



Issue Date April 20, 2006

Audit Report Number 2006-PH-1010

TO: James D. Cassidy, Director, Office of Public Housing, Pittsburgh Field Office,
3EPH

FROM:  John P. Buck, Regional Inspector General for Audit, Philadelphia Regional
Office, 3AGA

SUBJECT: The Housing Authority of the County of Butler, Butler, PA, Needed to Improve
Administration of Its Section 8 Housing Choice Voucher Program

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the County of Butler's (Authority) Section 8 Housing Choice Voucher program. The audit was conducted as part of our fiscal year 2006 annual audit plan. Our objective was to determine whether the Authority was properly administering its Section 8 program.

What We Found

The Authority generally administered its Section 8 Housing Choice Voucher program properly, but some improvements were needed. The Authority issued vouchers and provided housing assistance to eligible families from its waiting list. It also inspected housing units annually to ensure its Section 8 clients were provided decent, safe, and sanitary housing. However, the Authority did not allocate administrative salary and employee benefit costs to the Section 8 program on a reasonable and fair basis. As a result, it could not support \$229,460 in expenditures for administrative salaries and associated employee benefits over a three-year period. This occurred because the Authority did not have a formal cost

allocation plan, nor did it use personnel activity reports or equivalent documentation to allocate salary and benefit costs for its senior management and accounting staff for years 2002 to 2004.

In addition, the Authority did not always calculate housing assistance payments correctly or maintain adequate documentation in its client files to demonstrate compliance with U.S. Department of Housing and Urban Development (HUD) requirements. Generally, this occurred because of administrative errors by the Authority's staff. However, the Authority did not have written procedures for Section 8 employees to calculate housing assistance payments correctly and maintain client files adequately. The Authority also did not have written procedures for conducting quality control reviews of the client files that would have alerted the Authority to the deficiencies. As a result, it made housing assistance overpayments of \$501 and underpayments of \$1,100 in the 21 client files reviewed and did not have adequate assurance that the housing assistance payments it made to landlords were reasonable.

What We Recommend

We recommend that HUD direct the Authority to provide documentation to support the \$229,460 in questioned employee salary and benefit costs or reimburse the Section 8 program from the programs that benefited from the erroneous cost allocations. Additionally, we recommend that HUD require the Authority to develop and implement a reasonable method for allocating costs to the Section 8 program, thereby putting \$76,487 to better use over a one-year period. We further recommend that HUD direct the Authority to repay its Section 8 program \$501 from its earned Section 8 administrative fees, and reimburse clients \$1,100 from its earned Section 8 administrative fees, for housing assistance underpayments. Lastly, we recommend that HUD direct the Authority to develop and implement procedures for calculating rents correctly, maintaining client files adequately, performing quality control reviews of its client files, and performing adequate rent reasonableness determinations.

For each recommendation 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

We discussed the report with the Authority during the audit and at an exit conference on April 10, 2006. The Authority provided written comments to our draft report on April 17, 2006. The Authority disagreed with the findings, but provided no documentation to support its disagreement.

The complete text of the Authority's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Housing Authority of the County of Butler (Authority) was established in 1965 under the Housing Authorities Law of the Commonwealth of Pennsylvania. The Authority entered into an annual contributions contract in 1966 with the U.S. Department of Housing and Urban Development (HUD) and agreed to provide affordable housing for qualified individuals in accordance with the rules and regulations prescribed by HUD. A five-member board of commissioners governs the Authority. The executive director is Perry O'Malley. The Authority's main administrative office is located at 114 Woody Drive, Butler, Pennsylvania.

The Authority owned and operated 466 public housing units and administered 1,339 housing vouchers under annual contributions contracts with HUD during our audit period. The annual contributions contract defines the terms and conditions under which the Authority agrees to develop and operate all projects under the agreement. HUD provided the Authority the following financial assistance from fiscal years 2002 to 2005:

- \$23.1 million to provide housing assistance through tenant-based Section 8 vouchers,
- a \$2.2 million operating subsidy to operate and maintain its housing developments, and
- a \$2.2 million Public Housing Capital Fund program to modernize public housing units.

Under the Section 8 program, the Authority makes rental assistance payments to landlords on behalf of eligible low-income families. HUD compensates the Authority for the cost of administering the programs through administrative fees.

The Authority listed nine affiliated nonfederal entities in its financial statements. The Authority's chairman and executive director serve as officers for eight of these entities. The Authority formed these corporations in an effort to increase affordable housing opportunities throughout Butler County, and it provides management and consulting services for the entities. In addition, the Authority is the developer, management agent, and service provider for the 139 housing units associated with these entities.

The overall objective of our audit was to determine whether the Authority was properly administering its Section 8 program.

RESULTS OF AUDIT

Finding 1: The Authority Could Not Support \$229,460 in Expenditures for Administrative Salary and Benefit Costs

The Authority did not allocate administrative salary and employee benefit costs to the Section 8 program on a reasonable and fair basis. It did not have a formal cost allocation plan, nor did it use personnel activity reports or equivalent documentation to allocate salary and benefit costs for its senior management and accounting staff for years 2002 to 2004. As a result, the Authority could not support \$229,460 in expenditures for administrative salaries and associated employee benefits over a three-year period. By developing and implementing a reasonable method for allocating costs to the Section 8 program, the Authority can put \$76,487¹ to better use over a one-year period.

The Authority Did Not Allocate Costs on a Reasonable and Fair Basis

Contrary to its consolidated annual contributions contract,² the Authority could not support \$229,460 in expenditures for administrative salary and employee benefit costs in years 2002 to 2004. The consolidated annual contributions contract limits Section 8 funds provided by HUD to be used to pay program expenditures.

For years 2002 to 2004, the Authority used a percentage-of-units methodology to support the percentage it used to allocate administrative salary and employee benefit costs for its senior management and accounting staff. It selected the percentage arbitrarily; the percentage only needed to be less than the percentage of Section 8 units (vouchers) managed by the Authority (approximately 70 percent). The Authority did not have a formal cost allocation plan, nor did it use personnel activity reports or equivalent documentation to support allocations for salary and benefit costs for its senior management and accounting staff. The Authority used the following percentages:

¹ \$229,460/3 years = \$76,487 annually.

² Section 11.a.

Employee	Charged to Section 8 2002	Charged to Section 8 2003	Charged to Section 8 2004
Executive director	49%	58%	68%
Comptroller	49%	58%	68%
Executive secretary	0%	58%	32%
Accountant	0%	58%	43%

However, in 2005, these employees began using time sheets to record their time spent working on the Authority's various programs. The Authority's comptroller stated that the Authority would use the time sheets as the basis for allocating salary and benefit costs for 2005. We obtained the completed time sheets for the period January through October 2005 for the four employees identified above. The percentage of time they spent working on tasks that benefited the Section 8 program was significantly lower than those used to allocate salary costs in years 2002 to 2004. The 2005 percentages of time charged to Section 8, supported by time sheets, were as follows:

Employee	Time charged to Section 8
Executive director	26%
Comptroller	31%
Executive secretary	1%
Accountant	7%

Since there was no significant growth in the Authority's programs during the period 2002 to 2005, 2005 was a representative year for the Authority. The Authority apparently overcharged the Section 8 program \$229,460 for salary and benefit costs over the three-year period from 2002 to 2004. The following chart shows the details.

Employee	Amount overcharged to Section 8 2002	Amount overcharged to Section 8 2003	Amount overcharged to Section 8 2004	Total
Executive director	\$21,452	\$38,538	\$40,974	\$100,964
Comptroller	\$9,515	\$20,358	\$23,625	\$53,498
Executive secretary	\$0	\$32,593	\$19,172	\$51,765
Accountant	\$0	\$11,164	\$12,069	\$23,233
Total	\$30,967	\$102,653	\$95,840	\$229,460

We discussed this issue with the Authority during the audit. Although the Authority disagreed with our conclusion, it provided no documentation to demonstrate that the questioned costs were justified.

To ensure that administrative salary and employee benefit costs it charges to the Section 8 program are reasonable and fair, the Authority needs to develop and implement a reasonable method for allocating administrative costs to the program. In doing so, it can put \$76,487 in Section 8 funds to better use over a one-year period.

The Authority Is Addressing Deficiencies

The Authority is addressing the deficiencies identified. As mentioned above, the Authority stated that it would use time sheets to support salary and benefit costs for 2005. In addition, it hired a consultant to develop a cost allocation plan. The Authority expects the consultant to deliver the plan in April 2006. The Authority informed us it will use the plan retroactively to January 1, 2006.

Recommendations

We recommend that HUD direct the Authority to

- 1A. Provide documentation to support the \$229,460 in questioned costs identified in this finding and, if the costs cannot be supported, reconcile the allocations of salary and benefit costs it made for years 2002 to 2004 and reimburse the Section 8 program from the programs that benefited from the erroneous allocations.
- 1B. Develop and implement a reasonable method for allocating costs to the Section 8 program and, thereby, put \$76,487 to better use over a one-year period.

Finding 2: The Authority Did Not Always Follow HUD Requirements

The Authority did not always calculate housing assistance payments correctly or maintain adequate documentation in its client files to demonstrate compliance with HUD requirements. Generally, this occurred because of administrative errors by the Authority's staff. However, the Authority did not have written procedures for Section 8 employees to calculate housing assistance payments correctly and maintain client files adequately. The Authority also did not have written procedures for conducting quality control reviews of the client files that would have alerted the Authority to the deficiencies. Further, the Authority believed that the limited rent reasonableness reviews it performed satisfied HUD requirements.³ As a result, the Authority made housing assistance overpayments of \$501 and underpayments of \$1,100 in the 21 client files that we reviewed. The Authority also did not have adequate assurance that the housing assistance payments it made to landlords were reasonable.

The Authority Did Not Always Calculate Rents Correctly or Maintain Adequate File Documentation

The Authority did not always calculate housing assistance payments correctly or maintain adequate documentation in its client files to demonstrate compliance with HUD requirements. We noted the following deficiencies in our review of 21 Section 8 client files:

- In 19 files, there was no evidence of an adequate rent reasonableness review. HUD regulations⁴ and the Authority's Section 8 administrative plan⁵ required the reviews to be completed. HUD regulations require the decision and the basis for it (i.e., information on the unassisted units compared) to be documented in the client's file.
- In eight files, the Authority incorrectly calculated the housing assistance payment and/or the utility assistance payment amount. We determined that the overpayments totaled \$501 and the underpayments totaled \$1,100 through November 2005 for a total difference of \$1,601. The Authority made these errors because it

³ 24 CFR [Code of Federal Regulations] 982.507 and HUD Handbook 7420.10g, chapter 9.

⁴ 24 CFR [Code of Federal Regulations] 982.507 and 982.158(f)(7) and HUD Handbook 7420.10g, chapter 9.

⁵ Chapter 12, section C, Authority's Section 8 administrative plan, revised September 2004. 24 CFR [Code of Federal Regulations] 982.54(c) requires the Authority to administer its program in accordance with its administrative plan.

- Used outdated utility allowance schedules (two files),
 - Used an outdated utility allowance schedule and an incorrect payment standard (one file),
 - Underestimated income and used an outdated utility allowance schedule (one file),
 - Underestimated income (one file),
 - Overestimated income (one file),
 - Gave credit for a disability allowance that was unsupported (one file), and
 - Did not give credit for a disability allowance that was supported (one file).
- In eight files, there were no copies of Social Security cards and/or birth certificates. HUD regulations⁶ require clients to disclose and provide proof of Social Security numbers and evidence of citizenship or eligible immigration status.
 - In seven files, there was no evidence of third-party verification of income or assets or documentation explaining why third-party verification was not available. HUD regulations⁷ require the Authority to obtain and document in the client files third-party verification of income or why third-party verification was not available.
 - In three files, a HUD Form 9886 (Authorization for the Release of Information/Privacy Act Notice) was not signed. The Authority's Section 8 administrative plan⁸ requires all adult household members to sign the form.
 - In one file, the Authority did not obtain a certification for the zero income that a client reported or require the client to report to the Authority periodically. The Authority's Section 8 administrative plan⁹ requires clients disclosing zero income to sign a notarized declaration and to report to the Authority every 90 days.

⁶ 24 CFR [*Code of Federal Regulations*] 982.551(b).

⁷ 24 CFR [*Code of Federal Regulations*] 982.516(a)(2).

⁸ Chapter 4, section E, Authority's Section 8 administrative plan, revised September 2004. 24 CFR [*Code of Federal Regulations*] 982.54(c) requires the Authority to administer its program in accordance with its administrative plan.

⁹ Chapter 6, section D, Authority's Section 8 administrative plan, revised September 2004. 24 CFR [*Code of Federal Regulations*] 982.54(c) requires the Authority to administer its program in accordance with its administrative plan.

The Authority Needed to Establish Procedures and Strengthen Its Quality Control

Although the deficiencies the audit disclosed were caused by administrative errors made by the Authority's staff, the Authority's lack of written procedures for its Section 8 employees contributed significantly to this situation. Prudent business practice prescribes that procedures should be communicated in writing. The lack of written procedures makes it difficult for new employees to effectively do their jobs. The Authority has experienced turnover in its Section 8 staff. For example, the Authority had three different employees in the position of Section 8 coordinator over a four month period. The Authority filled the two most recent vacancies in the coordinator position by promoting an existing Section 8 employee and reorganizing its staff to accommodate the resultant vacancy.

The Authority also did not have written procedures for conducting quality control reviews of its client files, despite the requirement in its Section 8 administrative plan that at least 25 percent of all files be reviewed annually.¹⁰ According to Authority officials, the Section 8 supervisor performed quality control reviews of the files. However, the Authority could not provide a listing of the files reviewed. It stated that supervisory notations in the files showed that the reviews were performed. However, the supervisory notations were intermittent and dependent on the preferences of the supervisor. Further, the Authority stated that its Section 8 administrative plan contained an error. The executive director explained that, rather than requiring "at least 25 percent of all files to be reviewed annually," the administrative plan should have required 25 files to be reviewed annually. These reviews, if properly performed, would have alerted the Authority to the deficiencies identified in the audit.

The Authority Needed to Strengthen Its Process for Determining Rent Reasonableness

The Authority believed that it performed adequate rent reasonableness reviews. However, the documentation supporting those reviews showed they did not fully comply with HUD regulations.¹¹ The documentation did not always demonstrate

¹⁰ Chapter 19, section A, Authority's Section 8 administrative plan, revised September 2004. 24 CFR [*Code of Federal Regulations*] 982.54(c) requires the Authority to administer its program in accordance with its administrative plan.

¹¹ 24 CFR [*Code of Federal Regulations*] 982.507 and HUD Handbook 7420.10g, chapter 9.

that the Authority compared the rent for the voucher unit to rents for similar unassisted units in the marketplace or similar units on the premises.

The Authority can remedy the deficiencies noted above by correcting the calculation errors and developing and implementing procedures to (1) ensure quality in its client files, including preparing reports to show the results of file reviews and any actions taken, and (2) demonstrate that rents paid to landlords are reasonable.

Recommendations

We recommend that HUD direct the Authority to

- 2A. Correct the errors in the client files identified by the audit.
- 2B. Repay its Section 8 program \$501 from its earned Section 8 administrative fees.
- 2C. Reimburse applicable clients \$1,100, from its earned Section 8 administrative fees, for the housing assistance underpayments, thereby putting these funds to better use.
- 2D. Develop procedures for Section 8 employees to calculate housing assistance payments correctly and maintain client files adequately.
- 2E. Require the Authority to implement its Section 8 administrative plan and develop and implement procedures for performing quality control reviews of files and documenting the results of those reviews and any actions taken.
- 2F. Require the Authority to develop and implement procedures to document rent reasonableness determinations before approving housing assistance payments contracts.

SCOPE AND METHODOLOGY

We performed the audit at the Authority in Butler, Pennsylvania, from October 2005 through April 2006. The audit was done in accordance with generally accepted government auditing standards and included tests of internal controls that we considered necessary under the circumstances.

The audit covered transactions representative of operations current at the time of the audit and included the period January 2003 through May 2005. We expanded the scope of the audit as necessary. We reviewed the Authority's Section 8 consolidated annual contributions contract with HUD and applicable program regulations and guidance. We discussed operations with management and staff personnel at the Authority and key officials from HUD's Pittsburgh, Pennsylvania, field office.

To determine whether the Authority was properly administering its Section 8 program, we

- Reviewed the Authority's internal control structure.
- Reviewed the Authority's independent auditor's reports for fiscal years 2002 through 2004.
- Reviewed minutes of the Authority's board of commissioners meetings.
- Reviewed the Authority's Section 8 year-end settlement statements for years 2002 through 2004.
- Reviewed HUD and Authority correspondence related to a rental housing integrity monitoring review conducted by the Pittsburgh field office in 2003.
- Reviewed HUD and Authority correspondence related to the Real Estate Assessment Center's review of the Authority's electronically submitted financial data for its fiscal year ending December 31, 2003.
- Used audit software to randomly select and review 21 Section 8 client files.
- Interviewed Authority personnel.
- Reviewed Section 8 general ledger accounts, accounting transactions, and supporting documentation.
- Corresponded with personnel from HUD's Financial Management Center.

INTERNAL CONTROLS

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

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

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

Relevant Internal Controls

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

- Policies, procedures, and other controls implemented by the Authority to ensure it administered the Section 8 program properly.

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 did not

- Ensure that salary and benefit costs were properly allocated to the Section 8 program.
- Establish procedures to ensure that rents were correctly calculated and client files were properly maintained.

- Maintain adequate documentation to demonstrate that rents paid to landlords were reasonable.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		\$229,460	
1B			\$76,487
2B	\$501		
2C			\$1,100
Total	\$501	\$229,460	\$77,587

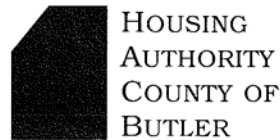
- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.
- 2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity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

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



EXECUTIVE DIRECTOR:
PERRY O'MALLEY
COMMISSIONERS:
ROBERT J. HARTNETT, CHAIRMAN
MARGARET M. CLAWSON, VICE-CHAIRWOMAN
ERMA J. MOWRY
GEORGE MICHAEL KELLY
ELIZABETH ESCHENFELDT

April 17, 2006

Mr. John Buck, RIGA
Department of Housing & Urban Development
Office of Inspector General/Office of Audit
The Wanamaker Building
100 Penn Square East - Room 1005
Philadelphia, PA 19107-3380

RE: Draft Audit 2006
Section 8 Program

Dear Mr. Buck:

First, we appreciate the OIG's Office recognizing the Authority's high standard of management of its Section 8 Program.

However, we disagree with your concerns and wish to note that your audit reviewed three years of program administration and nearly 23 million dollars of funding and found concerns amounting to less than 1% of our Section 8 budget.

Finding # 1

Both during the audit and at our exist conference, we advised and you acknowledged that HUD only provides guidelines for salary and benefit cost charge offs, allowing for a "reasonable method" to do these staff costs.

We disagree with your conclusions and wish to note that your reference to FY 2005 as similar to FY 2002 through 2004 is incorrect. The Authority may not have expanded the Section 8 Program but did expand other non-HUD initiatives thus reducing charge offs to HUD programs.

Also, we do not believe your auditors considered the staff time involved in affiliated Section 8 Programs such as Family Self Sufficiency, Section 8 Homeownership, Mainstream, elderly/disabled in lieu of vouchers, Project Based Voucher Projects and Section 8 Counseling services, all of which require extensive supervising administration.

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Comment 1

Comment 2

Comment 3

Mr. John Buck
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April 17, 2006

Comment 4

Finding # 2

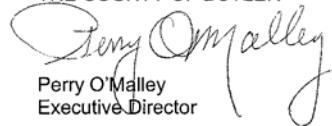
We disagree that we did not follow HUD requirements. As previously stated, three years of program administration and a 23 million dollars in expenditures resulted in possibly several staff clerical errors amounting to a total of \$1,600.

We are reviewing these files and will make the necessary corrections. With regard to Section 8 procedures, we have and will continue to use both HUD handbooks and our Administrative Plan as our procedure policy.

Finally, we appreciate the professionalism and courtesy extended by your staff and look forward to the opportunity to re-evaluate your findings with the Pittsburgh Area HUD office.

Sincerely,

HOUSING AUTHORITY OF
THE COUNTY OF BUTLER



Perry O'Malley
Executive Director

POM/kd

OIG Evaluation of Auditee Comments

- Comment 1** As stated in the audit report, HUD provided the Authority \$23.1 million over the four year period 2002 to 2005 for its tenant-based Section 8 program. Our audit included reviewing the Authority's administration of the program over that period. The results from our review were sufficient to demonstrate that there were systemic deficiencies that needed to be addressed. Accordingly, we recommended that the Authority develop and implement procedures and controls to improve its administration of the program.
- Comment 2** As stated in the audit report, we discussed this issue with the Authority during the audit. The Authority provided no documentation to support the questioned salary and benefit costs for years 2002 to 2004 nor did it provide documentation to support the expansion of its non-HUD initiatives in 2005 that would have affected salary and benefit costs that it charged to the Section 8 program.
- Comment 3** The auditors considered the documentation that the Authority provided to support its allocations of salary and benefit costs to the Section 8 program. The Authority is required to maintain complete and accurate books supported by records and documents permitting speedy and effective audit. The Authority did not provide documentation to demonstrate that the questioned costs were justified.
- Comment 4** As stated in the audit report, the Authority did not always follow HUD requirements. For example, based on our review of 21 client files, we found the Authority did not adequately document rent reasonableness decisions in 19 files (90 percent). Further, the Authority incorrectly calculated housing assistance and/or utility assistance payments in 8 files (38 percent). The frequency of these and the other deficiencies noted in our review calls for the Authority to establish procedures and strengthen its processes to improve the administration of its Section 8 program.