audit report

Issue Date November 21, 2007
Audit Report Number 2008-PH-1003

TO: Dennis G. Bellingtier, Director, Office of Public Housing, Pennsylvania State Office, 3APH

FROM: John P. Buck, Regional Inspector General for Audit, Philadelphia Regional Office, 3AGA

SUBJECT: The Housing Authority of the City of Allentown, Pennsylvania, Needs to Settle Interfund Accounts Monthly and Revise Its Method of Allocating Administrative Salary and Benefit Costs

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the City of Allentown (Authority) as part of our fiscal year 2007 annual audit plan. Our objectives were to determine whether the Authority calculated housing assistance payments accurately and properly maintained documentation in its tenant files for its Section 8 Housing Choice Voucher program according to U.S. Department of Housing and Urban Development (HUD) regulations; settled interfund payables accruing to its Section 8 program in a timely manner; and properly allocated administrative salary and benefit costs to its programs on a reasonable and fair basis. This is the first of two audit reports to be issued on the Authority.

What We Found

The Authority generally calculated housing assistance payments accurately and properly maintained documentation in its tenant files for its Section 8 program according to HUD regulations. The Authority did not settle interfund payables accruing to its Section 8 program in a timely manner and it did not allocate administrative salary and benefit costs to its programs on a reasonable and fair basis. As a result, the Authority allowed the Section 8 program's interfund payables to accumulate to $760,109 over a 10-month period and it charged excess administrative salary and associated employee benefit costs totaling $150,837 to its low-rent public housing program.

We informed the Authority and HUD of minor deficiencies through a memorandum, dated October 23, 2007.

What We Recommend

We recommend that HUD verify the Authority's reimbursement of $760,109 to settle the Section 8 program's interfund payables and direct the Authority to reimburse its low-rent public housing program $150,837 from the programs that benefited from the improper allocation of administrative salary and benefit costs.

For each recommendation without a management decision, 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 discussed the report with the Authority during the audit and at an exit conference on October 30, 2007. The Authority provided written comments to our draft report on November 8, 2007. The Authority agreed with the findings and recommendations. The complete text of the Authority's response can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Housing Authority of the City of Allentown (Authority) was established in 1938 by the City of Allentown, Pennsylvania, under the laws of the State of Pennsylvania for the purpose of providing adequate housing for qualified low-income individuals. A five-member board of commissioners appointed by the City of Allentown governs the Authority. The current executive director is Mr. Daniel Farrell. The Authority's main administrative office is located at 1339 Allen Street, Allentown, Pennsylvania.

The Authority owned and operated 1,444 public housing units and administered 1,445 Section 8 housing vouchers under annual contributions contracts with the U.S. Department of Housing and Urban Development (HUD) during our audit period. The annual contributions contract defines the terms and conditions under which the Authority agrees to develop and operate all projects under the agreement. HUD authorized the Authority the following financial assistance from fiscal years 2004 to 2007:

- $24.2 million to provide housing assistance through tenant-based Section 8 vouchers and

- $16.1 million in operating subsidies to operate and maintain its low-income housing developments.

Under the Section 8 program, the Authority makes rental assistance payments to landlords on behalf of eligible low-income families. HUD compensates the Authority for the cost of administering the program through administrative fees.

During the audit period, the Authority used a due-to/due-from accounting system to account for transactions between funds included within its general ledger. The Authority makes payments for all of its administrative expenses from a general fund account.

The Authority's fiscal year begins July 1 and ends June 30.

Our objectives were to determine whether the Authority calculated housing assistance payments accurately and properly maintained documentation in its tenant files for its Section 8 Housing Choice Voucher program according to HUD regulations; settled interfund payables accruing to its Section 8 program in a timely manner; and properly allocated administrative salary and benefit costs to its programs on a reasonable and fair basis.

RESULTS OF AUDIT

Finding 1: The Authority Did Not Settle Interfund Accounts Monthly

The Authority did not settle interfund payables accruing to its Section 8 program in a timely manner. This condition occurred because the Authority did not have internal controls requiring it to settle its interfund accounts monthly. High turnover in the Authority's accountant position also contributed to this condition. As a result, between July 2006 and April 2007, the Authority allowed the Section 8 program's interfund payables to increase monthly without reimbursement. By the end of April 2007, the Section 8 program owed the Authority's general fund $760,109. By developing and implementing controls to ensure that the interfund accounts are settled monthly, the Authority can put $763,968 to better use over a one-year period.

Interfund Balances Were Not Settled Monthly

The Authority used an interfund due-to/due-from accounting system to account for transactions directly between other funds included within its general ledger. A program's due-to balance (payable) represents amounts it owes another fund or program for disbursements and/or advances made on its behalf. A due-from balance (receivable) represents an amount owed to the program or entity. However, the Authority did not have controls requiring it to settle its interfund accounts monthly. As a result, between July 2006 and April 2007, the Authority allowed its Section 8 program's interfund payables to increase monthly without reimbursement. By the end of April 2007, the Section 8 program owed the Authority's general fund $760,109.

The Authority makes payments for all of its administrative expenses from a general fund account. The general fund account is funded by public housing operating subsidy and rent revenues. The Authority's use of these funds to support the Section 8 program for an extended period of time without reimbursement is not a prudent business practice. Further, it is a violation of the public housing consolidated annual contributions contract. The contract states[1] that the Authority may withdraw funds from the general fund only for the payment of the costs of development and operation of the projects under the consolidated annual contributions contract with HUD, the purchase of investment securities as approved by HUD, and such purposes as may be specifically approved by HUD. However, in practice, HUD generally allows these funds to be used to pay expenses on behalf of other programs as long as reimbursements are made on a monthly basis, which in this case, the Authority did not do.

[1] Part A, section 9(C).

This occurred because the Authority did not have controls in place to ensure that it settled its interfund accounts in a timely manner. Additionally, the Authority experienced high turnover in its accountant position, with three different persons in the position between June and December 2006, which also contributed to this condition. The Authority needs to reimburse its general fund account $760,109 and develop and implement controls to ensure that the interfund accounts are settled monthly, thereby preventing an additional $763,968[2] from accumulating over the next year.

The Authority Is Taking Action

We discussed this problem with the Authority during the audit, and it began to take corrective action. On June 1, 2007, the Authority transferred $760,109 from its Section 8 account to its general fund account to reimburse it for the interfund payables due as of the end of April 2007.

Recommendations

We recommend that the Director of the Office of Public Housing, Pennsylvania State Office

1A. Verify the Authority's reimbursement of $760,109 from its Section 8 program to its general fund account.

1B. Direct the Authority to develop and implement controls to ensure that interfund accounts are settled monthly and, thereby, put $763,968 to better use over a one-year period.

[2] See the Scope and Methodology section of this report for details on our calculation of funds to be put to better use.

Finding 2: The Authority Did Not Properly Allocate Administrative Salary and Benefit Costs to Its Programs

For its fiscal year 2007, the Authority did not allocate administrative salary and employee benefit costs to its programs on a reasonable and fair basis. This condition occurred because the Authority did not implement an adequate plan to allocate administrative salary and benefit costs for its senior management, accounting, and administrative staff while transitioning to project-based asset management accounting. As a result, it charged its low-rent public housing program $150,837 in excess administrative salary and associated employee benefit costs. By developing and implementing a reasonable method for charging these costs among its programs, the Authority can put $162,758 to better use over a one-year period.

The Authority Did Not Allocate Administrative Salary and Benefit Costs on a Reasonable and Fair Basis

Contrary to its consolidated annual contributions contract,[3] the Authority charged its low-rent public housing program $150,837 in excess administrative salary and employee benefit costs for its senior management, accounting, and administrative staff for its fiscal year 2007. The consolidated annual contributions contract limits low-rent public housing funds to the payment of program expenditures.

In January 2006, the Authority implemented a new computerized timekeeping and labor distribution system, which it ran parallel with the existing timekeeping system until July 2006. The Authority was changing its operations in anticipation of HUD's transition to project-based asset management accounting. It put the new timekeeping system into permanent use as of July 2006. From that time forward, employees directly charged their time to the programs on which they worked by using electronic timecards. Employees charged time not directly related to a specific program to a catch-all low-rent public housing account known as the central office account. The Authority did not make any further allocation of the salary costs charged to this account. Also, from July 2006 forward, the Authority charged employee benefits to its programs based on a rolling average of hours charged by program in the previous six months. As with the administrative salary costs, the Authority made no further allocation of the employee benefit costs charged to the central office account.

We compared the actual salary and benefit costs charged to the low-rent program for the Authority's fiscal year 2007 under the new timekeeping system to the costs that would have been charged if the Authority had used a percentage-of-

[3] Part A, section 9(C).

units methodology to allocate costs for employees in eight positions. We selected the eight positions from an employee time allocation report for the six-month period August 2006 to January 2007 because the percentage of time the employees charged to the central office account was greater than 50 percent, and the percentage was greater than the percentage that the Authority would have charged under its allocation plan in effect prior to the implementation of the new timekeeping system. The following chart shows the amount of excess costs charged to the low-rent public housing program by position.

Position	Amount of excess salary and benefit costs charged to the low-rent program
Executive director	$ 30,463
Deputy executive director	$ 29,758
Comptroller	$ 21,311
Accounting clerk	$ 18,818
Executive secretary	$ 17,844
Purchase clerk	$ 12,502
Receptionist	$ 11,993
Accountant	$ 8,148
Total	**$150,837**

We discussed this issue with the Authority during the audit. The Authority agreed that it should have allocated the administrative salary and benefit costs charged to the central office account to all of its programs. The Authority acknowledged that it did not implement an adequate plan to allocate administrative salary and benefit costs while transitioning to project-based asset management accounting. As a result, for its fiscal year 2007, the Authority neither reasonably allocated administrative salary and benefit costs to its programs nor recouped administrative salary and benefit costs by charging its programs a management fee as part of its project-based asset management accounting system. The Authority needs to develop and implement a management fee schedule that includes a reasonable and fair share of administrative salary and benefit costs to be charged to its programs. In doing so, it can prevent an additional $162,758[4] from being charged without a reasonable and fair basis over the next year.

Recommendations

We recommend that the Director of the Office of Public Housing, Pennsylvania State Office, direct the Authority to

[4] See the Scope and Methodology section of this report for details on our calculation of funds to be put to better use.

2A. Reimburse the low-rent public housing program $150,837, or the amount determined to be excess through reconciliation of the salary and benefit costs allocated for fiscal year 2007, from the programs that benefited from the incomplete allocation of salary and benefit costs.

2B. Develop and implement a management fee schedule that includes a reasonable and fair share of administrative salary and benefit costs to be charged to its programs and, thereby, put $162,758 to better use over a one-year period.

SCOPE AND METHODOLOGY

We performed the audit at the Authority in Allentown, Pennsylvania, from February through October 2007. The audit was performed in accordance with generally accepted government auditing standards and included tests of internal controls that we considered necessary.

The audit covered transactions representative of operations current at the time of the audit and generally included the period June 2003 through February 2007. We expanded the scope of the audit as necessary. During the audit, we assessed the reliability of computer-processed data relevant to our audit by comparing the data to hard-copy information and to other supporting information as appropriate. We found the computer-processed data were sufficiently reliable to meet our audit objectives.

To determine whether the Authority calculated housing assistance payments accurately and properly maintained documentation in its tenant files for its Section 8 Housing Choice Voucher program according to HUD regulations; settled interfund payables accruing to its Section 8 program in a timely manner; and properly allocated administrative salary and benefit costs to its programs on a reasonable and fair basis, we

- Reviewed applicable regulations and guidance.
- Reviewed the Authority's internal control structure.
- Reviewed the Authority's consolidated annual contributions contracts.
- Reviewed the Authority's independent auditor's reports for fiscal years 2004 through 2006 and other financial records as appropriate.
- Reviewed minutes of the Authority's board of commissioners meetings.
- Reviewed HUD and Authority correspondence related to a rental housing integrity monitoring review conducted by the Philadelphia field office in July 2006.
- Discussed operations with management and staff personnel at the Authority and key officials from HUD's Philadelphia, Pennsylvania, field office.
- Reviewed general ledger account balances, accounting transactions, and supporting documentation.
- Corresponded with personnel from HUD's Financial Management Center.
- Nonstatistically selected and reviewed 10 Section 8 tenant files to verify eligibility and the accuracy of housing assistance payment calculations. The 10 files contained 33 certifications/recertifications that the Authority completed during the period July 2005 to February 2007.

- Reviewed the fiscal year 2007 interfund account activity for the Authority's Section 8 program. During the 10-month period from July 2006 to April 2007, the due-to balance in the interfund account increased by $636,644 without any reimbursement; therefore, the average monthly increase was $63,664 ($636,644 divided by 10 months = $63,664 per month). Using the average monthly amount, we estimated that the Authority could prevent $763,968 ($63,664 multiplied by 12 to annualize = $763,968) from accumulating over the next year.

- Reviewed an employee time allocation report for the six-month period August 2006 to January 2007 and selected 8 of the 10 positions in which employees charged the central office account during that period for further analysis. We selected the eight positions because the percentage of time the employees charged to the central office account was greater than 50 percent, and the percentage was greater than the percentage that the Authority would have charged under its allocation plan in effect prior to the implementation of the new timekeeping system. We compared the Authority's fiscal year 2007 actual allocation of salary and benefit costs for these employees to the costs that would have been charged if the Authority had used the percentage-of-units methodology to allocate the costs as it had in the past. As a result, we found that the Authority did not properly allocate $150,837 of salary and benefit costs in its fiscal year 2007 for these employees. We estimated that the Authority could prevent $162,758 from being charged without a reasonable and fair basis over the next year. Our estimate includes the Authority's 2008 budgeted salary costs for the employees in the eight positions, including a full year of salary for the accountant position which had been periodically vacant during the Authority's fiscal year 2007. We estimated the 2008 benefit costs as a percentage of the 2008 salary costs using the percentage of benefits to total salary for the employees from fiscal year 2007. We combined the 2008 salary and benefit costs, by employee, and multiplied the totals by the percentage of excess salary, by employee, from our calculations for 2007. The total estimated excess salary and benefit costs for 2008 for all eight positions was $162,758.

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:

- Policies, procedures, and other controls implemented by the Authority to ensure that it calculated Section 8 housing assistance payments accurately, properly maintained documentation in its tenant files, settled Section 8 interfund payables in a timely manner, and properly allocated administrative salary and benefit costs to its programs on a reasonable and fair basis.

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 items are significant weaknesses:

The Authority did not

- Have controls to ensure that interfund accounts were settled monthly.

- Implement an adequate plan to allocate administrative salary and benefit costs among its programs.

Separate Communication of Minor Deficiencies

Minor internal control and compliance issues were reported to the Authority by a separate letter dated October 23, 2007.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Funds to be put to better use 2/
1A	$760,109	
1B		$763,968
2A	$150,837	
2B		$162,758
Total	**$910,946**	**$926,726**

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. If the Authority implements our recommendations, it will cease accumulating significant interfund payables in its Section 8 program and charging administrative salary and benefit costs to its programs without a reasonable and fair basis. Once the Authority improves its controls, there will be a recurring benefit. Our estimates reflect only the initial year of this benefit.

Appendix B

AUDITEE COMMENTS

Allentown Housing Authority
Opening Doors for the Community

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November 8, 2007

Mr. John Buck
Regional Inspector General for Audit
Office of Inspector General
U.S. Department of Housing and Urban Development
Philadelphia Regional Office
The Wanamaker Building
100 Penn Square East
Philadelphia, PA 19107

RE: OIG Audit Report

Dear Mr. Buck:

The Allentown Housing Authority has reviewed the Office of Inspector General's Audit Report presented on October 30, 2007. As a result of that review, we offer the following comments:

Finding 1: The Authority Did Not Settle Interfund Accounts Monthly

The Authority agrees with this finding that interfund accounts were not settled on a monthly basis. As indicated in the report, the Authority has corrected this issue and implemented controls to ensure interfund accounts are settled monthly.

Finding 2: The Authority Did Not Properly Allocate Administrative Salary and Benefit Costs To Its Programs

The Authority agrees with this finding that excess administrative salary and benefit costs were charged to the low-rent public housing program. The Authority will reimburse the low-rent program to correct this deficiency.

The Authority submitted a "Stop Loss" packet to HUD in October 2007. Part of that submission was the plan for funding the Central Office Cost Center (COCC), including respective management fees for each program.

Please do not hesitate to contact me at 610-439-8919 if you have any additional comments or questions.

Sincerely,
Allentown Housing Authority

Daniel R. Farrell
Executive Director

DRF/jw