



Truth or Consequences, NM, Housing Authority

Low-Rent Public Housing



Issue Date: May 27, 2014

Audit Report Number: 2014-FW-1002

TO: Floyd R. Duran
Program Center Coordinator, Office of Public Housing, 6BPHO

//signed//

FROM: Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The Truth or Consequences Housing Authority's Financial Controls Were Not Adequate To Ensure That It Used Its Low-Rent Funds Appropriately

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Truth or Consequence Housing Authority's use of Authority assets.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (817) 978-9309.



May 27, 2014

The Truth or Consequences Housing Authority's Financial Controls Were Not Adequate To Ensure That It Used Its Low-Rent Funds Appropriately

Highlights

Audit Report 2014-FW-1002

What We Audited and Why

We audited the Truth of Consequences Housing Authority of Truth or Consequences, NM, in response to an anonymous complaint alleging that the Authority inappropriately transferred ownership of some of its properties to the New Mexico Housing and Community Development Corporation and used its assets to support the Corporation's activities. Our audit objective was to determine whether the Authority had adequate controls to ensure that it complied with its annual contributions contract and other U.S. Department of Housing and Urban Development (HUD) requirements.

What We Recommend

We recommend that HUD require the Authority to (1) develop and implement supported cost allocation methods for its maintenance labor and administrative salaries and update them annually or charge the appropriate programs based on actual costs, and (2) discontinue using its low-rent public housing fund as a general fund to pay costs associated with its business activities until it has established appropriate controls.

What We Found

We did not find an indication that the Authority improperly transferred ownership of properties to the Corporation. However, the Authority could not support \$267,633 in maintenance labor and \$327,478 in administrative salary expense cost allocation percentages. As a result, it could not ensure that the maintenance labor and administrative salaries charged to its low-rent public housing were appropriate. This condition occurred because the Authority's financial controls were not adequate to ensure that it properly allocated costs.

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BACKGROUND AND OBJECTIVES

The Truth or Consequences Housing Authority incorporated under the laws of the State of New Mexico on December 13, 1963. It operates under the governance of a five-member board of commissioners appointed by the mayor. The board oversees the executive director, who manages the Authority’s operations.

The Authority created a nonprofit, the New Mexico Housing and Community Development Corporation, to develop and provide decent, safe, and sanitary housing for low- and moderate-income families and individuals, including the elderly, handicapped, and disabled. The executive director headed both the Authority and Corporation until 2006. On June 30, 2006, the executive director requested a waiver to retire and continue performing executive director type services as a professional services contractor. The U.S. Department of Housing and Urban Development (HUD) denied the waiver. The executive director retired from the Authority on July 31, 2006, but continued to be the president of the Corporation.

In April 2004 and March 2006, the Corporation purchased eight multifamily properties. The eight properties were designed for low- to moderate-income individuals. The Authority provided maintenance and administrative support for 362 Section 8 project-based units at the properties and collected management agent fees from the Corporation for managing them. The Authority also owns and manages 100 low-rent public housing units and 52 rural development units. It administers 190 housing choice and mainstream vouchers.

The Authority received funding from HUD and other sources to administer its HUD programs as shown in the table below.

Authority sources of funds

| Program | Restricted amount (program activities only) | Unrestricted amount (any Authority use) |
|-------------------------|--|--|
| Vouchers | \$2,159,105 | |
| Administrative fees | 241,285 | |
| Capital funds | 346,080 | |
| Low-rent public housing | | |
| • Operating subsidy | 294,842 | |
| • Public housing rents | 715,084 | |
| Management agent fees | | \$413,712 |
| Totals | \$3,756,396 | \$413,712 |

Our audit objective was to determine whether the Authority had adequate controls to ensure that it complied with its annual contributions contract and other HUD requirements.

RESULTS OF AUDIT

Finding: The Truth or Consequences Housing Authority's Financial Controls Were Not Adequate To Ensure That It Used Its Low-Rent Public Housing Funds Appropriately

The Authority could not support its maintenance labor and administrative salary expense cost allocation percentages. Specifically, Authority staff did not maintain documentation to support the Authority's allocation percentages. This condition occurred because the Authority did not implement adequate financial controls to ensure that it used its low-rent public housing funds in accordance with its annual contributions contract and HUD requirements. As a result, it could not ensure that maintenance labor and administrative salaries charged to its low-rent public housing between April 1, 2010, and March 31, 2013, were appropriate.

The Authority Could Not Ensure That Maintenance Labor and Administrative Salary Charges to Its Low-Rent Funds Were Appropriate

The Authority used its low-rent public housing fund as a general fund to pay costs associated with its business activities, including public housing and management agent activities. However, it did not implement appropriate systems to ensure that its programs and the Corporation repaid the low-rent public housing fund for maintenance and administrative salary expenses at appropriate rates.

Maintenance Labor Expenses

While the Authority charged overtime directly to its and the Corporation's developments, it allocated regular maintenance labor expenses. However, maintenance staff timesheets did not differentiate between regular time spent on public housing developments and regular time spent on management agent developments; thus, the Authority could not determine the actual labor costs to be charged to the various developments. For example, the partial timesheet in exhibit 1 shows that a staff member worked 8 hours per day from Monday through Friday, but it does not show which developments the staff member worked on. According to the maintenance supervisor, the Authority did not have documentation, including work orders, to show where maintenance staff worked during their normal day.

Exhibit 1: Maintenance timesheet

| Office Truth or Consequences Housing Authority | | | | | | | | | | | | |
|--|-----------------------|------|------|------|------|------|------|------|------|------|------|------|
| Employee: | [REDACTED] | | | | | | | | | | | |
| Pay Period | 6/24/2012 to 7/7/2012 | | | | | | | | | | | |
| Pay Date | 7/13/2012 | | | | | | | | | | | |
| Date: | SU | M | TU | W | TH | F | SA | SU | M | TU | W | TH |
| | 6/24 | 6/25 | 6/26 | 6/27 | 6/28 | 6/29 | 6/30 | 7/1 | 7/2 | 7/3 | 7/4 | 7/5 |
| Actual Hours Worked | 0.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 0.00 | 0.00 | 8.00 | 8.00 | 8.00 | 8.00 |
| O/T Hours Beyond 40/week | | | | | | | | | | | | |
| Maint. Callout OT | | | | | | | | 2.00 | | 2.00 | | |
| Holiday | | | | | | | | | | | | |

In contrast, the overtime recorded on July 1 and July 3 in the maintenance timesheet was supported by the work orders in exhibit 2. The work orders show which development the employee worked at.

Exhibit 2: Work orders

| Project: FHA for Puesta del Sol | Project: Tradewinds Carriage | | | | | | | | | | | | | | | | | | | | | | | | |
|--|------------------------------|-------|-------------|-------|-------------|-------|----------------|------|------|------|----------------|------|---|-----------------|-------|-------------|-------|-------------|-------|----------------|-------|------|------|----------------|-------|
| <p>Unit #: [REDACTED] Project #: FHA Account #: PUESTA Deferred for Contract Maintenance? No Authorization to Enter Residence? Yes</p> <table border="1"> <tr> <td>Materials Cost:</td> <td>15.49</td> </tr> <tr> <td>Labor Cost:</td> <td>30.00</td> </tr> <tr> <td>Total Cost:</td> <td>45.49</td> </tr> <tr> <td>Total Charges:</td> <td>0.00</td> </tr> <tr> <td>Tax:</td> <td>0.00</td> </tr> <tr> <td>Tenant Charge:</td> <td>0.00</td> </tr> </table> | Materials Cost: | 15.49 | Labor Cost: | 30.00 | Total Cost: | 45.49 | Total Charges: | 0.00 | Tax: | 0.00 | Tenant Charge: | 0.00 | <p>Unit #: [REDACTED] Project #: TWC Account #: [REDACTED] Deferred for Contract Maintenance? No Authorization to Enter Residence? Yes</p> <table border="1"> <tr> <td>Materials Cost:</td> <td>16.00</td> </tr> <tr> <td>Labor Cost:</td> <td>60.00</td> </tr> <tr> <td>Total Cost:</td> <td>76.00</td> </tr> <tr> <td>Total Charges:</td> <td>16.00</td> </tr> <tr> <td>Tax:</td> <td>0.00</td> </tr> <tr> <td>Tenant Charge:</td> <td>16.00</td> </tr> </table> | Materials Cost: | 16.00 | Labor Cost: | 60.00 | Total Cost: | 76.00 | Total Charges: | 16.00 | Tax: | 0.00 | Tenant Charge: | 16.00 |
| Materials Cost: | 15.49 | | | | | | | | | | | | | | | | | | | | | | | | |
| Labor Cost: | 30.00 | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Cost: | 45.49 | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Charges: | 0.00 | | | | | | | | | | | | | | | | | | | | | | | | |
| Tax: | 0.00 | | | | | | | | | | | | | | | | | | | | | | | | |
| Tenant Charge: | 0.00 | | | | | | | | | | | | | | | | | | | | | | | | |
| Materials Cost: | 16.00 | | | | | | | | | | | | | | | | | | | | | | | | |
| Labor Cost: | 60.00 | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Cost: | 76.00 | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Charges: | 16.00 | | | | | | | | | | | | | | | | | | | | | | | | |
| Tax: | 0.00 | | | | | | | | | | | | | | | | | | | | | | | | |
| Tenant Charge: | 16.00 | | | | | | | | | | | | | | | | | | | | | | | | |

Since the Authority did not determine the actual time charged to each development, it used allocation percentages for its maintenance labor expenses. The Authority provided copies of its 2010, 2011, and 2012 allocation tables but could not support the basis for the percentages or the changes in the percentages from year to year. For example, the allocation percentage for the maintenance supervisor decreased from 30 percent charged to the low-rent program in 2010 and 2011 to 20 percent in 2012. However, there was no support for the percentages or why they changed. According to the Authority’s general ledger, it spent \$873,923 in low-rent public housing funds for maintenance labor between April 1, 2010, and March 31, 2012. It reimbursed its low-rent account \$606,290 from other programs through invoices during that period. The remaining \$267,633 paid from the low-rent public housing fund was not supported by a cost allocation plan that included a supportable basis for the percentages charged to the various developments.

Administrative Salary Expenses

The Authority allocated administrative salaries and benefits to its housing programs but did not have supporting documentation for the allocation percentages. The 2010, 2011, and 2012 cost allocation tables showed that percentages changed during those years. For example, the executive director's allocation to public housing increased from 15 percent in 2010 to 34 percent in 2012, but the executive director, finance manager, finance assistant, and fee accountant admitted that the Authority did not have support for the percentages. Therefore, the Authority could not ensure that its low-rent public housing funds were charged appropriately for administrative salaries. This condition occurred because the Authority did not require its staff to track actual time spent per project, separating its public housing activities from its non-public housing management activities. According to the Authority's general ledger, it paid \$859,532 in low-rent public housing funds for all administrative salaries between April 1, 2010, and March 31, 2012. It reimbursed \$532,054 in administrative salaries from other programs through invoices for that period. Because it could not support its allocation percentages, it could not ensure that the balance of \$327,478 paid from low-rent public housing funds was appropriate.

According to the 2 CFR (Code of Federal Regulations) Part 225, section C, Basic Guidelines, "All activities which benefit from the governmental unit's indirect cost ... will receive an appropriate allocation of indirect costs." Further, the section requires costs to be necessary and reasonable; allocable; consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit; and adequately documented.

Conclusion

The Authority did not have support for its 2010, 2011, and 2012 cost allocation percentages. Therefore, it could not ensure that it appropriately charged maintenance labor and administrative salaries to its low-rent public housing fund from April 1, 2010, through March 31, 2012. Since we did not perform an analysis to determine the appropriate percentages of costs to be allocated to the various programs, we are not recommending repayment of amounts charged to the low-rent public housing fund. However, the Authority must develop and implement supportable cost allocation percentages or charge the costs based on actual costs to ensure that only appropriate amounts are charged to its programs.

Recommendations

We recommend that the Program Center Coordinator, Office of Public Housing, Albuquerque, NM, require the Authority to

- 1A. Develop and implement supported cost allocation percentages for its maintenance labor and administrative salaries and update them annually or charge the appropriate programs based on actual costs.
- 1B. Discontinue using its low-rent public housing fund as a general fund to pay costs associated with its business activities until it has established appropriate controls.

SCOPE AND METHODOLOGY

We performed the audit at our offices in Albuquerque, NM, and the Authority's offices in Truth or Consequences, NM, from May 2013 through March 2014. The review period included April 1, 2010, through March 31, 2013.

To accomplish our objective, we performed the following related to the Authority's programs:

- Reviewed and obtained an understanding of relevant laws and program regulations and the Authority's policies and procedures.
- Reviewed and analyzed the Authority's
 - Audited financial statements and prior HUD monitoring reviews,
 - Budget,
 - Administrative and financial operations activities, and
 - Mortgage and management agreements.
- Interviewed the Authority's management and staff and HUD staff to obtain an understanding of the Authority's background, grants, and operations.
- Reviewed applicable Authority board minutes.
- Analyzed the Authority's compliance with its annual contributions contract related to its use of HUD funds.
- Reviewed the data in the Authority's QuickBooks 2010 system as it related to our audit objective. We did not evaluate the reliability of the data because we used the data for background purposes only.
- Conducted site visits to the Authority's two rural developments, two public housing developments, one Section 8 project-based apartment development for the elderly and disabled, and one HUD-assisted Section 8 project-based apartment development.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.


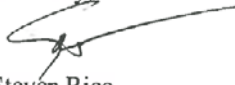

APPENDIXES

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

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|  <p>Truth or Consequences HOUSING AUTHORITY</p> <p>May 14, 2014</p> <p>Mr. Gerald R. Kirkland Regional Inspector General for Audit US Department of HUD – Office of Audit (Region 6) 819 Taylor Street, Ste 13A09 Fort Worth, TX 76102</p> <p>RE: Auditee Comments</p> <p>Dear Mr. Kirkland,</p> <p>Attached please find the Truth or Consequences Housing Authority's comments regarding the HUD OIG draft report.</p> <p>We appreciate the opportunity to provide you additional information for consideration in regards to the finding and recommendations of the audit. We look forward to working with the Office of Audit and the HUD Albuquerque field office to resolve any and all concerns.</p> <p>Sincerely,  Steven Rice Executive Director Truth or Consequences Housing Authority</p> <p>Cc: Floyd Duran, HUD Albuquerque Field Office Jacob Williams, Assistant Regional Inspector General, Office of Audit Roleen Milton, Auditor, HUD OIGA</p> <p> 108 S. Cedar T or C, NM 87901 - Ph: 575-894-2244 Fax: 575-894-0756 TDD/TTY 1-800-659-8331 www.torchousing.org</p> |
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Appendix A

Auditee Comments and OIG'S Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1

Comment 1:

1a. The Truth or Consequences Housing Authority (TCHA) remains vigilant in pro-actively addressing any concerns, issues, or deficiencies noted by oversight agencies and partners. TCHA agrees to work with the Albuquerque field office for the approval of the documented financial policies and controls being implemented to ensure that the cost allocation percentages of maintenance labor and administrative salaries are appropriate.

Comment 2

Comment 2:

1b. With the July 1, 2014 beginning of the new 2015 fiscal year, the Truth or Consequences Housing Authority will cease to use the T or C Public Housing general operating account as a general fund. A new T or C Housing Authority – RTO account has been opened to operate as a general fund to pay costs associated with business activities.

OIG Evaluation of Auditee Comments

Comment 1 The Authority agreed to work with the Albuquerque Field Office to ensure that its cost allocation percentages for maintenance labor and administrative salaries are appropriate. The Authority also provided a copy of its fiscal year 2015 proposed cost allocation percentages, which we did not include in the report.

The Authority should obtain HUD approval of the allocation percentages prior to their implementation.

Comment 2 The Authority stated that it would cease using its Public Housing general operating account as a general fund at the beginning of its next fiscal year on July 1, 2014. Instead, it would start using a non-federally funded account to pay costs associated with its business activities.

In addition to ceasing the use of the Public Housing operating fund as a general fund, the Authority needs to establish appropriate controls over the account to ensure that it is only used to pay public housing expenses.