



Somerville Housing Authority, Somerville, MA

Public Housing and Capital Fund Program Allocation of Costs to Asset Management Projects

Office of Audit, Region 1
Boston, MA

Audit Report Number: 2016-BO-1004
August 12, 2016



To: Marilyn O'Sullivan
Director, Office of Public and Indian Housing, Boston, 1APH

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

Subject: The Somerville Housing Authority, Somerville, MA, Did Not Always Support Its Allocation of Costs to Asset Management Projects

Attached are the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our audit of the Somerville Housing Authority's public housing and Public Housing Capital Fund programs and 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 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 contact Ann Henry, Assistant Regional Inspector General for Audit, at 617-994-8345, or me at 617-994-8380.



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The Somerville Housing Authority, Somerville, MA Did Not Always Support Its Allocation of Costs to Asset Management Projects

Highlights

What We Audited and Why

We audited the Somerville Housing Authority's public housing and Public Housing Capital Fund programs as part of our fiscal year 2016 regional audit plan. We initiated our review because the U.S. Department of Housing and Urban Development's (HUD) Boston Office of Public and Indian Housing had not monitored the programs in the past 5 years and we had not audited the Authority in the past 10 years. Our audit objectives were to determine whether (1) management and other fees charged by the Authority's central office cost center to its asset management projects were reasonable and adequately supported and (2) public housing and Public Housing Capital Fund procurements were executed in accordance with Federal regulations.

What We Found

Authority officials properly procured public housing and Public Housing Capital Fund program contracts reviewed, but did not always support costs allocated to the Authority's asset management projects. While controls were established and implemented to ensure that costs charged were supported and contracts were properly procured, the allocation for some maintenance employee salaries and fee accountant services were not adequately supported. This deficiency occurred because Authority officials and their fee accountant prepared budgets using primarily unit percentage as the basis for the allocation rather than actual front-line or fee-for-service costs allocated to the asset management projects. As a result, the cost allocation for maintenance employee salaries of \$660,498 and fee accountant services of \$70,708 were not adequately supported.

What We Recommend

We recommend that HUD require Authority officials to support that \$731,206 in maintenance employee salaries and fee accountant service costs to the asset management projects were properly allocated or repay any unsupported amount from non-Federal funds. Additionally, we recommend that Authority officials review their allocation procedures and make the necessary adjustments to ensure that front-line or fee-for-service costs are appropriately allocated to the asset management projects based on the actual time or service provided.

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Background and Objectives

The Somerville Housing Authority in Somerville, MA, was created in 1948 and incorporated under Chapter 121B of the State Statutes of the Commonwealth of Massachusetts. The Authority operates under a board of commissioners form of government to provide safe and decent housing to low- and moderate-income families and elderly individuals. The board selects and employs an executive director, who is responsible for the Authority's day-to-day operations. The Authority owns and manages 584 conventional low-income public housing units and 733 State public housing units and administers 1,193 housing choice vouchers. The Authority receives operating and capital funds from the U.S. Department of Housing and Urban Development (HUD) for the operation and modernization of its low-income public housing units.

Operating funds are provided annually to public housing agencies for the operation and management of public housing. Capital funds are provided annually to public housing agencies for the development, financing, and modernization of public housing developments and for management improvements. From fiscal year 2013 through fiscal year 2015, the Authority received operating funds and capital funds in the following amounts:

Fiscal year	Operating funds	Capital funds
2013	\$1,926,845	\$800,330
2014	1,859,537	833,219
2015	1,909,878	822,282
Totals	5,696,260	2,455,831

Our audit objectives were to determine whether (1) management and other fees charged by the Authority's central office cost center to its asset management projects were reasonable and adequately supported and (2) public housing and Public Housing Capital Fund procurements were executed in accordance with Federal regulations.

Results of Audit

Finding 1: Allocated Costs Among Asset Management Projects Were Not Always Supported

Authority officials properly procured public housing and Public Housing Capital Fund program contracts reviewed, but did not always support costs allocated to the Authority's asset management projects. While controls were established and implemented to ensure that costs charged were supported and contracts were properly procured, the allocation for some maintenance employee salaries and fee accountant service costs were not adequately supported. This deficiency occurred because Authority officials and their fee accountant prepared budgets using primarily unit percentage as the basis for the allocation rather than actual front-line or fee-for-service costs allocated to the asset management projects. As a result, the cost allocation for maintenance employee salaries of \$660,498 and fee accountant services of \$70,708 were not adequately supported.

Costs Allocated to Asset Management Projects Were Not Always Supported

Our review of more than \$1.8 million in asset management, property management, and bookkeeping fees allocated to asset management projects for fiscal years 2013, 2014, and 2015 (April 1, 2012, through March 31, 2015) determined that the fees were eligible and adequately supported by Authority officials. Similarly, our review of administrative and maintenance salaries allocated to asset management projects disclosed that Authority officials adequately supported 72 percent of the more than \$2.3 million allocated during fiscal years 2014, 2015, and half of 2016 (April 1, 2013, through September 30, 2015).

However, Authority officials did not adequately support the salary allocations for 12 maintenance employees, resulting in \$660,498 (28 percent) in unsupported costs to the asset management projects (table 1). This deficiency occurred because Authority officials and their fee accountant prepared budgets using primarily unit percentage as the basis for the allocation rather than actual front-line or fee-for-service costs charged to the asset management projects as required.¹

¹ Supplement to HUD Handbook 7475.1, REV, CHG-1, section 7.10, states that a public housing agency may establish a reasonable method to spread personnel costs to the asset management projects receiving the service. However, the method used to spread these costs to asset management projects must follow the guidelines established for front-line prorated costs, which require at a minimum, that at the end of the public housing agency's fiscal year, it will need to adjust to actual costs.

Table 1

Salary charged to asset management projects	Fiscal year 2014	Fiscal year 2015	Half of fiscal year 2016 (through 9/30/15)	Total
Administrative salary charged to asset management projects reviewed	\$509,434	\$466,235	\$184,357	\$1,160,026
Maintenance salary charged to asset management projects reviewed	575,286	421,269	212,447	1,209,002
Total salaries reviewed	1,084,720	887,504	396,804	2,369,028
Total unsupported maintenance salaries	263,655	263,655	133,188	660,498

Our review of three public housing program contracts, valued at \$665,731 over a 3-year period, identified no concerns with the procurement method used. We also determined that Authority officials selected the proper contract type; adequately competed and advertised the contracts; and ensured that the costs were eligible, supported, and appropriately allocated. However, based on our review of the allocation of charges associated with one contract for the Authority's fee accountant, we determined that of the \$147,800 in fee accountant service costs allocated in fiscal years 2014 and 2015 and the first half of fiscal year 2016 to the asset management projects, \$70,708 was not adequately supported.

The fee accountant did not base his allocation on actual hours. Instead, the fee accountant advised the allocation was his best estimate of time spent on his services for each asset management project based on his knowledge of the time required to prepare proper documentation for each housing program of the Authority.

Public Housing Capital Fund Program Contracts Were Properly Procured and Supported

The Authority was awarded more than \$2.3 million in annual Public Housing Capital Fund grants for Federal fiscal years 2012, 2013, and 2014, of which more than \$1.4 million was designated for line 1460 – Dwelling Structures. We reviewed four Public Housing Capital Fund program contracts totaling \$917,315 (representing 64 percent of the dwelling structure total) and determined that the contracts were properly procured. We determined that Authority officials selected the proper contract type, adequately competed and advertised the contracts, performed a

cost or price analysis, and ensured that the vendor maintained proper insurance and bonding and that the costs were eligible and supported.

Conclusion

Authority officials properly procured public housing and Public Housing Capital Fund program contracts reviewed, but did not always support costs allocated to the Authority's asset management projects. The allocation for some maintenance employee salaries and fee accountant services were not adequately supported, resulting in unsupported maintenance employee salaries of \$660,498 and fee accountant service costs of \$70,708 being allocated to asset management projects.

Recommendations

We recommend that the Director of HUD's Boston Office of Public and Indian Housing instruct Authority officials to

- 1A. Provide documentation to support that \$660,498 paid for salaries for 12 maintenance employees was properly allocated to the asset management projects or repay any unsupported amount from non-Federal funds.
- 1B. Provide documentation to support that \$70,708 paid for professional services (fee accountant) was properly allocated to the asset management projects or repay any unsupported amount from non-Federal funds.
- 1C. Review their allocation procedures and make the necessary adjustments to ensure that front-line or fee-for-service costs are appropriately allocated to the asset management projects based on the actual time or service provided.

Scope and Methodology

The audit focused on whether Authority officials ensured that public housing and Public Housing Capital Fund program contracts were properly procured and that expenses allocated to the Authority's asset management projects complied with HUD regulations. We performed audit fieldwork from October through December 2015 at the Authority, 30 Memorial Road, Somerville, MA. Our audit generally covered the period April 2012 through September 2015 and was adjusted when necessary to meet our audit objectives.

To accomplish our objectives, we

- Reviewed applicable laws, regulations, HUD handbooks, HUD notices, and the Authority's policies and procedures.
- Conducted discussions with Authority officials to gain an understanding of the organizational structure and the management of the asset management projects.
- Reviewed independent public accountant and HUD monitoring reports.
- Reviewed 100 percent, or more than \$2.3 million, of the Authority's administrative and maintenance salaries allocated to its asset management projects for fiscal years 2014, 2015, and half of 2016 (April 1, 2013, through September 30, 2015) to evaluate the reasonableness of the allocation.
- Reviewed 100 percent, or more than \$1.8 million, of the asset management, property management, and bookkeeping fees charged by the Authority's central office cost center to the asset management projects for fiscal years 2013, 2014, and 2015 (April 1, 2012, through March 31, 2015) to determine whether they were eligible and adequately supported.
- Nonstatistically selected three public housing contracts, valued at \$665,731² over a 3-year period, to determine whether the contracts were properly procured and the costs were eligible and appropriately allocated to the Authority's asset management projects. Although this approach did not allow us to make a projection to the

² The contract log provided by the Authority contained 27 contracts with contract totals valued at more than \$2.6 million over an approximate 3-year period. The contract log contained additional contracts that did not have a specific contract total but, instead, were based on percentage of revenue or quotes or were statewide contracts available to the Authority. From the 27 known contracts, we selected 3 contracts, based on dollar value, valued at \$665,731, or 25.2 percent (\$665,731/\$2,637,465).

population, it was sufficient to meet the audit objectives.

- Nonstatistically selected four Public Housing Capital Fund contracts, valued at \$917,315,³ to determine whether the contracts were properly procured and the costs were eligible and adequately supported. Although this approach did not allow us to make a projection to the population, it was sufficient to meet the audit objectives.

To achieve our audit objectives, we relied in part on computer-processed data from the Authority's computer system. Although we did not perform a detailed assessment of the reliability of the data, we did perform a minimal level of testing and found the data to be adequate for our purposes.

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 objectives.

³ The Authority was awarded more than \$2.3 million in Public Housing Capital Fund grants for Federal fiscal years 2012, 2013, and 2014, of which more than \$1.4 million was designated for line 1460 (Dwelling Structures). We reviewed four Public Housing Capital Fund contracts, based on dollar value, valued at \$917,315 (64 percent of total dwelling structures).

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:

- 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.

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.

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 Authority's internal control.

Appendixes

Appendix A

Schedule of Questioned Costs

Recommendation number	Unsupported 2/
1A	\$660,498
1B	70,708
Totals	731,206

- 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

Comment 1


SOMERVILLE HOUSING AUTHORITY
30 Memorial Road
Somerville, Massachusetts 02145
Telephone (617) 625-1152 Fax (617) 628-7057 TDD (617) 628-8889

July 15, 2016

Mr. Edward Jeye
Regional Inspector General for Audit, IAGA
10 Causeway Street – Room 370
Boston MA 02222-8380

RE: Written Comment on Draft Audit Report

Dear Mr. Jeye:

Please accept this letter as our written comment in response to the Draft Audit report dated July 2016.

I wish to acknowledge and extend our appreciation for the thoughtful and professional manner in which your team conducted the audit. We are pleased that such a thorough review found compliance in most critical areas however, we acknowledge the issue identified and offer the following written comments.

RE: 1A – Salaries for 12 Maintenance Employees:

As stated above, while we acknowledge the audits conclusion that the work hours of 12 maintenance employees were allocated in a manner that could not be adequately supported by “work order” documentation, and while we have made necessary adjustments to ensure that front-line or fee-for-service costs are appropriately allocated, we are hopeful that a fuller understanding of why we chose our methodology and the unique characteristics of the Mystic family site where all 12 employees were assigned, will lead to a conclusion that sufficient services were rendered to account for funds expended.

During implementation of asset-based management and associated allocations, it became clear that SHA had a unique situation that was not directly addressed within the regulation or in regulatory guidance. The Mystic site includes 240 State-Aided family units and 215 Federal-Aided units. These two sites are contiguous and function as one large family development. The site mutually benefits from shared resources such as infrastructure and facilities including; Site utilities, roadways, recreational space,

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SOMERVILLE HOUSING AUTHORITY

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

gardening space, central supply warehouse, central maintenance garage, heavy equipment and power tool storage and repair facilities.

As responsible property managers and as a public entity, we are charged with managing our assets in the most efficient and cost effective manner. To that end, SHA consulted with an independent outside audit firm, [REDACTED] and our Fee Accountant, [REDACTED] to formulate our allocation methods. As noted in the audit, all employees were appropriately allocated with the exception of the 12 maintenance employees assigned to the Mystic site.

With guidance provided in consultation noted above, SHA chose to allocate the 12 maintenance employees at the combined Mystic family development site using what was termed a "reasonable method of allocation". Effectively allowing the 12 employees to be used most efficiently within both developments. This method provided mutual benefits to both Federal and State developments by providing adequate coverage, ability to efficiently address emergencies, cross-training and knowledge of maintenance functions to a greater number of employees and shared critical resources such as equipment for snow removal, grounds maintenance etc..

We are confident that our expenses charged to the AMPS are supportable by work orders and timesheets when viewed as overall maintenance activity performed during the review period.

RE: 1B – Professional Services Fee:

During the audit period the Somerville Housing Authority requested additional services to address personnel changes that included training for the Director of Finance and subsequent coverage during maternity leave and training for a new Accounting Manager. Due to the personnel changes the Fee Accountant had to assume, at various times, the role of the Director of Finance, Accounting Manager and Fee Accountant for the twenty three (23) programs administered by the SHA. The SHA is prepared to request a matrix of the value of services performed by program for the audit period.

In addition, the SHA will procure the fee accountant services requiring a value for each program.

RE: 1C – Review and Adjust Costs:

As noted above, with respect to maintenance allocation, SHA has made necessary adjustments to ensure that front-line or fee-for-service costs are appropriately allocated. We are committed to continued internal review and improved work order documentation. With respect to Professional Services performed by Fee Accountant, SHA will procure a

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Comment 2

Comment 3

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

contract that includes specific values for services rendered for each program.

We respectfully submit these comments for your consideration and look forward to resolving the issues as identified.

Sincerely,


Joseph Macaluso
Executive Director

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OIG Evaluation of Auditee Comments

- Comment 1 Authority officials acknowledge the audit conclusion that the work hours of 12 maintenance employees were allocated in a manner that could not be adequately supported. Authority officials are confident that expenses charged to the asset management projects are supportable by work orders and timesheets when viewed as overall maintenance activity performed. Authority Officials should provide any support to HUD for its review and determination during the audit resolution process.
- Comment 2 Authority officials stated that they requested additional services to address personnel changes and that, due to these changes at the time, the fee accountant needed to assume different roles. At that point, Authority officials and their fee accountant should have entered into a fee-for-service agreement outlining the cost for the services provided. Authority officials stated that they will request a matrix of the value of services performed by program for the audit period. Authority officials should provide any support to HUD for its review and determination during the audit resolution process.
- Comment 3 Authority officials stated they completed necessary adjustments to ensure that front-line and fee-for-service costs are appropriately allocated. Also, for professional services performed by the fee accountant, they will procure a contract that includes specific values for services rendered for each program. These reported actions by Authority officials are responsive to the audit recommendation and will need to be verified by HUD during the audit resolution process.