




Issue Date December 13, 2010

Audit Report Number 2011-BO-1002

TO: Donna J. Ayala, Director, Office of Public Housing, Boston Hub, 1APH

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

SUBJECT: Brockton Housing Authority, Brockton, MA, Needs to Improve Controls over its Interprogram Fund Transactions and Housing Choice Voucher Program Procurements

HIGHLIGHTS

What We Audited and Why

We audited the Housing Choice Voucher program (Voucher program) at the Brockton Housing Authority (Authority) as part of our annual audit plan. The overall objective of the audit was to determine whether the Authority efficiently and effectively administered its Voucher program in compliance with its annual contributions contracts and U.S. Department of Housing and Urban Development (HUD) regulations. Our efforts focused on whether the Authority (1) used Voucher program funds only for the administration of the program and whether interprogram fund transactions were properly accounted for and reported; and (2) followed the HUD's procurement regulations and its own procurement policy.

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 did not conduct reconciliations to properly account for

and report interprogram fund transactions that occurred between its Federal and State programs during fiscal years 2008 and 2009. During the audit, the Authority's management was able to reconcile its fiscal year 2008 audited financial statement interprogram accounts of \$3.8 million between State and Federal programs. This reconciliation was accomplished by tracing the appropriate interfund amounts to corresponding State or Federal general ledger account numbers to ensure their accuracy. However, the Authority did not properly account for and report the remaining fiscal year 2009 interprogram fund transactions between its Federal and State programs, resulting in more than \$885,000 in unsupported transactions' being recorded in its program accounts before our audit was completed. In addition, the Authority could not provide support and justification for \$260,316 in Voucher program contracts to show that the contracts were properly awarded/documentated.

What We Recommend

We recommend that the Director of the Boston Office of Public Housing require the Authority to (1) provide support for more than \$885,000 in interprogram fund transactions that are out of balance between Federal and State programs and (2) provide support and justification for \$260,316 paid for contracts for inspection services and legal services or reimburse its operating funds from non-Federal funds for the applicable amounts.

For each recommendation without a management decision in the body of the report, 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 provided the Authority a draft report on December 6, 2010, and held an exit conference with officials on December 9, 2010. The Authority provided written comments on December 9, 2010, generally agreed with our findings and recommendations, and has taken some corrective actions that should eliminate the conditions 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.

TABLE OF CONTENTS

Background and Objectives	4
Results of Audit	
Finding 1: The Authority Did Not Reconcile Its Interprogram Fund Transactions	5
Finding 2: The Authority Failed To Comply With HUD Procurement Regulations and Its Own Procurement Policy	9
Scope and Methodology	13
Internal Controls	14
Appendixes	
A. Schedule of Questioned Costs	16
B. Auditee Comments and OIG's Evaluation	17
C. Restrictions of the Annual Contributions Contracts	20

BACKGROUND AND OBJECTIVES

The United States Housing Act of 1937 (Act) established the Federal framework for government-owned affordable housing. The Act also authorized public housing as the Nation's primary vehicle for providing jobs and building and providing subsidized housing through the U.S. Department of Housing and Urban Development (HUD). HUD disperses 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 Act was amended by the Quality Housing and Work Responsibility Act of 1998 to create 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 is administered by the Brockton Housing Authority (Authority) for the City of Brockton, MA. HUD contracts with the Authority to administer 2,057 housing voucher units through annual contributions contracts.¹ The Authority received \$16.6 million in Voucher program funds during the period January 1, 2008, through December 31, 2009, and earned administrative fees of approximately \$1.7 million during the same period. The annual contributions contracts require 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 hired and appointed by the board of commissioners. The executive director is directly responsible for carrying out the policies established by the commissioners and is delegated the responsibility for hiring, training, and supervising the remainder of the Authority's staff in order to manage the day-to-day operations of the Authority 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. Our specific audit objectives were to determine whether the Authority (1) used Voucher program funds only for the administration of the program and whether interprogram fund transactions were properly accounted for and reported and (2) whether the Authority followed HUD procurement regulations and its own procurement practices.

¹ As of December 31, 2009, the Authority had 915 Section 8 Voucher program tenant-based vouchers, 784 mobility vouchers, 84 Abington Housing Authority vouchers, 46 Stoughton Housing Authority vouchers, 214 Boston Housing Authority vouchers, and 14 Brockton Area Multi Service vouchers. Each housing authority has its own annual contributions contract, and the Authority has a contract with each agency to administer the vouchers on its behalf.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Reconcile Its Interprogram Fund Transactions

The audit disclosed that the Authority's Voucher and other HUD program's interprogram fund transactions had not been reconciled for fiscal years 2008 and 2009. This condition occurred because management had not implemented procedures and controls to ensure its federal program funds were only used to fund that program's expenditures, or address program account imbalances and ensure reconciliations were completed. This practice resulted in a buildup of due from/due to amounts because the expenditures and revenues were not reconciled and paid back to the proper program accounts. The imbalances in the interprogram accounts occurred because the Authority did not ensure that programs only paid costs associated with that specific program and had not initially understood the necessity for reconciling these accounts and did not reconcile the accounts accordingly. Therefore, it did not have written procedures in place to ensure proper use of program funds, or for reconciling the interprogram accounts or analyzing and correcting imbalances. The program account must be reconciled prior to making payments to ensure that the Voucher program only pays for that program's expenditures and other HUD programs pay only their costs. During the audit the Authority was able to reconcile the fiscal year 2008 fund imbalances totaling more than \$3.8 million and ensured expenditures were charged to the appropriate programs. However, the Authority could not support \$885,852 in transactions recorded in the interprogram accounts as of December 31, 2009, between its Federal and State programs and cannot provide HUD assurance that its Voucher program funds were only used for the Voucher program expenses.

The Authority Had Ongoing Issue With Interprogram Accounts

The Authority had not balanced its interprogram receivables and payables between its Federal and other programs.² Before our audit, the Authority had not made any effort to ensure federal program funds were used only for that specific program's costs, and did not reconcile the interprogram fund accounts for

² Federal programs – low-rent public housing, Voucher, Public Housing Capital Fund, and State and local programs.

programs it administered. Also, the Authority's accounting procedures did not always readily identify whether the Authority used its Voucher program funds only for the administration of that program because it did not properly account for and report interprogram fund transactions. The Authority's interprogram receivables and payables accounts for the various programs administered by it were routinely out of balance during fiscal years 2008 and 2009. This lack of reconciliation did not ensure the Authority's compliance with the annual contributions contracts for its HUD-funded housing programs that restrict the use of program funds for payment of expenses associated with those programs (see appendix C).

The Authority Had Initiated Corrective Actions

As a result of our audit, in August 2010, the Authority established detailed written interfund procedures. It now uses an excel spreadsheet, which incorporates all of the transactions that occur during the month that affect these balances either positively or negatively. This process includes all of the transactions of the Authority since everything flows through the revolving account general ledger and in turn affects the relevant ledgers with activity affecting particular programs. During our audit, the Authority's directors of finance and its fee accountant were able to reconcile and account for the \$3.8 million in interprogram transactions in fiscal year 2008. This reconciliation was verified by tracing the appropriate interfund amounts to the Authority's corresponding program general ledger account numbers to ensure their accuracy. Therefore, during the course of our audit, the Authority was able to account for the \$3.8 million balance of interprogram funds as of December 31, 2008.

The Authority and Its Fee Accountant Acknowledged Interprogram Account Transactions of \$885,852

The Authority's management and its fee accountant acknowledged that the Authority had interprogram due from/due to balances as of December 31, 2008, and December 31, 2009, of \$3.8 million and \$885,852, respectively. The imbalances in the interprogram accounts occurred because the Authority ensure that programs only paid costs associated with that specific program and had not initially understood the necessity for reconciling these accounts and did not reconcile the accounts accordingly. Therefore, it did not have written procedures in place to ensure proper use of program funds, or for reconciling the interprogram accounts or analyzing and correcting imbalances. As a result, it did not have support for the

\$885,852 in interprogram account balances that were out of balance between the programs it administered.

The Independent Public Auditor Fiscal Year 2009 Management Letter Revealed Improper Transactions

The independent public auditor, upon review of the unaudited financial data schedule submitted to HUD for the year ending December 31, 2009, disclosed that there were no interfund accounts reported. Its analysis revealed that certain receivables and payables were not properly classified on the schedule and, consequently, the interfunds were rolled into other current assets and current liabilities accounts. The independent public auditor concluded that these amounts should be reimbursed and zeroed out on a monthly consistent basis and all borrowed amounts should be repaid.

Conclusion

The Authority used funds in its Voucher program account to pay costs of all the programs it administered in violation of its annual contributions contracts. The annual contributions contracts restricts the use Voucher program funds and these funds can only be used to pay for expenses to administer the Voucher program. It also did not conduct reconciliations of the interprogram fund accounts to ensure that program revenue and expenses were charged to the applicable programs. However, during the course of our audit, the Authority established procedures and controls to account for its interprogram fund transfer transactions. Under the new procedures, the Authority employs a tracking excel spreadsheet to incorporate details of the activities occurring during the month which affect these balances either positively or negatively. These monthly reconciliations will help to ensure that the Authority properly accounts for all of its Federal funds and assure HUD that the Authority has appropriately allocated all of its costs to its Federal programs. However, it must also ensure that Voucher program funds are only used to pay the cost of administering the Voucher program and not paying costs of any other programs.

Recommendations

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

- 1A. Provide support for \$885,852 in interprogram transactions that were out of balance between its Federal and State programs or to include repayment from non federal funds for amounts not reported.
- 1B. Implement controls to ensure that Voucher program and other HUD programs funding are specifically used to pay only those costs of that specific program in accordance with its annual contributions contracts.

We also recommend that the Director of the Office of Public Housing

- 1C. Conduct follow-up reviews of the Authority periodically to ensure that monthly reconciliations are performed as needed.

RESULTS OF AUDIT

Finding 2: The Authority Failed To Comply With HUD Procurement Regulations and Its Own Procurement Policy

The audit identified several instances in which the Authority's procurement practices did not comply with HUD regulations and its own procurement policy. Specifically, the Authority failed to

- Maintain required Voucher program contracts for expired contracts,
- Maintain a contract log that distinguished between goods and services and maintenance contracts,
- Adequately document the method for conducting technical evaluations of proposals, and
- Update documentation for the delegation of procurement responsibilities.

These conditions occurred because the Authority's assistant executive director, who had been delegated responsibilities as contracting officer, did not fulfill all of his responsibilities for establishing and implementing effective management controls over the procurement process. As a result, HUD had no assurance that \$260,316 in leased inspection services and legal services procured from January 2008 through September 2010 were procured at a fair and equitable price and resulted in the best quality and/or pricing for goods and services obtained.

Maintain Required Voucher Program Contracts for Expired Contracts

24CFR Section 85.36(c) (1) requires that the Authority to conduct all procurements in a manner that provides full and open competition; and maintain sufficient records to show the history of the procurement

The Authority did not update or maintain contracts with two vendors. One was for leased housing inspections, and the other was for legal services. During our audit period, the authority purchased services provided by these two vendors, of which \$260,316 was charged to the Voucher program.

The expired contract for Voucher program housing inspections was signed and dated May 4, 1999. This contract expired before our audit period, but during our audit period (January 2008 to September 2010), the Authority purchased inspection services from this vendor totaling \$242,955.

The expired contract for legal services was signed and dated May 1, 2001. This contract had expired before our audit period, but during our audit period (January 2008 to September 2010); the Authority purchased legal services from this vendor, totaling \$17,361, that was paid for from the Voucher program. The total amount paid to these vendors from the Voucher program was \$260,316. The assistant executive director assured us that both of these contracts would be rebid.

Contract Logs Were Not Maintained

24 CFR 85.36(b) (2) requires that the Authority maintains a contract system, which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.

The Authority failed to maintain current, accurate, and complete contract logs. Some departments did not use one at all. Generally, the Authority's assistant executive director finalized all contracts. However, the communication among these individuals may not have been collaborative in nature. The assistant executive director acknowledged these issues and was instituting a centralized contract logging system.

Technical Evaluations Of Proposals Not Documented

The Authority did not consistently document in its requests for proposals the method for conducting technical evaluation of proposed services as required by 24 CFR 85.36(d) (3). Contracts were awarded according to evaluation criteria in the request for proposals. The Authority included an explanation of the point system that it used to technically evaluate each proposal; however, an explanation of the individual evaluations was documented in insufficient detail.

The Authority was required to have a method of fairly evaluating proposals to ensure that contracts were awarded to a responsible firm that is most advantageous to the program, with price and other factors considered. The assistant executive director assured us that there would be sufficient documentation to support the evaluations on future proposals.

Management Failed To Update Delegation of Authority for Procurement

HUD Handbook 7460.8 Rev 2 Chapter 2.3C established policies for the delegations of procurement authority (e.g., to the Executive Director). These policies should be included in the PHAs' written procurement policy. The Authority's assistant executive director (designated as the contracting officer) failed to update the file documents that indicated the proper delegation of procurement authority and responsibilities for procurement. Delegation forms that originated in 2001 were outdated, and two of the persons to whom procurement and contracting responsibilities had been delegated either were no longer in the employ of the Authority or had moved on to other positions. The assistant executive director acknowledged this situation. The Authority stated that updated delegation forms would be presented and approved at the next meeting of the board of commissioners.

Conclusion

The Authority failed to comply with Federal procurement requirements and its own procurement policies in contracting activities that required full and open competition. In addition, it failed to develop sufficient records and procedures to show the history and current status for the procurement of contracts and the delegation of procurement responsibilities. As a result, the Authority spent \$260,316 for inspections and legal services without knowing whether the price for the contracted services was reasonable. The Authority was in the process of implementing more effective management controls for procurement and contracting to ensure compliance with its own procurement policy and HUD regulations.

Recommendations

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

- 2A. Support the use of \$242,955 by rebidding expired Voucher program contracts for inspection services or reimburse its operating funds from non-Federal funds for the applicable amount.
- 2B. Support the use of \$17,361 by rebidding expired Voucher program contracts for legal services or reimburse its operating funds from non-Federal funds for the applicable amount.
- 2C. Maintain documentation supporting the basis for contracts awarded, including history of procurement and appropriate analysis and signed copies of contracts
- 2D. Maintain documentation supporting delegation of authority for those individuals responsible for procurements.
- 2E. Maintain a contract log that provides current, accurate and complete contract information.

SCOPE AND METHODOLOGY

We conducted the audit between July and October 2010. Our fieldwork was conducted at the Authority's main office located at 45 Goddard Road, Brockton, MA. Our audit covered the period January 1, 2008, to December 31, 2009, and was extended when necessary to meet our objectives. To accomplish our audit objectives, we

- Interviewed the Authority's executive director, assistant executive director, director of housing programs and neighborhood revitalization, leased housing administrator, rental assistance office manager, director of finance, management of information systems director, and fee accountant to determine policies and procedures to be tested;
- Reviewed the financial statements, general ledgers, tenant files, rent reasonableness data, 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 contracts between the Authority and HUD, and the Authority's administrative plan to determine its compliance with applicable HUD procedures;
- For the period January 2008 to September 2010, reviewed 100 percent of Voucher program contracts awarded and found that two of the four contracts reviewed were no longer in effect; and
- For the period January 2008 through December 2009, reviewed the Authority's management, accounting, and computer controls over cost allocations, interprogram fund transfers, mobility, abatements, procurement, and travel to determine whether the Authority had controls in place to safeguard its assets.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 objectives:

- Controls over tenant eligibility, calculating housing assistance payments, tenant payments, and utility allowances;
- Controls over rent reasonableness;
- Controls over housing quality standards inspections;
- Controls over expenditures to ensure that they are eligible, necessary, and reasonable;
- Controls over accounting for cost allocations and interprogram receivables and payables;
- Controls over procurements;
- Controls over travel expense vouchers;
- Controls over voucher use (eligibility, waiting lists, and use); and
- Controls over the Voucher program administrative plan.

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 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.

Significant Deficiencies

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

- Insufficient accounting controls and procedures for reconciling and clearing interprogram payables and receivables (see finding 1).
- Inadequate procurement documentation to support its procurement practices (see finding 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation number</u>	<u>Unsupported 1/</u>
1A	\$885,852
2A	\$242,955
2B	\$ 17,361
Total	\$1,146,168

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, 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



*Creating Windows
of Opportunity*

December 9, 2010

Ms. John A. Dvorak
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
O'Neill Federal Building
10 Causeway Street, Room 370
Boston, MA 02222-1092

RE: Audit Report Number 2010-BO-100X

Dear Mr. Dvorak:

I am writing to provide written comments to the Inspector General's Draft Audit 2010-BO-100X. The Authority has reviewed the draft audit and in general agrees with its findings and has taken the following steps to address the issues:

Comment 1

Finding #1: The Authority did not reconcile its interprogram transactions.

The Authority has reconciled the interprogram transactions for 2008 and is currently researching the interprogram transactions for 2009 and compiling the needed reports to show the accounts were reconciled as of December 31, 2009. This report will be provided to the Boston Office of Public Housing to verify the reconciliation.

As of August 31, 2010 the Authority put a reimbursement schedule spreadsheet in place to enter all activities in each General Ledger funds to give a timely report of interprogram transactions. This spreadsheet shows beginning balances in the revolving account, all checks, payroll, receipts and interfund transfers with an ending balance. This information will be used to eliminate the due to/due from balances and will be provided to the Boston Office of Public Housing to verify this issue has been addressed.

Comment 1

Finding #2: The Authority failed to comply with HUD Procurement regulations and its own Procurement Policy.

The Authority was operating with vendors, providing inspectional services and legal services with contracts that had expired. To address this, the Authority is re-bidding the Contract for

Timothy J. Sullivan, Chairman
Ernest Pettiford, Vice Chairman
Peter G. Asiof, Jr., Treasurer
Janet Trask, Member

Richard J. Sergi, Executive Director

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Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Mr. John A. Dvorak
December 9, 2010
Page 2

Inspectional Services. The deadline for responses is January 14, 2011 and it is anticipated that the contract will be awarded at the January 2011 Board Meeting.

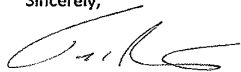
The Authority is also conducting a review and reasonableness study of the Contract for Legal Services and will complete this review in accordance with 24 CFR 85.36 prior to its January 2011 Board Meeting.

The Authority's Procurement Policy was updated at the October 28, 2010 Board Meeting to reflect the change in titles of the Chief Procurement Officer (CPO). The Assistant Executive Director is now appointed as the CPO and this designation has been filed with the Massachusetts Inspector General's Office. Delegation of Procurement Authority forms have also been filed which reflect the current organizational structure of the Authority.

The Authority has also created and is now maintaining a Central Contract Log that provides current, accurate and complete contract information. This log is maintained in the Executive offices by the Executive Secretary.

The staff found the review helpful and the Inspector General's auditors to be direct and forthright. We believe all concerns have been addressed and look forward to working with the Boston Office of Public Housing to close these findings.

Sincerely,



Thomas G. Thibeault
Assistant Executive Director

OIG Evaluation of Auditee Comments

Comment 1 The Authority agreed with our recommendations and will work with the office of Public Housing to implement the required corrective action for all the recommendations in the report.

Appendix C

RESTRICTIONS OF THE ANNUAL CONTRIBUTIONS CONTRACTS

The Voucher program’s consolidated annual contributions contract states:

Paragraphs 11(a), (b), and (c): “the HA [housing agency] must use program receipts to provide decent, safe, and sanitary housing for eligible families in compliance with the U.S. Housing Act of 1937 and all HUD requirements. Program receipts may only be used to pay program expenditures. The HA may not make any program expenditures, except in accordance with the HUD-approved budget estimate and supporting data for a program. Interest on the investment of program receipts constitutes program receipts.”

Paragraph 13(c): “the HA must only withdraw deposited program receipts for use in connection with the program in accordance with HUD requirements.”