



Waterbury Housing Authority, Waterbury, CT

Allocation of Costs to Asset Management Projects



To: Jennifer Gottlieb Elazhari
Program Center Coordinator, Office of Public and Indian Housing, Hartford Field
Office, 1EPHP

//SIGNED//

From: Edward Jeye
Regional Inspector General for Audit, Boston Region, 1AGA

Subject: Allocation of Costs to the Waterbury Housing Authority Asset Management
Projects Was Generally Supported

Attached is the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General's (OIG's) final results of our review of the Waterbury Housing Authority's asset management projects.

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 this 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 (617) 994-8380.



Audit Report Number: 2015-BO-1004

Date: September 30, 2015

Allocation of Costs to the Waterbury Housing Authority Asset Management Projects Was Generally Supported

Highlights

What We Audited and Why

We audited the Waterbury Housing Authority's administration of its asset management projects based on a risk assessment that considered the U.S. Department of Housing and Urban Development's (HUD) risk assessment and the Authority's funding and number of asset management units. Our overall audit objective was to determine whether Authority officials ensured that expenses charged to the Authority's asset management projects complied with HUD regulations.

What We Found

Authority officials generally supported the allocation of costs of more than \$10 million to the asset management projects. While adequate controls were established and implemented to ensure that costs charged to the projects were supported, the allocation of one employee's salary to the projects was not adequately supported. This deficiency occurred because the Authority lacked adequate procedures to track employee time spent on frontline and nonfrontline activities to ensure that employee time was appropriately charged between its asset management projects and central office cost center. As a result, one employee's salary of \$169,081, allocated to the projects, was not adequately supported.

What We Recommend

We recommend that the program center coordinator of HUD's Hartford Office of Public and Indian Housing require the Authority to support \$169,081 in salary costs charged to the asset management projects or repay any unsupported amount from non-Federal funds.

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Background and Objectives

The Waterbury Housing Authority in Waterbury, CT, was created under section 8-40 of the Connecticut General Statutes to provide low-income housing for qualified individuals. The Authority is governed by a five-member board of commissioners, which appoints an executive director to manage the day-to-day operations of the Authority. In fiscal year 2014, the Authority received approximately \$4 million in operating funds from the U.S. Department of Housing and Urban Development (HUD) to assist in administering its 785 low-rent public housing units and employed 33 full-time staff members.

Regulations at 24 CFR (Code of Federal Regulations) Part 990 established requirements for public housing agencies to convert to asset management. Agencies with 250 or more units must convert to asset management, while agencies with fewer than 250 units may voluntarily convert to asset management. One of the major provisions under asset management is the requirement that public housing agencies charge a reasonable management fee to projects and programs for central office costs.

The Authority converted to asset management in fiscal year 2008, using the indirect allocation method under which costs were tracked through its central office cost center and allocated to its asset management projects. In fiscal year 2012, the Authority implemented a fee-for-service methodology for all of its projects and programs, by which the cost of providing management services is accumulated by its central office cost centers. The cost center charges and collects fees from the projects (HUD establishes the type and amount of fees that public housing agencies may charge to their projects).

Our audit objective was to determine whether Authority officials ensured that expenses charged to the Authority's asset management projects complied with HUD regulations.

Results of Audit

Finding: Allocation of Costs Among the Asset Management Projects Was Generally Supported

Authority officials generally supported the allocation of more than \$10 million to their asset management projects; however, they did not adequately support the allocation of one employee's salary. This deficiency occurred because the Authority lacked adequate procedures to track employee time spent on frontline and nonfrontline activities to ensure that employee time was appropriately charged between its asset management projects and central office cost center. As a result, the salary cost of \$169,081, allocated to the projects in fiscal years 2012 through 2014, was not adequately supported.

Costs Allocated to the Asset Management Projects Were Generally Supported

The review of salary allocations to the asset management projects disclosed that Authority officials adequately supported the allocation of salary costs of approximately \$3 million but did not adequately support the allocation of one employee's salary. While the employee's salary was allocated 100 percent to the projects as a percentage of units, the employee's position included activities that should have been charged to the central office cost center. The Supplement to HUD Handbook 7475.1, REV, CHG 1, Financial Management Handbook, provides that a public housing agency with personnel who provide shared resources to asset management projects and the central office cost center needs to separate the amount of time spent on providing services to the projects and the cost center based on a reasonable methodology. Also, HUD Handbook 4381.5, Management Agent Handbook, chapter 6, "requires that an agent that employs staff at a property must develop a job description for each generalist position outlining the frontline and non-frontline¹ responsibilities of each position, and document hours spent and duties performed on frontline activities for each project and those spent on the central office functions."

In fiscal years 2012 and 2013, the employee held the position of modernization coordinator, and in fiscal year 2014, the employee held the position of operations assistant. The job descriptions under both positions included tasks that were reasonably identified as central office functions. For example, the duties of the modernization coordinator included budgeting, procurement of construction, and preparation of quarterly reports. These duties should have been paid from the central office cost center's Public Housing Capital Fund management fee. In addition, the operations assistant duties included trips to the bank, pickup and delivery of mail, maintenance

¹ Frontline responsibilities include activities directly related to the project, such as legal, auditing, and maintenance services that may be charged to the project operating account. Costs for services that are nonfrontline, such as Authority supervisory staff, must be paid out of management fee funds.

of the Authority's fleet, and ensuring that supply rooms were stocked. These duties should have been paid from the cost center's property management fee. This condition occurred because the Authority lacked adequate procedures to track and appropriately allocate employee activities between asset management projects and its central office cost center. The Authority tracked employee hours, but did not support the hours spent on each activity. As a result, the salary cost of \$169,081, allocated to the projects for one employee, was not adequately supported.

Recommendations

We recommend that the program center coordinator of HUD's Hartford Office of Public and Indian Housing require the Authority to

- 1A. Provide documentation to support that the \$169,081 paid to the employee, who served as the modernization coordinator in fiscal years 2012 and 2013 and the operations assistant in fiscal year 2014, was allocated properly to the asset management projects. Any unsupported amounts should be repaid from non-Federal funds.
- 1B. Strengthen controls over tracking the time and the allocation of salary for employees whose job descriptions include both frontline and nonfrontline duties to ensure that costs are properly charged to asset management projects and the central office cost center.

Scope and Methodology

The audit focused on whether Authority officials ensured that expenses charged to the Authority's asset management projects complied with HUD regulations. We performed audit fieldwork from March to June 2015 at the Authority, 2 Lakewood Road, Waterbury, CT. Our audit covered the period July 2011 through June 2014 and was extended when necessary to meet our audit objective.

To accomplish our objective, we

- Reviewed applicable laws, regulations, HUD handbooks, HUD notices, and the Authority's policies and procedures.
- Interviewed Authority officials to gain an understanding of the organizational structure and management of the asset management projects.
- Reviewed independent public accountant and HUD monitoring reports.
- Reviewed the board of commissioners' meeting minutes.
- Analyzed job descriptions and \$3 million in salary allocated to the asset management projects from July 2011 through June 2014 to evaluate the reasonableness of the allocation.
- Reviewed the approximately \$3.4 million in fees charged by the central office cost center to the asset management projects for property management, book-keeping, asset management, and Housing Choice Voucher program fees from July 2011 through June 2014 to evaluate the reasonableness of these fees.
- Reviewed approximately \$3.1 million in employee benefits charged to the asset management projects from July 2011 through June 2014 to evaluate the reasonableness of these charges.
- Sampled six maintenance contracts to determine whether the contracts were properly procured and the costs were eligible.
- Sampled \$80,168 of the \$250,723 in legal costs incurred by the asset management projects from July 2011 through June 2014 to determine whether costs were reasonably allocated to the projects.
- Reviewed workmen's compensation costs of \$218,871 charged in fiscal years 2013 and 2014 and property insurance costs of \$162,085 charged in fiscal year 2014 to

determine whether these costs were allocated reasonably to the asset management projects.

- We limited our assessment of the reliability of the Authority's accounting data to the data sampled, which reconciled to supporting documentation; therefore, we did not assess the reliability of the Authority's computer processed data.

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.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives, with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Effectiveness and efficiency of operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Reliability of financial data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resources use is consistent with laws and regulations.
- Safeguarding of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and abuse.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or the employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

We evaluated internal controls related to the audit objectives in accordance with generally accepted government auditing standards. Our evaluation of internal controls was not designed to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the City's internal control as a whole.

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 1/
1A	\$169,081
Total	\$169,081

- 1/ 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 the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, may involve a legal interpretation or clarification of departmental policies and procedures.


Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

Comment 1


**HOUSING AUTHORITY OF THE CITY OF
WATERBURY**
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Waterbury, Connecticut 06704
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EXECUTIVE DIRECTOR
VINCENT SICA
DEPUTY DIRECTOR

September 23, 2015


Edward Jeye, Regional Inspector General for Audit
US Department of Housing & Urban Development
Office of Audit, Boston Region 1
10 Causeway Street, Room 370
Boston, MA 02222-1092

Dear Mr. Jeye:

The Waterbury Housing Authority agrees to the finding as written within the report dated September 18, 2015 and as explained at the exit conference at the Waterbury Housing Authority's Executive Director's office on September 23, 2015. We do agree that the employee's charges to projects were not properly supported by timesheets when the charges were made but we do believe that roughly 80% of the employee's time was properly charged to the projects during the period of time in question.

We are working on supporting this claim and should have that to the HUD Hartford Area Office within two weeks with supporting documentation and narrative explaining and supporting the charges to the projects. In addition, the Authority no longer utilizes such a position and all salary and benefit costs are directly charges to projects and programs as employees work at those places. No costs are just charged by unit count without support.

Sincerely,


Robert Cappelletti
Executive Director

Cc: Jennifer Gottlieb-Elazhari
File

OIG Evaluation of Auditee Comments

Comment 1 Agency officials agreed that employee charges to the projects were not properly supported and believe that approximately 80 percent of the questioned costs were eligible costs to the projects. They said they will provide documentation to HUD to support those costs. Consequently, the auditee's planned actions are responsive to the report recommendations, which will be resolved with HUD during the audit resolution process.