inappropriately allocated expenses to federal programs. (finding 2)



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**Appendix A**
**SCHEDULE OF QUESTIONED COSTS  
AND FUNDS TO BE PUT TO BETTER USE**


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Recommendation number	Ineligible 1/	Unsupported 2/	Unreasonable or unnecessary 3/	Funds to be put to better use 4/
1A.	\$1,943,662 <sup>6</sup>			
2D.				\$1,011,733

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local polices or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Unreasonable/unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.
- 4/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an Office of Inspector General recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

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<sup>6</sup> The Authority repaid \$1.2 million in August 2005 and another \$1.2 million in October 2005. Both payments went into the revolving fund and then were transferred to the Public Housing Operating Fund program in these same months.

## Appendix B

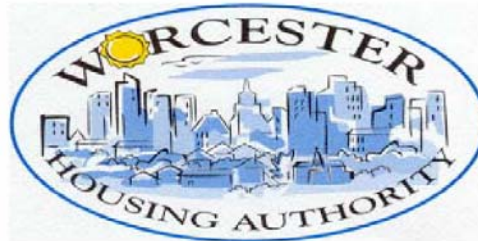
### AUDITEE COMMENTS AND OIG'S EVALUATION

#### Ref to OIG Evaluation

#### Auditee Comments

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#### AUDIT RESPONSE



**All Federal Funds Appropriately Used and Fully  
Accounted For**

**WHA Pledges To Work Cooperatively  
With HUD Officials**

**November 10, 2005**

Worcester Housing Authority  
40 Belmont Street  
Worcester, MA 01608  
(508) 635-3000

**Response of the Worcester Housing Authority**

November 14, 2005

**Summary**

The Worcester Housing Authority routinely participates in regular state and federal audits. We recognize that they have a legitimate purpose and we welcome them as opportunities to have outside professionals review our work and make suggestions that will improve our financial operations. These state and federal audits have consistently found that the WHA handles its finances properly.

While the WHA disagrees with the findings contained in the OIG audit report, we are more than willing to accept and live by the recommendations made by the auditors. We appreciate their cooperative approach and, although we respectfully disagree as to their findings, it is our intention to work with them as cooperatively as possible.

It is essential to note that none of the recommendations made by the auditors calls for repayment or financial penalties of any kind. That fact is a clear indication that the WHA has done a good job in safeguarding, spending and accounting for the public money entrusted to us. Our single focus is to provide our residents with homes and communities that they can be proud of.

**Errors of Law and Accounting**

Some of the determinations contained in the OIG report, in addition to being misleading are wrong as a matter of law or accounting.

1. It is our opinion that the entirety of Finding 1, which states that the Authority inappropriately used \$1.9 million in federal funds, is both misleading and wrong as a matter of law.
2. There are numerous errors relative to Finding 2
  - Using a straight unit pro-ration does not take into consideration the significant amount of services we provide to our federal properties and the extra administrative work monitoring the program.
  - The integrity of our internal controls is not related to how our costs were allocated.

Comment 1

Comment 2

Comment 3

Comment 4

**Ref to OIG Evaluation**

**Auditee Comments**

Comment 5

- Funding was always readily available to operate the federal conventional housing program.
- Federal funds were not used to pay state expenses.

Comment 6

3. In more than one instance the auditors mentioned that “the Authority did not have more than \$1.9 million available for its Public Housing Operating Fund program.” This is incorrect. At the time of the audit, the records clearly indicated that the Authority had \$2.7 million available in its federal reserves for use in its Public Housing Operating Fund program.

**Allocation Procedures and Record Keeping**

Comment 7

The WHA acknowledges that the auditors were unsatisfied with certain practices and procedures adopted by the WHA. For example, indirect payroll and employee benefits.

The WHA’s management has a designed plan for the allocation of indirect payroll costs to various programs administered by the Authority. The allocation plan is systematic and it is consistent with an allocation plan/method that has been in place at the Authority for many years. We will agree that it is not supported with time studies, etc. but has consistently been applied for many years.

Comment 8

The report also commented on our employee benefits allocation using budgeted payroll verses actual payroll as a percentage and a pro-ration. Since our actual payroll is allocated based on our budget, the difference using either budget or actual will be immaterial. The WHA feels that the allocation method used for employee benefits is reasonable and systematic and has been consistently applied and not in violation of OMB A87. It is also an acceptable and widely used method in the industry.

We acknowledge that in the future the allocation plan needs to be more clearly documented.

Raymond V. Mariano  
Executive Director

Teresa Ewald  
Fenton, Ewald & Associates  
Fee Accountant for the WHA

Theodore N. Distaso  
Deputy Director for Finance

Larisa Fater  
Director of Finance

**Ref to OIG Evaluation**

**Auditee Comments**

**Finding 1: The Authority Inappropriately Used \$1.9 Million in Federal Funds**

**OIG Wrong As A Matter of Law**

Comment 9

1. As a matter of law, we believe that the WHA's practices are correct and that the OIG report is wrong. Section 10 of the Annual Contributions Contract (ACC) clearly allows the WHA to establish a revolving fund. That is precisely what the WHA did (See Form HUD-53012A 7/95).

Comment 10

2. These same practices have been reviewed by state and federal auditors periodically over the past 10 years and longer. At no time has there been even a suggestion that anything was inappropriate.

Comment 11

3. At no time did the WHA use current year operating subsidy funds. This practice is merely for cash flow management and only reserve funds, which were accumulated over several years, were used.

Comment 12

4. At all times, our accounting system records all transactions and tracks sources and uses of funds. Our Accounting Department monitors amounts owed to the federal reserve account and that fund is routinely and regularly reimbursed in full.

Comment 13

5. Prior to the issuance of this report all state and federal Section 8 funds have reimbursed the operating reserve in full.

Comment 14

6. In more than one instance the auditors mentioned that "the Authority did not have more than \$1.9 million available for its Public Housing Operating Fund program." This is incorrect. At the time of the audit, the records clearly indicated that the Authority had \$2.7 million available in its federal reserves for use in its Public Housing Operating Fund program.

Comment 15

7. In multiple locations the auditors mentioned that "as a result of this audit" and "as a result of this recommendation" on October 11, 2005 the Authority repaid \$2.4 million to the revolving fund. That is partially incorrect. In August \$1.2 million was repaid to the revolving fund as a routine transfer. An additional \$1.2 million was transferred to the revolving fund in October.

**Finding 2: The Authority Did Not Properly Allocate Expenses to Federal Programs**

**OIG Methodology Faulty**

Comment 16

1. The OIG took a simplistic approach and used a straight unit pro-ration to determine how much the WHA should be spending on state and federal properties. However, the WHA is a very complex organization with diverse programs, especially on the federal side. Using a straight unit pro-ration ignores that the WHA provides a significant amount of services, well in excess of the unit pro-ration, for its federal property. Both federal and state funds pay for all of these additional services and requirements. A simple unit pro-ration ignores this fact.

As part of this audit, the WHA provided OIG auditors with a report outlining some of the federal programs and services that need to be included in any calculation of federal spending. Requirements dictated by HUD including REAC inspections, financial reporting, PHAS scoring, PIC and 50058 submissions, resident surveys and other projects and requirements add substantial additional time requirements for our staff. Additionally, the federal buildings, especially Great Brook Valley, require much more maintenance than our state properties.

2. The cost allocation methods used by the WHA are used widely within the industry.

Comment 17

3. The report makes comment of the allocation of employee benefits using budgeted payroll rather than actual payroll. The Authority's allocation methodology for employee benefits is to allocate employee benefits to each program administered by the Authority using a ratio that is based on budgeted payroll for each program compared to the total budgeted payroll for the Authority. The report indicates that a ratio of actual payroll rather than budgeted should be used. Since actual payroll is allocated based on our budget the ratio using either bases should be similar. Differences may occur if budgeted salary positions are not filled or if new positions are added that were not budgeted. It is management's contention that any differences would be immaterial. To require the Authority to determine ratios based on actual payroll each month would impose an additional burden on the accounting department that, in our estimation, would out-weigh the benefits derived. Management feels that the allocation method used for employee benefits is reasonable and systematic and has been consistently applied and is not in violation of OMB A87. Requiring a change in the allocation methodology would seem to be one of HUD forcing an added burden and a personal preference on the Authority with no meaningful benefit.

Ref to OIG Evaluation

Auditee Comments

Comment 18

4. Regarding the allocation of our payroll between federal and state programs, we offer the following in defense of our methodology. The Authority has used the same allocation methodology for the indirect allocation of payroll for many years. This allocation method has always been included in our annual operating budgets. In years past, HUD would review and approve our operating budget along with our PFS computation. The current allocation methodology was used in the years that HUD approved our operating budgets. In those budgets it is clear how much salary is allocated to each federal and non federal program administered by the Authority. The number of dwelling units in each program was also readily available in the operating budget. HUD never raised an issue with our salary allocation methodology.

Comment 19

5. HUD has stopped requiring that authorities obtain salary comparability studies and the Authority no longer prepares one. However, salaries are still allocated using this methodology. It is management's contention that HUD was aware of this methodology and did not disapprove of its use. Prior to 1973, housing authorities were audited not by IPA's but by auditors from HUD's regional inspector general for audit. The same salary allocation methodology was used then as now. Those auditors never made an audit finding on the Authority's salary allocation methodology.

6. In recommendation 2D, auditors estimated that \$787,720 would be saved for the Public Housing Operating Fund programs and \$224,013 saved for the Housing Choice Voucher program. We are confident that their estimates will far exceed the experience for fiscal year 2006 once the cost allocation study is complete. Ultimately, we expect the savings to be zero dollars or a very small fraction of the auditor's estimates.

### **OIG Evaluation of Auditee Comments**

- Comment 1** The audits conducted by the Authority's Independent Public Accountant(s) should have identified the issues of where federal funds were used for non-program purposes.
- Comment 2** Recommendation 1D recommends that HUD pursue administrative action regarding the Authority's inappropriate use of Federal funds.
- Comment 3** The Authority violated its annual contributions contract when it withdrew Public Housing Operating Funds operating reserves from the program to address cash flow shortages in its other programs. The annual contributions contract states that funds may be withdrawn only for specific purposes. These purposes are the payment of the costs of development and operation of the projects under this contract; the purchase of investment securities as approved by HUD; and such other purposes specifically approved by HUD. HUD did not approve the use of operating reserves for other Authority programs. Also, the usage of a revolving fund is permitted by the annual contributions contract for the Public Housing Operating Fund; however, amounts owed to the revolving fund by each program should have been transferred to the revolving fund from each programs' own funds; and not used from the Public Housing Operating Fund program. While the Authority reimbursed the operating reserves quarterly or when the funds became available to the other programs, the usage of the fund was inappropriate.
- Comment 4** We agree that using a unit approach does not take into account the amount of time spent on federal programs; however, the Authority did not maintain its payroll records to show the amount of time staff members worked on each of its programs. Absent this data or a time study, a unit allocation was more appropriate than methodology used by the Authority.
- Comment 5** The statement that federal funds were not used to pay state expenses is incorrect. The audit clearly showed that federal funds were used to pay state program expenses, and the executive director made a statement that he made a decision to use federal funds to pay state program expenses because the state had not provided the state funding timely.
- Comment 6** The Public Housing Operating Fund program was owed over \$1.9 million by other programs. This amount represents federal funds that were not available to the Public Housing Operating Fund program, regardless of whether the Authority had additional operating reserve funds available. The Authority is only allowed to use Public Housing Operating Fund program funds and operating reserve funds for its federal Public Housing Operating Fund program.
- Comment 7** While the Authority has a systematic cost allocation plan that has been used for years, this plan must have a documented methodology and measurable basis to the



amounts charged to federal programs. Without a documented methodology such as hours charged each pay period to each program and a measurable basis such as a unit allocation, the Authority's plan does not support that it appropriately charged costs to the benefiting program.

OMB Circular A-87 requires that the Authority allocate costs to the benefiting program. HUD has not required public housing authorities to submit operating budgets for its approval since the 1990s. Even when HUD approved budgets, the Authority retained the responsibility to document the basis for its charges to the various programs.

**Comment 8** We did not take exception to the use of budgeted salaries versus actual salaries in the Authority's allocation plan; instead, we noted how the Authority allocated employee benefits. Employee benefits must follow the same allocation approach as its salary allocations because employee salaries and employee benefits are inherently tied to each other. The allocations for salaries and for employee benefits should be consistent.

**Comment 9** See Comment 3.

**Comment 10** See Comment 1.

**Comment 11** Federal operating reserve funds must be used for the program it was intended to benefit, specifically the Public Housing Operating Fund program; and cannot be used to cover cash flow shortages in other programs. Each program must run independently and in accordance with each program's contractual agreement.

**Comment 12** The Authority tracks its sources and uses of funds; however, we did not find that the Public Housing Operating Fund program was reimbursed in full by the revolving fund during the April 2003 and August 2005 period reviewed. The line chart on page 6 shows that the reimbursement changed each month but did not reach zero at any point during that period.

**Comment 13** We changed the report to recognize that the Authority reimbursed the operating reserve in full at the end of our audit fieldwork.

**Comment 14** See Comment 6.

**Comment 15** We changed the report to reflect the separate payments of \$1.2 million repaid in August 2005 and another \$1.2 million repaid in these same months. Both payments went into the revolving fund and then were transferred to the Public Housing Operating Fund program.

**Comment 16** See Comment 4.

**Comment 17** See Comment 8

**Comment 18** See Comment 7

**Comment 19** Salary comparability studies are used to show that the total amount of a positions' salary is appropriate for that job description in that locality. Comparability studies do not show that the allocation of the salaries to specific programs is appropriate. Since 1973, HUD has increased the quantity and diversity of the programs that it offers to public housing authorities. The Authority has availed itself of the opportunities in these programs by applying for and receiving grants and contracts. With each new grant or contract, the Authority's salary allocation plan should change to reflect the new staff hired or existing staff allocated to operate and manage each new grant or contract.