



Issue Date	October 1, 2008
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Audit Report Number	2009-BO-1001
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TO: Robert P. Cwieka, Acting Director, Office of Public Housing, Boston Hub, 1APH

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

SUBJECT: The Taunton Housing Authority, Taunton, Massachusetts, Needs to Improve Accounting for Its Interprogram Funds

HIGHLIGHTS

What We Audited and Why

We audited the Housing Choice Voucher (Voucher) program at the Taunton Housing Authority (Authority) as part of our annual audit plan. The overall audit objective was to determine whether the Authority efficiently administered its Voucher program in compliance with its annual contributions contract and U.S. Department of Housing and Urban Development (HUD) regulations. Our specific objectives were to determine whether the Authority used Voucher program funds only for the administration of the program and whether interprogram fund transactions were properly accounted for and reported.

What We Found

The Authority generally administered the Voucher program efficiently and effectively and in compliance with its annual contributions contract and HUD regulations. However, it could not readily identify whether Voucher program funds were used only for the administration of the program because it did not properly account for and report interprogram fund transactions. The Authority did not properly account for and report interprogram fund transactions between its

federal and state programs, resulting in \$593,418 in unsupported transactions recorded in its program accounts.

What We Recommend

We recommend that HUD require the Authority to provide support for \$593,418 in interprogram fund transactions that were out of balance between federal and state programs and implement procedures for recording and reconciling interprogram transactions and correcting imbalances. We also recommend that HUD require the Authority to establish controls to ensure that all interprogram transactions are recorded and reconciled monthly.

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

Auditee's Response

We provided the Authority a draft report on September 10, 2008, and held an exit conference with officials on September 17, 2008. The Authority provided written comments on September 26, 2008. It generally agreed with our recommendations and has taken corrective actions that should eliminate the condition noted in this report. 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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BACKGROUND AND OBJECTIVES

The United States Housing Act of 1937 established the 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. The U.S. Department of Housing and Urban Development (HUD) was created in 1965 to disperse funds to public housing agencies under annual contributions 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, created the Section 8 Housing Choice Voucher tenant-based program (Voucher program). The Voucher program is funded by HUD and allows public housing authorities to pay HUD subsidies directly to housing owners on behalf of the assisted family.

The Voucher program and a low-rent housing program are administered by the Taunton Housing Authority (Authority) for the City of Taunton, Massachusetts. HUD contracts with the Authority to administer 665 low-income units through annual contributions contracts.¹ The Authority received \$14.3 million in Voucher program funds during the period January 1, 2006, through December 31, 2007, and earned approximately \$1.2 million in administrative fees. The annual contributions contract requires the Authority to follow appropriation laws, HUD requirements including public housing notices, and the Authority's administrative plan.

The principal staff member of the Authority is the executive director, who is appointed by the Authority's board of commissioners (board). The executive director is directly responsible for carrying out the policies established by the board and is delegated the responsibility for hiring, training, and supervising the remainder of the Authority's staff to manage the day-to-day operations of the Authority and to ensure compliance with federal and state laws and directives for the programs managed.

Our overall audit objective was to determine whether the Authority effectively and efficiently administered its Voucher program in compliance with its annual contributions contracts and HUD regulations. Specifically, we wanted to determine whether the Authority used Voucher program funds only for the administration of the program and whether interprogram fund transactions were properly accounted for and reported.

¹ As of December 1, 2007.

RESULTS OF AUDIT

Finding 1: The Authority's Accounting for Interprogram Funds Was Inadequate

The Authority's interprogram receivables and payables accounts among the various programs administered by the Authority were routinely out of balance. These imbalances occurred because the Authority did not see the necessity of reconciling the interprogram account balances among programs monthly. Therefore, it did not have written procedures in place to reconcile the interprogram accounts or to analyze and correct imbalances. As a result, it did not have support for \$593,418 recorded in the interprogram accounts between its federal and state programs. This deficiency could result in a misstatement of program revenues or expenses.

The Authority Did Not Properly Account for Interprogram Funds

The Authority used its Voucher program account as a revolving fund to make all of its vendor payments. All other federal and state programs made monthly advances of funds based on budgeted allocations to the revolving fund to make the vendor payments. These other programs also reimbursed the revolving fund monthly in arrears for a share of the monthly expenditures. However, this practice resulted in a buildup of due from/due to amounts because the expenditures and revenues were not reconciled back to the other program accounts. Therefore, the Authority's accounting procedures did not always readily identify whether the Authority used its Voucher program funds only for the administration of the program because it did not properly account for and report interprogram fund transactions. The Authority's interprogram receivables and payables accounts among the various programs administered by the Authority were routinely out of balance.

The Authority had an ongoing issue with regard to balancing the interprogram receivables and payables among its federal and state programs. However, an equal interprogram payable on another program's ledger should have offset each interprogram receivable. Our review disclosed that at the end of fiscal years 2006 and 2007, the average owed due from/due to the revolving fund for the federal and state programs totaled \$593,418 as outlined in appendix C.

The Authority's fee accountant and the director of finance acknowledged that there was approximately \$593,418 (\$290,509 in 2006 and \$302,909 in 2007) in interprogram fund transfers that were out of balance between the federal and state programs. They also agreed that for every program with a receivable due from

another program, the other program should have a corresponding payable and vice versa.

The imbalances in the interprogram accounts occurred because the Authority did not initially see the necessity of reconciling the interprogram account balances among programs monthly. Therefore, it did not have written procedures in place to reconcile the interprogram accounts or analyze and correct imbalances. As a result, the Authority did not have support for \$593,418 in interprogram account balances that were out of balance between its federal and state programs. These imbalances could result in a misstatement of program revenues or expenses.

Conclusion

The Authority needs to implement stronger controls over interfund transfers between its federal and state accounts by conducting a monthly reconciliation of the interfund transfers. These controls will help to ensure that the Authority properly accounts for all of its federal funds and provide assurance to HUD that the Authority has appropriately allocated all of its costs to its respective federal or state programs.

Recommendations

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

- 1A. Provide support for \$593,418 in interprogram transactions that were out of balance between federal and state programs.
- 1B. Implement procedures for recording and reconciling interprogram transactions and to correct imbalances.
- 1C. Conduct followup reviews periodically to ensure that monthly reconciliations are performed as needed.

SCOPE AND METHODOLOGY

We conducted the audit between March and August 2008. Our fieldwork was conducted at the Authority's main office located at 30 Olney Street, Taunton, Massachusetts. In addition, we performed a sample of physical inspections of tenant units throughout the city of Taunton. Our audit covered the period January 1, 2006, to December 31, 2007, and extended when necessary to meet our objective. To accomplish our audit objective, we

- Interviewed the Authority's executive director, finance director, fee accountant, and independent public accountant to determine policies and procedures to be tested;
- Reviewed the financial statements, general ledgers, and cost allocation plans as part of our testing for control weaknesses;
- Reviewed program requirements including federal laws and regulations, Office of Management and Budget circulars, the consolidated annual contributions contract between the Authority and HUD, and the Authority's administrative plan to determine its compliance with applicable HUD procedures;
- For the period January 2006 through December 2007, developed an Excel spreadsheet by month(s) that provides (1) amount of advances to federal/state programs, (2) amount of interfund receivables, (3) amount of interfund payables, and (4) disbursements made against these accounts to determine whether monthly adjustments were made to the interprogram accounts.
- For the period January 2006 through December 2007, reviewed the Authority's accounting controls over cost allocations and interprogram borrowing to determine whether the Authority had accounting controls in place to safeguard its assets; and
- Summarized the results of our analyses.

We performed our review in accordance with generally accepted government auditing standards.

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:

- Controls over expenditures to ensure that they were eligible, necessary, and reasonable and
- Controls over accounting for cost allocations and interprogram receivables and payables.

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 item is a significant weakness:

- Control over accounting for interprogram receivables and payables (see finding 1).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Unsupported^{1/}</u>
1A	\$593,418

^{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 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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

TAUNTON HOUSING AUTHORITY
30 OLNEY STREET - SUITE B
TAUNTON, MASSACHUSETTS 02780-4141

TEL: (508) 823-6308
FAX: (508) 822-3460
TDD: 1-800-439-2370

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EXECUTIVE DIRECTOR
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September 25, 2008

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10 Causeway Street, Room 370
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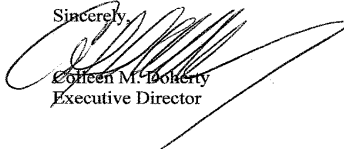
Dear Mr. Dvorak:

The Taunton Housing Authority wishes to respond to the Office of Inspector General Audit's report dated September 9, 2008. The report indicates that the Taunton Housing Authority's accounting for interprogram funds was inadequate and the Authority did not properly account for and report interprogram fund transactions between its federal and state programs. The Authority generally agrees with the finding and has taken action to correct the deficiencies outlined in the report.


The Authority has implemented procedures to reconcile the interprogram accounts between its state and federal programs. The Authority has created and currently utilizes an excel spreadsheet to track the Revolving Fund transactions and to ensure reimbursements are made on a monthly basis. Therefore the transactions of the revolving fund can be easily supported and reconciled monthly.

We appreciate the efforts of the Office of the Inspector General to assist us in achieving our management goals and objectives. We found the audit process to be efficient and helpful.

Should you desire further information please contact me directly at (508) 824-5441.

Sincerely,

Colleen M. Doherty
Executive Director

HOD-010
OFFICE OF AUDIT
BOSTON, MASSACHUSETTS
2008 SEP 26 AM 11:22
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OIG Evaluation of Auditee Comments

Comment 1 The Authority agreed with our audit and recommendations. The Authority has taken steps to correct the deficiency and plans to work with HUD on the corrective action needed to resolve the recommendations.

Appendix C

SCHEDULE OF INTERPROGRAM FUNDS 2006 -2007

Fiscal year ending	Federal programs			State programs ²				Average total
	17C	Section 8	Mobility	201A	State Mod	4001	Other State	
Dec. 31, 2006	\$189,784	\$-106,375	\$ 3,734	\$28,017	\$348,675	\$-232,803	\$ 59,477	\$290,509
Dec. 31, 2007	\$ 86,743	\$- 37,345	\$ 3,734	\$29,221	\$ 69,829	\$ 56,684	\$ 94,043	<u>\$302,909</u>
Totals								\$593,418

² State Programs Other (689-1, MRVP, 689-2 Development, Transitional, and SRO).

Appendix D

SELECTED CRITERIA FOR THE VOUCHER PROGRAM

Low Rent Consolidated Annual Contributions Contract

- **Section 9(C)** states, “the HA [housing authority] shall maintain records that identify the source and application of funds in such a manner as to allow HUD to determine that all funds are and have been expended in accordance with each specific program regulation and requirement. The HA may withdraw funds from the general fund only for: (1) the payment of costs of development and operations of the project under the Annual Contributions Contract with HUD; (2) the purchase of investment securities as approved by HUD; and (3) such other purposes may not be made for specific program in excess of funds available on deposit for that program.”
- **Section 10(C)**, states, “the HA shall not withdraw from any of the funds or accounts authorized amounts for the projects under the Annual Contributions Contract, or for the other projects or enterprises in excess of the amount then on deposit in respect thereto.”